

amdocs

WHITE PAPER

PREPAID LOYALTY: FACT OR FICTION?

CONTENTS

EXECUTIVE SUMMARY	1
INTRODUCTION: THE PREPAID LOYALTY CHALLENGE	1
EFFECTIVE STRATEGIES FOR PREPAID LOYALTY	2
BETTER RATES DON'T JUST MEAN CHEAPER RATES	2
DON'T HOLD OUT ON PREPAID CUSTOMERS	3
IT'S ALL IN THE PACKAGING	4
MAKE YOUR PROMOTIONS COUNT	5
OFFER THE BEST OF BOTH WORLDS	6
HOW DO CHARGING SYSTEMS FIT IN?	8
CONCLUSION	8

EXECUTIVE SUMMARY

Achieving customer loyalty is a business goal shared by virtually every type of service provider. Prepaid subscribers, however, present a greater challenge due to the transient nature of the business model, i.e. no contracts or commitments combined with limited customer data.

With this in mind, this paper examines the business and marketing strategies that service providers can deploy to create and build loyalty among prepaid customers.

INTRODUCTION: THE PREPAID LOYALTY CHALLENGE

FACT: Service providers have long known that they must establish long-term, profitable relationships with their customers. This is generally possible when they have a wealth of demographic and usage information at their disposal such as the customer's age and socioeconomic background, as well as spending and billing patterns. Add the mechanisms of long-term contracts, minimum commitment and early termination fees, and growing loyalty seems to be within the reach of most service providers.

As highlighted in Figure 1, prepaid presents a completely different challenge. How do providers create and nurture long-term relationships with customers when they don't even have their names and addresses? Prepaid customers enjoy the simplicity and freedom of no commitments or contracts. Joining a service provider is as simple as buying a SIM card from the local grocery store. In addition, prepaid

subscribers in many high growth markets are low-spend customers (in countries such as Bangladesh, Thailand, Indonesia, and India the average prepaid revenue per user is less than \$6 a month), which limits the marketing resources that service providers are willing to invest in retention.

The result: constant prepaid customer churn. Indonesia, for example has one of the highest churn rates at over 10% a month, while the Philippines has almost 5% monthly churn on average. How then are service providers supposed to create and encourage loyalty from a prepaid customer base that is able to churn at will?

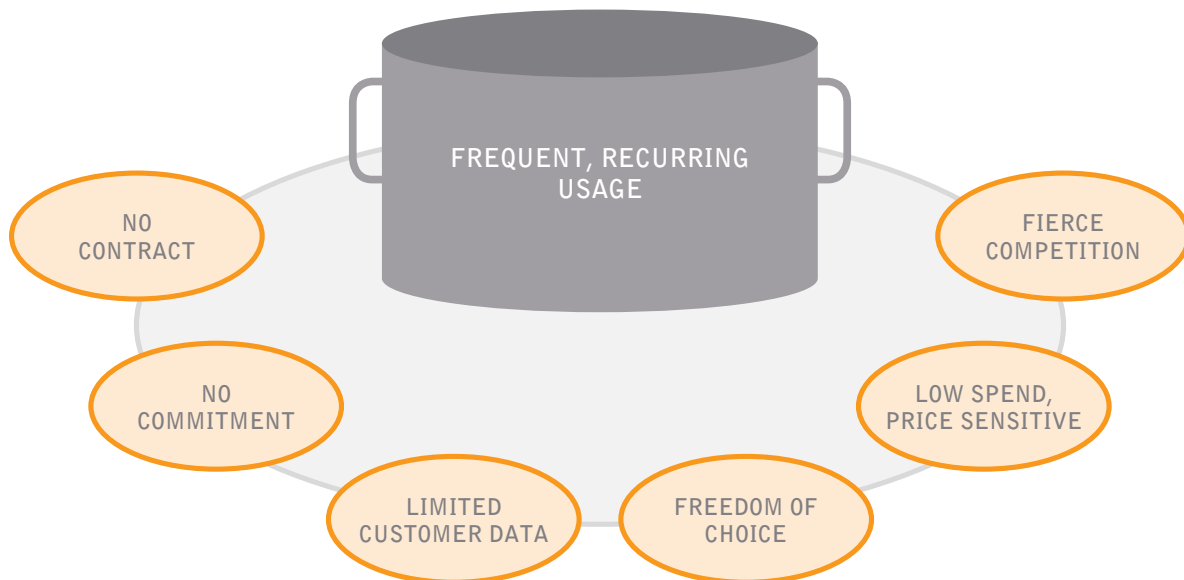


FIGURE 1: KEEPING CUSTOMERS IN THE POT – THE PREPAID LOYALTY CHALLENGE

EFFECTIVE STRATEGIES FOR PREPAID LOYALTY

In a recent study of prepaid service providers in Asia Pacific (APAC) (Informa Telecoms & Media's Global Mobile Prepaid Industry Survey, June 2008) the following reasons were given as major contributors toward prepaid churn: cheaper prepaid rates; new handset availability; value added services; and bundled offers. Add to this the relative ease of buying and activating new prepaid SIM cards and it's clear that service providers have a real churn battle on their hands. However, there are retention and loyalty strategies that service providers can put into place to stem the churn of prepaid customers and offer a different, unique experience.

BETTER RATES DON'T JUST MEAN CHEAPER RATES

Many service providers in competitive markets cater to the price sensitivities of consumers by continually offering lower rates. The issue with such a strategy is that it doesn't necessarily guarantee loyalty. Prepaid subscribers are just as likely to churn when a different provider offers a lower price. What's more, with prices dropping to less than 1 cent a minute for prepaid voice calls, overall revenues are negatively impacted as well.

One loyalty strategy that has emerged in the Indian market is the "lifetime" guarantee of prepaid rates. Reliance, Airtel and Vodafone, among others, offer a lifetime prepaid rate where, in addition to offering low rates, they also guarantee these rates over an extended period of time. Customers are more likely to stay with their provider if they know that the rates on offer will not change while they remain a customer.



FIGURE 2: DIGI PREPAID

A similar trend can be found in Malaysia where service providers have focused on extending the validity period of the prepaid balance in addition to the rates as well. Providers such as Maxis and Digi offer prepaid plans which extend the validity of the prepaid balance to a full year once the customer has topped up by a certain amount.

The potential risk with these strategies, however, is that it's relatively easy to copy and once every service provider guarantees lifetime rates or extended balance period validity, the real differentiator again becomes price.

Service providers need to introduce more innovative, creative pricing models that not only differentiate, but also provide real value to customers without necessarily jeopardizing long-term revenues.

An example of such a model is to base prepaid rates on customers' consumption patterns, like True Thailand's "Short Call Package" for prepaid users who make frequent, yet short, calls. By using a stepped prepaid rating tariff, customers who join the plan pay a reduced rate for the first minute of each call. True also utilizes period sensitive prepaid tariffs such as their Nighttime and Daytime Buffets which allow users to enjoy reduced rates based on whether they use their prepaid phones more frequently during the day or night. Not only does this deliver more focused tariffs, it also gives customers more choice in terms of the pricing options available to them.

Orange in Switzerland uses the same rating principle in a different fashion by offering prepaid customers half price rates from the second minute of each call. This pricing model encourages prepaid usage while offering a clear benefit to customers. Other providers have launched "stop the clock" style prepaid rating where a call is only charged up to a certain threshold and the rest of the call is free of charge. Vodafone enjoyed success with their "Stop the Clock" offer across prepaid markets in Ireland, the UK and the Netherlands. The basic logic of the offer was that prepaid customers would only pay for the first three minutes of the call and the remaining minutes up to an hour would be free of charge. Digicel in Barbados has launched similar prepaid plans for both local and long distance calling.

Not only is this pricing a strong differentiator, it also encourages prepaid users to make calls of longer duration. Remember, better pricing does not necessarily mean the lowest price. Service providers who are in tune with their customers' needs and consumption habits can use this information to create attractive offers and build loyalty.



FIGURE 3: TRUE THAILAND SHORT CALL PACKAGE

DON'T HOLD OUT ON PREPAID CUSTOMERS

Prepaid customers have not always been exposed to the same range of services as postpaid customers due their transient or “risky” nature. As prepaid markets have matured, service providers have come to understand that prepaid should be viewed more as a payment method and less of a customer type. There is no technological barrier to exposing the entire range of network services and handsets to prepaid customers, and this can serve as a powerful tool for increasing loyalty.

Third generation (3G) networks unleashed a host of new services traditionally reserved for postpaid customers including: video calling, mobile broadband, high-speed downloads and mobile television. Service providers quickly realized that these services were just as attractive to prepaid customers and could serve as a strong differentiator in the market. Companies such as M1 in Singapore, CAT Telecom in Thailand and Telkomsel in Indonesia now offer 3G services to their prepaid customers.

And, who can ignore the phenomenon of the Apple iPhone as an example of how a handset can attract and retain millions of customers? Originally pitched as a high-end smart phone for postpaid users willing to sign a multi-year contract, today prepaid service providers like Maxis in Malaysia and Telkomsel in Indonesia are offering their prepaid customers the handset together with next-generation services such as web browsing, GPS navigation and email services.

Other service providers like Smart in the Philippines are taking advantage of the huge popularity in social networking to launch new prepaid services like Smart Buddy which allows prepaid users to upload pictures from their prepaid phone to their Facebook account.

Orange in the UK, among other prepaid service providers, now offers prepaid subscribers free access to Facebook, Bebo and MySpace.

Giving prepaid subscribers access to the latest services and handsets not only provides a better customer experience but is also a powerful tactic for brand positioning. Both of these can support the goal of customer retention and loyalty.

The advertisement features a central graphic with a green and yellow background. On the left, a mobile phone displays a photo of a woman. To its right, a social media profile for 'Audrey' is shown, including a photo, a quote 'Basking under the sun with all smiles! :)', and profile details: 'Female, 17, Single', 'Member Since: Apr 2006', 'Profile Viewed: 8 times since 1/1/2009', 'Location: Philippines', and 'Hometown: Makati'. Further right, another social media interface shows a post from 'Hanica Bayaborda' with a photo and text: 'Hahaha, oo nga pala ano. Lol! It's true =>'. Below these elements, a white curved banner contains the text: 'Upload photos on Friendster and Facebook using your mobile phone for as low as P1! Create an MMS with your picture then key in FSMMS and send to 2330*'. At the bottom, a smaller banner reads: '*Download application first on your Friendster and Facebook account'.

FIGURE 4: SMART BUDDY SERVICES

IT'S ALL IN THE PACKAGING

Another effective strategy that service providers can deploy to grow loyalty is to offer more targeted, personalized packages and bundles to prepaid customers. This strategy goes beyond just pricing and services and focuses on the range of market offerings available to prepaid customers. ZEM in Pakistan is a good example of this strategy and offers prepaid customers a wide variety of offers based on different strategies (see chart below):

Such strategies work well in prepaid dominated markets where segmentation is one of the keys to differentiation in a highly competitive market.

In more mature prepaid markets, a different type of service packaging is emerging based on the opposite principle – simplicity.

Cricket Mobile in the United States offers customers one of the simplest packages available in the form of unlimited, daily price plans: \$1 a day for unlimited voice; \$2 a day for voice and SMS, and so on. This strategy focuses on the growing move toward unlimited price plans but also gives customers flexibility to choose which services to include. Customers can change their package on a daily basis, and there is no charge on days where the phone is not used. Other providers such as AT&T Mobility have started offering similar unlimited, prepaid daily packages as well. What differentiates the packages in this case is that customers have better visibility into what they are paying for, ultimately providing a better customer experience.

Offering attractive, appealing packages and bundles gives customers greater choice and satisfaction, and this is a powerful driver of loyalty.

PACKAGE	WHAT IT OFFERS	BUSINESS LOGIC
ZEM Crazy Hours	Customers choose an hour (or hours) of day during which they make unlimited calls	Using customer specific input to determine discounted rating period
ZEM Voice Craze	Weekly subscription for additional minutes of talk time	Bolt-on package for voice intensive users – weekly subscription
ZEM SMS Craze	Monthly subscription for allocation of text messages and Internet	Bolt-on for SMS intensive users – monthly subscription
ZEM Sunday Craze	Unlimited calls on Sunday	Bolt-on for reduced rates on a specific day
ZEM Infinite Craze	Unlimited calling during evening	Bolt-on for reduced rates during a specific time period

MAKE YOUR PROMOTIONS COUNT

Prepaid promotions are not a new concept, but the challenge here is that many promotions tend to be based around recharge bonuses that offer subscribers additional prepaid credit when they replenish their account. Alternatively, service providers may use “blanket” promotions that target as wide a range of subscribers as possible – generally by focusing on lower rates or additional top-up bonuses. While these promotions are successful in attracting customers, they may be less successful in growing long-term loyalty. Prepaid service providers can better utilize their real-time charging systems to introduce more targeted, relevant and immediate promotions.

One option is to implement a promotion which provides a benefit based on specific use of a service. This can be a very effective technique to promote the uptake of a specific service while still targeting loyalty by providing the customer with a benefit. A good example of this is a promotion run by Singtel in Singapore where prepaid customers receive four free minutes with every four minute call. This type of promotion utilizes real-time accumulators to trigger the promotion or benefit. The advantage here is that the benefit is provided in return for usage rather than simply when a customer decides to top-up. Digi in Malaysia recently launched their RM1 promotion where prepaid customers receive reduced rates on SMS and voice calls once they spend a certain amount on SMS during the day. Combining this idea with real-time notifications can lead to an even more effective promotion since subscribers receive updated information on their progress toward the required consumption target.

Another powerful promotion strategy is to offer a non-usage benefit which may be more attractive or relevant to subscribers. Maxis in Malaysia, for example, introduced a new promotion that offers prepaid customers the chance to win an exclusive handbag. Customers need to make calls of at least three minutes between a specific set of dates – the more calls, the higher the chance of winning the handbag. This promotion is effective because the reward is targeted and relevant; it drives consumption of a particular service; and it establishes a relationship with the customer over time.



DiGi Prepaid™
HIT RM1 ON ANY DAY.
Just use RM1 of SMS on any day
and enjoy lower rates all day.

12 sen min
(for all domestic calls)

1 sen sms
(to all DiGi numbers)

[Click here to find out more](#)

FIGURE 5: DIGI PREPAID PROMOTION

OFFER THE BEST OF BOTH WORLDS

Another effective technique for locking in customer loyalty is to offer prepaid customers the convenience and benefits of postpaid services. Postpaid and prepaid business models are inherently different in terms of their value proposition. Whereas prepaid customers need to purchase credit in advance and are charged immediately for service consumption, postpaid customers normally receive a monthly allocation of services (minutes, SMS, data, etc.) in return for a fixed monthly payment.

The advantage of monthly payments for the service provider is predictable, constant revenue. From the customers' perspective, it means the convenience of a monthly quota without worrying about topping up or recharging the account.

Several prepaid service providers have started to offer their prepaid customers a hybrid model which includes the option of recurring monthly recharges in return for a fixed quote of services. Tracfone in the United States has monthly prepaid plans starting from as low as \$9.99 which give prepaid customers a monthly allocation of minutes. T-Mobile has also enjoyed success with their FlexPay model which offers customers a monthly allocation of minutes in return for a fixed monthly fee. If customers use all the minutes in the bundle, they can simply recharge their prepaid accounts with whatever additional amount is needed.

Others, including Virgin Mobile, AT&T, Boost, Vodafone and Telstra, have followed suit with this model since it offers prepaid customers the postpaid experience without the commitment.

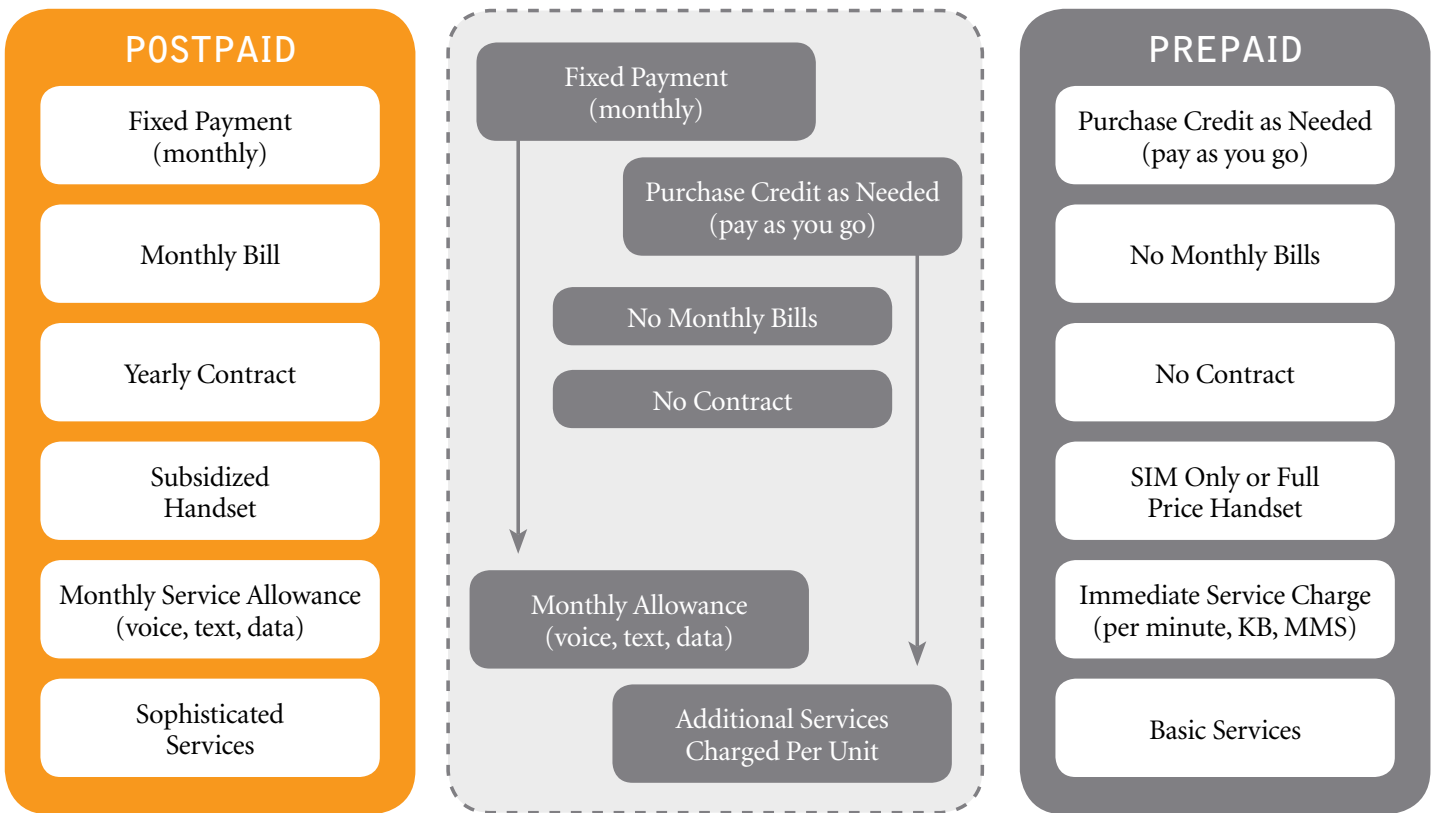


FIGURE 7: HYBRID CONSUMPTION MODEL

**DG Postpaid and DiGi Prepaid
Now under one Family!**

DG Family™
For the first time ever in Malaysia, prepaid supplementary lines are included in DG Postpaid! So you enjoy more savings, more convenience and better control.

With free unlimited calls, SMS and MMS between DiGi Family members, never lose touch again!

Keep track of your family with DG Family Finder and enjoy peace of mind with DG Family PA Insurance, all with the brand new DG Family!

This hybrid model can be taken one step further by combining prepaid and postpaid services in the same offering framework such as a family plan. This type of hybrid model offers the best of both worlds for customers, delivering an even more powerful value proposition and driving long term loyalty through a combination of:

- > Recurring monthly payments
- > Monthly quota of services (voice, data, etc.)
- > Bundled prepaid lines with automatic monthly top-up from the postpaid account
- > Free calls and SMS between family members regardless of whether they are pre or postpaid

Digi in Malaysia recently launched their Digi Family offer based on this hybrid model (see Figure 8) and Cosmofon in Slovenia has a similar family offering.

These new hybrid business and consumption models deliver an attractive offering to prepaid customers which extend beyond the boundaries of pure prepaid services. This blending of prepaid control with a postpaid experience can serve as a powerful differentiator and grow customer loyalty.

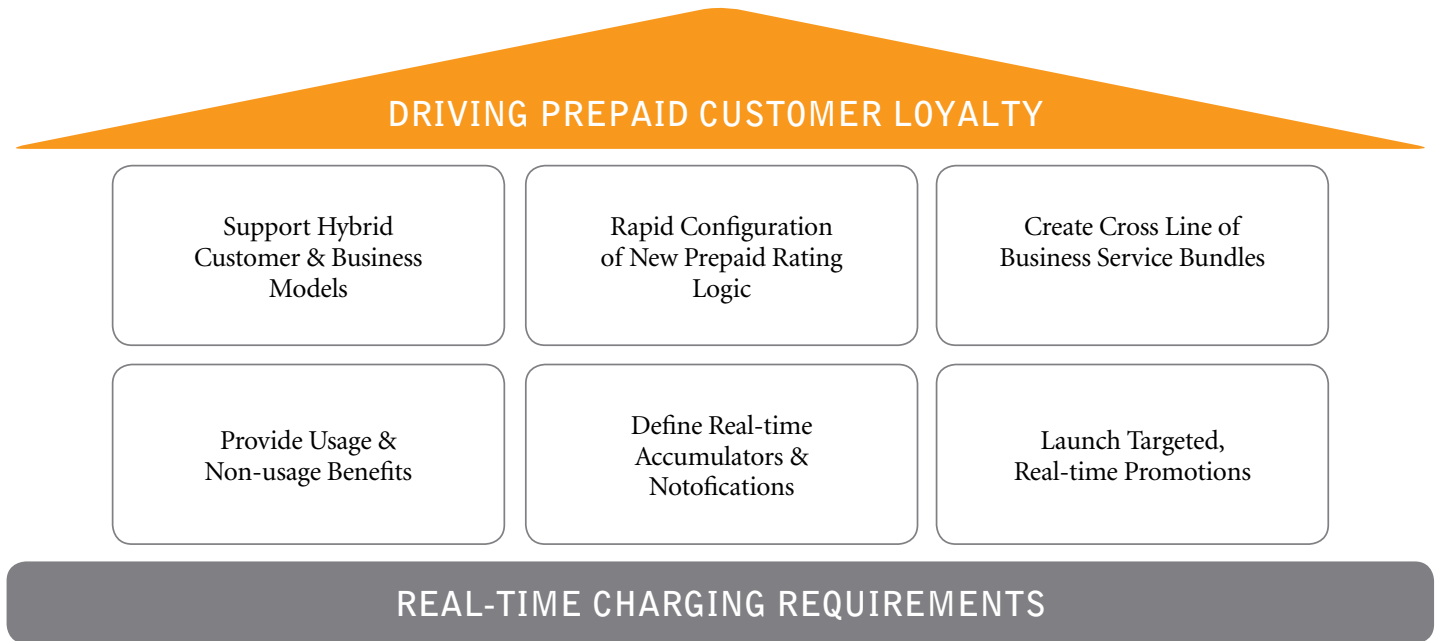
	DG Family Postpaid	DiGi Family Prepaid
Monthly Fee		
Commitment (RM)	30	15
Access (RM)	-	-
Family Tariff - For mobile lines within the same Family Account		
Calls	UNLIMITED	
SMS	FREE Calls/ SMS/ MMS	
MMS		
Max Supplementary Lines Allowed	6*	3
Standard Tariff		
Calls Same Network (per min)	13 sen	36 sen
Different Network (per min)		
SMS Same Network (per SMS)	10 sen	10 sen
Different Network (per SMS)		
MMS Same Network (per MMS)	20 sen	25 sen
Different Network (per MMS)		
Charging Block	30 seconds	

FIGURE 7: DG FAMILY - PREPAID/POSTPAID BUNDLING EXAMPLE

HOW DO CHARGING SYSTEMS FIT IN?

Implementing these types of marketing and business models obviously demands the required functionality and flexibility in business support systems, as well as the business processes and expertise to ensure rapid time to market.

With competition becoming fiercer in high-growth as well as developed markets, time to market is more crucial than ever. Service providers must ensure that their real-time charging systems work to enable rapid, continuous launching of new services and promotions by providing several key design elements as outlined below.



CONCLUSION

PREPAID LOYALTY IS NOT A MYTH

By proactively approaching customers with relevant, immediate promotions, service providers can offer a more creative and rewarding experience for users. By using creative pricing, innovative services, attractive bundles and relevant promotions, prepaid service providers can build long lasting relationships with their customers, growing loyalty and ultimately revenues as well.

ABOUT AMDOCS

Amdocs is the market leader in customer experience systems innovation, enabling world-leading service providers to deliver an integrated, innovative and *intentional customer experience*[™] at every point of service. Amdocs provides solutions that deliver customer experience excellence, combining the software, services and expertise to help its customers execute their strategies and achieve service, operational and financial excellence.

A global company with revenue of \$3.16 billion in fiscal 2008, Amdocs serves customers in more than 50 countries around the world.

For more information, visit Amdocs at www.amdocs.com.

For the most up-to-date contact information for all Amdocs offices worldwide, please visit our website at www.amdocs.com/corporate.asp

Amdocs has offices, development and support centers worldwide, including sites in:

THE AMERICAS:

BRAZIL
CANADA
MEXICO
UNITED STATES

ASIA PACIFIC:

AUSTRALIA
CHINA
INDIA
JAPAN
THAILAND

EUROPE, MIDDLE EAST & AFRICA:

CYPRUS
CZECH REPUBLIC
FRANCE
GERMANY
HUNGARY
IRELAND
ISRAEL
ITALY
NETHERLANDS
POLAND
RUSSIA

SOUTH AFRICA

SPAIN

SWEDEN

TURKEY

UNITED KINGDOM

