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Getting more from prepaid mobile services

As the industry matures, mobile operators won't be able to count on a flood of new customers to fuel growth, so they must create more value from those they already have—including prepaid ones.

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Article at a glance

Most companies offering prepaid mobile services destroy value by ignoring customer life-cycle management, an approach used successfully in many other service industries. Instead of tailoring marketing strategies to the behavior and probable lifetime value of specific customer groups, these mobile operators often deploy blanket promotions that give away value needlessly through discounts or free services.

While a lack of data makes customer life-cycle management particularly hard to implement in prepaid mobile services, innovative companies have mined usage patterns to create microsegments: homogenous groups of as few as 100,000 prepaid customers. They use this segmentation to launch customized marketing campaigns that encourage these groups to spend more.

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Half of the world's people now have mobile phones: nearly 3.3 billion users in all.[1] One major contributor to this phenomenal market penetration has been the rapid growth of prepaid mobile services—customers pay up front—which have enabled a huge swath of low-income consumers to make calls at prices they can afford. As the industry matures, it must find new ways to sustain revenue growth. Encouraging longer, more profitable relationships through customer life-cycle management is a significant opportunity.

This approach, which is hardly new,[2] typically involves segmenting customers by their probable long-term value and constructing distinct marketing approaches for each segment. But prepaid mobile operators hoping to use customer life-cycle management face a vexing challenge: how do you manage a relationship with customers you barely know? People buy prepaid SIM (subscriber identity module) phone cards,[3] generally from third-party vendors, as easily as they buy cans of soda. Since no information is exchanged, mobile operators don't have basic consumer data about their prepaid customers, such as age, gender, and address. Other service industries have a wealth of customer information, gleaned mostly from application forms, that helps them plan strategies to extract more revenue and reduce churn. Without such basic information, most operators abandon any hope of managing their prepaid customers effectively, instead resorting to blanket promotions that risk destroying value by needlessly cutting prices or offering free services.

Adding to the challenge, prepaid customers are often disloyal: many throw away SIM cards when their value is exhausted, buying a new one from any convenient vendor who makes the best offer. Also, in some developing countries up to 30 percent of prepaid customers own two SIM cards and switch between them to take advantage of lower rates for calling within an operators' network and other discounts. Adapters fit two cards into a single handset, allowing customers to switch between networks almost effortlessly.

A few innovative mobile operators are overcoming the obstacles and jump-starting growth by mining the detailed usage patterns hidden in their existing data on prepaid customers. These pioneers are not only enjoying 3 to 5 percent increases in prepaid revenue but also reducing churn rates by 5 to 8 percent. They succeed by segmenting prepaid customers into hundreds of relevant microsegments—groups as small as 100,000 people—and targeting specific groups with promotions likely to increase usage and retention while minimizing revenue lost to scattershot offers and unnecessary discounts.

More subscriptions, less revenue growth

Low-income customers, especially in emerging markets, have flocked to mobile phones that use prepaid SIM cards. The cards are inexpensive—they may cost less than $1—and customers can add value to them in increments as little as 30 cents. They are readily available from a wide variety of large and small retailers, including neighborhood "mom-and-pop" stores and kiosks. They don't require a long-term commitment, and since payment is delivered up front, they pose no barrier to people with poor credit. Little wonder that of an estimated 900 million or more new mobile-phone accounts expected to be added around the world in both 2007 and 2008, about three-fourths will be prepaid ones.

Yet rapid subscription growth doesn't always generate a robust increase in revenues. In the Philippines, for example, while the prepaid subscription base grew by 22 percent in 2006, revenue rose by only 3 percent.[4] The same trend is playing out in other emerging markets. First, more mobile customers are playing the system by using two prepaid cards: in one market, the number of such users doubled from 2005 to 2006, and the decline in average revenue per user, the industry metric for tracking share of wallet, was 20 percent greater for them than for single-card users.

Aggressive campaigns to acquire prepaid customers—campaigns that drive down effective prices by giving away more and more value—are another reason for slowing revenue growth. In one Asian market, average subscribers could save up to 23 percent a month by replacing their old SIM cards with new ones from the same operator. This competitive spiral reinforced the trend toward dual-SIM usage, further reducing the industry's average revenue per user.

To make matters worse, the market also shows signs of saturation. In Brazil, for example, the annual increase in the number of new mobile users fell to 18 percent a year in 2006, from 31 percent between 2001 and 2005. We see the same pattern in China, Malaysia, the Philippines, and many other developing markets.

The path not taken

In postpaid telecommunications (mobile and fixed alike) and financial services, companies routinely dig into their databases to assess a customer's likely lifetime value, the probability that a customer will switch providers, and ways to retain the most valuable customer groups. When these efforts succeed, they give rise to highly effective promotions tailored to individual segments.

Phone companies place less emphasis on prepaid segments, seeing these lower-income subscribers as less profitable and the dearth of customer data about them as a crippling obstacle. Instead, most default to general promotions that destroy value. One offer to prepaid subscribers, for example, might award 100 free text messages over a week to customers who add value to their SIM cards within two days. Three groups, among many possible segments, highlight the way this approach could play out.

One group rarely uses text messages, ignores the promotion, and doesn't top up; worse, many people in this segment might view the text message that offers the deal as a kind of spam. A second group tops up the cards but would have done so and used text messaging even without the offer. As a result, the operator needlessly forfeits revenue from 100 text messages per customer. The final group of users tops up the cards and tries out text messaging. The operator generates revenue as these users add value to their cards and perhaps opens a future revenue stream by introducing them to a feature they hadn't tried before.

Only for this third group did the operator hit the sweet spot by making an offer that was relevant but not too relevant. For the first group, the promotion was meaningless. A different approach, perhaps offering free calls during nonpeak hours, might have been more successful. For people in the second group, the offer was excessively relevant, giving away something they would willingly have bought. For them, a simple warning that their balance was running low or a promotion introducing a new service might have worked better.

Getting more value from customers

Despite the relatively low average revenue per user from prepaid customers, companies can profit by paying more attention to the needs of these customers. Not only is their sheer number vast, but margins are as high as 65 percent in some markets.

One South Asian mobile operator gained more than $50 million in additional revenue by identifying and eliminating value-destroying promotions. The company appointed a team that used customer life-cycle management to test its range of offers against a control group to better understand the true impact of its marketing campaigns. One of the offers it eliminated as a result involved a flat rate for text messaging. Revenues then jumped, since customers, now accustomed to messaging, continued to use it even under the new pricing structure.

Operators hoping to replicate this kind of success must find a way to segment their customers more appropriately despite the data shortfall and to build the institutional capabilities needed to launch a constant stream of tailored promotions.

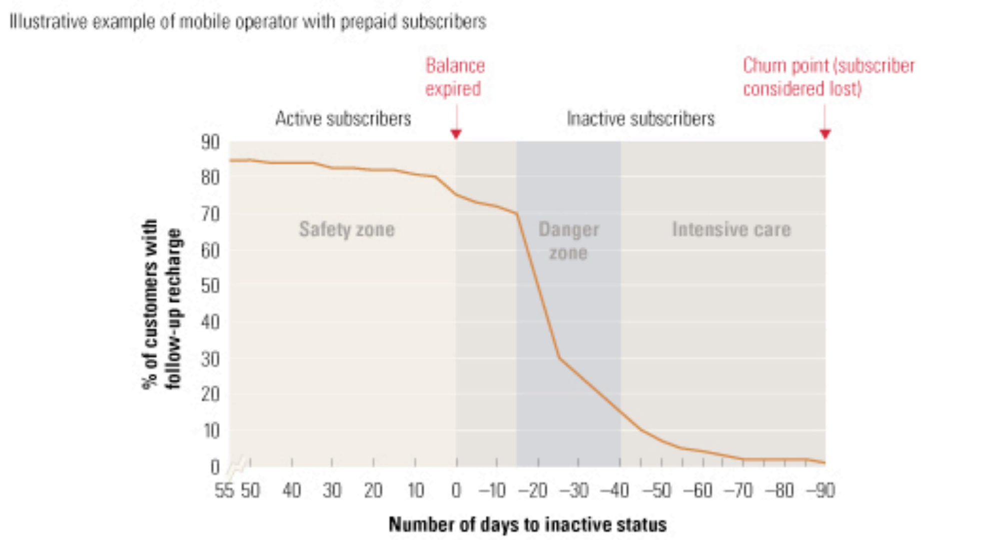
These methods are especially beneficial in emerging markets, where prepaid services flourish, but are also applicable to prepaid services in developed ones.

Finding the data

While mobile operators lack the standard demographic information about prepaid customers, their billing systems conceal a wealth of information that few of them exploit systematically. Customers who spend 90 percent or more of their time calling within an operator's network, for example, are probably switching between two or more SIM cards. One operator targeted this segment with a flat-rate promotion for all outbound calls and saw revenues from customers who took up the offer climb by 28 percent. Other usage patterns that can provide insights into customers include days since they last logged onto the network, the ratio of outgoing to incoming text messages, and the number of days that elapse before a customer is regarded as "lost"—usually about 90 after a prepaid card's balance reaches zero (Exhibit 1).

EXHIBIT 1

Targeting inactive subscribers



Safety zone
- No indication that higher churn is probable

Effective offers
- Target offers to recent customers to decrease early churn
- Sell bundles and other low-cost offers
- Increase stickiness through loyalty and point programs

Danger zone
- Goal is immediate recharge

Effective offers
- Vary recharge offers by value of customers; offer extra top-up amount, bonus airtime, Short Message Service (SMS)
- Roll out more aggressive offers to subscribers who remain inactive over time

Intensive care
- Low likelihood of recovery; recharge offers will have low acceptance rates

Effective offers
- Offer free credit accessible only when customer tops up

One major Asian mobile operator credited an extensive segmentation program and targeted promotions with reducing churn among its prepaid customers by 8 percent. What sparked these initiatives was the decline of revenue growth rates, over three years, to just under 5 percent, from levels as high as 30 percent—primarily as a result of the market's growing maturity and increased competition. Promotions during that period, though popular, failed to generate significant revenue growth.

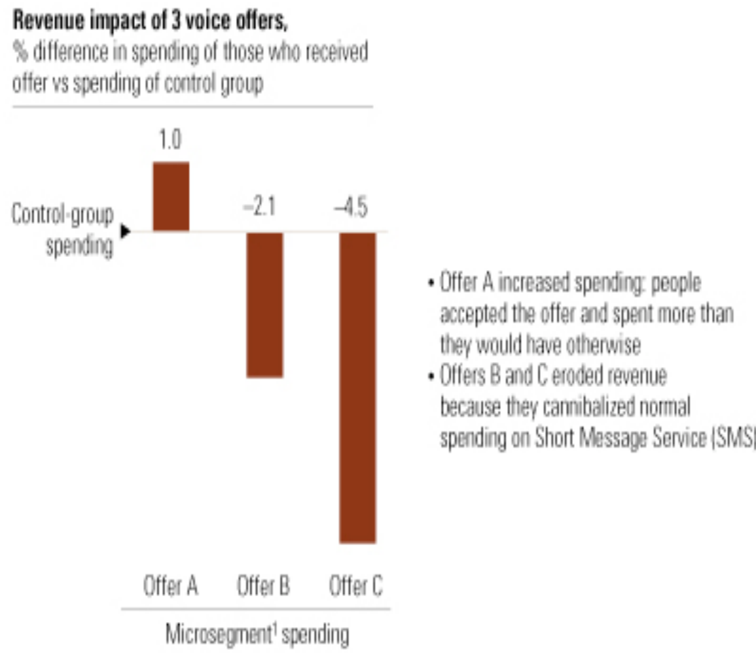
As a first step toward addressing the problem, the operator collected and analyzed its customers' usage data: basic calling patterns, reload behavior, acceptance of promotions, and other life-cycle characteristics. (A wealth of information was already available in its systems but had never before been used in this way.) Next, the company divided subscribers into microsegments: groups of about 100,000 to 500,000 people who shared significant characteristics. (Operators targeting bigger groups risk making offers that aren't clearly relevant.) The microsegments included groups of customers whose usage had dropped by 50 percent in the past month, who hadn't reloaded their SIM cards in three months, or who had signed up for free text messages but stopped using the feature once the promotion expired.

With that information in hand, the operator launched more than 1,500 test promotions for these and hundreds of other microsegments during the course of a year. Each test went to about 15,000 subscribers. Promotions generating revenue growth significantly higher than that of a control group within the same microsegment were offered to the entire segment (Exhibit 2). Over the year, more than 90 percent of the company's subscribers started receiving offers relevant to their specific usage characteristics.

EXHIBIT 2

Refining offers through segmentation

Disguised example of leading Asian mobile operator



[1]Group of ~100,000 to 500,000 subscribers who shared significant characteristics—eg, signing up for SMS package offered in a promotion but suddenly dropping the service.

Mining usage characteristics also helps operators identify prepaid customers who might tend to be loyal, as well as customers who not only generate marginal average revenues but are also relatively likely to switch. These operators can then focus greater attention on the higher-value customers and on developing tailored loyalty programs, while allowing the low-value customers to depart.

Building the team

Mobile operators that have successfully used the techniques of customer life-cycle management to target prepaid customers run some 50 distinct promotional campaigns each quarter—about one every second day. Many of these are small campaigns testing the impact of a promotion on a specific microsegment; others, full-scale pilots that move customers to add value to their SIM cards or to use new services. The effort is substantial and, for most operators, would require a full-time team of 15 to 20 marketers, IT specialists, and financial analysts. The team must receive support from advertising, sales, and customer service specialists, as well as functions such as human resources and pricing strategy. They should be charged with the task of identifying microsegments, designing and testing creative promotions, and comparing the test results with those from a control group of customers in the same microsegment. Finally, the company must be able to launch successful promotions more broadly across entire microsegments.

Taken together, this is a challenging program that calls for a strong cross-functional team, along with superior marketing skills. But trying to use marketing departments alone to direct this approach won't work, because it also requires expertise in data extraction and in statistical and financial analysis. Although these capabilities take time to build, they can drive revenue growth and create a competitive advantage that will be hard for other companies to duplicate.

Someone senior enough to assemble a superior cross-functional team should lead the initiative. Ideally, the leader would report directly to the head of marketing. Timely and accurate performance data are hard to extract, and once the team begins to mine the rich sources of information available, it must be strong enough to focus on its primary mandate and to resist requests from other parts of the organization for data cut to their own specifications.

Mobile operators typically need three to fourth months to design and deploy a new promotional campaign. Besides working to streamline the process, the team can strive for immediate wins by taking inventory of the promotions already available in the billing system, testing them immediately with suitable microsegments, and using whatever flexibility the system allows to tweak them as necessary. At the same time, the team should work closely with marketing and product development to put a new set of priority promotions into the pipeline and keep abreast of any other promotional efforts that could be adapted to customer life-cycle management.

Successfully using the techniques of customer life-cycle management to target prepaid mobile users will test many companies. But the industry is maturing, and since operators won't be able to rely for long on a flood of new customers to fuel growth, they must create more value from existing ones. Adapting customer life-cycle management to prepaid mobile is among the most potent ways to achieve this goal.

About the Authors

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Notes

[1] Figures based on year-end 2007 data.

[2] For a discussion of customer life-cycle management in telecommunications, see Adam Braff, William J. Passmore, and Michael Simpson, "Going the distance with telecom customers," *The McKinsey Quarterly*, 2003 Number 4, pp. 82–93.

[3] A SIM card is a postage-stamp-sized chip inserted in a mobile handset to activate it.

[4] For more on the mobile-telecom sector in the Philippines, see Christopher P. Beshouri, “A grassroots approach to emerging-market consumers,” mckinseyquarterly.com, November 2006.

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