

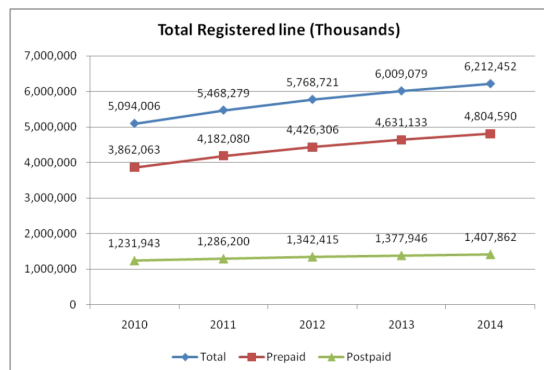
## Building Customer Loyalty with Prepaid Services

By Jesse Cryderman

Just a few short years ago, prepaid wireless service had a bad rep and was associated with a customer class that was credit-challenged, displayed minimal loyalty, and generated miniscule revenue compared to postpaid customers. At the same time, prepaid services had an image problem of their own, both in terms of network and device capabilities as well as customer support. In addition, prepaid customers generally had a sub-par set of devices to choose from, and few personalization options. In many developed regions, Tier-1 wireless operators distanced themselves from prepaid, either by creating different brands (Tracfone, Boost Mobile, etc.), leasing capacity to prepaid MVNOs, or staying out of the game as much as possible. But as Bob Dylan sang, “the times...they are a’changing.” Prepaid has undergone a dramatic makeover, and being able to deliver full-featured, personalized prepaid wireless service is now tablestakes for major service providers around the world.

### The Rise of Next-Gen Prepaid

Recent research from Ovum indicates that 73 percent of global wireless service providers are expanding their prepaid offerings. Why? Prepaid is on the rise. According to research from the Yankee Group, Prepaid is actually growing faster than postpaid: 5.61% CAGR vs. 3.39% CAGR, respectively. “Prepaid wireless services are becoming even more prevalent...Ovum forecasts prepaid will grow to 77 percent [of total worldwide connections] by 2015,” wrote Sara Kaufman,



Source: Yankee Group



analyst at Ovum. “Service providers understand that the prepaid wireless strategies they adopt today will have a major impact on future profitability.”

In order to feel greater control over their billing and personalize their service, customers have voiced a desire for more payment options, richer services, and the latest devices. Wireless service providers have responded, and are enhancing their prepaid service offerings with device catalogs, rich services, payment options, and personalization.

### Prepaid Devices: Bringing Sexy Back

Customers who subscribe to prepaid wireless service have traditionally had a limited device catalog to choose from; the devices that were available were usually a generation or two old, and had limited features. This has changed and now access to the latest smartphones is no longer a perk that only postpaid customers enjoy. Prepaid customers can now have access to some of the newest, sexiest smartphones, including top-end Android models and even the latest iPhone 4S, which is available from Cricket Wireless and Virgin Mobile in the U.S. and numerous prepaid carries globally. Customers have responded to the boost in device availability with their wallets. According to research from the NPD Group, sales of smartphones to prepaid customers tripled over the past year. “Prepaid is one of the fastest growing smartphones segments in the U.S.,” wrote Ross Rubin, a principal analyst with the NPD Group.

Some prepaid operators are going even further to expand the device catalog to infinity. These SIM-based operators, like StraightTalk and Simple Mobile, allow customers to bring their own device to the network. While this is very popular in the rest of the world, in the United States it’s just catching on. It makes good sense for frequent travelers as well, who can exploit flat international data roaming rates by swapping in a SIM card from MVNOs like Maxroam or Cellhire.

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### Rich Services

From a services standpoint, prepaid and postpaid are becoming more alike. 73 percent of global operators surveyed in an Amdocs research report indicated they were moving to offer prepaid customers the type of services traditionally only available to postpaid customers. Service features like personalized content, applications, automatic data backup, content filtering (e.g. parental controls), multi-device bundles and discounts, rich mobile broadband, and value-added partner content are all part of the prepaid world now. In fact, some prepaid service providers offer content service that trump offerings from the postpaid world. Muve music, an unlimited streaming music service from Cricket Wireless that was designed from the ground up with mobile in mind, is one the fastest growing and most popular subscription music services in the country.

Part of the reason for the improved service catalog available to prepaid customers is that prepaid network infrastructure has dramatically improved; this means 4G speeds and devices. In the U.S., Sprint recently made its 4G WiMax assets available to its prepaid brands, MetroPCS has been an early innovator in 4G LTE, and both Jolt Mobile and Cricket Wireless have signed deals with Clearwire for 4G LTE service.

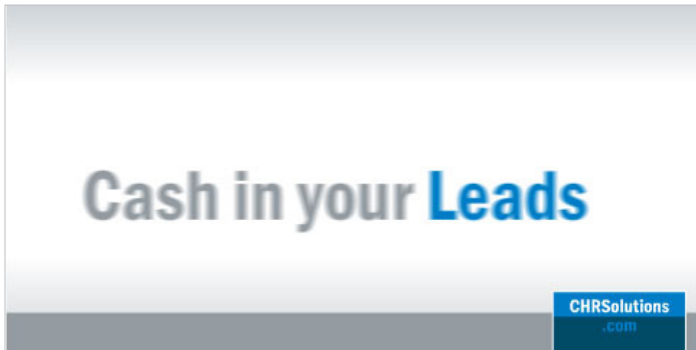
### More Ways to Pay

Customers of prepaid providers have a wide variety of billing options that are increasingly attractive to modern consumers, including no-contract monthly, pay-as-you-go, prepaid daily (or weekly), prepaid with add-on services (like unlimited calls to Mexico for \$10 a month, for instance), and discounted bundles (such as smartphone plus mobile hotspot). Customers can pay through a variety of portals, including internet, on-device, and phone payment, and even set up direct payments from a bank account. The flexible and transparent nature of the prepaid service billing allows customers to better control their spending. PriceWaterhouseCoopers cited this aspect as a driver of prepaid growth in a recent research report, writing, "We believe that the significant growth in the prepaid subscriber base is attributable to the combination of a maturing market, with mobile subscriber penetration

By 2015, prepaid subscribers will account for nearly 75% of the worldwide mobile subscriber base.

recently nearing 100%, and recessionary consumer purchasing behaviors, which have evolved toward mobile services that allow more careful control of spending."

In a strange twist, postpaid plans are being revamped to reflect consumer preference for prepaid-style charging. Verizon's new Shared Everything plans are suspiciously similar to prepaid plans, except they require a long-term commitment from the customer. Prepaid plans, on the other hand, inherently address the issue of billshock; since service is paid for ahead of time, concerns of overage fees and hidden charges don't materialize.



### Personalization

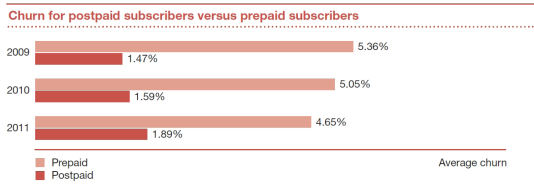
Personalization Due to the customizable nature of billing and the lack of a long-term contract, prepaid wireless can offer more personalization on a month-to-month basis that many postpaid plans. In

this manner, prepaid shares some of the attributes of a cloud offering (elasticity, measured service, on-demand service). Prepaid customers can activate and deactivate services on a daily basis through a web portal or on their device. These include data packages, plan specifics, unlimited international long distance, global local number, unlimited video service, unlimited streaming music service, international texting, tethering, and more. This level of personalization and is very attractive for customers who: travel frequently; have family overseas; have variable monthly income, or those who simply want more control over their monthly spending which has a growing appeal in times of economic uncertainty.

### Building Customer Loyalty

Turning more attention to prepaid and hybrid offerings is an effective loyalty building strategy for communications service providers. "Providing more service and payment choices and increasing

customer loyalty are driving service providers' move toward hybrid service offerings," wrote Amdocs in a research announcement. The latest data from PriceWaterhouseCoopers suggests that loyalty trends are changing, and prepaid is becoming more sticky, while postpaid is becoming less sticky. The report found that, "customers are becoming less loyal and the average length of postpaid customer relationships has declined to 48 months in the 2011 survey, from 59 months in the 2010 survey. " At the same time, prepaid customer relationships are lasting longer. And while postpaid still enjoys a significantly lower churn rate (no doubt due, in part, to steep termination fees), as a whole, postpaid churn is rising and prepaid churn is rapidly falling.



### The OSS/BSS Blues

If prepaid is so desirable, a long-term profit generator and a loyalty builder, why isn't everyone doing it? Quite simply, it requires significant changes to operational and business support systems (OSS and BSS) to operate both prepaid and postpaid in parallel. Prepaid OSS/BSS systems must be capable of launching new services at a much faster rate than traditional postpaid, and they also must be more flexible in how they provision, charge and bill for service use. Among global service providers, 47 percent surveyed

**The average length of prepaid customer relationships continues to increase, while post-paid customer relationship length is on the decline.**

by Ovum said their prepaid strategy would require moderate to large changes to their OSS/BSS systems. There are also significant concerns among CSPs with regard to legacy integration. This has given rise to the growing popularity of convergent billing systems. Whether they integrate prepaid and postpaid silos or implement a new, converged communications IT (ComIT) platform, CSPs will have to make changes to stay relevant in a world where prepaid is wildly popular. "To remain competitive, service providers must go to market quickly with new prepaid and hybrid services... [they] need a charging environment that can provide

this required agility and flexibility," said Rebecca Pruhomme of Amdocs.

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