SURVEY REPORT

Making the case for carrier billing

payments by docomo digital

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Adapting to evolving payment landscape

The Covid-19 (coronavirus) pandemic has accelerated the shift to carrier billing across many markets worldwide, with the majority of mobile operators surveyed seeing significant market opportunities for them to move into new areas, some of which are not served by traditional payment methods.

Our recent survey, sponsored by DOCOMO Digital, found that as merchants embrace new forms of digital content and new platforms emerge, operators are keen to establish their role as payments providers. They understand the digital ecosystem is going to evolve with or without them, and direct carrier billing (DCB) ensures that they have a strong partnership role in that ecosystem.

Nearly half have launched DCB or plan to in 2021, with a similar percentage considering working with a specialist to help manage payment reconciliation. More than a third look for merchants to invest in co-marketing efforts and bundles for all or most campaigns.

The attraction for operators' merchant partners is clear: increased speed and convenience of collecting payment via DCB. For operators, they are looking for new growth streams, with nearly half ranking it as the number one benefit.

While interest is rising, operators understand they need to actively raise awareness as many merchants (as well as consumers) aren't familiar with how carrier billing works and the benefits it provides.

Methodology

Online and phone surveys of 115 industry executives was conducted in August and September 2020, with operators accounting for 57.4 per cent of the total, merchants 12.2 per cent and 'other' 30.4 per cent. The other category included executives in digital health, tech education, financial services, software, OEMs, SIs, infrastructure, ISPs, aggregators and consulting.

Overall market

More than a third of those contacted said they have already launched DCB or other advanced mobile payment or plan to this year. Another 17 per cent are scheduled to launch in 2021, with nearly a third having no plans and 16 per cent saying they don't know, highlighting the need for the industry to do more to raise awareness.

The majority of respondents believe there are significant market opportunities (50 per cent) for wallets or carrier billing for new offerings, such as scooters, bike rentals, food delivery and parking services. Another 19 per cent see a moderate upside, while just 21 per cent feel there are plenty of options currently available.

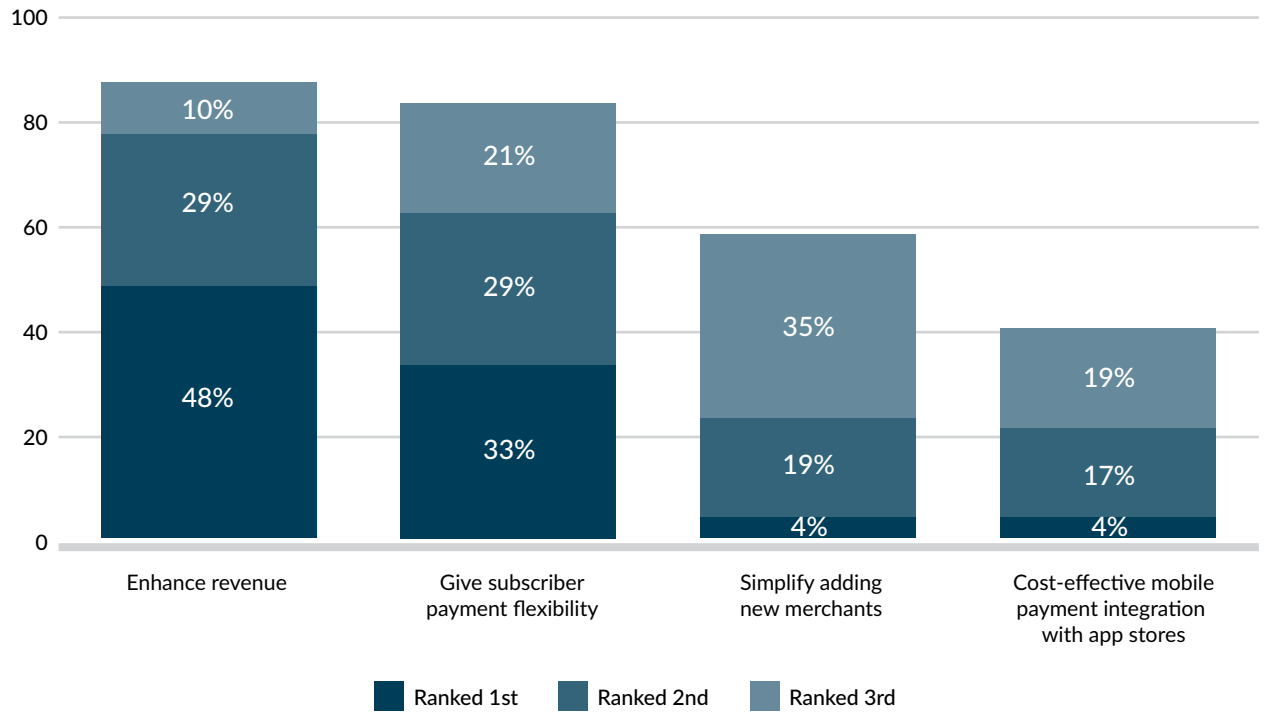
The survey found the main benefits of introducing DCB services are: enhance revenue, give subscribers payment flexibility, simplify adding new merchants and cost-effective mobile payment integration with app stores (see chart 1).

An overwhelming majority (58 per cent) say they are considering working with a DCB specialist to help manage payment reconciliation (with more than a quarter seeing it as a significant consideration). Some 28 per cent said it's not a consideration.

One factor driving this shift is the operators themselves, said DOCOMO Digital CEO Jonathan Kriegel. As they see turnover from core business and traditional voice and messaging decline, operators are looking for new sources of revenue – enterprise IoT provisioning and B2B content. For example, the company recently enabled payment methods for a drone service provider targeting businesses in Japan.

Kriegel, however, noted the most energy is going into the consumer space and looking at ways to drive OTT services through the creation of new ecosystems, where carrier billing is a crucial component. "This is driving higher engagement, ARPU and share of wallet."

Chart 1: Rank the main benefits of introducing direct carrier billing (DCB)?



Covid-19 impact

With people spending more time online due to lockdown restrictions the carrier billing business has largely been spared (see chart 2): 40 per cent of respondents said the pandemic had a significantly or moderately positive impact, with nearly 21 per cent saying the impact was imperceptible. Just 29 per cent said it was moderately or significantly negative.

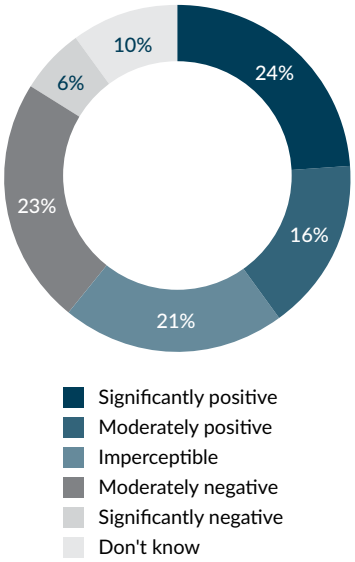
Kriegel noted in recent blog post the pandemic has accelerated carrier billing transaction volumes beyond even the aggressive prediction made by Omdia (previously Ovum) earlier in the year, forecasting 10 per cent annual growth from $49 billion in 2019 to $79 billion in 2024.

He said consumers all over the world increased their engagement with, and purchase of, digital goods online using carrier billing as a payment method.Part of the reason can be attributed to the the fewer number of clicks needed compared with over 15 clicks needed when using a credit card.

"We have seen year-on-year transaction volumes increase by anywhere from 5 per cent to as high as 30 per cent in some markets in Asia and Latin America. More importantly, we have seen a 10 per cent increase in the number of unique active users across all of our operating partners," he explained.

More than one-third of respondents to the DOCOMO Digital survey indicated their carrier-billing business priorities remain unchanged, while 16 per cent expanded into new markets and 14 per cent scaled up to support increased demand. On the downside, 13 per cent said they had to reduce costs and investments, and 15 per cent refocused on alternative opportunities.

Chart 2: What impact has the Covid-19 crisis had on your billing business?



Market growth concerns

The top-three worries holding companies back from moving to DCB are security, the perception of a low-margin opportunity and bad debt (see chart 3). Others worry about the complexity of the implementation, integration with back-end payment systems, regulatory compliance, dealing with foreign exchange and onboarding merchants.

Just over a quarter (27 per cent) expressed significant concern about DCB bad debt and fraud, with 42 per cent having moderate concern and 19 per cent indicating they are not concerned.

It's clear more work needs to be done as an industry on fraud prevention and bad debt management.

Kriegel stated there are standardisation conversations that "we need to have with traditional inline cable TV operators which are now starting to compete with OTT merchants as a result of cord-cutting, especially amongst their younger customers".

As those providers try to bring OTT services into their portfolios, there is a significant opportunity for carrier billing.

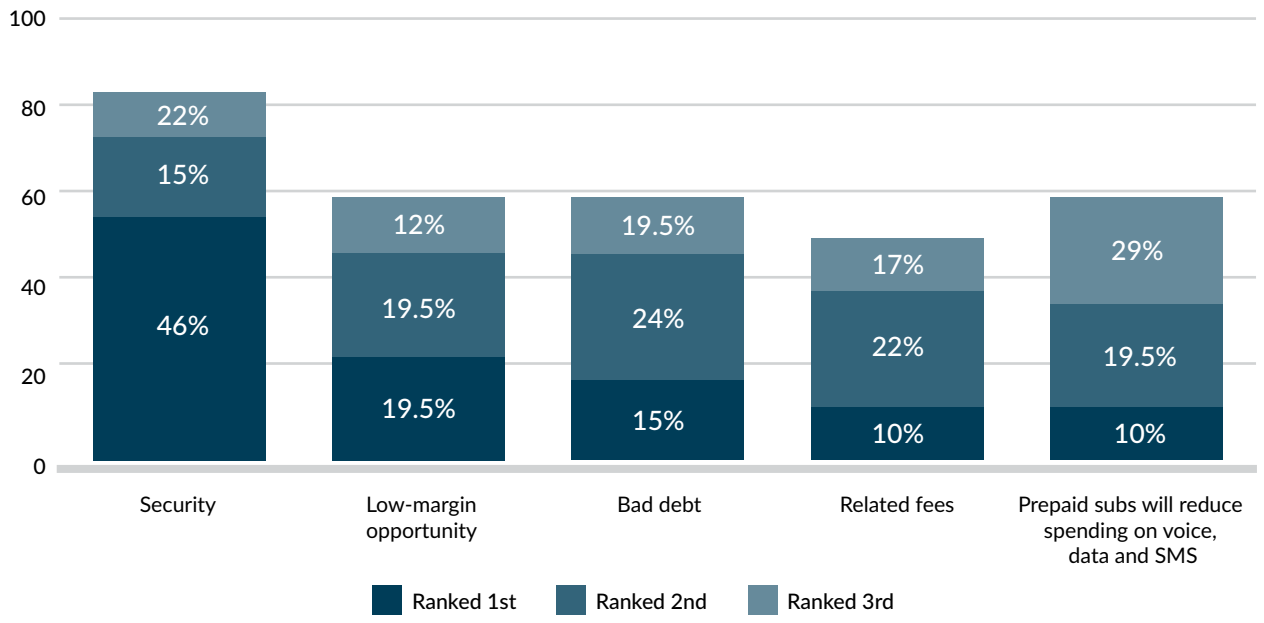
Only 15 per cent of those surveyed are significantly concerned that introducing DCB services will reduce the revenue share generated from app stores. Just over a quarter are moderately concerned, while 44 per cent expressed no concern.

The adoption of DCB does not necessarily lead to any cannibalisation of revenue from app stores or any other payment channel – rather it provides an additional choice for consumers who would not otherwise made purchases using different methods.

Peter Garside, head of Charge to Bill at BT-owned UK mobile network operator EE, noted at a recent industry event: "That is not cannibalising [revenue from elsewhere] because what you find is that the people who did not take any purchase previously decide that if they can use carrier billing now they will make a purchase. What the merchants find is they are actually creating more business by offering choice and their pie is growing even if DCB is not the whole pie, it is still a significant part of the revenue stream."

That is a pattern which has already been observed by huge global merchants such as Sony, Microsoft, Apple and Google for example, all of which have seen revenue increase when they expanded the range of payment options offered to people shopping with their smartphones.

Chart 3: Rank the major concerns holding you back from moving to DCB (top 3 choices)



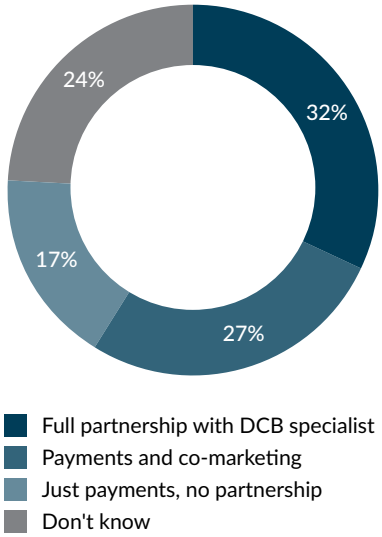
Forging partnerships

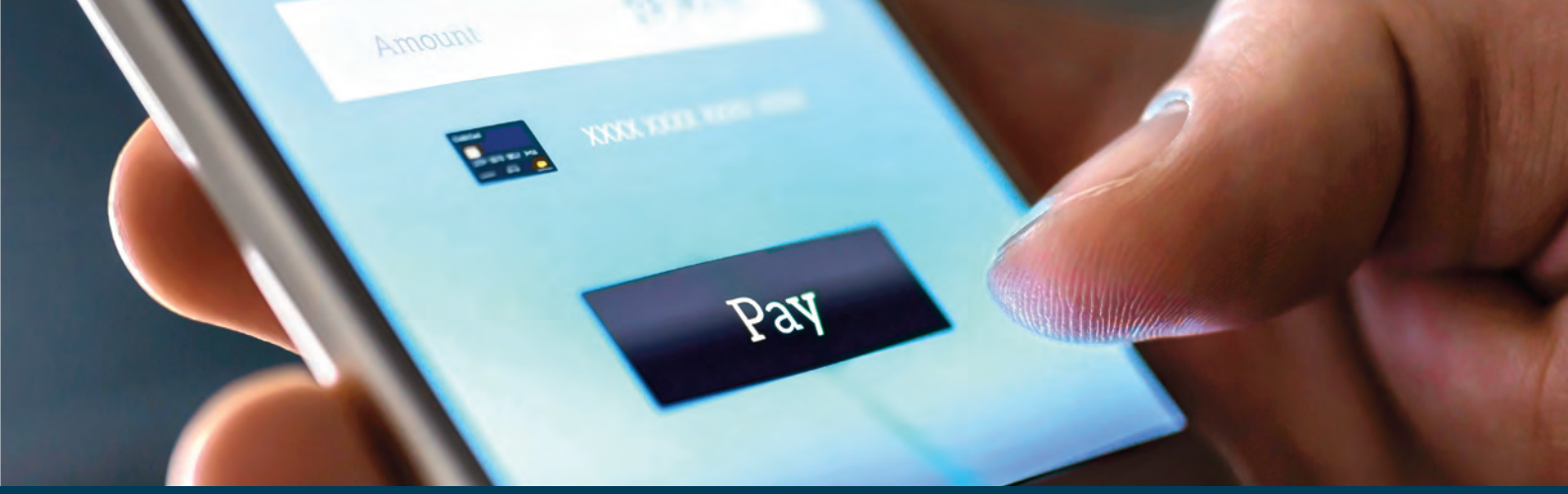
For those planning to launch DCB, nearly a third (32 per cent) want a full partnership with a DCB specialist, while 27 per cent are considering payments coupled with co-marketing efforts (see chart 4). Just 17 per cent are only looking at payments, with no partnerships.

In terms of support, 37.5 per cent expect merchants to invest in co-marketing efforts and bundles for all or most campaigns. A similar percentage expects it for selected campaigns, and a quarter said they didn't know.

Two-thirds of those surveyed are considering web-based payment APIs or direct DCB connections with multiple merchants beyond app stores, with 15 per cent stating they will only work with app store carriers billing.

Chart 4: What kind of partnership are you considering?





Merchants

Breaking out the findings to focus specifically on merchants' future plans, a quarter said they already introduced DCB or other advanced mobile payment or plan to in 2020, while 28 per cent are gearing up for a launch in 2021 (see chart 5). Some 40 per cent have no plans.

The percentage of merchants which have launched or plan to by 2021 is 53 per cent, which, surprisingly, is nearly exactly the same as the figure for the overall group (52 per cent).

The types of partnership merchants are seeking again closely mirrored the full group, with a third seeking payments and co-marketing, and a quarter wanting a full partnership with a DCB specialist. A fifth are looking at only payments and a similar percentage said they don't know.

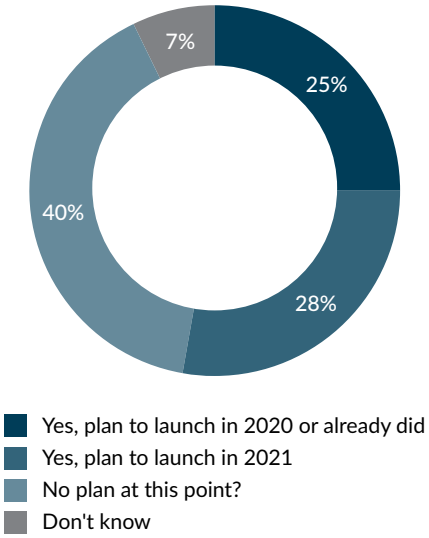
The majority (62 per cent) of the surveyed merchants indicated they are always or sometimes willing to invest in co-marketing efforts and bundles with an operator partner, depending on the campaign. Co-marketing efforts from both merchants and telcos are crucial to the success of any carrier billing or bundling partnerships. Just 15 per cent said they rarely would be willing, and 7.6 per cent indicated they never would. These numbers are slightly lower than the 75 per cent of all respondents indicating they expect support from merchants for most or selected campaigns.

Being able to make the most of a trusted telecoms brand is often essential to the merchant – even more so in partnerships which involve co-branding or white labelling the product or service being offered. When this happens, microinsurance company EVP, for example, has seen sales increase by as much as 100-times than if the product is labelled under its own brand.

More than half (57 per cent) of the merchants said they are considering working with a DCB specialist to help manage payment reconciliation, while 26 per cent said it's not a consideration. These numbers again closely match the overall group's responses.

The speed and convenience of being able to collect payment through DCB is also a major attraction for operators' merchant partners, often by reducing any friction in the customer journey that may lead to transaction abandonment. EVP has been able to sign up millions of customers by making it easy for them to understand, sign up and pay for insurance.

Chart 5: Merchant question: Do you plan to launch DCB or other advanced mobile payment?



EVP CEO Richard Leftley explained: "Having all of that in one ecosystem, where we can say 'I am calling you from such and such carrier and would you like this insurance product', and then when they say 'yes', being able to bill them from their airtime or mobile wallet, that makes it incredibly successful."

Raising awareness of carrier billing is still a work in progress. Kriegel is surprised by the number of global merchants that are not yet aware of the benefits of carrier billing, "so there is plenty still to be done there. As we look at increased interest in

subscriptions and bundling, especially streaming video and music content providers, there are ample opportunities for co-marketing".

Educating consumers on how carrier billing works and the benefits it provides compared with alternative payment methods is also crucial to expanding the entire ecosystem.

Joel Stern, commercial enterprise director at media and entertainment company Global, which established a stable stream of revenue through charge-to-mobile via premium SMS (PSMS) and micro payments, is now considering expanding that strategy to include DCB in the near future.

"Ultimately consumers know and understand what to do and how it works when they pay through a credit card or PayPal," Stern said. "But charge-to-mobile and paying through their mobile bill is still foggy in their minds."

More refined approaches to fraud prevention and bad debt control are also needed to cement trust in carrier billing among both merchants and consumers. EE's Garside believes offering merchants better information on payment eligibility to help them decide whether a purchase should go through or not is a key advantage – in other words, having MNOs check whether consumers can actually pay for the transaction, have got a bar on their phone, or if they have, they've gone over their spend limits.

"I think we need to look out at what else we [carriers] can do over and above our payments competitors," he said. "Can they do an eligibility check, for example, or use crediting to put money on people's bill rather than just take payments?"

Carriers, merchants and payment service providers must also work together to engage with regulators and other stakeholders to ensure that DCB can be used as a payment method for physical goods, ticketing and transport all over the world, in much the same way it is already used now in countries like Japan, South Korea, China and Turkey.

"The operators in those markets have had an opportunity to see and operate in the future, and we should be looking to them for best practice in how they have gone about acquiring their partners, merchants and physical points of presence," pointed out Kriegel.

For merchants:

- Makes it easier for merchants to launch in new markets where they have either a small presence or no presence, by joining forces with a telco that has deep roots with a loyal base.
- Provides merchants with the marketing boost required in any new market or market segment. This can include marketing or co-branding support or services from mobile operators, which have become a sophisticated channel for marketing.
- Allows merchants to leverage already existing billing systems to sign-on customers.
- Helps merchants reach out to customers in markets where credit card penetration is low (ie developing economies) and demographic segments in which credit card penetration is low (ie among the youth).
- Guarantees a better user experience by allowing a one- or two-click payment experience without users having to reach for a credit card.
- Results in a much higher conversion factor. According to DOCOMO analysis, DCB's cart abandonment rate is seven-times lower than that for credit card transactions – 5 per cent for DCB versus 35 per cent for credit cards.

For mobile operators:

- Results in increased revenue or ARPU through a rise in non-core turnover at a time when core revenue growth has stagnated. DCB offers one way to tap into beyond-core areas.
- Leads to increased ARPU through an increase in core revenue, as consumption of some core services such as data increases.
- Raises the profile of mobile operators among the younger demographic consuming streaming and gaming content on their mobile devices.

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