

# CRM for Prepaid Wireless Services

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## INTRODUCTION

Prepaid services today dominate the wireless communications market in many geographies and represent an estimated two-thirds of the global market in terms of customers. Originally, prepaid services were seen as suitable mainly for customers who were unable to meet the requirements for postpaid subscriptions, or in markets without reliable mechanisms for payment and collections. However, over time, prepaid services have gained appeal with a much wider customer base in part because they are simple and require less outlay and commitment up front than postpaid services.

In many respects there is no difference between prepaid and postpaid wireless products: The underlying network technologies are the same, the set of supplementary services is identical, and the same subscriber equipment (handsets and accessories) is required. Services and equipment are usually bundled together in packages for both types of service, with the same kinds of restrictions and commitments. Carriers typically sell both prepaid and postpaid service through their retail networks and online. For both prepaid and postpaid customers, carriers focus on three key success factors:

1. Reducing the cost of acquiring a new customer, or cost per gross add (CPGA)
2. Increasing average revenue per user (ARPU)
3. Reducing the rate of customer churn

Overall, prepaid customers tend to spend less on their wireless services and be less loyal than postpaid customers. In many markets, prepaid customers are also allowed to remain anonymous to their carrier. For these reasons, customer relationship management (CRM) solutions have sometimes been dismissed as irrelevant to the prepaid wireless market. This paper considers the issue more carefully and ultimately dispels that view. Key differences between prepaid and postpaid wireless services that affect customer relations are examined in order to determine how CRM capabilities may be applied in prepaid wireless markets.

## **PREPAID VERSUS POSTPAID: KEY CRM DIFFERENCES**

Despite the many similarities mentioned in the previous section, there are also differences between prepaid and postpaid services that affect how relationships with prepaid customers need to be managed.

### **Anonymous Customers**

In many markets, prepaid customers are not required to identify themselves to their carrier. This poses immediate challenges around how to manage the relationship with customers. It is not possible to segment customers based on personal and demographic information such as address, age, and income.

Anonymous customers are also harder to reach. Without a mailing address, the only direct communication channel to these customers is through the handset itself. This channel must be used very selectively to avoid irritating the customer, which makes it all the more important that the message delivered is on target. On the positive side, prepaid customers tend to make greater use of low-cost services such as text messaging. This might leave them more receptive to offers extended to them through this medium.

### **No Credit Required**

Due to their nature, prepaid services do not require the customer to be creditworthy. This has been an important factor in making prepaid services popular in certain market segments. Youth and children, for instance, represent a significant portion of prepaid wireless users. This segment tends to be open to adopting new services and technologies and represents huge long-term revenue potential. Some members of this segment will turn into high-spending customers in the future. Many of these users will move on to postpaid services when they qualify for them. That said, many of these users have limited spending power today. Their parents often pay for their service, limit their spending, and may also be the ones who decide what service to buy.

### **Low Commitment**

The low financial commitment required is an important selling point for prepaid wireless services. The initial charge is usually small. And while most prepaid services have a minimum monthly top-up requirement (a kind of periodic charge), this tends to be less than the lowest monthly charge for postpaid service. Most prepaid customers prefer to keep a modest balance on their account and make frequent top-up payments. In some markets it is also common for customers to change their prepaid plan often. For these reasons, prepaid customers need to perform frequent transactions related to their service. Lastly, the lower required financial commitment is probably the main reason why churn rates among prepaid customers tend to be higher than for postpaid ones.

## **Alternative Distribution Channels**

In addition to regular wireless retailers, prepaid bundles (handset, service, and accessories) are often sold through retail channels such as supermarkets, convenience stores, gas stations, and even vending machines. Postpaid bundles are typically not sold through these channels. Use of these channels helps carriers reach more customers, lowering their CPGA. Similarly, top-up payments are often made through different distribution channels than those used for selling other wireless products and services, for example, ATMs, kiosks, and convenience stores. These channels help reduce customer service costs.

## **RECOMMENDATIONS**

From the previous section it is clear that some of the differences between prepaid and postpaid wireless services significantly impact customer relations. To deal with the challenges specific to the prepaid market, carriers need several distinct capabilities.

### **Accurate Customer Segmentation**

Customer segmentation is important in both prepaid and postpaid markets. However, anonymous prepaid customers necessitate different segmentation models, based on usage, payment patterns, and purchasing history. The following data is available for most or all prepaid customers and provides a basis for initial segmentation:

- Minutes/units of airtime use
- Number of messages (SMS/MMS) sent and received
- Services used (basic and supplementary)
- Handset functionality (such as GPRS, 3G, camera, and so on)
- Other products and services (such as accessories, equipment insurance, and so on)
- Frequency of top-up payments
- Size of top-up payments
- Size of initial airtime payment (at activation)
- Time between activation and first top-up payment

Naturally, such a basic segmentation is merely a starting point with limited accuracy. Fortunately, in many cases, a subset of the prepaid customers have provided the carrier with some personal information voluntarily. By comparing the usage patterns of these customers with those of the anonymous ones, a more accurate segmentation model can be developed. Furthermore, customers may have incentive to identify themselves. For example, top-up payments can be made more easily if the carrier is permitted to store information about the customer's preferred means of payment, such as bank account or credit-card details. It is also worth

noting that legislation has recently been introduced in many markets that requires prepaid customers to identify themselves at the time of purchase or service activation. This trend is expected to continue, reducing the number of anonymous customers. It also means carriers will be required to store customer details associated with each subscriber identifier used by the network.

A CRM system that supports the relevant business processes is the natural vehicle for capturing much of this information. Additional data may be retrieved from systems such as the Intelligent Network Platform. Once the information has been collected, a business analytics platform can provide the capability to view that information in insightful ways and identify appropriate action.

### **Marketing Through the Handset**

Once the customer base has been divided into segments, relevant offers and promotions can be developed for each of them. A CRM solution with marketing functionality is a valuable tool in matching customer segments with offers. Leading solutions also support campaign execution through multiple channels, including SMS/MMS and email to the handset, as well as capabilities for measuring the financial return of the campaign.

### **Managing Multiparty Relationships**

As discussed in the previous section, the buyer, user, and payer for a prepaid wireless service may be two or even three different persons. Carriers need to understand and manage the relationship with each of them, and a capable CRM solution can consolidate and present all information relevant to the service in a single location. Such a consolidated single view of a customer is the foundation for performing all customer-facing business processes correctly, efficiently, and uniformly.

### **Real-Time Up-Selling and Cross-Selling**

The frequent customer-initiated interactions constitute important up-selling and cross-selling opportunities for carriers. Extending the right offer to the right customer at the right time is perhaps even more important for prepaid than for postpaid markets, given customers' low initial ARPU. To achieve the needed offer accuracy carriers must make use of all available customer information, including information from nontraditional channels. And since prepaid customers perform so many transactions, decisions on what to offer must be made in real time wherever possible.

A CRM system supporting dynamic up-sell and cross-sell recommendations is an invaluable tool for capitalizing on this revenue opportunity. Furthermore, a best-in-class decision-making platform enables carriers to instill real-time intelligence, based on predictive analytics and user-defined business logic, across all customer interfaces.

## **Seamless Transition Between Prepaid and Postpaid**

Segmentation lets carriers focus particularly on their most valuable prepaid customers—those with a high ARPU. These customers may not qualify for postpaid services today, perhaps due to inadequate credit ratings. However, as postpaid services tend to be much less costly at high call volumes, they will likely switch to postpaid in the future. Without a compelling reason to stay, many of them will switch carriers at the same time. To foster loyalty, it is essential that carriers recognize these customers and develop close relationships with them. This requires the ability to continuously ensure customers are using the best service option available to them, prepaid or postpaid. Whenever a change is warranted, the carrier must proactively reach out to the customer and, once authorized, make the transition seamlessly.

This level of customer service cannot be achieved without an industry-leading CRM solution with support for both prepaid and postpaid services.

## **Managing Interactions Through Appropriate Channels**

While customer-initiated transactions present opportunities for growing revenues, it is important to bear in mind that some customer segments are less likely to accept up-sell and cross-sell offers than others. For example, prepaid services appeal to customers who use their wireless phone infrequently or keep a phone strictly for emergencies. Their ARPU is consequently both low and hard to increase. Infrequent users are also more likely to forget to make the top-up payments required to keep their service active. To ensure these customers are profitable, carriers must manage the relationship with them very carefully, steering them to self-service channels for routine transactions.

A CRM system can help direct customers to the right channel. For example, CTI/IVR integration can route calls to the right agent or to self-service, and messages can be sent to targeted customer segments to build awareness of self-service options available.

## **Rewarding Customer Loyalty**

While most carriers reward prepaid customers who make larger top-up payments with additional airtime, only a few reward customers for keeping their service active. Margins in the prepaid business are often thin, leaving little room for loyalty rewards. That said, customer loyalty programs have proven successful at significantly reducing churn in other industries, and a program with the right format is likely to be effective. Ideally, such a program should be fully integrated with the CRM system to streamline its operation, improve its flexibility, and align it with day-to-day customer interactions.

## **Enabling Nontraditional Channels**

Since prepaid wireless services rely on more market channels than postpaid services, the challenges of providing a unified customer experience are perhaps

even greater. These channels often do not have capabilities such as targeted real-time offer recommendations. The use of these additional channels may also impair customer insight if carriers are not able to capture the relevant information from the transactions they handle. Such information is required not only to maintain a complete transaction history for each customer, but also to capture related information such as the credit-card, coupon, or offer code used for making a purchase.

Again, a CRM solution may help meet these challenges, provided it has true multichannel capabilities that extend the carrier's CRM capabilities from its direct channels into its partner network. Equally important, some partners and channels will manage customer interactions through other systems. Capabilities for integration with third-party systems is therefore essential to ensure exchange of relevant data.

## **CONCLUSION**

Prepaid wireless services can be an attractive business for carriers. However, this rests on a fine balance of CPGA, ARPU, and churn, and if one or more of these factors is not controlled, the attractiveness will deteriorate rapidly.

Most carriers today fail to capitalize on the opportunities in managing the relationships with their prepaid customers. Organizations and supporting systems were developed in a product-centric environment, at a time when postpaid services dominated the wireless communications market completely.

To succeed in the prepaid market requires additional, distinct capabilities. For carriers to recognize these, they must take a customer-centric view. A next-generation CRM solution, augmented by business analytics, loyalty management, and real-time decision-making, is invaluable to this process.



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