



## **MICRO TOP-UP – A powerful new tool for a major emerging global market**

The young, and those in developing economies – with no credit card or even a bank account – are among the most eager and appreciative users of mobile phones. The problem has been that no cost-effective way could be found to give these users the ability to pay for their airtime in very small increments. In this issue of The Goldfinch Report, GFG Group’s General Manager for South East Asia, Peter Goldfinch, looks at how micro top-up technology is providing that solution – and how such a seemingly simple solution can have large and favourable market impacts.

What is a micro top-up? Using a common definition for a micro-payment, “a payment you cannot afford to process”, then a micro top-up is one operators cannot afford to process using conventional means. For this article I’m assuming a micro top-up is around the price of 20 text messages.

Micro top-ups are a powerful tool to combat a dynamic familiar to Mobile Operators in all markets: as penetration increases, the average revenue per user (ARPU) begins to decline. The subscribers with a high need for a mobile handset are normally the early adopter or subscribers. ARPU is high initially but from then on the ARPU – along with churn rates – go in the wrong direction.

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For the prepaid market, ARPU is also affected if recharging or topping up is not convenient. Handset top-up solutions address this issue for those prepaid subscribers who have a credit card and/or a bank account.

The issue for the developing economies is that operators have penetrated the lower social economic segments where the subscribers do not have a banking relationship. Not only are they ineligible for a credit card, they are ineligible for a bank account because they simply do not have a regular income. Any income usually comes from the grey economy. Micro top-ups just got cost effective

Operators have – for cost reasons – set minimum top-up values too high for this lower economic segment. Purchasing airtime is a budgetary item for poorer users, not an impulse purchase. When running low these subscribers are not able to purchase additional airtime without considering the other demands on their personal cash flow. They simply may not have sufficient cash for a scratch card purchase.

The micro top-up concept reduces the value of a single top-up by cutting the amount of airtime that is purchased. The price of the airtime is unchanged. The objective is to transform airtime purchases from a budget item to an impulse purchase, by reducing the amount or volume that is bought to an affordable level.

For operators to lower the airtime purchasing volume they must remove the cost constraints associated with airtime distribution. This segment is still predominantly on scratch cards where the costs are commission to resellers, production of the scratch card and the distribution. Security relating to the production, storage and distribution is also a significant issue, as scratch cards are in effect currency.

In the higher income and banked segments of the market, scratch cards have been reduced through electronic forms of top-up. This may be from the subscriber's hand phone or via an electronic point of sale solution. Operators generally have not changed their top-up systems, but simply changed the delivery channel. The scratch card still exists, it is just delivered electronically and often transparently to the subscriber.

The Micro Top-Up model removes limits on value and/or volume of airtime that is purchased. The value limits can be set as low or as high as the operator wishes. The concept of a scratch card – and a fixed value for a top-up – is jettisoned.

The Micro Top-Up service is based on a network of community based resellers. These resellers are provided with a handset application, (either SIM card or Java based) supporting a secured reseller function. Using this function these resellers purchase airtime on behalf of prepaid subscribers.

The reseller is also required to have available funds in their 'reseller's' account. No funds and a reseller's request for purchase will be declined. Operators have the option of supporting credit limits.

Resellers earn commission calculated on the value of airtime purchased for the commission period. It can be a flat rate or a scaled rate, depending on the model supported by the operator. A matrix of volume and transaction numbers could also be deployed. It is important operators maintain control of the distribution and especially the sale price. The commission has to be sufficient so resellers are not encouraged to add their own margin to the price. If they do, the advantage of micro top-ups is eroded by the exploitation of the poor.

### Tiered Reselling

There is a case for multiple levels of resellers. If operators do not wish to manage directly a network of 2-3,000 resellers, the alternative is to sign up territorial-based agents contracted to recruit and manage a network of resellers.

There are various models to manage the agent and reseller network.

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1. The operator can sell airtime in bulk to the agent at a discounted price. The agent then on sells the airtime to the individual resellers again at a discount or pays commission on sales volume. The operator controls the discount to the agent and the price of the airtime but not the commission rate between the agent and the reseller.
2. An alternative is for the agent to be paid a management fee for signing up and managing the resellers. But the resellers buy their airtime directly from the operator.

Commission rates are set and paid by the operator to the reseller. The agent is also paid based on the number of agents and a commission on their sales volume.

It is important for the operator to set basic rules on the commission structure to ensure the resellers are rewarded and not being exploited by the agents. Operators can do this by providing the systems infrastructure that supports the sales and commission processes.

### Youth Markets – those cherry picking pop kids

In many of the developed economies the youth market is predominantly prepaid. This is also a market with a restricted disposable income. It’s important for mobile operators to recognise their real competition is not necessarily the other operators but the other businesses targeting this disposable income.

The music industry is worth attention. Like the mobile industry they sell CDs with a price similar to a scratch card. With the advent of the Internet the CD market is under threat not only from the pirates, but more from their customers.

A quote from Bono in the book ‘Conversations with Michka Assayas’ says, “As an example, in the downloading of music, pop kids are no-longer buying the whole album. They’re just cherry-picking the best songs off the Internet”. In effect kids aren’t paying the \$20 for a CD, they are instead buying music in smaller value increments. In increments they can afford, and again as an impulse buy. They’re more likely to purchase a song when they first hear it, rather than wait until they receive their allowance. The question of interest is whether the music industry is selling more songs, and therefore generating a greater level of revenue? Possibly not yet, considering the tough times the music industry has gone through, but it is a strategy to fight off the pirating of music and competition from mobile.

Mobile can learn from the music industry’s experience and sell not \$10 dollars of airtime but 50 cents, or the equivalent of a single pop song. In this way, they can take a bigger share of a restricted disposable income.

### Bottom-Line Impact of the Reseller Model

As this model is immature, it’s difficult to measure the broad bottom-line impact across regions and social economic groups.

The most startling example is Smart Communications, the market leader in the Philippines. Smart is an innovative operator developing and launching new services almost continuously. Therefore growth figures cannot be solely attributed to their micro reseller model.

Smart in 12 months increased their revenue by 100% and the subscriber base grow from 9 million to 20 million.

Subscribers are able to purchase 20 text messages at a time from Smart resellers. This has made text messaging even more affordable in a country that has lead the world in this form of communication.

### Watch this Trend

As electronic delivery enables services to be delivered more cheaply, the cost barriers of delivering smaller affordable quantities are dissolving. Both the music and mobile industries stand to benefit from this new ability to turn the impulses of their customers into revenue.

## About Peter

Peter Goldfinch, GFG Group's General Manager South East Asia, is a respected analyst and commentator on global trends in payment technology.

One of the original founders and shareholders in GFG Group, Peter has a background of more than 23 years in the information technology industry, most of which has been involved with consulting and systems development for banking and finance customers in 25 countries.

He has particular expertise and experience in payment systems, including mobile payment systems. His career highlights include pioneering work on the first ATM and EFTPOS networks.

In the mid-1990s, he played a key role in the introduction of credit and debit cards into the Russian market, working with GFG's customer SBRF.

## About GFG

GFG Group is a highly-specialised payment solutions company, providing its clients with products, advice, and systems integration and outsourcing services. Accredited by the World Bank, the company has established a global presence over the last decade - delivering leadership payment solutions to more than 50 customers in over 40 countries.

A key element in GFG Group's success is its focus on development and investment in five high-demand payment solution areas:

- **Card Management Systems**
- **Mobile Payment Solutions**
- **Customer and Merchant Loyalty Systems**
- **Managed Services**
- **Payment Tools**

The company's core research and development team is based in Auckland with consultants and technical staff located in the international offices to provide front line 24 x 7 support for customers in multiple geographies.

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