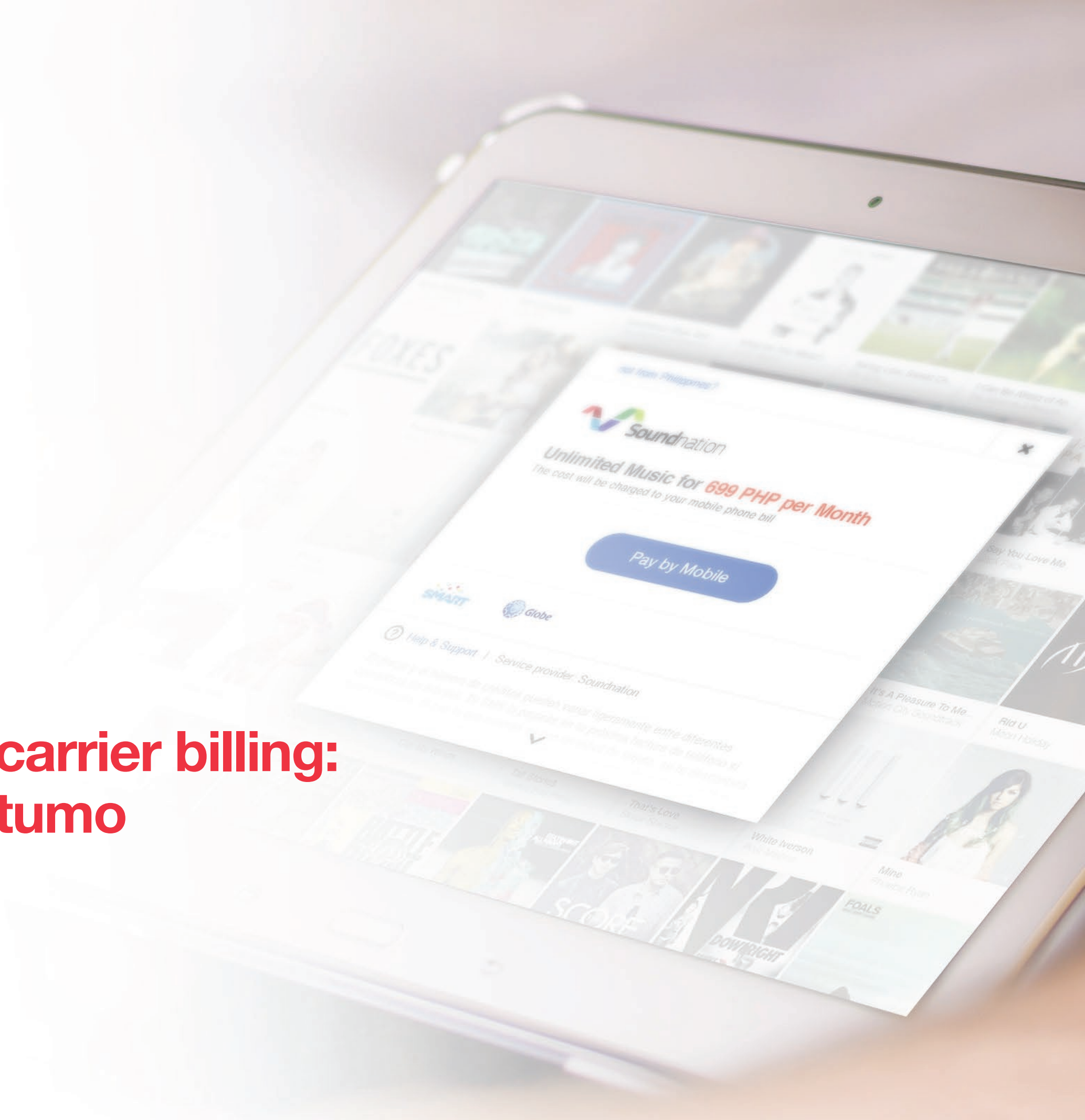




Subscriptions and carrier billing: white paper by Fortumo



Introduction

The goal of this white paper is to provide an overview of carrier billing to merchants whose business model is subscription-based. The topics covered in the white paper are:

- overview of why subscription-based payments are popular and which segments they are suitable for
- different types of subscription offerings and how to choose the correct one for your service
- how to localize subscription payments for emerging markets
- how to ensure a good purchasing experience, reduce churn and increase conversion
- how to avoid cannibalization when using several different payment methods for your subscription services

If you have any questions, please reach out to us at bd@fortumo.com.



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What is the subscription business model?

The subscription business model is a monetization strategy for digital content which relies on a fixed amount, recurring charge collected from users in return for getting access to a service. As the amount of money that is spent by a user during a specific timeframe is limited, subscription payments work best for digital services that have a high expected user lifetime. At the same time, subscriptions create an effect on user loyalty as people are more likely to consume content that they have already paid for in advance.

The subscription model has become popular thanks to changes in the expectations of the digital audience. In the past, limited access to internet also limited users' ability to consume content online. For example, streaming music was expensive and downloading a copy of a song once allowed the user to save money on their bandwidth. With the emergence of high-speed internet and cloud-based technology, people no longer wish to have entertainment stored on one device but want to consume it everywhere, all the time. In essence, digital content consumption has changed from an ownership-based model to an access-based model. Subscription payments support this shift by minimizing the amount of transactions necessary to access content, something that was not feasible under the ownership-based model.







Subscription payments also serve to better market digital services and increase customer loyalty. It is much more appealing to pay once to a merchant in order to access a global catalogue or e-books rather than pay for each book separately. A purchasing decision must be made by the consumer only once, which in turn reduces churn. Users' loyalty to merchants also increases with subscription payments since users are psychologically inclined to use services that they have already paid for in advance. Data also shows that compared to the ad-supported and freemium business model, subscription payments are significantly more profitable.

Subscription payments are most suitable to merchants with a large catalogue of services or in case a large list of premium features is provided to the user where the user is not inclined to purchase individual features of a service separately. This means merchants from the following segments tend to gain most when switching to a subscription-based monetization strategy: music & video services, digital magazines, audio- and e-books, social networks and dating, security and productivity tools.



Choosing the right subscription model for your service

The subscription business model can be implemented in two different ways, depending on the strategy and goals of the company. In case of a recently launched service, it makes more sense to adopt a freemium model to get more users to sign up while an already established service would want to make access entirely paid. Most digital content merchants use one of the two approaches described below:

| | Freemium | Premium |
|---------------------|--|--|
| Subscription model: | The freemium model relies on getting users to sign up for a free service and later attempting to convert them into paying users. For the free users, merchants can limit access to content (e.g. the user can read only one book per month) or generate revenue by other means (e.g. displaying ads or earned rewards). Users are incentivized to switch to the paid offering by removing the limitations on content or for example by not having to see ads on the service. | The premium model relies on having a strong enough value proposition to get all users to immediately sign up for a paid service. In such a case, there is no free version of the service available and subscription payments are the only channel of revenue; advertising is not used to generate additional revenue in order to not disrupt the user. |
| Key benefit: | The freemium model makes it relatively easy to acquire new users as they do not have to pay upfront for anything. | There is no need to support free users with an additional monetization strategy. |
| Key disadvantage: | Giving access to content for free can have a negative impact on revenue in case of licensing fees; providing too much features to free users can result in very few becoming paying users. | User acquisition is difficult as the user might not be convinced to pay money upfront if they do not understand the value proposition. This can be alleviated by providing a free trial service to the user. |
| Examples: |    |    |

The subscription business model can be reviewed over time and if necessary, the model can be changed. One notable example of this is the fitness platform [Endomondo](#) that initially sold its premium features for one-off transactions. Due to a high average customer lifetime and more revenue potential, they have now switched over to a freemium monetization strategy.



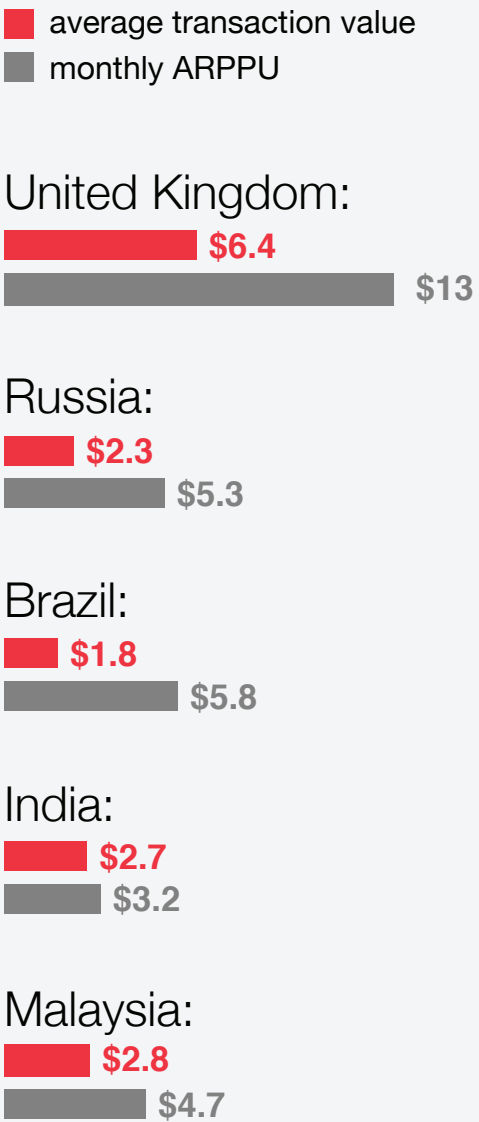
Localizing your subscription offering

Payment behavior of users is different across the world. This means that companies who change their pricing for each market are likely to have more success than those who have a blanket strategy for monetization. There are 3 key aspects to localizing your monetization strategy:

- **Payment access.** While most users in high-income Western markets have a bank account and either a debit or credit card, most people in emerging markets do not. For example, 60% of people in the United States have a credit card while just 4% in India have one. In addition to this, access to payments is also different demographically: in the United Kingdom, 62% of people over the age of 25 have a credit card, but in the 15-25 age group card penetration is at 30%. A good starting point for estimating payment access is the [World Bank's Global Financial Inclusion Database](#).
- **User income.** The economic well-being vastly differs across the world and this impacts the amount of free money available for users to spend on entertainment. With carrier billing, people in the United Arab Emirates tend to spend approximately \$17 per month on digital content while in Pakistan, they spend only about \$2.5. This is why companies like [Spotify](#) localize their pricing in order to account for the income difference across the world. For understanding how much people are willing to spend on digital content, check out our [market reports](#).
- **User spending patterns.** In addition to the money available to people to spend on entertainment, people in different countries want to spend it at different frequencies and at different times. When planning holiday campaigns, it makes sense to organize them around December in Europe, but for China the best timing is February and India during October. People also tend to spend more money on weekends, the timing of which is also different across countries. Some people prefer to spend everything at once or smaller amounts over the same timeframe. While Morocco and the United Kingdom have the same average revenue per paying user through carrier billing (~\$13), Moroccans make approximately 7 transactions per month while the British make just 2.

In addition to payment-related factors affecting purchase decisions, language and culture also impact people's readiness. Refer back to our market reports for an overview of which markets have a lower percentage of people speaking English and consider providing a translated version of your service and offering local content in these markets.

User spending patterns differ across the world (February 2016):



Billing types for subscription services

In addition to regular recurring billing, subscription service providers should consider alternative monetization options in emerging markets with carrier billing. There are three main reasons for this:

- Users have little money on their phone account resulting in high failure rates for recurring subscriptions
- Carrier technical infrastructure in some markets does not support recurring billing
- Recurring billing is not allowed due to legislation and compliance reasons

In order to localize the payment offering for emerging markets, we recommend merchants to try out additional approaches of monetization with their subscribers in emerging markets:

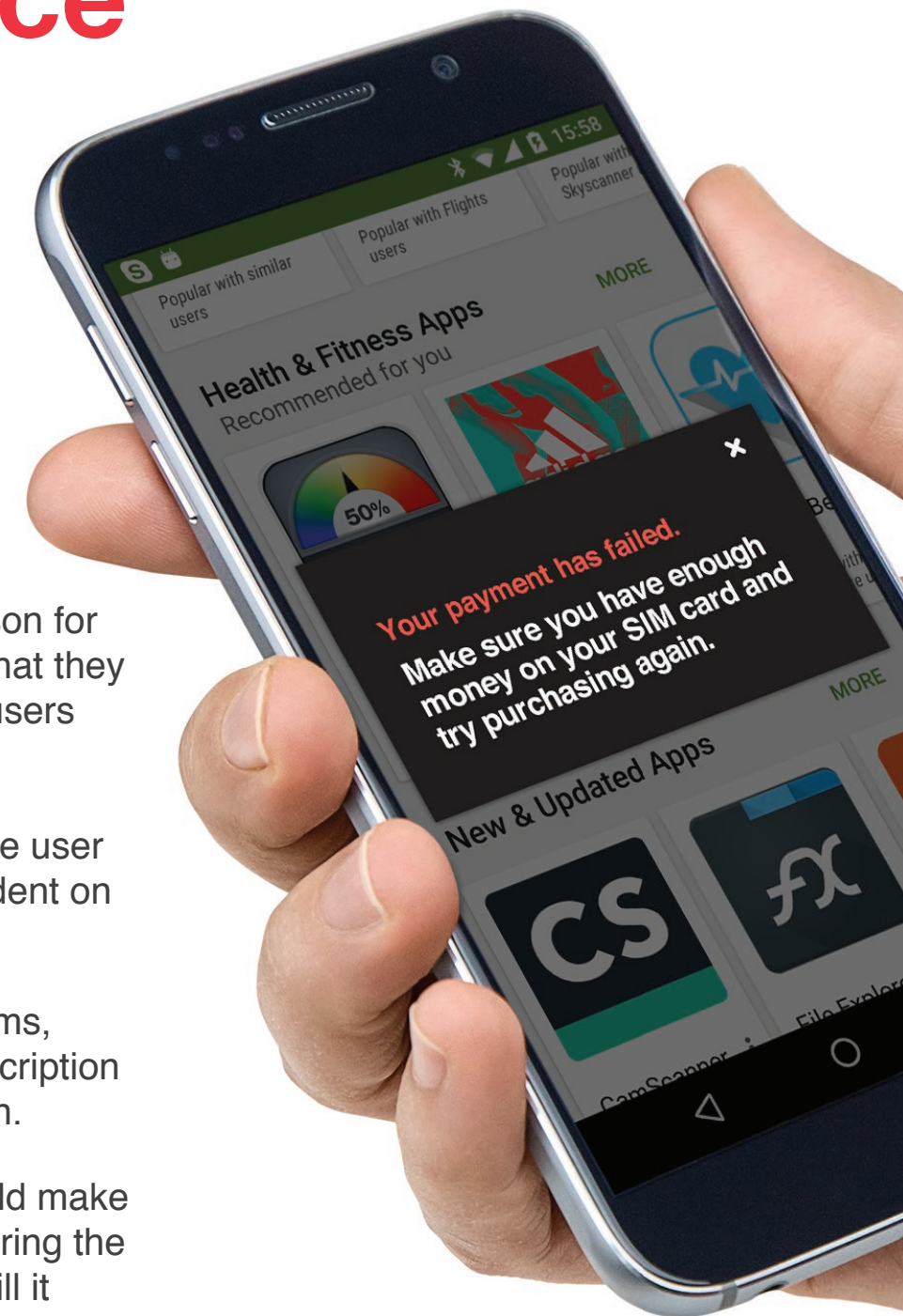
- **À la carte offering:** In parallel with a subscription offering, regular one-time payments can be offered to the user as well. This can either be done to sell a specific piece of content (for example a single e-book or album) or access limited to a very short duration of time (for example one day). This approach gives subscribers the opportunity to try out the service without having to give content out for free. It is also suitable for merchants who provide access to live content, for example sporting events or music concerts.
- **Hybrid subscriptions:** With hybrid subscriptions users select a time duration for content access and then pay for it on their phone bill. The only difference from recurring subscriptions is that the user will have to renew their subscription manually by making a payment and enabling access for the next duration period.



Ensuring a good purchasing experience

Providing users with a frictionless, simple payment method is one of the key benefits of adding carrier billing to digital services. Fortumo's payment products are already optimized to provide the best checkout experience possible, but merchants can take additional steps in order to improve their subscription offering, increasing conversion and reducing churn.

- **Segmented pricing.** As described earlier, users in different countries have different purchasing power and also prefer to spend their money. While for postpaid users with carrier billing, it makes sense to offer more expensive and longer duration packages, prepaid users will be limited by what they can purchase due to their account balance. Consider offering different packages to users with a different pricing and subscription period (e.g. weekly packages in addition to monthly ones).
- **Send users reminders in case of failed payments.** Users whose payments fail are unlikely to pay you again if the reason for the payment failure is unclear to them. Provide guidance to users whose payment has failed, for example by explaining that they need to top up their account in order to get access to the next subscription period. You can deliver these notifications to users inside the service itself or for example use a 3rd party messaging provider to send reminders through text messages.
- **Retry to charge the user after a failed payment.** Similar to credit cards, carrier billing allows you to attempt re-billing the user in case their first purchase has failed. Keep in mind that retry limitations (frequency, total number of attempts) are dependent on mobile operators and local country regulations and need to be customized for each market.
- **Give users access on several platforms through one payment.** If your service is available to users on several platforms, take advantage of Fortumo's [cross-platform licensing solution](#). With this solution, your users only need to make one subscription payment and enable access to your service on other platforms by entering a code, without having to pay separately again.
- **Reduce required steps in the checkout process.** When the user decides to buy paid access to your service, you should make it as simple as possible for them to make the payment. For example, it is possible to not ask the user's phone number during the checkout flow. Instead, ask for their number during the sign-up process and use advanced integration parameters to prefill it during checkout.
- **Make it simple for users to unsubscribe from your service.** While the goal of every merchant is to increase their revenue, if a user has decided to stop using your service, make it simple and understandable for them to do it. As with credit cards, this helps prevent chargebacks, bad debt and issues with mobile operators and regulatory organizations.



Avoiding cannibalization with other payment methods

Regardless of the segment, the default payment method for online transactions are usually card payments. When adding in additional payment methods to cater to local audiences, there runs the risk of cannibalization. That means, some part of users will simply switch from one payment method to another one which is for example more convenient. In such a case, there is time and money spent on integrating a new payment method without enough additional revenue generated to compensate it.

Payment cannibalization can be avoided by evaluating the payment behavior of each audience segment. The following influencing factors:

- Geographical: payment access in each country
- Demographic: young audience has less access to traditional payments
- Behavior: have they paid with another payment method in the past?
- Service-based targeting: for example, carrier billing for “bite-size” access
- Revenue-based: do some payment methods in a certain market bring in more revenue than others?
- Device-based: credit cards for desktop, carrier billing for mobile devices

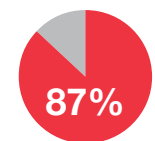
Premium. The premium model relies on having a strong enough value proposition to get all users to immediately sign up for a paid service. In such a case, there is no free version of the service available and subscription payments are the only channel of revenue; advertising is not used to generate additional revenue in order to not disrupt the user.



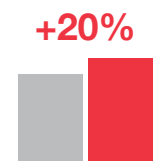
Case study: how do localized payments impact user acquisition?

Segmenting users and offering subscriptions based on local user income is the key to success with carrier billing. Creating local offerings with a customized pricing and duration allows to capture audiences who might not otherwise become paying users. People in low-income economies have less expendable income and can not afford to pay the same prices as Western users. Below are statistics on two different merchants (music streaming and video streaming) who are using carrier billing and have successfully localized their payment offering for emerging markets in Brazil and South-East Asia:

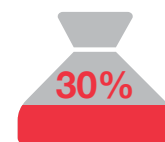
Music streaming service



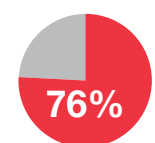
87% of users choose a price package with a lower duration than 1 month for their first purchase



Churn with lower duration packages is only 20% higher compared to the 30-day access package.

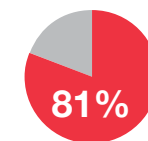


Lower duration packages generate 30% of the total revenue of the merchant's service.

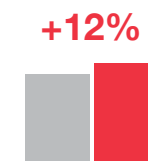


76% of people who continue to use the service upgrade to a more expensive package with their second purchase, 24% buy the same package again.

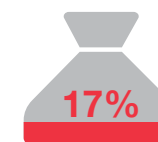
Video streaming service



81% of users choose a price package with a lower duration than 1 month for their first purchase



Churn with lower duration packages is only 12% higher compared to the 30-day access package.



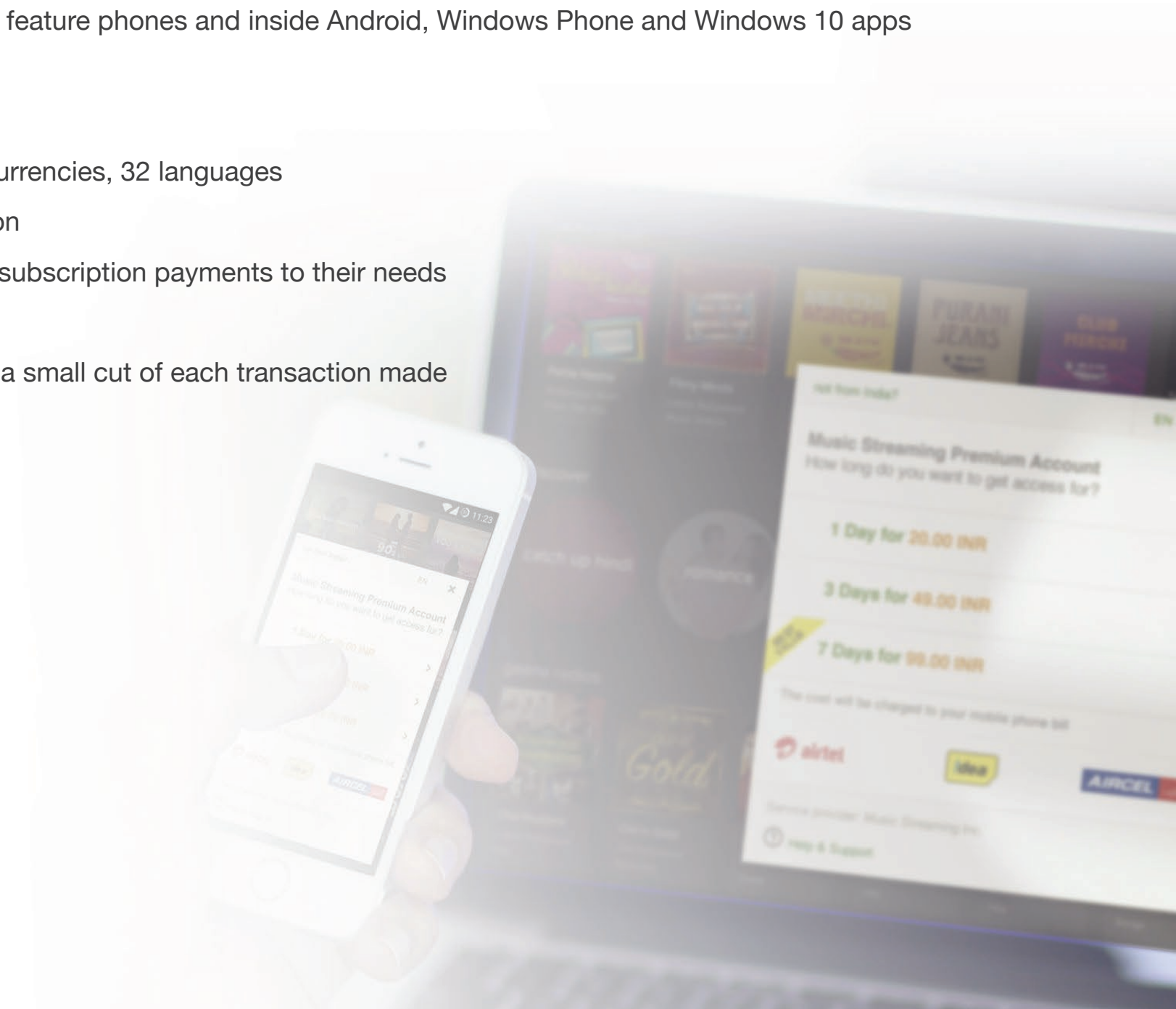
Lower duration packages generate 17% of the total revenue of the merchant's service.



Fortumo for subscription payments

Fortumo provides merchants with a one-stop shop for launching subscription payments using carrier billing globally. Key benefits of partnering with Fortumo for subscriptions are:

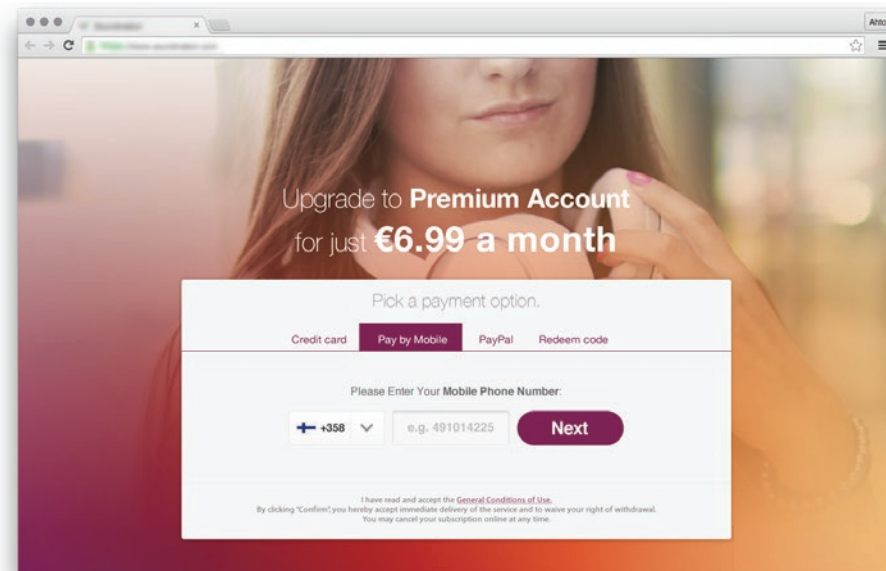
- Subscriptions are supported on all platforms: desktop computers, smartphones, tablets, feature phones and inside Android, Windows Phone and Windows 10 apps
- One integration enables subscription payments for 90+ markets
- Merchants can customize billing cycles and retry logic
- Fortumo-hosted turnkey products have white-label capability and are localized into 45 currencies, 32 languages
- Built-in multi-platform license support through Fortumo's cross-platform licensing solution
- Our Payments API enables merchants to set up billing logic on their side and customize subscription payments to their needs
- Fortumo monitors fraud on behalf of merchants and provides support for end-users
- There are no setup, monthly or recurring fees for using Fortumo's platform, we only take a small cut of each transaction made



How does carrier billing for subscriptions services look like?

Web flow

User selects payment method, and enters phone number



Upgrade to **Premium Account**
for just **€6.99 a month**

Pick a payment option.

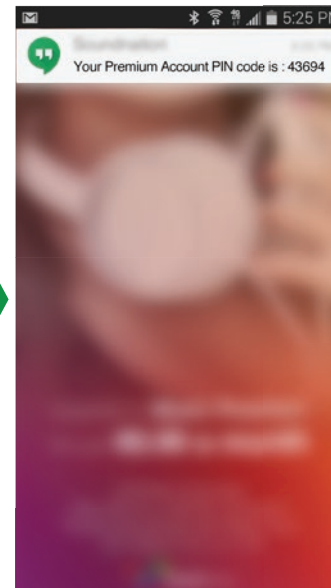
Credit card **Pay by Mobile** PayPal Redeem code

Please Enter Your Mobile Phone Number:

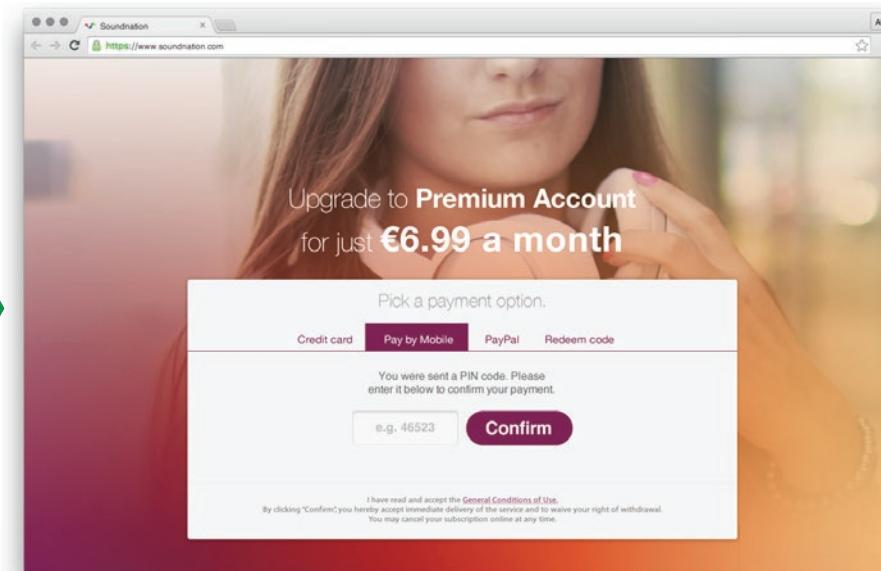
+358 e.g. 491014225 **Next**

I have read and accept the General Conditions of Use.
By clicking "Confirm" you hereby accept immediate delivery of the service and to waive your right of withdrawal.
You may cancel your subscription online at any time.

User receives PIN code
via SMS



User confirms the purchase



Upgrade to **Premium Account**
for just **€6.99 a month**

Pick a payment option.

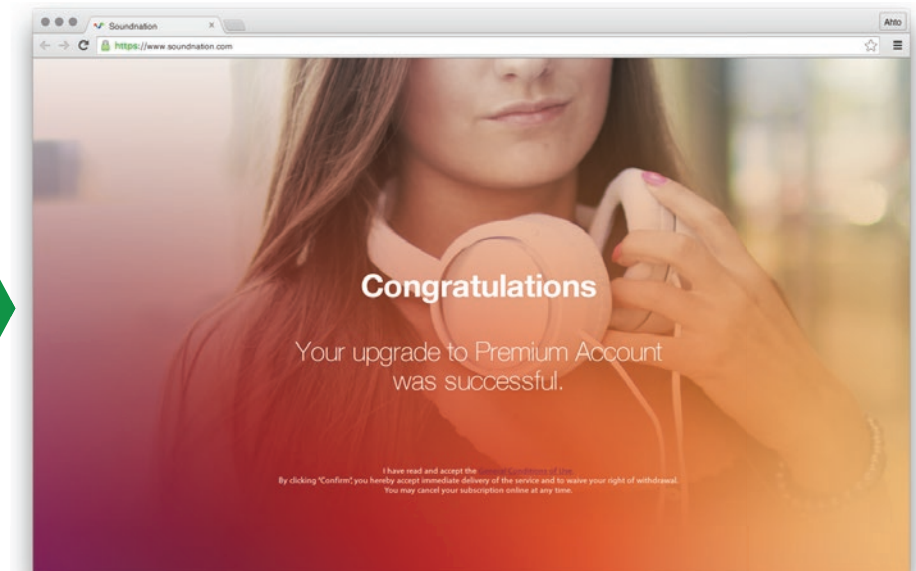
Credit card **Pay by Mobile** PayPal Redeem code

You were sent a PIN code. Please enter it below to confirm your payment.

e.g. 46523 **Confirm**

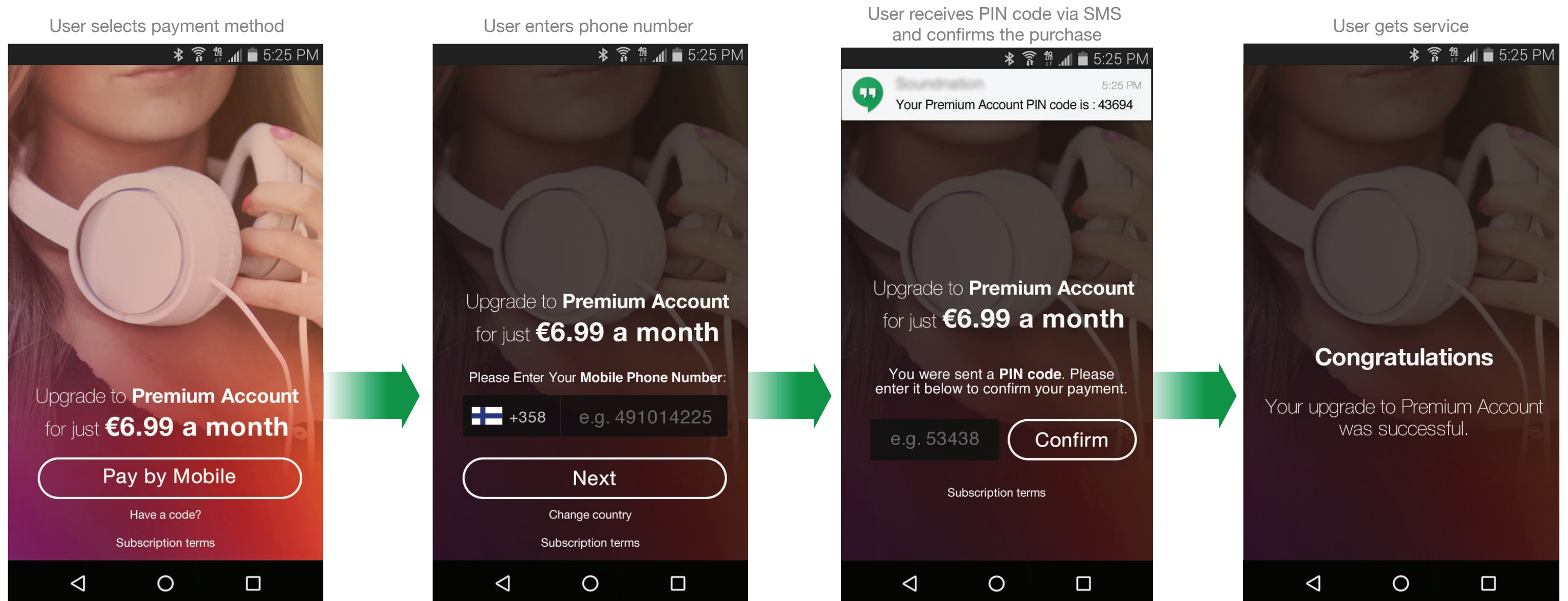
I have read and accept the General Conditions of Use.
By clicking "Confirm" you hereby accept immediate delivery of the service and to waive your right of withdrawal.
You may cancel your subscription online at any time.

User gets service



How does carrier billing for subscriptions services look like?

Mobile flow (PIN verification)



Additional reading



Carrier billing in 2016: Central & Eastern Europe market report by Fortumo

[Read now](#)



Uber proves merchants need to go beyond credit cards in emerging markets

[Read now](#)



Free tool: carrier billing revenue calculator

[Read now](#)



Fortumo is a mobile payments company that enables direct carrier billing with more than 350 mobile operators in 90+ countries. Fortumo's payment products work across a wide range of platforms including desktop devices, smartphones, feature phones, tablets and smart TV-s. These products give consumers a simple, 1-click payment method to charge online purchases to their phone bill. For app stores, digital media companies and game developers, Fortumo provides one integration with 350 mobile operators as well as a single point of contact for settlements, reporting, support and infrastructure upgrades. Founded in 2007, Fortumo has offices in Estonia, San Francisco, Beijing, Delhi, Mumbai, Singapore and London and is backed by Intel Capital and Greycroft Partners.

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