

Teaching case for the IMP Conference 2013, Atlanta, USA

**MOBILE OPERATOR STRATEGIES TO ENTER OR STAY IN
THE MARKET OF MOBILE PAYMENT SERVICES**

(Teaching Notes)

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POTENTIAL USES AND AUDIENCE OF THE CASE

The case is to be used for identification, selection and analysis of company strategies with focus on decision making for companies providing mobile services. The target groups are both managers in the industry as well as master level students in areas like business administration, industrial marketing, industrial economy, and information and communication. The work using the case includes a group exercise with identification and analysis of different strategy options for a sequence of events where market conditions change.

In the case the students will represent the management of a mobile network operator (MNO) that needs to adapt to market changes related to mobile payment services. An accompanying, but totally different, case covers the use of mobile payment services by big retailers.

THE OBJECTIVES OF THE CASE

The main objective of the case is to gain a better understanding of decision making in the case of changing market conditions combined with large uncertainty. The decision making process requires analysis of regulatory conditions, strategies of competitors, market forces (Porter, 1996), and the key assets and competences of the company (Collis and Montgomery, 2008). The problem is analyzed from a mobile network operator perspective. The operators need to (try to) find new sources of revenues (Peppard & Rylander, 2006), (Markendahl et al, 2009). In the teaching case operators develop new ways to provide mobile payment services in order to keep or improve the market position.

The objectives for the students are to identify and analyze different strategy options for mobile operators. The options include both technical and business development, e.g.:

- To join forces with financial institutions (e.g VISA) and use their solutions
- To join forces with banks and develop a new solution
- To cooperate with payment services providers and develop a new solution
- To develop a common mobile operator solution
- To develop a solution specific for the operator under study
- To do nothing

SUGGESTED TEACHING APPROACH

The students will learn by identifying and analyzing different strategy options for mobile operators based on the market conditions (and the available information) for different points in time. The approach is based on a number of steps where more and more information is presented together with the actual decisions made by the companies. Step by step the students will be faced with facts and events describing what happened at the market, hence the student can compare their own analysis and strategy decisions with what actually happened.

The students are divided into groups and the case consists of a number of rounds where:

- information available at time N is presented [N = 1,2,3 4]
- groups analyze the situation and presents a strategy proposal
- the strategies are presented to the other groups
- The teacher describes (reveals) what actually happened

The case consists of four rounds where the rounds are roughly one hour each, the first round may take some more time, i.e. the case will be a half day event.

DESCRIPTION OF THE CASE

The case is based on the development of mobile and SMS payments services in Sweden the years 2010-2013. The case consists of different rounds as described below.

Round 1 (starting point ~year 2010)

Market conditions:

Together with a number of mobile services and ticket providers the mobile operators offers SMS payments where the mobile phone subscription and bill are used for charging of the consumers. The main application area (90%) is single tickets for public transport. However, the European Payment Service Directive (PSD)¹ states that payment providers need to know the identity of persons doing payments, one reason for this is to stop money laundry. For the mobile operators the issue is pre-paid subscriptions since the users are "unknown", hence there is a need to register users of pre-paid subscriptions. The Swedish Financial Inspection (FI) 2010 told operators that they had to remove the payment services from the customer offers unless the operators also became "payment providers" fulfilling requirements put on financial institutions.

What happened and starting conditions for next round:

In the short term the mobile operators asked for extension of the "old approach" but then different strategies were used by the operators. Tele2 and Telenor applied for licenses and became a kind of "light" payment providers. The users with prepaid accounts had to register but then SMS payments could be used as usual. The operator Telia did not want to be a financial institution and teamed up with the payment provider PayEx and offered the service Telia Mobile Wallet. All Telia customers had to register with this new service in order to use SMS payments. The operator "3" had a very low share of SMS payments and did not to change the operation, hence no registration for users with pre-paid subscriptions.

Round 2 (~year 2011)

Market conditions:

Meanwhile banks and other actors in the payment business presented new mobile payment solutions and services in Sweden. New solutions were developed by Accumulate, iZettle, Infospread, Klarna, Payair, PayEx and Seamless. Many pilot projects and tests for mobile payments have been conducted in coffee shops, restaurants and shops. Also the Swedish banks developed mobile phones solutions for payments in shops (Bart) and for transactions between bank accounts of private persons (Swish).

Faced with the potential competition from many actors offering new solutions the operators understood that their new approaches needed to be re considered. Besides the competing solutions and the need to fulfill financial regulation operators experienced another problem - the so called *bill chock*. Some consumers reacted on high phone bills which included items like bus tickets, TV votes, candy and soft drinks from vending machines.

Operators saw a risk that the phone usage would decrease.

What happened and starting conditions for next round:

The mobile operators in Sweden formed a joint venture (4T Sweden) offering mobile payment services (WyWallet). WyWallet is based on a separate charging solution meaning that the mobile phone and the phone number can be used for identification of the user but that the mobile phone bill is not used for end-user billing.

¹ http://ec.europa.eu/internal_market/payments/framework/psd_en.htm

Round 3 (~year 2012)

Market conditions:

The operator joint ventures WyWallet is formed and tries to transfer all the “old” SMS payment services so that WyWallet takes over agreements. However, the users need to register for a new WyWallet account. This opens up for users with company subscriptions to use SMS payments.

At the same time the public transport companies are looking for new mobile payment solutions. The existing SMS payments are offered only for single tickets (as cash replacement) and in addition the service fee charged by operators is quite high, 15-30 %. Since, the local transport companies are public organizations they need to follow public procurement rules, i.e. service providers bid for mobile ticket contracts and the tenders are evaluated. For the “new” SMS tickets most local transport companies (around 15) opened up for competition and any provider could make offers.

What happened and starting conditions for next round:

In most cases WyWallet did not bid for the new contracts and were not involved in the public procurement of new ticket solutions initiated by the Swedish transport companies. Instead, a set of new actors (in new constellations) have got these contracts and hence entered the mobile payment market. One result is that the different providers got the contracts in the four largest cities in Sweden. Hence consumers who wants to use SMS tickets in the these four cities need to register with four different payment providers and to keep track of four different user accounts, a clear fragmentation of the market.

Round 4 (~year 2013)

Market conditions:

At this stage we are in late 2013. Due to the need to register new accounts the use of SMS payments have decreased substantially, 50 % - 90% depending on the type of application. WyWallet has not been able to get the major part of the mobile payment market, i.e. SMS tickets for public transport. However, all other applications, like TV voting, fund raising, SMS parking etc are controlled by WyWallet.

In summary it seems like the mobile operators have lost market position. The operators themselves are out of the payment business and their joint venture have not been able to take over the “old” SMS payment business controlled by operators.

Final questions:

What should the mobile operators and WyWallet do now?

What lessons can be learned from this case?

What could have been done differently?

How did the decisions made by your student group match what relay happened?

SUGGESTED STUDENT ASSIGNMENTS

Each student group represents the management team of one of the Swedish mobile operators. In all the rounds the students are faced with new facts about the market and recent changes. The task for the students is to identify and analyze different strategy options for “their” specific mobile operator. After each round each student team starts from the position of what actually happened for their operator.

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