Arthur D Little

Making M-Payments a Reality

Vienna, [8 July 2004] – M-payments, or the use of a mobile device during the transaction process for payments at vending machines, for parking, in a retail store, or over the Internet, is set to take off, according to a recent global study by Arthur D. Little.

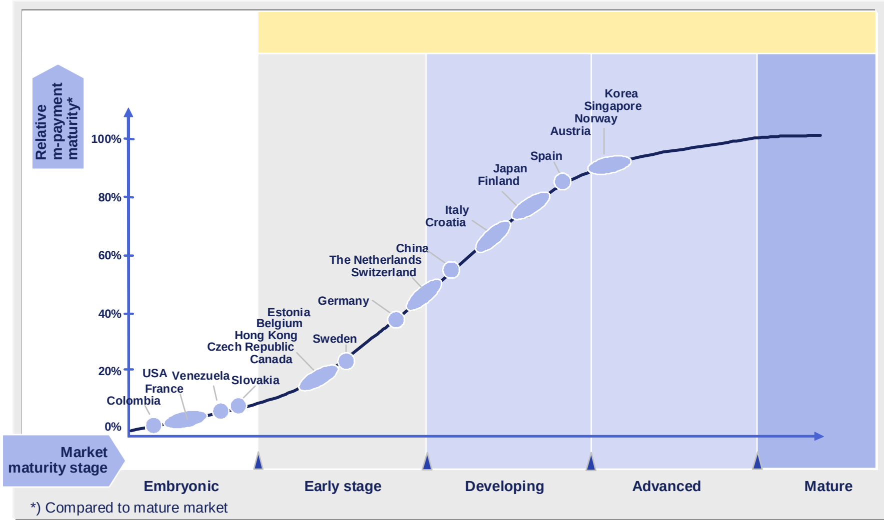
The development of m-payments has been hindered over the last several years by the poor economic growth, the high investment necessary to develop a m-payment platform and the lack of technological standards which would make the services more widely available. The companies that did attempt to launch m-payment services often failed to adequately invest in marketing and underestimated the importance of partnership with other players in the market. However, we have begun to see examples of companies, which have faced these challenges and successfully launched m-payments in their market.

"Players have begun to understand that forming partnerships is critical to providing better service, reaching a broader market, and ultimately successfully launching m-payments services," states Dr. Karim Taga, Partner and Global Head of Marketing for the TIME (Telecommunications, Information Technology, Media and Electronics) practice at Arthur D. Little. "That, along with steps made in developing standard platforms, will form the basis for future growth in the sector."

Arthur D. Little estimates that m-payment transaction revenues will increase from $ 3.2 billion in 2003 to $11.7 billion in 2005 and $37.1 billion in 2008 world-wide. Vast differences in the development of the m-payment sector will continue between individual markets depending on market specifics, key players and relevant regulators.

M-payments are already taking off in Asia, especially in countries such as Singapore and South Korea, and are expected to take hold more broadly throughout the region in 2006. Europe is following close behind with successful m-payment services already launched in Austria and Norway; the m-payment market is expected to experience significant growth starting in 2008. Latin America and the United States are currently embryonic markets; m-payment market development in these regions will be slower.

Figure 1: M-Payment Usage and Market Maturity



Source: Arthur D. Little analysis

We have identified five models for how markets have developed depending on which participant in the value chain has driven the process: mobile operator driven, bank driven, government driven, independent payment service provider driven and industry driven. Arthur D. Little expects the market will continue to be driven primarily by mobile operators, but with an increasing role played by banks and credit card companies.

The first m-payment services to be launched are usually top-up of pre-paid mobile accounts and mobile phone customisation, such as wallpaper or ring tones. M-payments in the short- and medium-term will be primarily focused on micro payments, such as m-parking and m-ticketing, according to Arthur D. Little.

While SMS has been the common payment mechanism thus far, more sophisticated technologies, like IVR, WAP, Java and RFID, will play a more important role in the future, offering more convenience to the customer.

The future of m-payments is highly dependent on the ability of the players in the individual markets to address four strategic challenges.

Strategic challenge #1 -- The success of m-payments depends on establishing partnerships and defining clear roles and incentives along the value chain.

The players of the value chain should agree on basic revenue sharing principles between industries. The ability to charge flexibly for different types of services and applications, and to split revenues between different parties in the value chain is key to the creation of a successful environment for m-commerce.

Strategic challenge #2 -- The sooner the players are able to co-operate on developing m-payment standards, the faster m-payments will take hold and bring benefits to all involved in the value chain.

Open standards and interoperability among platforms and services are critical for ensuring widespread access to m-payment services. Without an m-payment standard, companies will not invest into m-payment platforms because they would not be able to reach a broad enough market to make it viable. A variety of standardisation bodies exist in the area of m-payments, such as Mobey forum, Open Mobile Alliance, MeT Ltd, Pay Circle and Simpay, and these organisations are taking steps toward harmonisation of payment standards, more has to be done in order to contribute to the growth of m-payments in the future.

Strategic challenge #3 -- A trusted brand is critical to generating confidence in m-payments and achieving critical mass of customers and merchants.

While the actual level of security of m-payment solutions is very good, stakeholders also have to address the issue of perceived security and faith in the system. For this reason, the involvement of companies with strong brands in the development of the m-payment solution is critical to building up acceptance and trust by customers and merchants.

Strategic challenge #4 -- The first services to be launched should focus on the primary benefits of m-payments to the customer – flexibility and convenience – supported by powerful marketing to communicate these messages.

A key success factor for companies investing into m-payments is to achieve a critical mass of customers, and thus revenue, as soon as possible in order to offset the necessary investment in the solution. For that reason, the first services to be launched should focus on the primary benefit of m-payments to the customer – flexibility and convenience. A company that meets the key customer demands for this new payment system, such as ease of registration and use, no or low additional costs and clear billing of the transactions, will have a much better chance of being successful.

While the capital investment necessary for an m-payment solution is considerable, there are distinct advantages to being the driver of an m-payment market, and also significant risks in not developing an m-payment strategy.

In addition to being perceived as being innovative and more dynamic in the market, a company that leads m-payment development will be able to design a system that is advantageous to its market position and strengths. The market driver will also be in a strong negotiating position *vis a vis* potential partners and late entries. However, companies that do not keep up with their market in m-payment development could find that they are missing out on a dynamic, fast growing market. Entering late could leave a player with few remaining potential partners, and only more expensive options for accessing m-payment platforms.

The phrase "according to Arthur D. Little" should appear when quoting this press release in part or in total.

Arthur D. Little Global M-Payment Report 2004 – Making M-Payments a Reality is published by the strategy consultancy Arthur D. Little. The report is based on over 100 in-depth interviews with industry experts from diverse industries, such as mobile operators, banks, credit card companies, payment service providers and suppliers. These interviews were conducted in 32 countries throughout Europe, Asia, and North and South America.

If you would like more information regarding our survey or to view the Table of Contents of the complete Arthur D. Little Global M-Payment Report, please visit www.adlittle.de/m-payment.

If interested in ordering **Arthur D. Little Global M-Payment Report 2004 – Making M-Payments a Reality**, please contact:

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Arthur D. Little

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