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Mobile Payments:

Revenue Models and Market Strategies

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Summary

“Mobile Payments: Revenue Models and Market Strategies”, a Thematic Research Report by Pyramid Research, examines the predominant service and revenue models in the global mobile payments arena, as well as the market approach of selected players in order to identify effective strategies and key success factors. The analysis is built upon in-depth case studies of mobile payments services around the world, including Alipay Wallet, Boku, Dwolla, LevelUp, RURU, Paym, Starbucks and Apple Pay. Our analysis concludes with recommendations on best strategic approaches to maximize the mobile payments revenue opportunity.

The report is structured as follows:

- **Section 1: Mobile Payments Market Context** provides an overview of the mobile payments ecosystem and solutions value chain, the players entering the value chain, supply side constraints and opportunities, and the consumer perspective.
- **Section 2: Mobile Payments Strategies** examines consumer and merchant use cases and describes the various service and revenue configurations being offered by mobile payments providers around the world, including legacy revenue models, value-added models and closed-loop revenue models. Pros and cons of existing revenue models are illustrated with case examples of selected market players such as America Móvil, Bitcoin, Boku, Dwolla, iZettle, Kopo Kopo, LevelUp and MCX.
- **Section 3: Mobile Payments Provider Case Studies** includes a detailed analysis of the strategic market approach to from leading m-payments players around the world: Alipay Wallet (China), RURU (Russia), PAYm (UK), Starbucks (US/global) and Apple Pay (US/global).
- **Section 4: Key Findings and Recommendations** a summary of key findings and specific success factors and recommendations for mobile operators looking to increase participation in the mobile payments space.



Key findings

- One of the key challenges presently facing the mobile payments market is the high level of market fragmentation, defined both by the multiplicity of platforms/solutions technologies being deployed and the increasing range of service configurations being offered. This slows down merchant acceptance and makes it difficult for providers to gain scale. We expect the market to reach a point where consolidation among players and solutions becomes the best way to address this issue.
- Mobile payments are gaining momentum, yet still represent a small portion of total consumer payments. The main barriers to consumer adoption are security and privacy concerns. It is critical for new mobile payments schemes to address this issue and earn consumers' trust from the start with secure schemes and straightforward use cases.
- Value-added models are becoming popular in the mobile payments arena. We see several players starting to monetize data-driven campaigns engines. Some of the value-added offerings take the form of white-label applications development for vertical industries. We expect this type of model to proliferate, given the benefits it brings to all parties.
- The key to successful m-payment applications is the ability to make them pervasive, so users grow to rely on them. Partnerships with ecosystem participants from all sectors (banks, retail, service providers and public sector) are essential to building an ubiquitous network of acceptance points. In addition, having a well-defined pipeline of compelling use cases is key for mobile payment providers to leverage the ecosystem to grow their user base and drive transaction volume.
- To build a viable business amidst the wealth of competing solutions and applications for mobile payments, players must take a strategic approach to the market. There are a number of best practices to generate consumer uptake of mobile payments services and build transaction volume. These focus on four key elements specific to the end-user and merchant's value proposition, the use case strategy and cross-sector partnerships.



Report methodology

The “**Mobile Payments: Revenue Models and Market Strategies**” report comprises trend analysis of the mobile payments market across different world regions, from both the supply and demand perspectives, as well as detailed case studies. Insights and data are derived through a mix of desk-based secondary research and qualitative primary research.

Primary research involves in-depth interviews with market players, and the secondary research effort includes obtaining relevant data and intelligence through publicly available sources, regulatory authority publications, trade associations, specialist databases and company financial reports, presentations and press releases.



Reasons to buy

- The “**Mobile Payments: Revenue Models and Market Strategies**” report provides a comprehensive examination the nascent mobile payments market opportunity to help executives make informed strategic decisions, develop effective partnerships and optimize return on investment.
- This report provides an in-depth overview of service and revenue model trends in the mobile payments industries, their advantages and limitations, and the related opportunities.
- The report incorporates case studies providing light on the key elements of a strategic market approach to maximize the mobile payments opportunity, and best practices to build robust user and merchant propositions, through compelling use cases and ecosystem partnerships.



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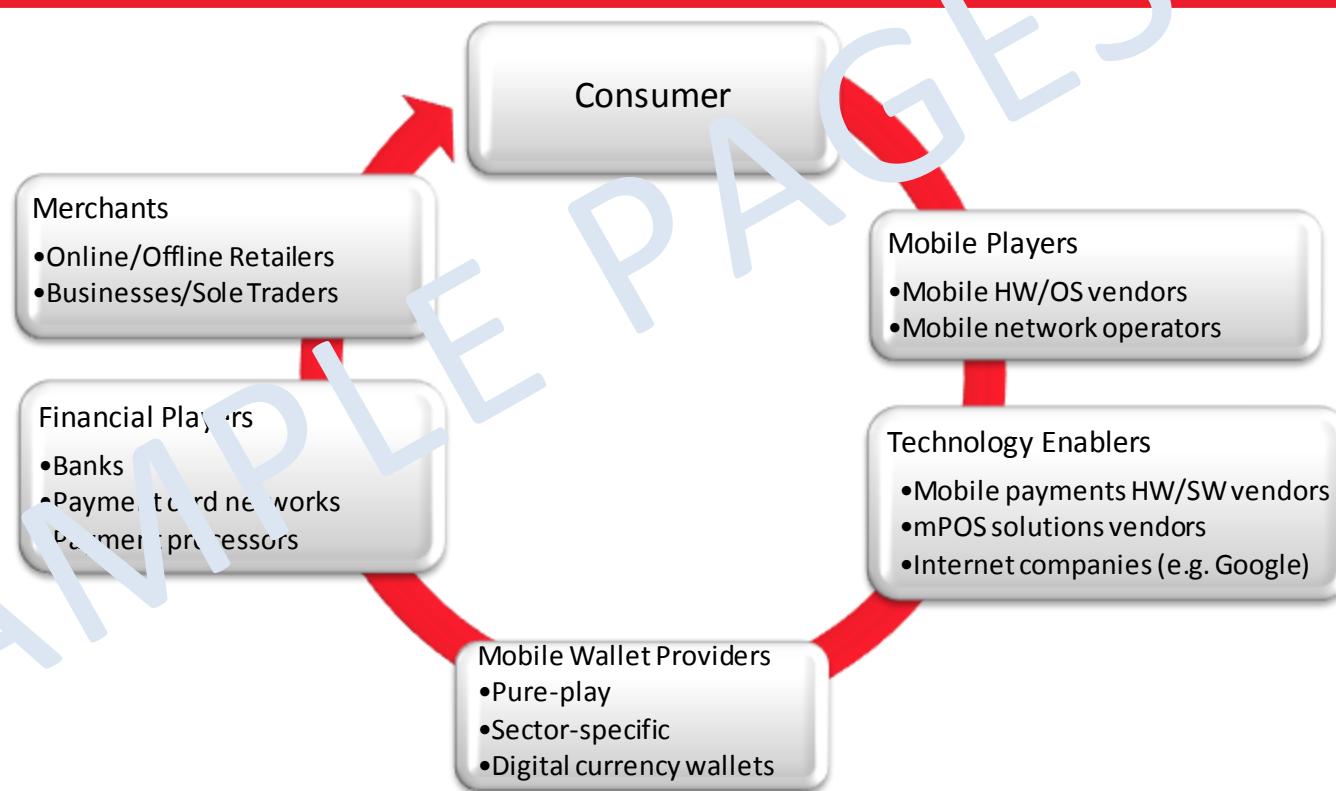
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Participants in the Mobile Payments Ecosystem

Mobile payments is a dynamic and complex ecosystem comprised of numerous participants from the financial, Internet, mobile and retail sectors. Every player strives to 'own' a piece of the mobile payments transaction.

EXHIBIT 2: PARTICIPANTS IN THE MOBILE PAYMENTS ECOSYSTEM



Source: Pyramid Research



Demand Dynamics: The Consumer Perspective

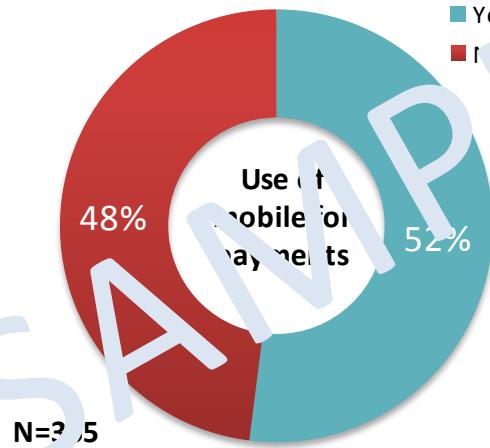
On the consumer front, mobile payments face some challenges as well. While most consumers have made payments using a mobile device, in regions like Europe the density of mobile payments is less than 50 percent.

On a global basis, the majority of mobile users make mobile payments. According to the Timetric global survey of 365 global financial services industry executives, 52% of mobile users have made some form of mobile payment. Regionally, Asia-Pacific

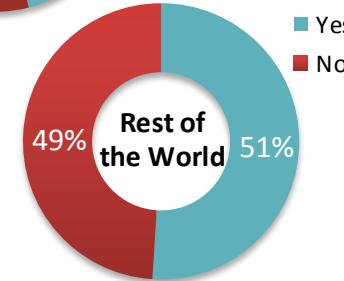
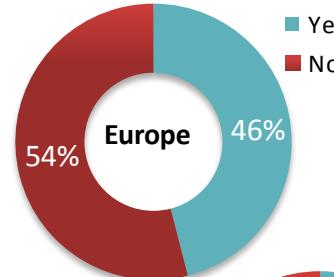
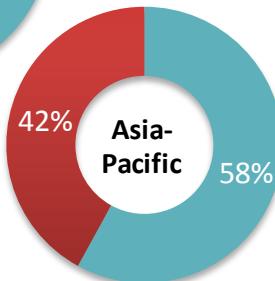
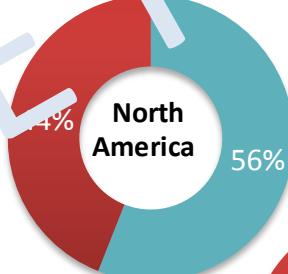
and North America have the highest usage density, with 58% and 56% of respondents having made payments using a mobile device. In contrast, in Europe more than half of consumers don't use mobile phones for payment transactions.

EXHIBIT 6: MOBILE PAYMENTS DENSITY

Global density



Density by region



Sources: Timetric Industry Panel Survey, November 2014, Pyramid Research



Value Added Revenue Model: Kopo Kopo Merchant Payments

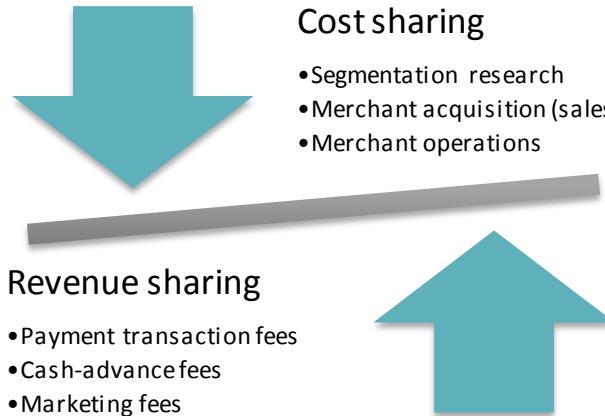
In Eastern Africa, Kopo Kopo successfully commercialized a ‘merchant payments’ scheme enabling m-money operators to increase transaction volume and generate incremental revenue.

- The Kopo Kopo ‘merchants payments’ app is very fitting for emerging markets such as Kenya. It enables small & medium businesses (SMB) to make and accept payments from smartphones and feature phones. The provider launched the scheme in 2012, after successful market pilots with Safaricom (using the mPesa service platform).
- A valuable feature of this model is that merchants can make **outward** mobile payments using funds from banks or a mobile money account. Businesses can also obtain **cash advances** to manage cash flow and account receivables electronically (Kopo Kopo Grow).
- Kopo Kopo’s revenue model has three pillars: transaction fees, marketing fees and software integration revenue. Kopo Kopo arranges targeted SIM promotions using its analytics tools. To round off the service model, Kopo Kopo develops tools and integrates the mobile payments application into legacy business systems.

In East Africa, Kopo Kopo uses a cost/revenue share business model. Under this arrangement, Kopo Kopo pays a percentage of the cost of the merchant network, including market segmentation, sales and merchant operations. To

ensure profitability, merchant acquisition costs are planned according to the potential ‘lifetime value’ of the new merchants. On the revenue side, Kopo Kopo takes a share of the revenues realized by the mobile money provider through the merchant network, including revenue from payment transactions, cash-advance fees and SMS marketing campaigns. The model has worked: over 12 thousand businesses have signed up.

EXHIBIT 18: KOPO KOPO MERCHANT BUSINESS MODEL



Sources: Kopo Kopo, GSMA, Pyramid Research



Companies Mentioned

Aeroexpress
Alfa Bank
Alipay
Alva Group
Amazon
America Móvil
American Express
Apple
Banamex
Bank of America
Best Buy
Bitcoin
Boku
Capital One
Citibank
Claro Colombia
Dwolla
Fortumo
Google
Inbursa
iZettle

JP Morgan Chase
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About Pyramid Research

ADVISING LEADERS IN THE GLOBAL COMMUNICATIONS INDUSTRIES ON EMERGING MARKETS AND SERVICES OPPORTUNITIES

Pyramid Research (www.pyramidresearch.com) offers practical solutions to the complex demands our clients face in the global communications industry. Its analysis is uniquely positioned at the intersection of emerging markets, emerging technologies and emerging business models, powered by the bottom-up methodology of our market Forecasts for more than 100 countries — a distinction that has remained unmatched for more than 25 years.

HOW WE COVER COMMUNICATIONS MARKETS

Our highly structured analysis closely examines the performance, technology trends, macroeconomic and regulatory environment, of service providers and equipment vendors in each of the more than 100 countries we cover. Using a bottom-up approach, we size market demand across services and countries, and conduct end-user surveys to validate adoption trends and anticipate shifts in demand. Our commitment to intensive, direct interviewing of regulatory authorities, service providers and manufacturers — complemented with end-user data — ensures the most reliable portrait of every market we examine.

The screenshot shows the homepage of the Pyramid Research website. At the top, there's a navigation bar with links for CONTACT, WEB STORE, SHOPPING CART, ADVANCED SEARCH, and REGISTER. Below the navigation is a search bar with a placeholder 'Search' and a 'GO' button. The main content area features a large banner with the text 'Identify opportunities in telecom's most promising emerging markets' and a photo of a person in a market. Below the banner is a sign-up form for 'Email Alerts on:' with options for 'new research findings', 'analyst notes', and 'invitations to industry events'. There are several columns of content: 'Latest Reports' (with highlights for 'OTT Video Market Attractiveness Index', 'Smartphones', 'Cellular M2M Connections', 'OTT Video Market Attractiveness Index', 'Turning to the Cloud for an Emerging Market', 'LTE in Focus', 'OTT Video Market Attractiveness Index', 'China Country Intelligence Report', and 'Smartphone Strategies'); 'Analyst Notes' (with highlights for 'The Impact of Google's Nexus 5X Device on the Market', 'Cisco and NEC Optimize Their Strategies for Small and Midsize Cloud Aggregation Platforms', 'LTE in China', 'LTE in the Americas', and 'LTE in the Middle East'); 'Latest News' (with highlights for 'OTT Video Market Attractiveness Index', 'Smartphones', 'Cellular M2M Connections', 'OTT Video Market Attractiveness Index', 'Turning to the Cloud for an Emerging Market', 'LTE in Focus', 'OTT Video Market Attractiveness Index', 'OTT Video Market Attractiveness Index', 'Smartphone Strategies', and 'LTE in Focus'); 'Pyramid Preview' (with highlights for 'OTT Video Market Attractiveness Index', 'Smartphones', 'Cellular M2M Connections', 'OTT Video Market Attractiveness Index', 'Turning to the Cloud for an Emerging Market', 'LTE in Focus', 'OTT Video Market Attractiveness Index', 'OTT Video Market Attractiveness Index', 'Smartphone Strategies', and 'LTE in Focus'); 'Membership Services' (with highlights for 'OTT Video Market Attractiveness Index', 'Smartphones', 'Cellular M2M Connections', 'OTT Video Market Attractiveness Index', 'Turning to the Cloud for an Emerging Market', 'LTE in Focus', 'OTT Video Market Attractiveness Index', 'OTT Video Market Attractiveness Index', 'Smartphone Strategies', and 'LTE in Focus'); 'Custom Research & Consulting' (with a 'Custom Research' section); and a 'YouTube' section with a link to 'Check out our latest videos on Smartphones, M2M, Cloud Services and more on Pyramid's YouTube Channel'. The bottom of the page includes links for 'Terms and Conditions', 'Privacy Policy', and a copyright notice: 'Copyright © 2014 Pyramid Research. All rights reserved.'



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