

Peter Lohmann

Peter Lohmann:

My name is Peter Lohmann. I'm from Mobilkom Austria. Mobilkom Austria is the incumbent mobile network operator in Austria, and we started in M-Commerce in 1999 with the first ticketing application with the National Railroad Corporation, and we went our way and I want to talk to you a little bit about the history of M-Commerce and the challenges and the hurdles we had to walk through.

So I want to start with two examples. With Internet payment, with mobile and with -- and I would name that a value-added M-payment service, the Internet payment model is quite similar to the paper model. The only difference: we as a mobile network operator don't use user-name/password, we use MS-ISDN and PIN as an authentication process. And this is our approach because we divide them in this case, the web and the phone, and so we add an enriched security in the payment process, because you have to type in your phone number. The phone number is official, everybody puts his business cards away and everybody knows that the phone number is nothing special, but in the back it's the same as in paper, there is a credit card or a debit or a phone bill as an authorization model.

[clip]

So, this is a TV commercial for Internet payment and the other commercial is showing how we enrich the mobile payments with mobile applications.

[clip]

So that's an introduction to examples of how we do payments. So on the one-hand side, we call that payment native and value-added payment, so we're using a mobile application for ticketing.

When we started with payment from our history, there was some sort of wish, and it was in 1999, how should we go into that? This is from a recent study from [unintelligible] showing how you use your mobile. You buy a ticket for the tram, you buy cigarettes, you park your car, public or private, you order pizza, you go to the gas station, you buy a ticket from the lottery company, you pay for the taxi, you buy bottles of wine, whatever, and at the end of the day, you pay for the taxi of your daughter because you want her to come home and not to stay at the disco-tech. So this was the vision, this was in the beginning and we'll show you how we went into that.

We have applications in shopping with several partners. We have applications for ticketing especially when it comes to tickets for events like cinema ticketing, for sports events, for the Austrian opera house, or for rock concerts. We have applications in gambling with the Austrian state owned lottery company and with B-wind [spelled phonetically]. This is an old logo. We have applications in the business field. It's comparable to a business credit card, so customers can use taxi or the parking on company costs, and this will be transferred to the company's billing systems, and we

have several applications in transportation, so if you want to go from A to B then we have all the solutions in Austria: from the railroad company to the public means of transport, to taxi, to the toll collect for the highway, and to parking.

And as [unintelligible] we have several corporations with National Radio. We have SMS as a main channel, because SMS everybody knows how to use. We have a town as a partner who is offering all his services as a government to his customers, and we have [unintelligible] as we are modo-phone [spelled phonetically] partner.

One example, and this is our most successful example, is parking. You send 30 to a number and then you have parked your car for 30 minutes. Yesterday I walked through Washington, and I saw several people not knowing how to bring their coins into the parking meters. One tried to put it with a MasterCard, and it didn't really work. It's really simple. Send 30 to a number and you park your car, then 10 minutes before it runs out you receive a text message, "Do you want to prolong?" you send another 30, 60, or 90 and then you can again park your car. This service is used by more than 50 percent of the Viennese people in Vienna, and we have that in all other cities in Austria as well.

Other examples we have with ticketing for the public means of transport, why do I show you that? I want to go through to NFC as well. This is with all the cities in Vienna and Gratz [spelled phonetically] and [unintelligible], and coming to NFC, we have also made a trial in NFC this was the first commercial trial with this clamshell handset NFC enabled from Nokia. It is a real NFC trial. The problem with NFC we see is that there are too many players in that ecosystem; every player wants to earn money. It's a big challenge, but NFC could be a really great model to go into it.

Another example, and this is what I want to show which helps us to combine a conservative brand of a mobile network operator with the brand of Robbie Williams. Yesterday I understood that Robbie Williams is not really known in the U.S. In Europe, he's very, very popular. Maybe we can see the video.

[clip]

So combining the brand with Robby and A1 [spelled phonetically] is a nice story, so I wanted to show you that we as a mobile network operator also use these services for image building and for our positioning as technological innovation leader. Just an example, Robbie Williams, we sold 9,000 tickets; 40,000 people went there. Just imagine sending "Robbie" as an SMS to a number, receiving an offer, answering with "2" because almost everybody doesn't go to Robbie alone, so you buy two tickets, and then billing, 104 Euros, which is \$120 U.S. approximately by the phone bill, which is a challenge and people do it because they trust A1, the incumbent brand of a mobile network operator. It's trust building. Another example is the Life Ball, which is even more popular now in the mean time than the opera bowl in Austria, where the organization said, "We don't to have any paper tickets anymore; we do everything by mobile. So if you want to go to Life Ball, you have to send an SMS, and if you don't know how to send an SMS at least now you learn it."

[laughter]

I was also asked by [unintelligible] to talk a little bit about the end payments cope and about the risk management. We have very many applications in the micro payment field, where we have a pretty good solution and the degradation solution. In the micro payment field we talk about parking tickets, which is 60 cents for 30 minutes or one Euro 20 for 60 minutes. We have medium payments and macro payments from the acquiring side. We have distinguished our applications depending from application complication, the risk management parameters, so if you buy a Robbie Williams tickets, which is more than 100 Euros, we really check the customer, and we decide if we should send him a digital ticket or if we should not do it because we don't want to lose money.

Our primary payment channel, we have the phone bill, which has a very low enabling barrier. The customer is just parking his car with his mobile, and it's found in the phone bill. We have a start value account, it's a compromise, but it's still a high barrier for the usage, because you have to register for that. We have direct debit which is a very good business case, but we also have to enforce the customer to send a fax and to sign up and to do all these things. Maestro would be the ideal instrument, and this is still what we would really like to do. Just imagine you go to a bank, the bank waiter asks you, "Do you want to combine your bank account with your phone number?" and then you use the phone as an authentication instrument and the Maestro card as an authorization instrument. That's so simple; I don't know why banks don't understand that.

[laughter]

The same we could do with the credit card companies. [unintelligible] is primarily done on the phone bill, so we have a second page here on our phone bill where we have put the third-party services of our partner companies. We have Paybox as a website where you can see whatever you buy, the Coca-cola, the cigarettes, the small transaction as well as the high transaction. Every transaction is confirmed by SMS for sure because with mobile payment, and by email, which is optional especially when it comes to the payments we're doing with companies. We have already 1,700 big companies using this service, and the holder of the account is seeing my employee's now taking a taxi or parked his car or something like that so there's also a control function in the company as well.

Our payment strategy contains micro, medium, and macro payments. We have direct debit [inaudible] you have the phone bill, and we are working on this. We didn't succeed yet. As we didn't succeed with that, we made full interoperability with the other mobile network operator. So what Marianne Crowe has mentioned before, we have that already in Austria, so every mobile network operator in Austria is in full interoperability which means we are acquiring a service like parking or parking with a mobile, and we build it with our competitor with Orange, and vice versa, Orange can buy our service and bill it to our customers. So we have interoperability, same as in the credit card business, with interchange rates and stuff like that.

This was a quite a challenge for us, doing that on our own, not understanding the business as a network operator and going through that. Not only doing that with another mobile network operator, but also going through to the Brussels organizations to the financial institutions in Austria and going through all these processes. So full interoperability in Austria with mobile network operators.

What I don't understand is, here in the U.S., what I learned before, 90 percent of the customers and four mobile network operators, they have the highest consumer base in the U.S. and they have a billing and payment relation and they don't do anything. The eBays have a high consumer rate and they have PayPal. The Googles have a high consumer base, and they have Google Checkout. They do not have an existing payment relations; they have to build up this payment relations. The mobile network operations have it. Maybe one answer is because the EBITDA margin in the mobile business is still quite high. We have an EBITDA margin of 30 to 35 percent for example and the EBITDA margin in the payment field is very, very low, but this is a high volume, little matching business, and it's really important for the mobile network operators to go into that. So, I think this should be a challenge for the Federal Reserve to make that happen.

What we did on the road, we are a partner network of Vodafone we have founded a bank to do all this. A short story about all this, there was a lady in the legal department. She always told me at the beginning of M-Commerce when I started this business in 1999, "You can't do that; it's illegal," and you know the answer. So we founded this bank.

[laughter]

So with this lady in the legal department, I also founded Ava-maria Stella [spelled phonetically] and Anna Constansae [spelled phonetically] my two daughters, so it's a double success for me. The challenge of A1 bank was the author as a mobile network operator to understand the bank business, so we are regulated now by the telecommunication regulation and by the National Bank of Austria so we are double regulated. The banks are not regulated double, so I trust one to mention that.

And with Paybox, this is exactly what Marianne Crowe mentioned before. This is an institution in between the mobile network operators, a trusted service organization who is managing all the payments between the mobile network operators, so this is a technical service provider who is managing all these services. This from a recent study from Arthur D. Little stating us as "leading world-wide in worldwide in mobile commerce and M-payments," the success factors and exactly what we heard before, it's interoperable payment as an enabler because the merchant doesn't want a contract with -- though we have a market share of 42 percent -- they don't want to have a contract with only A1 customers. If you make a contract, they want to have a contract with all the mobile network operators. We offer a nationwide standardized offer for all services, so if you park your car in Vienna you do it the same way in the other cities. If you want to go by train you do it the same way, so the customers don't have to learn again how to use these services.

The customer benefit is clearly recognized. This is a challenge to my product managers that it should be simpler, so the easiest way is always if my mother would use it, my mother hardly can send an SMS, so if my mother would use it then it's okay for the market. All these services are marketed under one brand. The merchant acquirers [spelled phonetically] done through one entity and we have built a unified platform strategies so these are the success factors. France and USA's [unintelligible] embryonic to [unintelligible].

Okay, we recently issued a credit card as we know our customer very, very well, and we know the behavior of our customers. This is not a co-branded credit card -- sorry, it's Visa -- this is a real issued credit card issued by A1 bank which is a full bank under EU regulations. And mobile network operators know their customers quite well. Even if these are not customers of the mobile network operators, once it was a customer of a mobile network operator. So, through the history, we know our customer quite well, so we are not only an issuer of a credit card in co-branding. This is a real issued credit card. Well, this has all these packages, especially for mobile, but we use it for pre-paid customers, for example, because we don't bill prepaid customers on their phone bill. They can apply for this credit card. This credit card is free; there is no monthly fee on that.

Who knows about SimPay? Not really known? SimPay was an initiative about four or five years ago by the mobile network operators in Europe, by Telefónica, Vodafone, Orange, and T-Mobile and the big bosses of these four big mobile network operators decided that they wanted to do inter-operable payment. This initiative started in the U.K. And it failed, and the reason why it failed is that, I think especially here in Europe, payment is still a local business and has to be developed inside out. I don't know the situation in America, but if in America it's standardized from state to state, this could be a big challenge, understanding that their only form mobile network operators, and I don't know how many big universal banks you have in the U.S., to bring them on the table and develop that business.

The Talcos [spelled phonetically], they are doing micro payments, everybody is doing premium rate services for digital content, mobile ringtone, wallpaper. But when it comes to macro payments, Internet shopping or when it comes to all these mobile applications in the micro payment field, then it's getting difficult. And when it comes to international, we do not really have partnership. Austria is a country with 8 million inhabitants; this is the whole population of Austria.

I'm finished. So what was the vision we made on the road to M-Commerce? There were many things we thought they are very successful; there are not many things that we didn't think they are so successful. They are very, very successful. What is missing is our internationality because we are -- in Austria -- we are big in that. But payment is a business for economies of scale, and we're really seeking for international partnerships. Thank you very much.

[end of transcript]