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KENT GRAYSON AND ERIC LEISERSON

Fiserv Takes on the E-Billing Market:
How Can We Get Them to Turn Off Paper?

Jon Black looked up from the market research reports on his desk and turned to the window, watching the Chattahoochee River flow by his Atlanta office. It was March 2009, and Black, the senior VP of marketing and product for Fiserv, faced an exciting but potentially difficult challenge. In five days he was supposed to deliver key recommendations to his manager, e-commerce division EVP Lori Adams, about how Fiserv could make strides in electronic bill presentment, or "e-billing." In the coming year, Fiserv was planning to make recommendations to its e-billing partners regarding how to increase e-billing adoption among its consumers, and Black was in charge of deciding what those recommendations should be.

Later that afternoon, Black was meeting with Dr. Michelle Johnston, a Fiserv consumer research scientist, to discuss potential strategies.Black and Johnston were no strangers to developing marketing strategies for online financial services. Under Adams's championship, the pair had recently helped increase consumer adoption of a related product: electronic bill payment. Using strong segmentation, targeting, and positioning—plus key product enhancements based on consumer needs—Black and Johnston helped drive electronic bill payment into the mainstream, which in turn helped establish Fiserv's position as a market leader.

Fiserv, which had acquired CheckFree, the market-leading electronic billing and payment pioneer in 2007, achieved leadership in electronic bill payment by researching and understanding not only billers and financial intermediaries but also end users who paid their bills (see **Exhibit 1** for an illustration of Fiserv and its relationships with direct and indirect customers). Electronic bill payment was now gaining wider acceptance, with nearly 70 percent of online households using it as their primary mode of paying bills. But with less than 20 percent of consumers regularly using e-billing technology to view their bills, Black was mulling over the opportunities and challenges he faced at the other end of the adoption curve.

As he considered his options, Black recognized how crucial the e-billing business would likely be for Fiserv. Fiserv's technology already assisted consumers with their "outgoing" interactions—that is, helping them pay bills using electronic bill payment. E-billing focused instead on consumers' "incoming" interactions—helping them receive bills online. If Fiserv played a role in the entire "round trip" of outgoing bills and incoming payments, the company could further its premiere position in the value network of consumers, billers, and financial institutions. E-billing was also a potentially significant revenue stream for Fiserv. Of the 118 million households in the United States in March 2009, 86 million were considered "online" (connected to the Internet), and the average household received ten bills per month from each of ten different billers. Moreover, turning off paper was indisputably better for the planet.

But was e-billing a potentially lucrative business for Fiserv? And if so, what was the best strategy to take full advantage of this technology?

Fiserv and Electronic Bill Payment

Fiserv (NASDAQ: FISV) was formed in July 1984 with the merger of Sunshine State Systems of Tampa and First Data Processing of Milwaukee, regional providers of financial services data processing for small banks and thrifts. Fiserv went public in 1986. By 2009 the Fortune 500 company, headquartered in Brookfield, Wisconsin, employed 20,000 people in 230 global locations. The company's 2008 revenues were $4.74 billion, with net income of $537 million. Fiserv competed in several markets: it was the U.S. market leader in core processing services and the largest independent U.S. check processor. It became the leading U.S. Internet banking services provider and leader in bill payment and presentment services when it acquired CheckFree in December 2007.

In 2009 e-billing represented a relatively small revenue stream for Fiserv. A majority of the company's e-commerce division revenues came instead from electronic bill payment. Electronic bill payment was conceived by a former decathlete named Pete Kight while he was managing health clubs in Texas in the late 1970s. At that time, convenient monthly payment methods were not available, so health club consumers were often pressed to pay for an entire year in advance—and each year after. This caused frustration for consumers as well as for the health club salespeople who had to perpetually convince them to renew their memberships.

Having successfully tested an automatic monthly payment arrangement between his health club and a local bank, Kight returned to his hometown of Columbus, Ohio, to launch a company called CheckFree. The company, which he initially ran from his grandmother's basement, provided electronic payment services not just to health clubs but also to any biller and its payee. He was convinced that over time electronic bill payment was more efficient and would win out over paper-based processes. Kight's first customer was a friend who owned an apartment complex. The friend agreed to let Kight use the building's computer at night, and Kight agreed to sign up the friend's tenants to pay their rent electronically.

Building on the technology and knowledge he developed to serve that first customer, Kight led CheckFree through the early days of the Internet and successfully competed against rivals such as IBM, Microsoft, First Data, and Citibank. As the company grew, Kight's management team recognized that encouraging adoption and use of electronic bill payment required not only convincing billers and banks to take part but also successfully marketing the service to end users. The team also realized that banks and billers had many more important priorities than developing strategies for marketing electronic payment services. To maintain leadership among larger rivals, therefore, the company had to understand the marketplace better than anyone else and continually redefine strategies based upon consumer wants and needs.

The company committed itself to understanding consumer behavior in relation to electronic bill payment. Black and Johnston spearheaded many of these activities, and worked with banks in a consultative manner to help them understand market segments, identify which consumers to target, and communicate with targeted consumers. Their efforts helped CheckFree and its partners shift from making key marketing decisions based on managers' intuition or opinions to using a data-based understanding of consumer needs and preferences to drive action.

In August 2007 Fiserv entered into an agreement to acquire CheckFree in an all-cash transaction valued at approximately $4.4 billion.

By 2009 electronic bill payment was gaining wider acceptance, with penetration driven by convenience over traditional payment methods, savings on postage, and improved perceptions of payment security (see **Exhibit 2** for adoption rates). Electronic bill payment was now so pervasive and advanced that most consumers could use their bank's Web site to pay anyone, including individuals, electronically.

E-Billing: Opportunities and Challenges

E-bills are electronic versions of paper bills sent to consumers by billers. Billers offering e-billing services included utility companies, cable/satellite TV providers, and financial services firms. E-bills contained the same information as paper bills and offered the same due date. Fiserv developed the technology to allow consumers to receive and view e-bills at a biller's Web site.

Initial feedback from billers reassured Black that they were strongly in favor of converting their consumers from receiving paper bills to receiving e-bills. This enthusiasm was driven in great part by the significant financial savings offered by e-billing. Billers sent monthly bills to consumers. Processing and sending each of these paper bills cost an average of $1.25 per bill, and billers saved up to 45 percent per bill for consumers who no longer received the paper bill. Furthermore, a comparison of sample consumers who received paper bills versus a similar sample of consumers who used e-billing showed that the latter made 10 to 20 percent fewer calls to customer service, thanks mainly to the reduction of payment claims caused by human error in submitting and processing transactions. This created additional annual savings of $2 to $4 per consumer for billers, regardless of whether the e-bill consumer was still receiving paper bills.

Billers also saw e-billing as an opportunity to enhance their environmental practices. One energy company reported that, after converting 130,000 consumers to e-billing, it was able to save thirty-one tons of paper (the equivalent of 753 trees). Thanks to a reduction in production and delivery costs, e-billing also led to considerable water savings and greenhouse gas reductions.

Billers were also interested in the possibility that e-billing might increase consumer satisfaction. Initial data showed that consumers receiving e-bills were extremely satisfied with the service; this might lead to greater satisfaction with the biller as well as a lower likelihood of defection. Also, because identity thieves often got their information from materials taken from mailboxes and trash receptacles, e-bill consumers enjoyed greater security than consumers who received (and had to dispose of) paper bills.

Recognizing these many benefits, a majority of billers not only offered e-billing to their consumers but also provided it at no charge. Nonetheless, although consumers who tried e-billing expressed high satisfaction with the service, less than 20 percent of online consumers used e-billing as their primary way of viewing bills. Black wondered what was holding up the adoption process.

To better understand consumer perceptions of e-billing, Black asked Johnston to commission several primary consumer research studies. Just as Black and Johnston had used market research to help banks target key segments and effectively position electronic bill payment, they hoped to use research to generate recommendations for billers to convert paper bill–receiving consumers to satisfied end users of e-bills.

E-Billing Market Research

Online Interviews and Segmentation

Johnston hired a well-known market research firm to study and segment the market for e-billing. As a first step, the firm conducted 1,236 thirty-minute online interviews with a U.S. sample of e-billing users and potential users. (All respondents had regular Internet access and spent at least one hour online weekly.)

Survey respondents were asked a number of questions about their attitudes and behaviors relating to finances, family life, and professional pursuits. These responses were statistically analyzed, producing six distinct groups with different attitudes and behaviors. These groups are listed and described in **Exhibit 3**.

Focus Groups

Johnston also conducted focus groups with potential consumers who did not use e-billing. Eight groups of eight individuals (sixty-four total) were given a description of e-billing and asked a series of questions about their willingness to use it. Although focus group participants expressed moderate interest in e-billing overall, they also had several questions, including:

- "Does e-billing automatically pay the bill too?"
- "Who sends the e-bill? The bank or the company I have to pay?"
- "Can I sign up for e-billing through my bank or do I have to ask all the individual companies?"
- "What exactly is the benefit of e-billing?"

Participants also expressed their opinions on e-billing's benefits (e.g., "Getting bills electronically is simpler and quicker than getting them on paper") and drawbacks (e.g., "A paper bill is a physical reminder to pay it; an e-bill doesn't give me that"). One feature that many participants said would help motivate them to use e-billing was "divisibility," or the ability to receive e-bills without being required to stop paper bills.

Concept Test

As a final step, Fiserv conducted a formal concept test of e-billing. The firm contacted 2,000 individuals who were not using e-billing (but who were representative of the overall population of consumers) and encouraged them to try it for two months and then respond to a survey about it. The offer provided a general description of e-billing and allowed consumers to continue receiving paper bills during the trial period. 4.5 percent of the sample expressed interest in the offer, although the response rate among E-Savvy Planners and Maximizers was close to 8%. When a similar sample was offered $20 in gift cards to try e-billing, 53 percent agreed.

After using e-billing for two months, 73 percent of participants either agreed or strongly agreed with a statement indicating their willingness to adopt e-billing for the long term. Follow-up interviews suggested that the trial period helped ease initial confusion about e-billing and skepticism about its value. For example, one participant noted, “This is a great idea, a great product. But I really needed to use it to understand how great it is.”

Consumers were also asked which e-billing features they liked as well as why they might still want a paper bill. Results are reported in **Exhibit 4** and are divided by segment.

E-Billing Revenue Model and Conversion Costs

Fiserv’s e-billing revenues came from two potential sources. For consumers who opted to receive an e-bill through Fiserv’s biller-direct system but chose to also continue receiving paper bills, the biller paid Fiserv $0.025 each time the consumer viewed the e-bill. For consumers who opted to turn off paper billing in favor of Fiserv’s e-billing, the biller paid Fiserv $0.40 per month per consumer regardless of the number of views. Consumers receiving e-bills viewed them an average of once a month, whether or not they had turned off paper billing.

Billers encouraged consumers to adopt e-billing using a combination of direct-mail advertising, e-mail campaigns, billing inserts, and Web-based advertising. These efforts tended to focus on the consumer base as a whole rather than on specific subgroups. Figures from previous campaigns showed that the average cost to convert a consumer directly from all-paper billing to exclusive e-billing was $4.50. The average cost to convert a consumer from all-paper billing to e-bill viewing (while still receiving a paper bill) was $2.00.

Consumers already viewing their bills online (but still receiving paper) were significantly more likely to turn off paper billing than those not receiving e-bills. After consumers used twelve months of e-bill viewing with paper, it cost billers an average of $1.50 per consumer to convince them to turn off paper.

Little data existed about whether consumers receiving e-bills from one biller were more likely to receive e-bills from another. However, a recent survey showed that almost two-thirds of consumers who did not receive paper bills from at least one biller (e-bill only) still received paper bills from at least one other biller.

Getting Them to Turn Off Paper

Black and Johnston were encouraged by the market research they had conducted to understand e-billing trends and consumer segments. Although e-billing adoption rates lagged behind those for electronic bill payment, there was strong evidence that consumers saw the value of electronic bill presentment—especially once they tried it. Now Black and Johnston had to develop recommendations based on the market research findings to help billers move their consumers from exclusive paper billing to exclusive e-billing.

Both Black and Johnston recognized that the EVP was expecting strategic recommendations that would convince billers to take specific actions to increase e-billing adoption. This would further establish Fiserv as a provider of user-friendly technologies that billers and banks could employ to make their sites stickier and their consumers more satisfied, in turn making their relationships more profitable and directly improving Fiserv's bottom line. With renewed energy, Black began poring over the research reports to prepare for his strategy session with Johnston.

Exhibit 1: Relationships between Fiserv and Its Direct and Indirect Customers

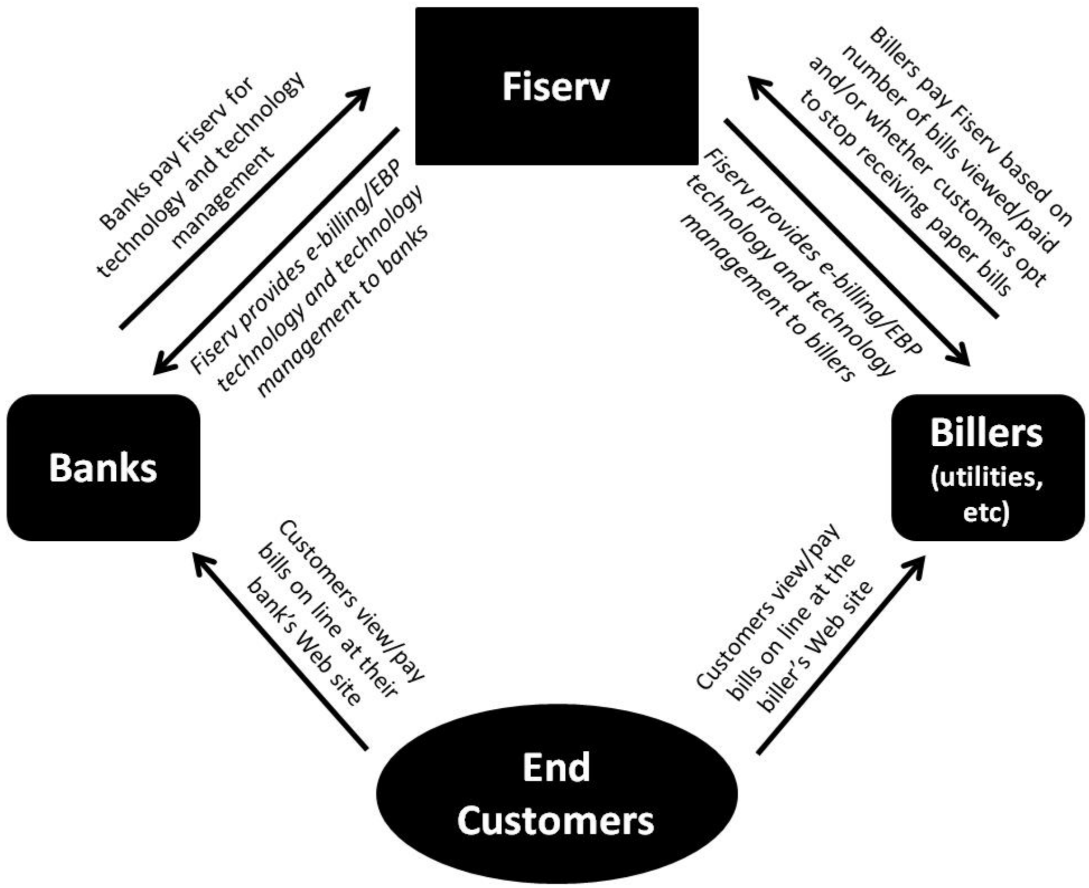

Exhibit 2: Consumer Adoption Rates for Electronic Bill Payment and E-Billing

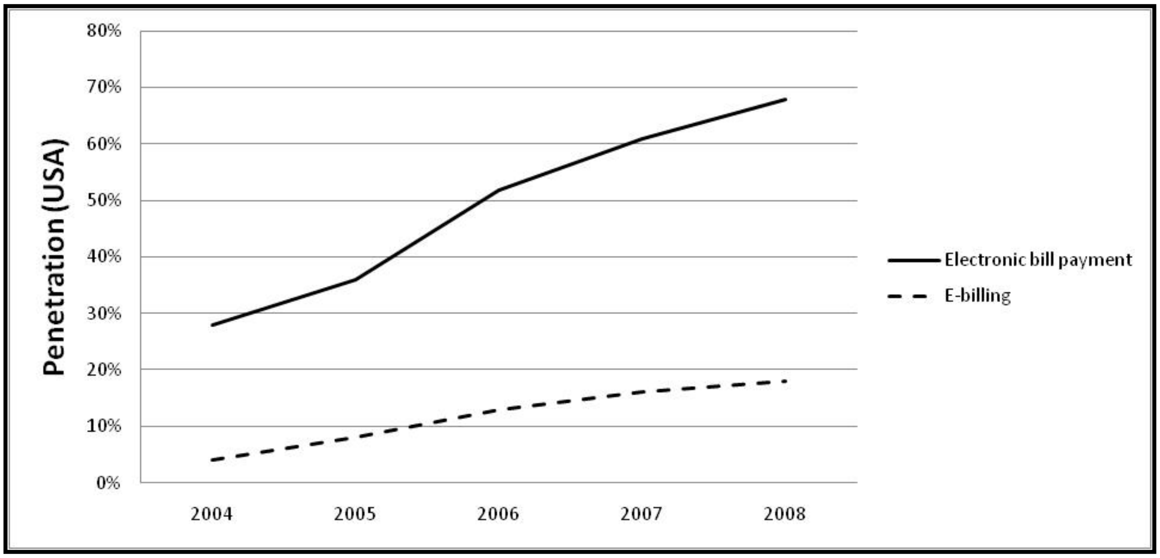

Exhibit 3: Consumer Segment Information

	E-Savvy Planners	Maximizers	Self-Improvers	Convenience Seekers	Desperate Avoiders	Paranoid Paper-Pushers
Attitudes	• Will spend $$ on management and time-saving tools • Seek fast, efficient way to manage bills • Prefer electronic bill pay to paper	• View finances as a game to win • Believe they already have a good system to manage bills • Comfortable with new technology	• Very interested in saving time • Do not believe they have a good system for bill management • Minor Internet security concerns	• Dislike clutter • Rarely forget when bills are due • Don't believe better planning leads to better $$ management	• Anxious about unpaid bills • Unsatisfied with their $$ management system • Don't use electronic bill pay	• Avid financial planners • Believe that new technologies waste time
Behaviors	• Early adopters of new technology • Hyperorganized • Regularly check credit report • Most likely to use financial management software	• Often provide financial advice to others • Most likely to check invest-ments online • Have more credit cards than others; pay most off each month	• Sometimes lose bills or forget to pay them • Lack time to balance their checkbooks • Tend to pay bills late when need money for other things	• Keep bill records for a year or more • Don't regularly check their credit reports • Most likely to have no credit cards	• Lose bills and avoid opening them • Forget when bills are due • Unwilling to pay for products that help them save time on $$ management	• Prefer receiving bills by mail and paying by traditional check • Keep a paper schedule of bills and payments • Rarely forget when a bill is due
Demographics	• Avg age: 43 • Avg annual income: $67K • Avg hours online: 14 • College grad or higher: 52%	• Avg age: 43 • Avg annual income: $83K • Avg hours online: 12 • College grad or higher: 75%	• Avg age: 40 • Avg annual income: $60K • Avg hours online: 11 • College grad or higher: 50%	• Avg age: 46 • Avg annual income: $53K • Avg hours online: 12 • College grad or higher: 41%	• Avg age: 40 • Avg annual income: $53K • Avg hours online: 13 • College grad or higher: 47%	• Avg age: 48 • Avg annual income: $63K • Avg hours online: 11 • College grad or higher: 63%
Size	• Percentage of market: 19.7% • Share of bank transactions: 20.6%	• Percentage of market: 24.9% • Share of bank transactions: 27.1%	• Percentage of market: 13.3% • Share of bank transactions: 13.7%	• Percentage of market: 17.5% • Share of bank transactions: 16.9%	• Percentage of market: 15.4% • Share of bank transactions: 12.3%	• Percentage of market: 9.3% • Share of bank transactions: 8.9%

Exhibit 4: Consumer Segments: Attitudes Toward E-Billing

Consumers who tried e-billing for two months were asked which features they liked about the service as well as why they might still want to receive a paper bill. The most common responses for each segment are reported below.

	What I Like Most About E-Billing	Why I Still Want My Paper Bill
E-Savvy Planners	"It's a lot easier to have all my financial information in one place—on my computer."	No reason: most e-savvy planners were unlikely to see extra value in the paper bill.
Maximizers	"For my daily financial management activities, e-bills make it easier for me to move information between the different programs I use to manage my finances."	"Every detail matters to me when I'm doing financial planning. Paper bills seem to have more complete information."
Self-Improvers	"If all I had was e-billing, it would save me a lot of time opening and handling paper bills."	"I'm always trying to figure out a better way to manage finances. That's easier to do when you can lay out all of your bills on a table."
Convenience Seekers	"I get a lot of bills and statements each month—paper everywhere! If I had e-billing only, it would reduce clutter in my home."	"I know from experience that computer problems can cause a huge waste of time—extremely inconvenient. I need paper backup just in case I experience a breakdown or a disk failure."
Desperate Avoiders	"If I used e-billing only, I know it would really help the environment."	"Getting a paper bill helps remind me that I need to pay."
Paranoid Paper-Pushers	"It's nice to know I have a backup somewhere in case the paper bill gets lost."	"All of my financial planning is in one place in a filing cabinet. It would be too confusing to have most documents there and some on my computer."