

It's **what** you know about **who** you know

No loyalty device – no loyalty card or credit card – in any market has as much potential to generate valuable usage information as a mobile phone. Now that media is opening up new ways for telecom companies to revisit their customer relationship management (CRM) strategies, there is so much more to do in this area.



EVERYONE IN THE TELECOM INDUSTRY is fighting to get a larger share of the available subscriber base, which is becoming the scarcest resource in maturing markets. As a result, operators are investing in new services to raise additional revenue and improve differentiation. They are creating value by adding data to traditional voice revenues, increasing customer value through increased customer lifetimes and net cash per user, and getting a larger share from the telecom value chain.

There is a widening gap between voice-centric, no-frills, virtual mobile network operators and data-centric, full-service operators. There will be no killer applications in the near future, so the winners are those that best match customer needs and demand.

Growth is still driven by the world's under-penetrated markets; players in mature markets are striving hard to generate additional revenue through new, innovative services. Will data revenues be enough to win against the competition in a mature market? How will operators maintain loyalty and gain market share when their competitors are starting similar services one after another?

One answer should be through better customer relations. Customer portfolio management can be used to generate value by increasing lifetime value (LTV: net present value of the cumulative cash generated from a customer discounted over the customer lifetime). Operators who use customer information to customize solutions and services – and match them successfully with their subscriber bases – can gain a competitive edge in mature, churn-prone markets.

CRM has been a major trend in competitive retail sectors. As customers became the scarcest resource, companies began looking to get the most out of customer information. They tried to enrich existing information with available additions of usage data.

Initially, in telecoms, there was little extra information to add to what was available to marketers: billing, usage and limited behavior data added to demographics and survey data. Value-based segmentations built on familiar market segments have been the common practice of customer portfolio management. Data miners and CRM departments had little room for developing customized solutions that differed from the mass offers generated for customers.

To build one-on-one relationships with customers, companies tried to collect as much information as possible.

In retail, marketers first needed to identify the customer (giving them loyalty cards to keep track of them at each channel), and collect and unite all the available information to generate insights that would, hopefully, lead to increased revenues.

What makes the mobile phone unique in this respect is the way it takes a permanent share of the customer wallet as it is used for an ever wider range of purposes. Mobile phones today becoming even more important as their functions expand into new areas, including mobile payment, video and TV applications. Operator marketing staff should be thrilled because they own a single unique device through which even payment data (which today is largely limited to plastic cards) passes.

Unique is the key word here. A mobile phone is a unique device that leaves its data footprint on the operator system waiting to be consolidated and used. No other loyalty device – no loyalty card or credit card – in the market has as much potential to consolidate useful information with so much functionality.

Today's chic services

The industry is now moving from customer acquisition to building loyalty among its customers. This involves grouping customers into segments, which makes it more difficult for members to switch providers because doing so would mean losing the special offers and services that have been built around them.

There are already cases that prove how bundled products help lock customers in. Matching the right bundles to customer groups is the way to increase customer value by increasing customer lifetime: customers are willing to pay a little extra to avoid the cost of switching to another operator. For this, operators need to get far savvier about consumer marketing, moving away from their usual simplistic approaches when segmenting their customer base – such as pre-paid versus post-paid, or domestic versus enterprise offers. Operator churn rates in Europe range between 16 and 35 percent, leading to an average lifetime of three to six years in the wireless industry. Although it varies from market to market, bundling is expected to reduce churn by up to 30 percent when the consumer has subscriptions to three or more products. Although increasing

customer-care costs prohibit customer lifetime value growth as such, additional ARPU (average revenue per user) generated on a longer lifetime results in higher net value for operators.

When building business cases, operators focus on stand-alone revenue, using cost models for estimating the business cases for individual products. The value creation from customer lifetime value is often ignored. Operators can expect up to a 50 percent improvement in customer lifetime value from the locking effect of bundling and increased lifetime value, even without increases in total ARPU. (See footnote 1 below.)

There is always a danger that consumers will become increasingly confused as more and more services head down the pipe. The challenge for service developers is to keep customers happy while trying to sell new services to as many customer groups as possible. The services we are talking about – value-added services in general – are all add-on services sold to the existing subscriber base through existing channels, as opposed to mass advertising and marketing channels used for customer acquisition and brand marketing.

The depth of customer relations increases with these new services. Customer management started collecting information (long lists of application forms) and adding on usage information from internal systems. The case is worse for pre-paid customers; operators have almost no secondary data. Today, operators are launching interactive services that relate directly to how the customer thinks, evaluates and responds; operators may now know what customers like, as opposed to just what they have used.

Booster effect

The use of data services has more to offer than additional dollars on the subscriber bill. New services will open new horizons for marketing people to generate new insights about each customer.

Take mobile TV, for example. TV advertisers do not know who watches the TV ads they create, or even whether they are being watched at all. The mobile phone is so personal that it has the most potential to be personalized even further. Suddenly, we have the opportunity to know who watches what, when, where, and for how long.

Consider location-based services. Knowing what people are doing when and where is a unique combination of information for telecom companies. Enhanced location services, such as proximity-based services, will add even more dimensions to understanding customer behavior and needs. Marketers will soon be bombarded with tons of data to be used for a wider scope of perspectives and qualified offers.

A survey conducted by the emagine group showed that most operators have customer demographics and contact information but very limited information on individual customer interests, preferences, lifestyle and community information. (Figure on page 55.) Post-paid customers naturally shared basic demographic and address information necessary for sending the bills. The availability of contact and channel data varies significantly between post-paid and pre-paid customers because of different payment and distribution structures. Additional data will be sourced from newer services.

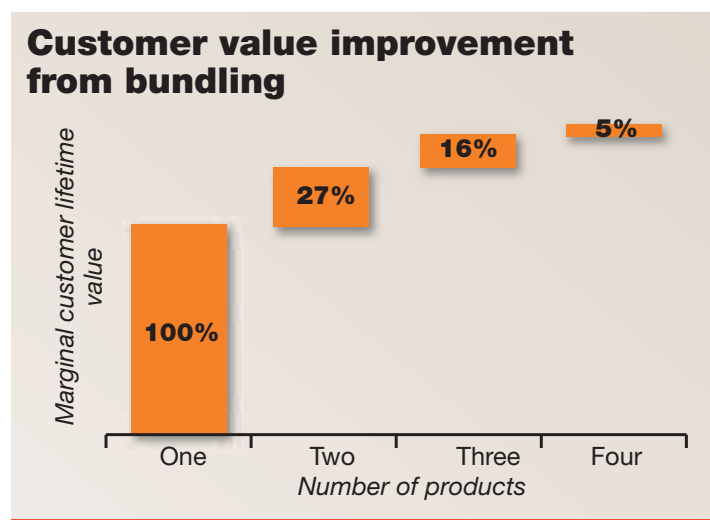
Marketing people previously had limited options for targeting particular groups of customers using internal customer data. Value-based models did not provide anything more than billing

totals and had little to add for the marketing people. They helped customer services manage retention and control churn, but gave little insight into further potential sales. Behavior and needs, on the other hand, tell us a lot about how to approach the customer. Interactive media is bringing customer preferences into the picture.

New services launched by operators will generate enriched user information. Some information (such as mobile payment, advertising and location-based services) has the potential to bring even more dimensions within customer management for the data miners.

The contribution that data services make to the operator is not limited to the additional data ARPU margin over the declining voice ARPU. The value increase, as opposed to the instant revenue increase, is substantial. Increased ARPU, or improved net subscriber contribution (as net cash flow) generated on a longer lifetime (inversely proportional to the probability of churn), results in improved value creation in the form of net cash per user for a particular customer.

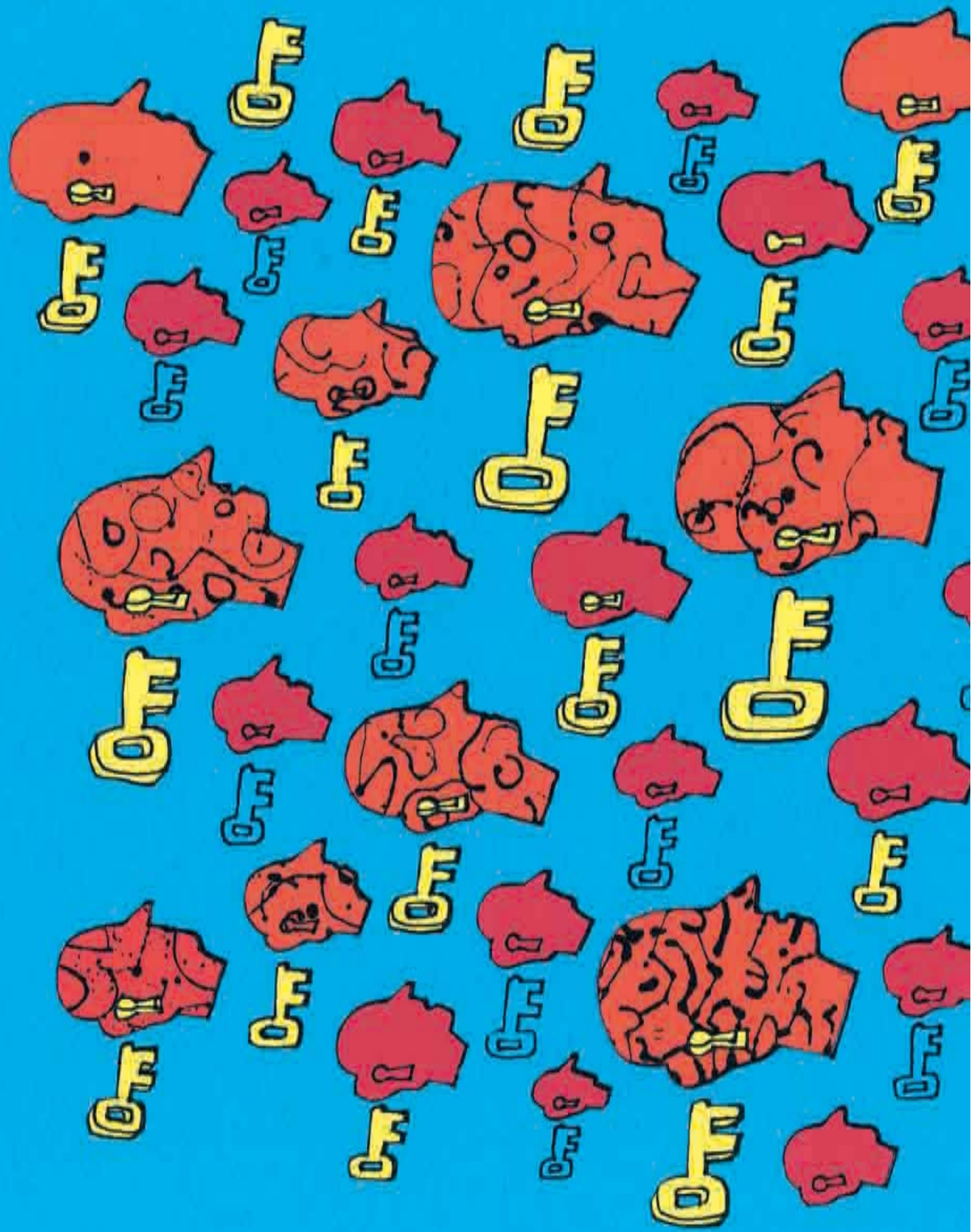
Simulation models show that a 1 percent decrease in the churn rate (indicated as probability of churn) of an average customer creates an incremental net value of 0.5 percent of ARPU to the operator (excluding the net revenue earned from the service). For a customer with 5 percent non-SMS data ARPU (as a percentage of total ARPU), this amount translates into up to three times the “non-SMS data ARPU” margin (See footnote 2 below) On the customer side, this is reflected in enriched usage of services; on the operator side, it means the addition of enriched customer data to the customer databases. The more information the operator collects through customer use of multimedia services, the better and more appropriate services it can offer, thanks to the booster effect of the enriched customer information. Since the sources and types of customer information will be diverse, this translates into new dimensions in the customer analytics, such as segmentation modeling and predictive models. If properly utilized, enriched customer information can help operators in two major ways: better customer understanding, and the development of new services and customization of existing ones to best fit the customer.

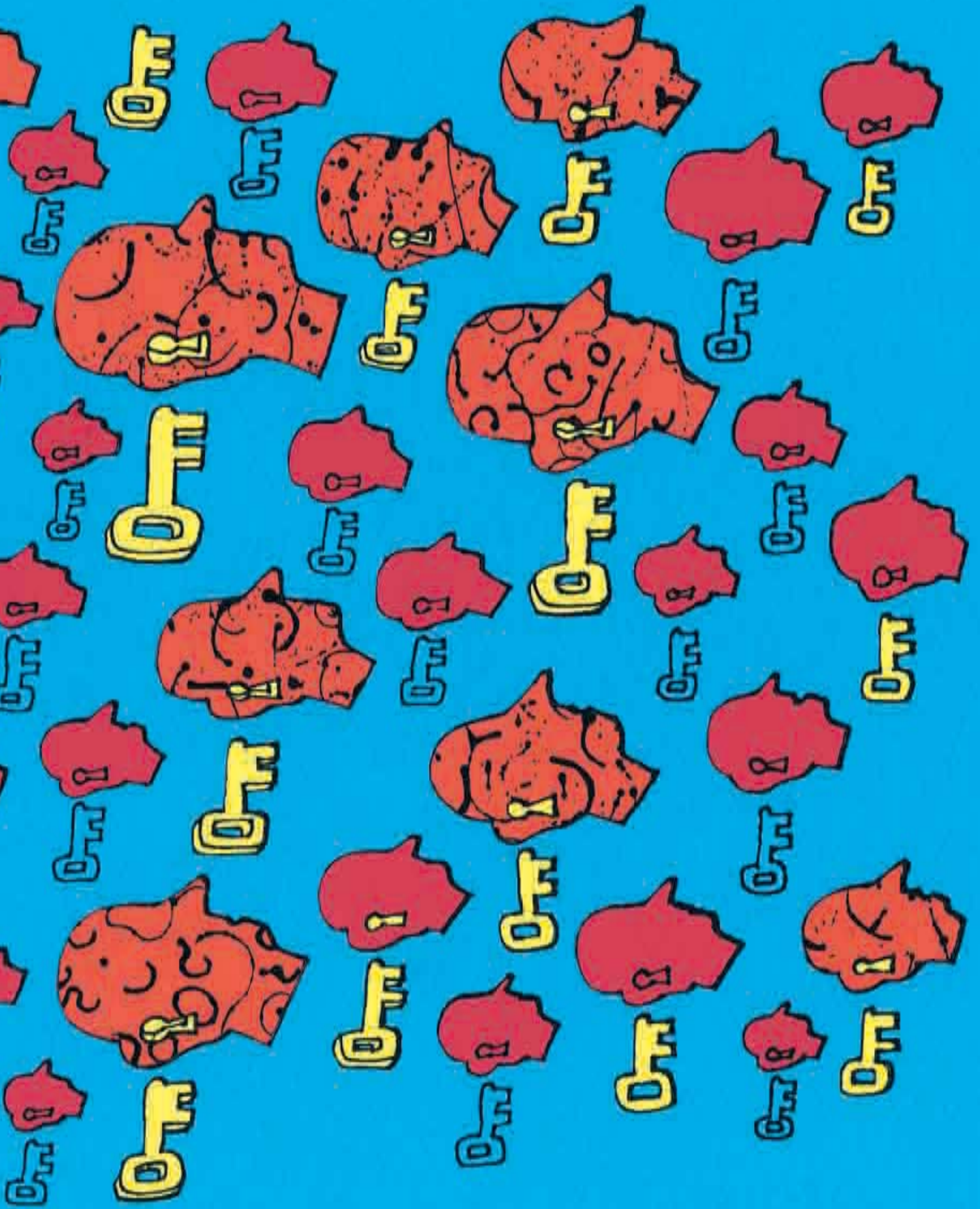


1 Based on subscriber values of six major European operators. Assumes 50 percent EBITDA margin over the customer ARPU.

2 ARPU margin is calculated by ARPU times the EBITDA margin.







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The second expansion is the development of new services for the existing customer base. Customers are reluctant to accept the bundled packages on offer, feeling that they are being sold services they would not normally use. One-size-fits-all offers distract customers, and giving them the chance to select the most appropriate package from those available does not always bring the best sales results as they are selected reactively rather than being sold proactively. True understanding of customers might help operators customize services and bundle packages to best fit existing and future requirements.

Now we can identify the customer

The booster-effect value model illustrates how customer usage and use of customer information triggers a continuous cycle of service enhancement. Additional sales of non-voice services end up creating additional data and learning. The effect is profitable only if operators can manage the enriched customer information collected, consolidated and integrated.

All these new services and offerings naturally require the ability to handle complete customer data centrally. Customer segmentation analyses are most often run offline through analytical models. For marketing, the use of enriched data enables these models to breed deeper insights suitable for building short-to-mid-term actions. You get improved accuracy on profiles where there is a higher probability of purchase for new services and product bundles.

Fixed-mobile convergence has interesting implications for marketers as well. In the past, the subscriber profiles for fixed and mobile operators have been very different, due to the ownership structure of the subscription. Fixed operators used household information as the unique identifier, meaning limited opportunities for differentiating offers and direct marketing since the profile information was not a true reflection of the person's profile (subscriber behavior did not truly exist). Different members of a household had different patterns of usage, which reduced predictability significantly. Direct marketing through postal services and telemarketing has been a key privacy concern because individual consumption patterns can inadvertently be revealed to others. Household channels such as mailboxes are a shared resource, as is the fixed telephone line.

By contrast, fixed-mobile convergence gives operators the opportunity to identify users of shared resources: most applications today require subscriptions and logins once users willingly give their consent to the personalization of the applications and services provided on different mediums. Bundled sales will enable operators to match the user to the application form. Unification of the subscriber information will become more important for customer services and billing as the underlying systems converge in the future.

Mass customization – developing and customizing products based on individual needs and wants, at the same cost level as mass production – is becoming the latest direction for online services. But how will converged operators customize their converged offerings? What is the next step in product development and marketing after bundled offers that are promoted on billboards and posters?

Deutsche Telekom has been working on integrating the cus-

tom databases of its three operations (T-Mobile, T-Com and T-Online) with the aims of centrally managing its customer service, customer relationship management and marketing functions. The company has been working on segmentation studies of its unified customer base in order to develop products and services customized for different customer segments.

The going may seem slow for now, because we are waiting for convergence to really take off in order to provide a competitive edge for some companies. For now, the increasing importance of micro-managing the customer base, especially in mature churn markets, is already being felt.

Telcos need to look internally when it comes to sourcing innovation for service development. Customers will have a lot to say indirectly to these companies as they subscribe to the numerous new data services being pushed. They will generate unique piles of data that can be excavated by data miners. Matching the right services to the right customers will be more important to achieving customer loyalty than promoting services that are not yet tested on reality.

At the core of customer data handling, charging systems play a key role as the focal point of collecting usage information. Convergent charging systems are becoming the next step for managing service-usage data centrally. An independent research agency, Informa Group, estimates that by 2011, most regions will have at least 50 percent take-up of convergent charging systems. This also represents a big challenge for telecom vendors because specialist post-paid vendors still have not demonstrated that they can deliver the kind of high-availability, low-latency, real-time solutions that operators are looking for: operators will want to integrate their CRM systems with charging and billing systems.

The next challenge is going to be integrating existing customer-management systems with real-time convergent charging systems. Once integrated with the mediation systems, enriched customer-data processing will enable real-time responses and campaigns for customer-generated triggers, such as instant SMS offerings and real-time “up-sell” offers, meaning adding something extra to an already completed purchase.

User data key to making money on media

Operators are investing in new services in the hope of increasing ARPU while aiming for leadership in the market. The operator dilemma is trying to be first in the market with new services while also maintaining overall profitability – especially in the areas of multimedia and service-layer products. Identifying the need of a particular customer segment for a new application will prove or disprove a business case to minimize the risk. Use of customer data in this process will help operators improve profitability in four ways:

1. Marketing effectiveness by targeting and reaching the right customers, thereby increasing return on marketing and advertising investment.
2. Investing in the right services – those that have the highest potential for take-up by their subscriber base (not only the market in general), thus increasing return on technology investment.
3. Customizing existing products and services and micro-managing customer segments to increase usage, cross-selling and up-selling.

4. Taking ownership of CRM data – which is also critical for application providers, advertising companies and content providers, and which enables any player in the value chain to grasp a larger share of the customer bill.

Keep new values in mind

Now that transportation and distribution have become commodities, and unique service offerings can be copied quickly by competitors, excellence in customer services and long-term relationships is becoming the competitive edge.

Networks and technologies have become more complex. Multimedia services and service-layer products are complicated and costly to integrate but lack the assurance of large take-up. Nonetheless, operators are investing in new services to differentiate themselves in the market.

What operators should keep in mind is the value of the customer information generated through new services, which was not available before. Convergent services and terminals provide a

unique opportunity for operators as owners of customer, mobile phone and CRM data. Operator technology and marketing capabilities will determine how much value can be generated from the booster effect.

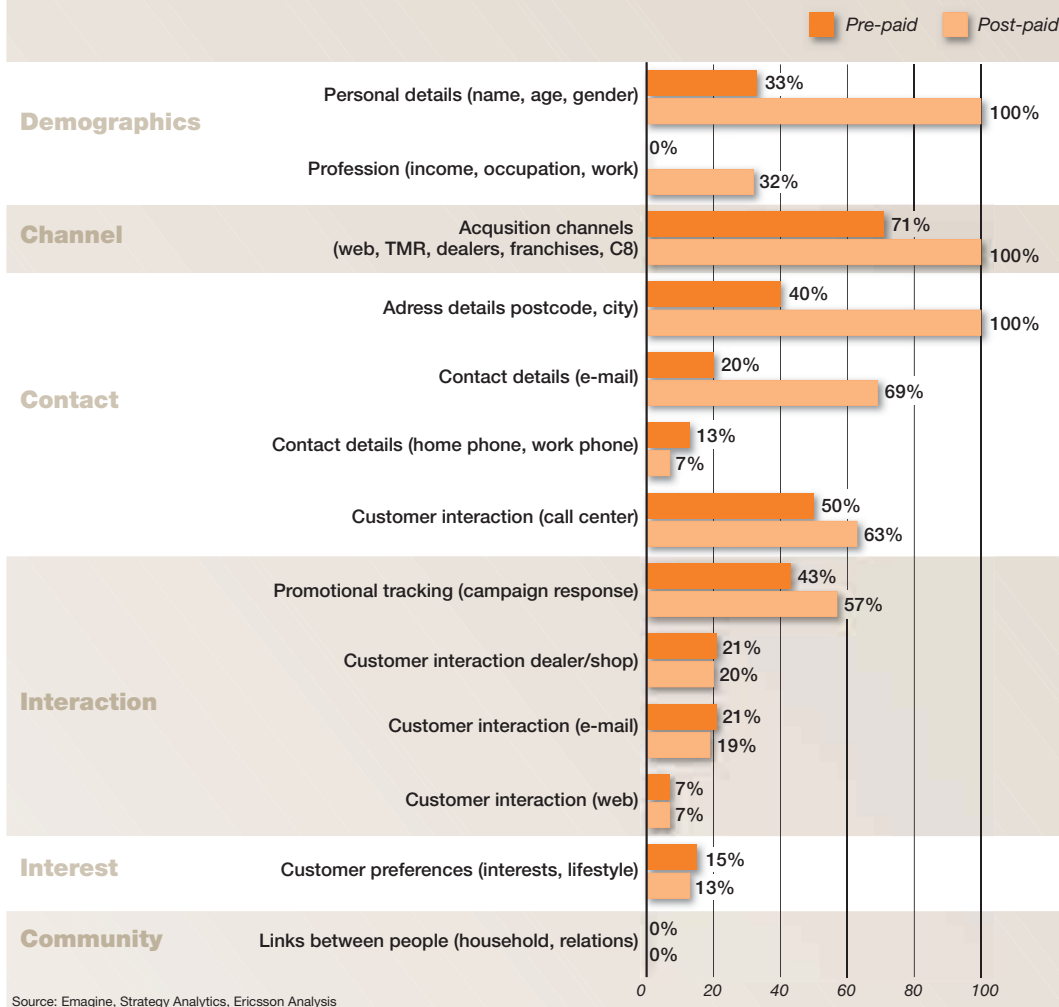


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Percent of operators that have the following information for more than half of their customer base



Source: Emagine, Strategy Analytics, Ericsson Analysis