



# **HOW TELCOS CAN DRIVE DIFFERENTIATION IN A COMMODITISED WORLD**

Questions and Answers

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**Q1) If one thing is a commodity in Europe, it is connectivity by telco operators. In your opinion, how should operators deal with competition in connectivity by “new connectivity entrants” in the market, like the hyperscalers e.g. Google, AWS and Alibaba?**

**Laurie Morgan:** The best way to compete to win is to have happy customers who don't need to go anywhere else. Going back to the webinar, we talked about creating value for them (in a way that ultimately creates value for you). Know your customers, know what they value, create value for them, in their wider lives beyond just the offer, in a way only you can. Then brand it create a brand they relate to and eventually love.

**Ericsson:** The key here is the word LOCAL. When it comes to content, ecosystem, events etc local is always local. We believe that telcos being able to push marketing campaigns, events etc. of local nature will be able to compete. That is not the home turf of Google, AWS and Alibaba. When the experience is a combination of digital and physical then telcos have an advantage, if utilized.

Competing with e.g. Google Play that release around 6000 new apps per day is not just feasible. But at the same time, we see that fear of losing an existing business is hindering telcos today investing in the market. An example where we see that this already happened is the person-2-person SMS market. This money machine is on a downhill slope, losing out to over-the-top players. The next service that might face the same situation is the A2P SMS. That market, worldwide, is around 50 BUSD annually. Instead of proactively transforming that to an interactive A2P RCS market, most telcos are silently (by not acting) giving this up to Google.

Another example, which we highlighted in the webinar, is roaming. With eSIM and app development this market might very well disappear. Again, a significant top-line loss for many telcos which could be mitigated with e.g. the outlined Travel Specials and similar services.

**STL:** The main area that telcos have an advantage against the hyperscalers is that telcos already have an existing understanding of the local market, trust and relationships with local partners on which they can build on. We also stress the importance of people and the ‘human touch’ and how telcos still have customer agents who can provide personal engagement vs. hyperscalers who may be more focused on building a zero-touch and self-serve model.

One quick (but great) example of building trust and credibility is how Telefónica has been doing a systematic and sustained push into personal data management via its Aura voice-activated personal assistant<sup>1</sup>. We know that the hyperscalers (e.g. Google, Amazon, Facebook etc.) have large amounts of personal data but the process of sharing personal data is often implicit and opaque – i.e. the subject of the personal data isn't fully aware of what information they have shared how it's being used. Telefónica has been laying the foundations in its efforts to get

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<sup>1</sup> Personal data: Treasure or trash?

closer to its customers as it encourages customers to interact with the company via Aura to make it easier for them to control the connectivity and content they buy from the telco. If Telefónica continues to engage with customers this way and can demonstrate simplicity and automation, reliability, transparency whilst keeping it personalised (e.g. even with the ability to understand regional accents for example), it will set itself very well in the future. By building customer trust, it should then be able to use personal data for highly-targeted cross-selling or up-selling of different in-house or third-party services, to realise some of the potential benefits on revenue growth.

Hyperscalers may have the advantage of scale and a global reach but the flipside of scale is difficulties in making services more tailored or bespoke to each market. Therefore, this is where we see telcos really providing additional value for customers. If telcos can build on their knowledge and understanding of their consumer customers, they can provide more bespoke services to specific customer groups versus the more generic services that may be out there.

**Q2) In your view, why haven't telcos been good at targeting customer segments in the past? What suggestions do you have to address this?**

**Laurie Morgan:** For many years, telcos succeeded by offering new technology to the mass market. They built it and we came running. Now it's more competitive and commoditised so that approach doesn't really succeed anymore (unless the tech is really radical and ownable).

You're essentially asking how to create a customer-centric organization. If you're serious about that, you can do it. Look holistically at your situation now and design a new future. Explore (i) your business objectives, (ii) the leadership and the culture (iii) the org structure (iv) your ways of working (v) the resources and how they are allocated (vi) the skills people have and lack.

If dabbling is what you have in mind, here's an MVP: (i) pick a super specific customer group (ii) find out what matters to them. Uncover their pain points. (ii) Co-create something special for them.

**Ericsson:** Telcos had a tremendous growth when the key was connectivity. Providing connectivity became the culture. With every new G coming, the competition has always centred around coverage. On the other side of the coin the word ubiquitous appeared, which essentially mean that same service was provided to everyone, accessible everywhere.

New comers (2<sup>nd</sup>, 3<sup>rd</sup>, 4<sup>th</sup> license) entering usually compete with price and also targeting one group of people (usually aged based, read young).

Another factor that stopped several telcos was that when provided targeted offerings there might be a need to use a separate brand. A brand linked to the promise of the offerings.

**STL:** The role of data and analytics here is key. A past piece of research<sup>2</sup> we did on telco digital customer engagement found that data use is the key differentiator when it comes to a successful digital customer engagement strategy. Our research also showed that telcos that personalised engagement saw substantial benefits over those that didn't. However, the data is only as good as the analysis you do and insights you're able to pull. Telcos need to start better extracting and leveraging insights from both internal and external data (e.g. customer location data, usage etc.) to inform decisions it makes as an organisation and across the organisation, whether that be specifically in the product development function or marketing function.

There is also a role in automation here too – telcos historically haven't been great in doing personalisation at scale, which requires a certain level of automation. You may either come across horizontal engagement at scale or hyper-personalised engagements that tends to be very manual/people-led.

**Q3) Are there any examples of telcos running strong marketing campaigns? Or developed unique (and successful) targeted propositions?**

**Laurie Morgan:** They are few and far between:

- I like Microsoft Teams which is a holistic work solution, including the ability to make calls. After just a few weeks, we can't live without it and it replaced a multitude of programs / apps.
- I like the Vodafone Qatar London Edition Offer specific to wealthy Qataris.
- I like the Vodafone special mode for abuse victims – shake your phone and it alerts a list of people to keep you safe

**Ericsson:** Yes, there are several good examples. Unfortunately, all these examples have one thing in common. They have been like a one-off. Targeted offerings and competing with intangibles really encapsulate a different way of working.

Some examples:

- Surf for free if you are nice: Telia
- You hang up – Singtel
- Pulse – MTN Nigeria (my favourite)

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<sup>2</sup> Telco digital customer engagement: What makes a winning strategy?

**Q4) In your opinion, how can and/or should telcos better segment their consumer customers?**

**Laurie Morgan:** The act of segmentation should be useful and practical and not theoretical. It should reflect attitudes, thoughts, feeling and pain points about the segment's whole life (not their telco specific needs). It's more important what you do with it, frankly, that's where most organizations fall short.

**Ericsson:** Segmentation should be based on **values and attitudes**. After segmenting your market, specify the needs and behaviours of each segment and finally come up with how you can help satisfying the needs/behaviours with a targeted offering. Last, but not least, package this under a brand name that appeals to the targeted segment.

**STL:** The key is to segment via needs and customer behaviour rather than traditional segmentation around demographic/census-type data such as age, location, income, gender, marital status etc. Using demographic data provides a very restricted view of the consumer and often plays on stereotypes. One short example to demonstrate this point – if we look at the 'Millennials' age group, which spans those aged 23 to 38, the lifestyle of a 23 year-old is likely to be in a very different stage of life than a 38 year-old, but via demographic segmentation, if you consider them to be the same segment via age group, then that generalises across an extremely varied group.

Telcos need to start looking much closer at the different lifestyles of their consumers and what their pain points are, then consider what telcos can offer (either in-house offerings or third-party offerings) in order to address those needs.

**Q5) In terms of the two most relevant lessons via audience vote from both Xbox and Lloyds: (see below)**

- ***"Think customer" and get to know what they value personally: "WHO" and "WHAT" (44% of votes)***
- ***Solution marketing over brand marketing for better segmented targeting (44% of votes)***

**What are some related suggestions of things telcos could do or implement in the short- and medium-term?**

**Laurie Morgan:** Ha ha. That isn't a one paragraph. That's the meaning of life for a marketer. Put the customer at heart. Get insightful. Co-create with the customer. Find brilliant partners to offer something together that you could never do alone.

**Ericsson:** *Think Customer* and when it comes to implementation go along with what we answered in question 4. In addition, organisation and ways of working is always the thing to overcome when in the implementation phase. Here, what we see as best practice, is that marketing would have one person responsible (P/L) per customer segment. This person would report to the CMO and have weekly targets (financially and NPS)

**STL:** Utilise and analyse the customer data that you already have to understand and assess whether there are natural segments that stand out (i.e. the “WHO”). Once you have an idea of what these customer segments are, figure out the “WHAT” - think about what these offerings could be to each segment, think about the potential partners you can work with to offer that, and test it with a small group of customers within those segments and iterate.

**Q6) What do you see as the main traps that telcos could fall into in light of increasing commoditisation coupled with the imminent roll-out of 5G?**

**Laurie Morgan:** Sell 5G as 5G to everyone. Even worse, overpromise its value and offer it at a special price.

**Ericsson:** Continue to offer more (Gbyte) for less (money).

**STL:** The consumer case for 5G can't just be about faster speeds, less lag and higher capacity for everyone. Particularly in markets where operators are already offering all-you-can-eat/unlimited tariffs, this need to demonstrate value to consumers becomes even more important. It needs to be about what the benefits and/or outcomes of 5G could mean for specific groups of people. For example, if we look back to the gaming case study, how does 5G enhance and improve the experience in e-gaming? How does it enable applications that appeal to different groups of customers such as AR/VR?

**Q7) Is bolting on third-party offers coupled with targeted marketing sufficient for telcos to grow or do they have to fundamentally change their businesses – the core services they offer and how they deliver them – in order to achieve sustainable growth?**

**Laurie Morgan:** If you start with the customer at heart, you will partner with others that help you add tremendous value and achieve growth. If you need to fundamentally change your business, that is probably a good thing. Be open to it.

**Ericsson:** I don't think it is an either/or situation here. The market will continuously evolve and how to compete needs to constantly change. But, first steps for sure are targeted offerings and compete a lot with intangibles. I sometimes make the analogy with gas stations. Gas stations used to compete with the same product and the key was price and location. Eventually nobody makes money and then car wash came, and hot dogs and coffee and groceries. Using location and opening hours as the main value and by that returned to growth.

**STL:** If we focus on the word 'sustainable', we're looking at long-term growth. Partnering with others to provide third-party offers with targeted marketing is part of it. This may help a single operator continuously capture and/or sustain market share but if the market itself is shrinking, then this won't work.

Telcos will only be able to grow the overall market/pie if they fundamentally change their business models. In order for telcos to really succeed in the long-term, personalisation and customer-centricity needs to be a fundamental part of the business and the way you offer services. Customers are always looking for more – whether that be more relevant or personal or “better” – and so telcos need to change in the long-term to ensure they are well-placed to meet those customer needs. Building on what Laurie had presented on, this change should touch on all parts of the business and not isolated to one team.

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