

# Telecoms re-invention—death of the traditional telco

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July 2010

The communications provider landscape is evolving as the demand for data—in fixed locations and on the move—outstrips the still growing demand for voice communications. New entrants from the worlds of IT, media and the internet are competing—directly and indirectly—with established telecommunications providers. At the same time, new technology innovations and integration are turning once-profitable services into low margin commodities. Telecoms companies need to adapt and rapidly to these new threats to ensure they can survive, and hopefully thrive, on some of the new opportunities that emerge.

Rob Bamforth  
Quocirca Ltd  
Tel : +44 7802 175796  
Email:  
[rob.bamforth@quocirca.com](mailto:rob.bamforth@quocirca.com)

Clive Longbottom  
Quocirca Ltd  
Tel: +44 118 9483360  
Email:  
[clive.longbottom@quocirca.com](mailto:clive.longbottom@quocirca.com)

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[www.quocirca.com](http://www.quocirca.com)

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## 1. The need for change now

As their industry evolves, telecoms companies (telcos) can no longer rely on simply providing voice telephony and data access across their network resources. Increasing service variety and complexity, combined with challenges from internet and consumer brands, threaten the relationship telcos have enjoyed with their subscribers. Positive action is needed, and soon.

Sales and support processes have shifted towards online, mobile and social interaction, so telcos risk losing their influence and control, becoming simply bit pipes. They must learn how to adapt and harness the positive aspects of the changes that are taking place around them and the challenges they now face:

- **Commercial squeeze:** market saturation, relentless competition and regulatory changes are undermining margins, while investment costs in capacity and technology rise.
- **Endpoint complexity:** new devices, smartphones, desktop video and unified communications software all add new services capabilities, but increase complexity and support costs.
- **Service choices:** more options mean offerings can be differentiated and customers targeted, but too much choice can be baffling. Bundling simplifies options, but brings further challenges.
- **Applications:** open platforms—in the network and at the edge—introduce new applications and third party relationships, extending customer choice, but adding complexity for the telco—who now dominates the customer relationship?
- **Data growth explosion:** data has moved from ‘killer app’ to network killer as flat rate pricing and data-hungry devices and users cause overload and service issues. Telcos need to manage data impact and support issues.
- **Service differentiation:** even in all-IP networks, not all packets are equal. Telcos have to discriminate and prioritise between certain different services and customers.
- **Partner relationships:** the balance of power has shifted from carriers towards service providers and endpoint device manufacturers. Telcos need to adapt and play to their strengths—leveraging the data, profile, history and billing relationship relating to their customers.

In the first and second papers in this series “Telecoms companies’ re-invention”<sup>1,2</sup>, Quocirca explored the underlying trends and the issues affecting telcos and the online customer experience. In this paper we will look at what telcos need to do now to change and the potential consequences of inaction.

## 2. How should telcos adapt?

The tightly bound ‘star’ relationship of subscribers to network carrier is no longer the only game in town. Individuals may have multiple devices and with different carriers—for personal or business use, or just different form factors—there will often be multiple operators in a household or business.

More importantly, services will be offered by companies other than the telco itself and, in many cases, these will be big brands. These include internet giants such as Google, cool device companies such as Apple and BlackBerry, media brands or smaller companies offering innovative ideas. All, whether deliberately or accidentally, undermine the close and cosy relationship between carrier and subscriber.

*“telcos should now strive to add value by becoming the trusted conduit in a connected marketplace”*

This relationship is based on the ownership of the billing connection with the subscriber, supported by historical data that provides an understanding of their profile and, ultimately, their needs. This is where telcos should now strive to add value, by becoming the trusted conduit in a connected marketplace and providing the smart pipe linking and supporting service suppliers to subscribers.

## 3. Customer driven mentality

This requires a shift in mindset in telcos from concerns about network assets—which are often heavily weighted to technical issues and investment costs—to a focus on their customers.

It is not an altruistic switch, but recognition that the ‘plumbing’ is a commodity and no longer provides differentiation in the minds of customers. To retain and grow their customer base, telcos have always needed to be responsive. Now, to ensure they capture a fair share of the revenues to be derived from new services, devices and applications, they will need to be pro-active and offer subscribers something more.

## Simplicity

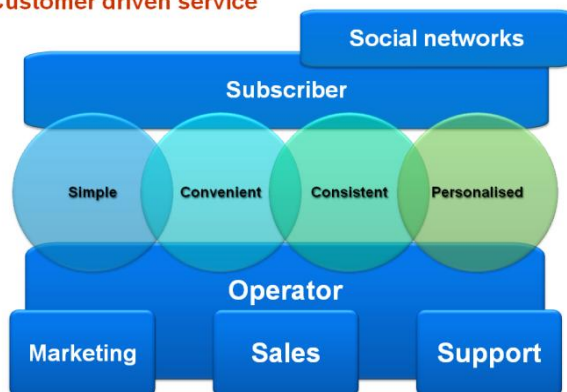
Scott Adams, the creator of Dilbert, had a term for the way US telcos were competing—confusopoly. Make the customer proposition sufficiently complicated that they cannot compare different offers. This was never a realistic strategy despite how some propositions still look today.

As the number of options, products and features has increased, telcos should work much harder in the opposite direction to simplify their propositions and the way they interact with customers and prospects.

The payback for the telco is clear—it makes the customer's decision-making process easier and quicker, winning more business.

Figure 1

### Customer driven service



## Convenience

Customers no longer live in a linear, one track world; their communications options are manifold, and their reasons for using one or another will vary over time, inclination and location. Telcos must support multi-channel, multi-mode customer engagement.

This means allowing customers to choose their preferred method of sales, support or service interaction via contact centres, the internet, mobile applications or in-store. It also means ensuring that the overall experience is integrated across them. The journey towards a sale may start with a phone call, have time in a store and finish online, but the customer should feel these are parts of one journey, not different, separate journeys.

## Consistency

For that experience to be felt consistently, no matter how or who the customer interacts with, the telco must preserve vital information about the interaction and share it across all individuals and systems involved. It should not matter that one person speaks to a customer on the phone, another in-store, and then a delivery application takes over.

Decisions, comments, and the whole customer profile have to be held in a common accessible place and consistently shared between different departments, different employees and different actions across retail, web, contact centre and on-device applications.

Multi-channel consistency and convenience is highly effective in other sectors where goods or services are commodities, such as retail and banking, where there is a need to bolster customer satisfaction and engender loyalty. Telcos would do well to recognise this is the sort of competitive environment they now operate in, and some of those who have been successful in those other sectors are also eyeing up or are already moving into the telco marketplace.

## Personalisation

The ideal of a customer-driven approach is to be able to deal with each one as an individual. By learning and adapting to the needs of each subscriber, the telco can deliver a richer and more relevant experience. This not only improves the interaction, making the customer feel better, but also opens up better opportunities for up-selling and cross-selling.

## Community

No individual stands alone in the digital world—they bring with them a network of connections with whom they can share comments worldwide at the click of a mouse. These informal links, once forged with technical difficulty through bulletin boards, newsgroups and emails, are now pervasive. Social networking, blogging and microblogging/lifestreaming connect individuals into powerful groups of opinion formers.

This can work for or against corporate interests and marketing messages, and so it is no longer safe for businesses to ignore or assume it is simply a consumer fad. Telcos need to embrace and understand the online communities that cross their industry in order to improve the likelihood of sales and be able to react faster to market sentiment and commentary—whether good or bad.

## 4. Reinforcing the value chain

As well as getting closer to their customers, telcos have to get closer to their partners across the value chain. Historically, this has been network asset and equipment providers, stretching as far as handsets for mobile operators and customer premises equipment at the edge of fixed networks. Operators had a strong position in control of the value chain.

### Balance of power

Now the relationships are more complex, because the networks are migrating from proprietary protocols and control to an open internet-based model. This introduces new players in software and services and emboldens hardware providers.

Some new approaches—e.g. from Google, Apple—have brand and marketing clout that exceeds what has been built over many years by telcos cosseted in their own industry. This is a significant shift in the balance of power.

The ability to control and dominate their industry is not only being disrupted by open markets and new entrants, but also shaken by the actions of governments and industry regulators. This is breaking down previously profitable pricing models—e.g. roaming and termination charges—and opening up competition, especially where once-national monopolies still have an incumbent position.

### Friends close, but enemies closer

This makes it critical for telcos to extend relationships with existing partners and forge new ones. They will need to deal with different types of organisations—software developers, media companies, integrators—all of which have increased influence with the telco's customers.

To do this, they have to open their own systems, sharing more information and some control. If they give up too much, they will simply become a 'bit pipe', carrying data, but without realising (in both senses of the word) its value.

The alternative of complete control is not viable either. Walled gardens have been tried before in the internet and in early mobile portals. They are ultimately broken by the open market.

Telcos need to steer a path that leverages their strongest asset: their relationship with their customers. This is not simply a directory of subscribers, but the profile and history of the entire relationship. This highlights the critical importance of the customer-driven mentality outlined above.

### Who owns the customer?

Customer ownership is a dominant driver in many industries and has, in many ways, plagued the telecoms industry as operators have tried to retain a stranglehold of control. This has worked against them as many strong brands from other domains, such as the internet and retail—Apple, Google, Amazon, etc.—have more customer appeal.

Telcos do have the advantage of a billing relationship, insight into the customer profile and behaviour, if only they could use it effectively. Rather than owning the customer (something that is not really achievable in any event), they can take ownership of lifetime issues.

Being the first port of call for the customer also allows telcos to enhance their relationships with partners, acting as a smart conduit for services and support. This must be done efficiently and effectively, so telcos should look to keep costs down by building self service routes that sit side by side with other support services, contact centres etc. and all sharing a common understanding and knowledge base of the ongoing customer/telco relationship.

Figure 2

#### Evolution of telco business models



## 5. Internal re-adjustment

The changes can only be accomplished if telcos recognise they need some level of internal re-adjustment. This is something they should already be embarking upon as, in many respects, it is a prerequisite for the changes in external focus and presentation that will be required:

- **Re-integrating the model.** Telcos need to understand the reality of their business model. The terms bitco, netco and servco were introduced<sup>1</sup> and explored in the first of this series of papers, and telcos need to understand where their own emphasis is and where to partner to fill gaps. Few companies fit neatly into one of the three categories, but a thorough understanding of core skills allows telcos to see where to invest.
- **Vertical to horizontal.** This means loosening the grip on the value chain, and really understanding how to work with, and value, partners. It requires a flexible internal infrastructure to ensure these relationships can be supported, with a flexible back end architecture and payment model.

- **Focus on effective channels.** This generally means e-channels, which can offer more profitable sales and support, but only if properly integrated at both a technology and functional level internally. Web-based, self-service and on-device interaction can significantly reduce the volume of transactions needing to be dealt with in costly contact centres, freeing up staff for more proactive and valuable customer interaction. Other industries, e.g. retail and banking, have found that well-structured and relevant online interaction improves customer satisfaction and loyalty.
- **Agile.** Internal structures need to be flexible and avoid past Key Performance Indicator (KPI) rigidity which made important what was measured, rather than measuring what was important—value in the mind of the customer. Rapidly growing trends such as social networking and on-device applications emphasise the importance of being able to respond to changing conditions with a new, yet integrated proposition—O2's giffgaff is an excellent example of this in action.
- **Consistency.** Above all, internal structures and limitations should not be presented or be obvious to customers. The entire telco needs a common and consistent view of its products, services and customers, to ensure a positive experience. As e-channels and cross-channel interaction become dominant, it becomes critical for sales and service channels to have solutions that deliver a consistent experience amongst hitherto siloed parts of the organization.

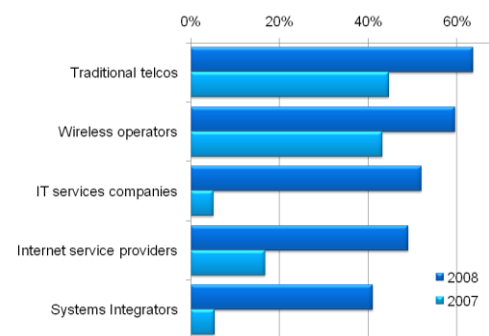
## 6. Conclusion

The market is evolving quickly all around telcos—new competitive entrants, technology shifts, open value chains, legislative and financial pressures—and yet many seem frozen like deer in headlights, unable to change their established ways.

Customers are engaged by new technologies and services in other industries, from e-banking to social networking, and have more options and confidence to demand more of their suppliers.

Telcos who do not adapt quickly risk being left behind and viewed simply as easily replaceable commodity suppliers—bit pipes. Most do not have the commercial model to support such a low margin, high volume proposition effectively. Already, many businesses increasingly believe there are other categories of companies that can service their communications needs.

**Figure 3**  
Which types of organisations can support telecoms needs?



There is an alternative, but it will require a shift in emphasis towards a customer-centric, rather than network-centric view. This means changes, both internally and in the way the telco forms and grows relationships with its partners.

This starts from a firm foundation, based on existing customer relationships, and uses the information held about subscribers more intelligently. It needs to be built upon, forming the knowledge held into a common reference point for all activities related to the customer, from any internal viewpoint—service, sales, support—that can also be used externally.

As customer interaction options have evolved, some have become highly efficient routes—e.g. online and mobile applications—for connecting directly to a specific customer at their point and time of need. Telcos need to ensure they have the right tools in place to capitalise on this multi-channel reach with relevant and personalised services.

In this way the telco becomes a 'smart pipe', ensuring that customers get the best experience by responding quickly and consistently to their needs. The telco benefits not only from preserving loyalty, but also an opportunity to engage more closely with each of its customers as individuals and, crucially, the extended networks that each of them bring.

Digital communications may appear to have removed the need for human interaction but, in reality, it amplifies existing principles and processes. The winners from this evolutionary change will be the telcos who can re-invent themselves by adopting best practices: simple, convenient, consistent sales and service, tailored to individual customer needs.

### References:

- 1: Quocirca "Telecoms companies re-invention—from voice to e-service provision" report, October 2009
- 2: Quocirca "Telecoms re-invention—optimising the online customer experience" report, February 2010

## Recommendations for a rapid change of focus in telcos

**Simplicity:** Customers are finding the plethora of options and technologies confusing. This not only slows down the decision-making process (which one to choose, how to distinguish?) it also increases support needs. Use of intelligent bundling and tailoring simplifies choices through the sales cycle, and provides pro-active and quick responses in the support process to not only make customers more satisfied, but keep costs down. Use customer intelligence gleaned at all stages of the cycle to speed the process, keeping it simpler for the customer.

**Convenience:** All customers have different preferences for how they make contact, and these will vary at different times, even for the same person. Allow them the freedom to choose what is most convenient for them, but ensure that whatever route is taken, the same consistent view of the customer interaction is captured and used to streamline the process. No one likes to re-explain who they are to a call centre agent, having just keyed their information into a screen prompt, or having just sent a text from their mobile phone. Operators should fully support a multi-channel approach and ensure that whatever route is taken, the customer can access what they need quickly and efficiently.

**Consistency:** Build an infrastructure that permits maximum consistency. This means that there is a unified view of the customer no matter what mode of interaction and no matter what stage in the sales/support cycle. This makes it easier to respond faster and get problems fixed first time. A consistent framework can also be used across different customer groups—and even different regions—to share the infrastructure cost, providing the offer in each case can be tailored to the needs and demands of the region or group.

**Personalisation:** More intelligence held about each customer in a common format allows for more precise tailoring and adapting of information, services and sales offers. As well as adapting to the individual, it should be possible to adapt to their current context, taking into account recent behaviour (such as if they exited an online sales transaction early) or events (such as changes in taxation). With customer permission, it is also possible to look more closely at time, date and location to make the communication even more relevant to the individual at that precise moment.

**Partner friendly:** No operator can embrace and provide all the services or products its customers need, especially as they enter an era of advanced, yet ephemeral, applications delivered to smart mobile devices. Developing sufficient and appropriate external relationships with content, media and application providers will become vital for all telcos. How they fit into that relationship will depend on their attitude and the value they bring to the table, but it is important for them to realise that they are no longer in the position of complete dominance. The 'open' market genie is out of the bottle, and there is no going back to 'walled gardens', but the operator needs to ensure they are the first port of call.

**Social connections:** Communications between existing and potential customers have become much richer, more frequent and still remain outside the control of suppliers. Ad hoc online groups and communities of interest form spontaneously with social interaction through extended networks of online friends, followers and connections, and can rapidly shape opinions. These are beyond the power of any organisation to control, but with a well thought out and executed strategy, these diffuse customer interactions can be influenced. Rather than treating social networking as an external adjunct to mainstream business, operators should combine it with other sales, support and marketing channels, and manage social networking intelligence in the same place and form as more traditional customer relationship systems to ensure consistency.

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