

Discussion Paper: An eStrategy for <<OPERATOR>>

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Introduction

This is a discussion paper that will touch on a strategy that would enable <<OPERATOR>> to greatly reduce its operating expenses, thereby improving profitability, while at the same time improving its customers' experience.

This would be a 5 – 7 year strategy and involve a major shift in the company's thinking.

Background

Telecommunications became a very narrow margin business after de-regulation.

With the new competition that de-regulation brought, Telco's had to find a way of differentiating themselves and, in many cases, their first move was to cut prices.

While this benefitted customers enormously, it put big pressure on the Telco's OPEX lines – particularly Telco's that had been around prior to de-regulation.

In the case of Hong Kong, the revenue historically generated by IDD (up until the mid 90's) was so large that not only was then-incumbent Hong Kong Telecom able to make local calls free of charge, but its IDD revenue cross-subsidised other services as well.

And there was no competition, so no reason to reduce IDD rates and no reason to focus on operational efficiencies.

But as Hong Kong progressively de-regulated the arrival of competition trashed the revenue from IDD and, therefore, overall revenue.

However, the underlying operating models, and the associated operating expenses, remained largely unchanged.

As a result, older (pre de-regulation) Telco's are generally carrying a much larger operating cost base than they can really afford, given the revenue streams that they're currently generating.

The potential to increase margins, at least in Hong Kong, is limited because the Hong Kong market is seriously price conscious.

Customers churn as soon as they are able to, if they find another operator offering a slightly lower price for what they need.

So for the foreseeable future there's little or no opportunity to increase margins through pricing.

With the revenue upside limited, the only way that Hong Kong Telco's can develop long term resilience and greater profitability is if they dramatically reduce their OPEX.

And most older Telco's have plenty of opportunity to do this.

The Opportunity to Reduce OPEX

When it comes to reducing OPEX the salaries and benefits line is usually either the biggest or second biggest cost that Telco's carry. It's therefore one of the first ports of call when cuts need to be made

Accommodation costs (rent, rates and related costs) are also one of the biggest lines, particularly where an operator has a heavy, on-street retail presence.

Within Salaries and Benefits, the functions with the largest number of staff are those that focus on servicing customers (both sales and after sales service) and network engineering and maintenance.

So focusing attention on those two operational areas will bring the highest OPEX reduction returns.

The Need to Improve Customers' Experience

While Hong Kong is (and will remain) very price conscious, Hong Kong consumers are also becoming more demanding.

They're demanding more convenience, delivered more quickly and more reliably. And this trend, too, is one that will continue.

In most cases the service provided by Hong Kong telecommunications providers to their customers is well below international standards.

Calling the 'hotline' when you have a problem with your service is a frustrating experience at best.

But Hong Kong operators have got away with it until now because they're all as bad as each other.

The primary focus is on sales, and the sales process is usually very quick (although not necessarily efficient). But once you're on a Hong Kong Telco's books getting support for any queries is usually an entirely different story.

And not a good one.

The Opportunity

In addition to OPEX reduction opportunities, then, there is also an opportunity to take a quantum step forward in the level of service provided to customers. And both of these can best be achieved through the smart use of technology.

Simple economics drives the first opportunity, customers drive the second.

Seizing the Opportunity – & Learning from the Credit Card Issuers

A mobile Telco's business operation is broadly divided into two areas:

1. Building and operating the network
2. Managing customers (acquiring, billing and servicing them)

In the area of managing customers the business model of a mobile Telco operator is identical to that of a credit card issuer in the credit card industry.

A simple analogy:

In the credit card business the customer travels the world with a piece of plastic, incurring charges that the credit card issuer has to accumulate, rate, bill out and collect.

In the mobile Telco business the customer travels the world with a piece of plastic (a SIM card) incurring charges (calls) that the mobile operator has to accumulate, rate, bill out and collect.

Both types of business involve taking on a credit risk, and the credit and fraud management processes of both types of business are exactly the same.

An analysis of customer queries in each type of business will show that the types of queries are the same:

- Disputed charges (calls in the case of a mobile operator)
- Incorrect billing address
- Change of address missed bill cycle cut off

- Charges declined because credit limit exceeded (calls blocked in the case of the mobile operator)

Even the roaming processes are the same. In fact, the original way roaming GSM customers were managed was identical to the way American Express managed traveling cardmembers at that time.

And both are narrow margin, high turnover businesses.

So mobile Telco operators can learn a lot about managing customers from the experiences of the credit card industry.

And the credit card industry has always been excellent at making very effective use of technology to deliver high levels of service in the most cost-effective way possible.

Add to this the fact that people are moving online (both fixed and, increasingly, mobile) at an ever increasing pace.

This means that mobile operators today have the opportunity to invest in technology and move their entire business (as it relates to customers) online – both sales and after sales support.

Done properly, this will facilitate big savings in OPEX as <<OPERATOR>>'s street presence could be cut back to a few 'experience' outlets and the size of call-centers and customer service groups could be cut.

It will also give customers a better experience by giving them more control and quicker solutions to their questions.

<<OPERATOR>> has already taken a small step in this direction with the development of the Online Store.

But that should be regarded as only the beginning.

The technology is available today to provide customers with:

1. An excellent level of responsiveness to questions
2. Tailored and targetted upsell/cross-sell offers in a non-intrusive way
3. Help to correct handset and other problems - reducing 'no fault found' handset exchanges and unnecessary engineer visits
4. The ability to make payments and check call and bill details
5. The ability to change their address and contact details
6. The ability to buy new services and make changes to existing services

... all without any human intervention.

My favourite examples of companies that do all of these things exceptionally well are Amazon (targetted upsell/cross-sell), Skype (troubleshooting Q & A), HSBC (general account maintenance), McAfee and Microsoft (use of Chat functions to manage multiple customer queries simultaneously).

And there are lots of other excellent examples.

Additionally there are now a number of web-based technologies, systems and services that enable enlightened organisations to get involved with their customers on a day to day basis.

Services like Twitter, Google Alerts and Blogs (and the local Chinese language forums and message boards in the case of Hong Kong) all provide powerful ways for Telco's to tap in to what their customers are saying about them and what they want.

They also enable mobile operators to manage their customer relationships and reputations far more proactively and effectively than was possible previously.

Summary

A web based customer care strategy is essential to any Telco's longer term profitability.

It will dramatically reduce the unit cost of serving customers by allowing a reduction in both staff and accommodation costs, while greatly improving the customer experience.

And it will give mobile operators a new and highly effective way of connecting more closely with their customers and finding out what they really think and want.

Having introduced the Online Store <<OPERATOR>> has taken the first step along the surest route to long term profitability growth and resilience in times when the economy is weak.

But it is only a first step.

Moving Forward

In the case of a long-standing operator like <<OPERATOR>> there are some complex technical problems that need solutions for an eStrategy like this to work.

Providing customers with online access to their account and service details, and making use of technology to carry out cross-selling and up-selling activities, raises questions of data security and integrity.

In <<OPERATOR>> many of the core systems managing different aspects of the customer relationship are approaching 20 years old.

These (or at least the data in them) will need to be interfaced seamlessly and securely with modern web based systems in order to provide the level of service that customers will expect.

So a web-based eStrategy involves a lot more than deciding to create a powerful web presence.

It will require a complete review of <<OPERATOR>>'s internal suite of customer management systems and the development of an internal IT architecture strategy that will seamlessly support a web-based customer sales and service approach.

Just as the Online Store provided the opportunity to review and revise the operating processes relating to (for example) fulfillment, so a full scale web-based eStrategy will require a review and revision of <<OPERATOR>>'s internal IT architecture.

Which is why this would be a 5 – 7 year strategic project.

Conclusion

This is purely a discussion paper that has touched quickly on a number of areas.

If an eStrategy along these lines is adopted by <<OPERATOR>> it will require a change in the thinking, not only of senior management but of management at the operational level as well.

It involves a complete culture change in the company.

A change of thinking such as this at the senior level is easy enough to achieve, but at the operational level the story is very different.

Some careful thought, therefore, needs to be given as to how this change would most effectively be made, given the need for confidentiality and the need to retain until the last moment the loyalty of staff whose jobs would be lost.

There are several options, ranging from a high profile, dedicated project team through to a low key, almost surreptitious rolling out of the new platforms. And several options in between.

Both approaches have been used successfully and it's really a question of which approach senior management believe would be more effective in the <<OPERATOR>> environment.

This is an exciting project and one that's essential to <<OPERATOR>>'s longer term resilience in negative economic times and improved overall profitability.

I look forward to discussing the many aspects of it in more detail.

End of Discussion Paper