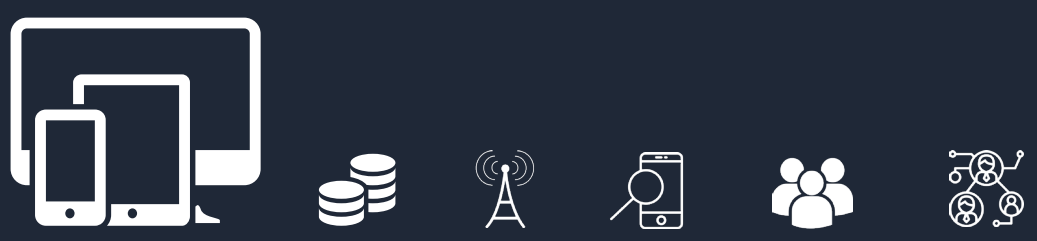
#BIO TRENDS

THE BIO AGENCY — Summer 2018

DIVERSIFY OR DIE? WHY TELCOS NEED TO TRANSFORM TO SURVIVE

The tech revolution is demanding sweeping changes across the telecom sector – it's a focus on customer experience that will determine whether or not the big incumbents can stay relevant. In this BIO telco sector snapshot, we reveal findings of our recent telecom consumer survey and suggest three areas telcos should focus on to meet the demand and needs of modern customers.





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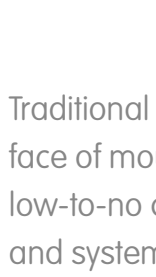
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INTRODUCTION

Traditional telecom providers struggle to keep pace in the face of mounting market pressure from the surge of nimble, low-to-no cost OTT services, due to their overall company size and systems complexities. If telcos can't define exactly who they are, we are going to see major players lose grip of their industry, piece by piece. The tech revolution is demanding sweeping changes – it's a focus on customer experience that will determine whether or not the big incumbents can stay relevant.

Telcos have made efforts to adapt, and have been involved in at least the margins of most of the major tech developments in recent times. As stated by Deloitte, the sector "continues to be at the epicenter for growth, innovation, and disruption for virtually any industry."[1] Nevertheless, if they are to secure their future and differentiate from more innovative and customer-centric disruptors, another level of change is needed.



6.6 trillion

Worldwide Telecommunications Spending in 2018 [2]

Traditional telcos are losing market share to 'Over-the-Top' (OTT) services (WhatsApp, Skype, Viber and the like), who are nimble and laser-focused on developing small elements of the overall service. Although a digital mindset is deeply rooted in the telco industry, CX-centred OTTs have been free to eat up incumbent's revenue streams while riding for free on the traditional providers' delivery networks. OTTs have mastered the provision of narrow slices of services, with user-centred interfaces and a focus on delivering what customers want. Mergers and acquisitions have also placed a premium on omnichannel service as a way to deliver customer-focused brand unity.

(1) https://deloitte.com/us/en/pages/technology-media-and-telecommunications/articles/telecommunications-industry-outlook.html
(2) http://plunkettresearch.com/statistics/Industry-Statistics-Telecommunications-Industry-Statistics-and-Market-Size-Overview/

March of the OTTs

2003: Skype

Since 2006, Skype has generated 2 trillion minutes of video calls, with an average of 3 billion minutes of calls made every day.[3] In 2017, it surpassed 1 billion downloads for Android.

2009: WhatsApp

The popularity of WhatsApp has grown at a rapid pace since its acquisition by Facebook in 2014. In 2015, Whatsapp handled 50% more messages than those delivered by traditional telcos. In January 2018, Whatsapp passed 1.5 billion active users, with an average of 65 billion messages[4] and more than 2 billion voice and video calls made daily.[5]

2010: Viber

In only 3 years, and with as little as 30 engineers on board, Viber has disrupted the global telco industry's SMS format. The app has now passed the 1 billion mark and is making the move to become a full-fledged mobile operator in Japan.[6]

2011: WeChat

Launched in China, WeChat has now more than 1 billion monthly active users, with 70 million based outside of China.[7]

(3) http://blogs.skype.com/stories/2016/01/12/ten-years-of-skype-video-yesterday-today-and-something-new/?eu=true
(4) http://uk.businessinsider.com/whatsapp-messages-tripled-facebook-acquisition-charts-2018-5
(5) http://cnet.com/news/whatsapp-65-billion-messages-sent-each-day-and-more-than-2-billion-minutes-of-calls/
(6) http://techcrunch.com/2018/02/28/viber-with-1b-registered-uses-is-launching-viber-community-a-group-chat-for-up-to-1b-users/
(7) http://uk.businessinsider.com/wechat-has-hit-1-billion-monthly-active-users-2018-3

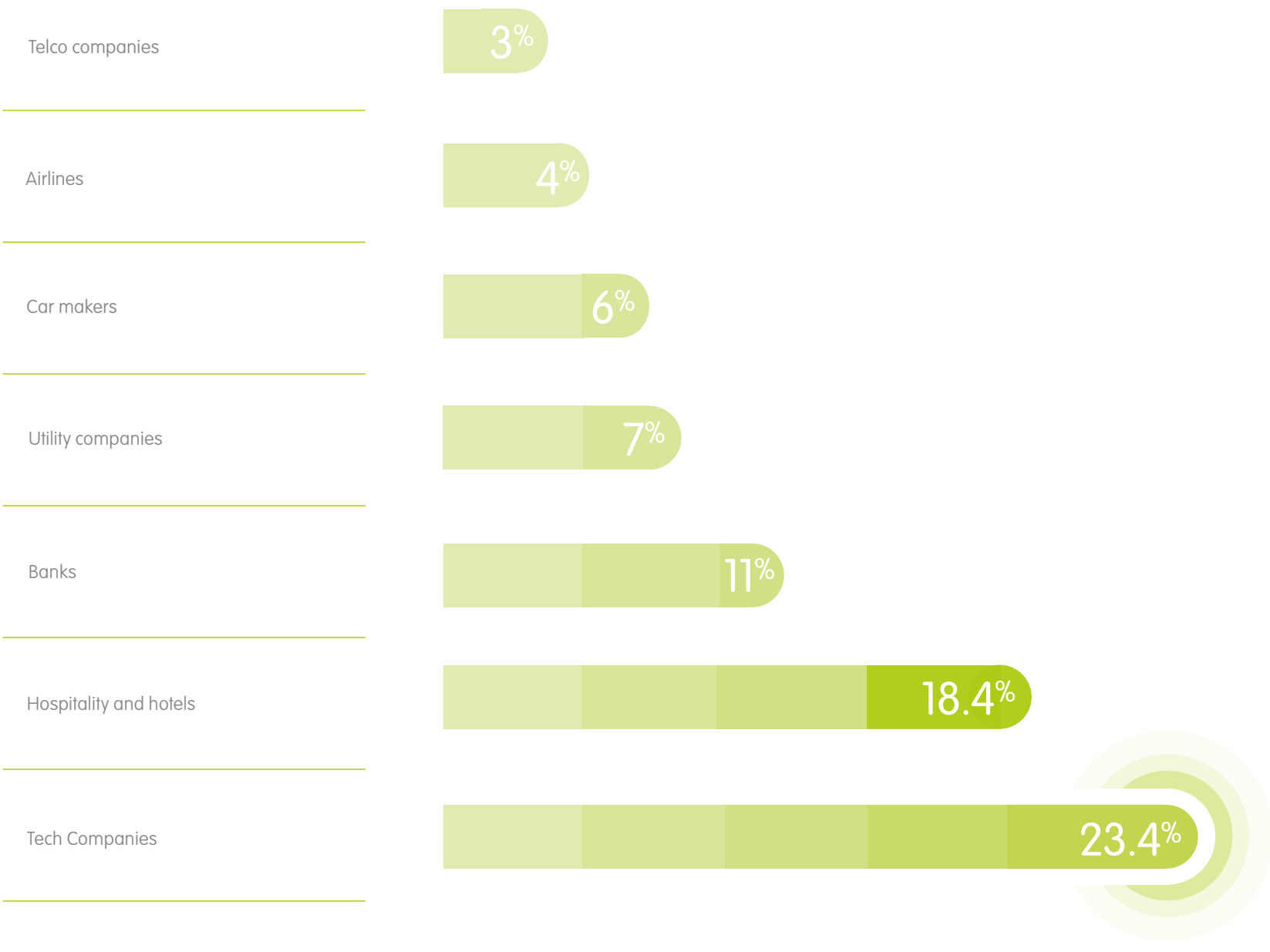
> When Apple first released the iPhone, AT&T in the US restricted access to Skype and other VoIP services on its 3G network.[8] This ban was lifted in 2009 after **pressure from users** and the Federal Communications Commission. This stands as an early indication that OTT services are here to stay and it's **consumers that set the agenda** for services they need from the telecoms.

The digital revolution has clearly raised customers' expectations, with users demanding easy-to-use services that offer real value. With a large and growing number of services that go beyond traditional calls and messaging (e.g. e-commerce, video streaming and business-focused services) OTTs are establishing a new era of telecom possibilities. Can telcos keep up with OTTs and provide customers with services that are truly focused on addressing their needs?

What the OTTs lack is the holistic customer proposition offered by telcos. The service continuity that telco brands have with their customers gives them an opportunity to develop relationships that go well beyond the immediacy of a single-service interface. The reach and breadth of telco services can be a foundational element in developing a truly omnichannel brand. A brand that customers will be proud to be a part of. Unfortunately, telcos are some way off, as shown in our recent piece about customer attitudes to their providers: Telco customer loyalty: apathy or advocacy?

Q: Which of these industries is the best at delivering service that meets your needs?

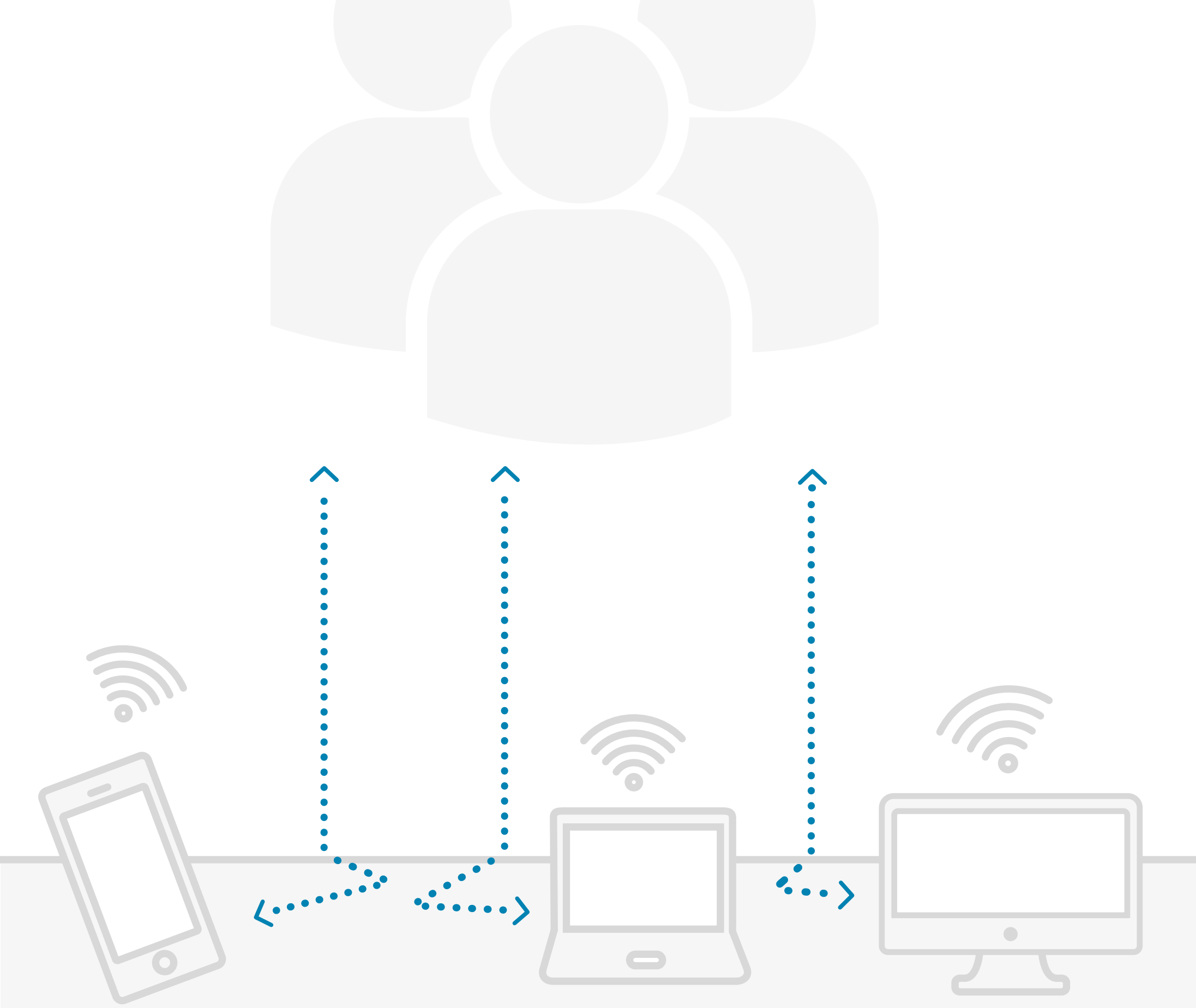
*BIO 2018 Survey, 1432 respondents



(8) http://wired.com/2009/10/iphone-att-skype/

Why have telcos failed to become their customers' trusted partners and how can they change this? The service is pivotal to our everyday lives, but trust and confidence in telco brands is low, particularly when the usage of free OTTs is so widespread. Traditional telcos lack true omnichannel experiences and have real issues with problem resolution.

These are serious challenges for telcos as they seek to build genuine advocates in their customer base, but by building on the strengths of the sector – particularly the long-term relationships delineated by pay-monthly contracts and high performance reliability – is a good way to start.



THREE AREAS TO FOCUS ON

How can telcos stay relevant?

1. Be salient
2. Disrupt from within
3. Transform processes around the user

1 BE SALIENT

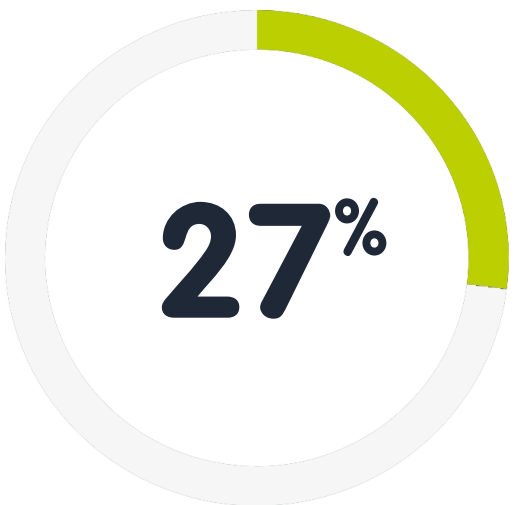
Although it's true that a majority of customers are not likely to switch their telco providers, exceptionally low satisfaction levels indicate this is about apathy, rather than genuine loyalty.

The truth is, customers hardly think about telecom brands – unless things go wrong. They treat telcos as another utility company. One that doesn't require active engagement beyond the initial set-up and monthly payments. Most customers average 1-2 interactions a month – primarily for bill payment and issue resolution. And this is why creating positive customer experiences is so crucial to build advocacy and relevancy.

If the opportunity for interacting with your customers is so minimal, you need to ensure that when customers are ready to engage they are presented with a smooth and seamless experience. In other words – when it matters, matter.

It's important to ensure investment of time spent on app or website is minimised. The shorter and smoother the experience, the more likely they are to be satisfied with the service. It's right to reduce friction when interacting with services, and to simplify relationships, but it's important to ensure that at these moments of awareness (e.g. service outages, end of contract, moving home and so on) the benefits of the service to date are salient.

What does this mean in practice? It means showing – not telling – the customer just where and how the service fits in and around them – clear billing and account preferences, personalised dashboards and data-driven insights that feel useful and demonstrate value. With such limited opportunities to definitively show the customer-focused side of a service, the experience has to be right.



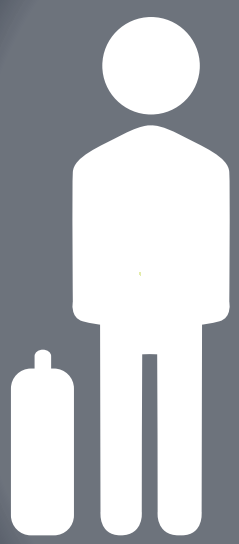
Our survey showed that only 27% are likely to recommend their current telco provider and a majority do not believe telcos are delivering services that meet their needs.



But customers with positive experiences are 3x more likely to stay with their provider and 5x more likely to refer to others[9].

(9) http://worldretailbankingreport.com

9 OUT OF 10 RESPONDENTS SEE THEIR TELCO PROVIDER AS A UTILITY



33%

Necessary

33 per cent respondents characterised their telco provider as 'necessary'

29%

Reliable

29 per cent described their telco provider as 'reliable'

24%

Useful

1 in 5 customers believes their telco provider is 'useful'

Utility descriptors

5%

Unique

5.4% of our respondents characterised their telco provider as unique

5%

Exciting

5.1% stated their telco provider is 'exciting'

3%

Empowering

Only 3.3% respondents described their current telco as 'empowering'

The path to customer advocacy is trust. To achieve that, telcos must provide services and interactions that fulfil the three core needs of modern customers:

Be useful to me

Provide added value with your services that customers can't receive elsewhere. The experience customers have during rare interactions must be useful, relevant and seamless enough for them to trust that no other interaction will be required from them until the next bill has to be paid.

Be knowledgeable of me

Create unique and personalised experiences that are relevant to your customers' core needs and expectations. This applies to your ability to remember their past preferences and transactions (a CX basic everyone should be addressing), but also to know and dynamically respond to what your customer wants and needs – both now and in the future.

Be integrated with me

Empower the customer by delivering a coherent omnichannel experience across multiple devices and touchpoints, seamlessly integrating with customers' digital and physical lives.

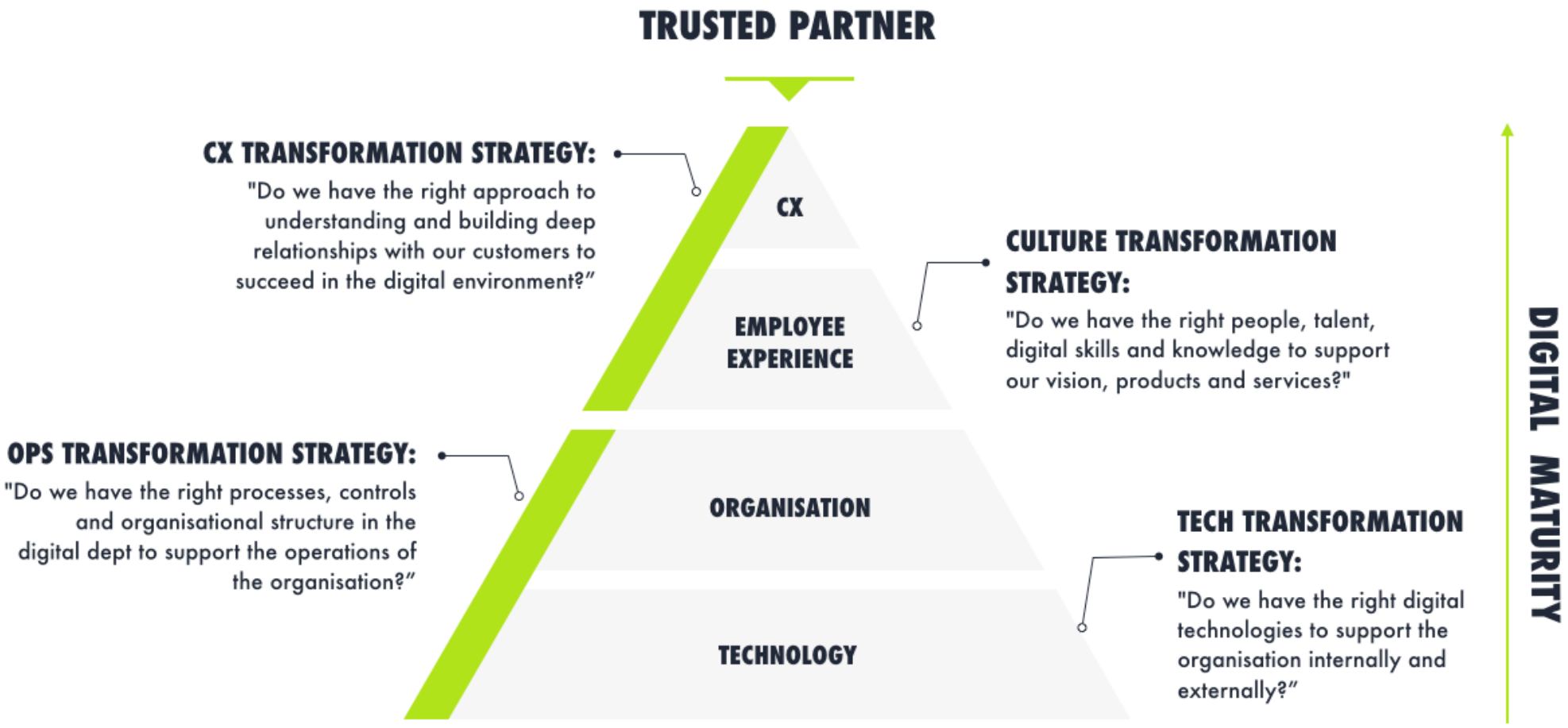
2 DISRUPT FROM WITHIN

The telco world is clearly an enabler for the 4th industrial revolution, but the big provider brands have not always shared the innovative mindset of more nimble OTTs. The regulative landscape and high costs, however, deter new entrants. This leaves incumbents in place, but slowed by legacy systems and flat-footed when it comes to reacting to fast-changing customer expectations.

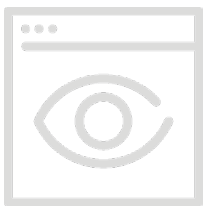
This has meant CX innovation has come from OTT services who can focus on responding to the core needs of customers and iterating on even the smallest aspects of a CX-led service. All without needing to deal with legacy tech, or the challenges of building a scalable network. With their dynamic approach to CX, OTTs are developing increasingly strong customer relationships.

In order to challenge OTT disruption in the future, one option for telcos is to focus on creating the internal conditions for innovation.

Driving the organisational vision:



2.1 TECHNOLOGY AS CATALYST DEFINING A CLEAR VISION FOR THE FUTURE



In order to become a trusted customer partner and create opportunities for disruption, telco brands need to define a clear vision for the future, based on a digital transformation strategy that spans technology, operations, culture and customer experience. The backbone of internal disruption should be technology, with investment in new digital and physical platforms a catalyst for delivering world-class front and back stage tools and experiences. The capabilities of current and new technology solutions should be analysed according to key customer needs and pain points that are currently being experienced by the brand's audience, and evaluated based on its retrofitting potential to ensure it works seamlessly alongside a company's existing legacy systems.

Integrating voice technology into telco brand's current digital offering is one potential avenue worth exploring. The adoption of voice-enabled devices is growing at a phenomenal rate in the consumer market, with 10% of UK homes[10] and as much as 47.3 million Americans[11] having access to a smart speaker. This presents an enormous opportunity for telcos, but only if new voice applications are built to solve the specific issues experienced by the brand's consumers. For example, if customer pain points revolve around a lengthy online ordering process, a telco brand could build a voice app that enables consumers to purchase pay-as-you-go allowance, upgrade their contract or purchase a new phone using their voice only. This should, however, also be integrated with telco's existing legacy systems to ensure any customer interaction with voice tech is updated within a brand's customer relationship management systems to ensure customer service representatives can pick up the conversation where it ended.

(10) http://occstrategy.com/en/News%20and%20Media/2018/02/Talking%20shop%20infographic
(11) http://techcrunch.com/2018/03/07/47-3-million-u-s-adults-have-access-to-a-smart-speaker-report-says/

2.2 EVALUATE RESOURCES AND DEFINE VALUE



To define a disruption strategy that leverages strengths and fills the gaps within the organisation, telcos should thoroughly evaluate current organisational practices. Implementing new digital capabilities will drive the digitisation and automation of operational processes and support internal restructuring.

If done correctly, operational changes should free up departments, enhance security and privacy capabilities, reduce costs and increase revenue. All this should happen alongside getting closer to customers with tools that enable better management of customer relationships.

2.3 EMPOWER AREAS OF SAFE FAILURE

Culture is another essential element, sometimes overlooked by even the most forward-thinking telecom players. The focus should be on developing a culture that enables ‘safe failure’ by building a digitally empowered employee experience free from siloed mindsets.

When done correctly, tackling these three areas will support telco brands to deliver fully integrated customer experiences, grounded in utilitarian customer interaction points with data-led processes and an omnichannel approach.



2.4 POTENTIAL STRATEGIES FOR TELCOS TO CREATE INTERNAL DISRUPTION

Partnerships

Partner with tech companies and OTTs to iterate existing technologies and deliver improved services. While companies such as Facebook or Google have a vested interest in building state-of-the-art infrastructure and connectivity, they can support telcos in shrinking the digital divide and help to build state-of-the-art system architecture. A good example of this is Facebook's Voyager system[12] or their partnership with Orange France). In the US, service providers T-Mobile and Comcast enable Netflix access as a white label service for their subscribers, meaning there is no impact to data usage.

Mergers and acquisition

M&A are often treated as a fast track to innovation, helping companies to quickly adapt new technologies and expand their capabilities. But many organisations will find themselves scrambling for help with duplicated systems, customer data and fragmented architecture.

The complexity of integrating legacy systems and ensuring the smooth merger of cultural and operational processes may create potential stumbling blocks for M&A. While many have failed – the Sprint/Nextel merger[13] is one of the more disastrous examples in the telecom sector – not looking for beneficial partnerships can hasten the road to obsolescence and loss of market share.

Although mergers often add complexity, they can potentially create a wider opportunity for disruption. 2017 saw a flurry of deals, acquisitions and mergers as industry players looked to improve or defend their positions. For example, Verizon's $3.1 billion acquisition of Straight Path Communications[14] gives them by millimeter wave (mmWave) spectrum licenses for the entire U.S, vital for building out 5G networks.

Become "Big Dumb Pipes"

Telcos could focus on building a more reliable, more efficient and more powerful infrastructure. This will help to become the safe and reliable base for the whole ecosystem of products to be built on. Directing increased investment towards 5G technology development is one way to ensure the needs for the future infrastructure are met successfully.

(12) http://code.facebook.com/posts/1977308282496021/an-open-approach-for-switching-routing-and-transport/
(13) http://forbes.com/sites/quora/2012/11/29/was-sprint-buying-nextel-one-of-the-worst-acquisitions-ever-at-35b/
(14) http://crn.com/news/networking/300099936/verizon-closes-hard-fought-straight-path-communications-purchase.htm

Start-ups

Fund start-ups working on innovative telecoms technology aimed at resolving some of the thornier industry issues. With their agility and freedom from outdated legacy tech, collaboration with startups can significantly shorten time to market while delivering a more innovative and dynamic solution. Leveraging startups' skills and knowledge can help to push the boundaries of the current telecom sector.

Think "Smart Pipes" and become a data company

Three is one example of a telco brand increasingly engaging with data to deliver frictionless experiences. This enables them to quickly understand the brand preferences of their customers and become data gatekeepers for their users. Going a step further, and perhaps pointing the way for business diversification through data, is O2. They have spun out Weve, leveraging O2's data access to provide mobile marketing and insight.

3 TRANSFORM PROCESSES AROUND THE USER

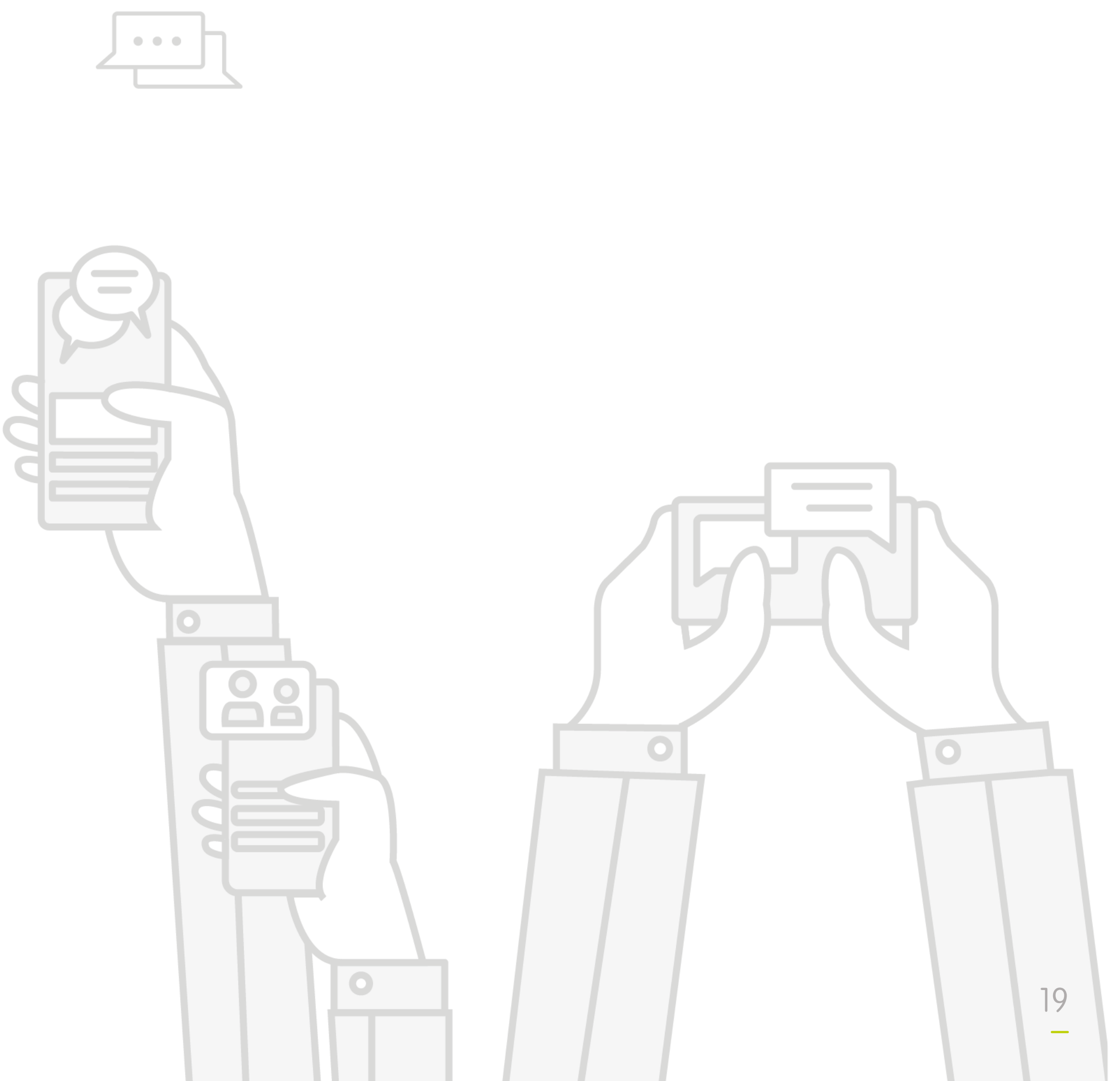
Emerging technologies and new ways of working present enormous scope to increase business efficiency. Large organisations often struggle with outdated systems and organisational structures that hamper growth and reduce efficiency. Many companies are discovering the truth behind the saying "software is the new rust" – a survey of senior business executives in financial, industrial, government, and IT services organisations by the University of Surrey revealed that some 40-50% of all IT assets are in urgent need of modernisation.

And things aren't any better in the telecom industry. Years of mergers and acquisitions have led not only to more systems to integrate, but also cultural differences in the ways that teams work. An increased focus on how information flows between teams could create better conditions for collaboration between business units.

To optimise customer service, find efficiencies and drive innovation, businesses need to integrate systems, unlock data and make full use of automated tools. Complex offer structures, lack of omnichannel, and a reliance on manually providing services require attention. Simplifying offers, reducing steps and validation during the buying process and upgrading infrastructure to allow self-activation are all key activities. At the same time, organisations have to perform the balancing act of introducing employees to new systems and platforms and demonstrating how new tech can improve productivity. When making decisions on new technology, BIO's go-to principle is that the value resides not in the tech itself, but how it is used by employees, stakeholders and customers.

The key technologies that will drive growth in the telco sector will be those focused on the employee and customer experience. Software-defined networking (SDN) and network functions virtualisation (NFV) have been on the horizon for telcos for some time now but require investment and upheaval to put in place. Blockchain could usher in new secure ways to share information with other providers. It also may help with fraud, which costs the industry more than $38 billion annually. Blockchain applications may be a way to significantly reduce that, helping in particular with identity management and payment authorisation.

Additionally, telcos are still not fully taking advantage of the benefits that an omnichannel approach to customer service can bring. Current experiences across devices and channels are often fragmented, leaving customer service with little or no insight into enquiries made via different channels. Chatbots, personalisation, machine learning and more each have a role to play in improving the efficiency and experience of customer-facing interactions and the cost of delivering them.



CONCLUSION

EVERYTHING ABOUT THE FUTURE OF TELCO SHOUTS MORE

We're going to need more high-capacity pipes to carry more data traffic for more services at higher speeds. Video and music streaming, and emerging technologies including IoT, connected vehicles and AR are all hungry for bandwidth. But the infrastructure is expensive, and a tangled web of legacy systems has created supremely challenging conditions for innovation. Telcos are right in the middle of things, but it is not the most comfortable place to be.

Investment in customer experience can be the differentiator amongst competitors. We argue that telco's focus should be on long term customer relationships, to ensure that telcos play to their strengths and get the maximum value from omnichannel. The pressure is on telcos to define who, or what, they are.

As traditional providers strive to compete in a changing market, under pressure from OTT services, they must make a virtue of their strengths. Sheer size and complexity is a challenge, and an M&A strategy might not cut it.

The consumer landscape is changing – smart diversification and the delivery of true omnichannel customer experiences will determine who stays relevant.

Our three areas of focus for telcos:

- Be salient
- Find ways to disrupt from within
- Transform processes around the user

ABOUT
THE BIO AGENCY

BIO is an award-winning digital agency consulting and delivering on customer experience-led innovation and transformation. We are one of the only agencies in the UK that can provide an in-house, end-to-end service, spanning everything from business vision and strategy to service design, creative innovation and technical development and build. Defining ourselves as Digital Change Agents® we create experiences that are simple, seamless and intuitive, changing the way customers engage and buy from today's organisations. We work to redefine sectors, helping clients move ahead of their competitors and creating companies fit for the future.

Peter Veash
– Chief Executive Officer

Peter founded The BIO Agency in 2006, bringing together pure-play digital experts to create digital change. It's quickly grown to become a major player in the field. Peter champions creating innovative solutions for B2B and consumer brands, building his vision on a strategic understanding of customer behaviour.

Charlie Attenborough
– Partnerships Director

Charlie has over 20 years' management experience in the sales and business development field. He has worked with a number of world-leading brands including National Geographic, Fortune Magazine and The Economist to manage and grow their key client partnerships throughout EMEA and APAC. Charlie is now leading BIO's sales team to drive long-term growth and ensure effective management of key client relationships.

Find out more

We empower our clients to be at the forefront of the digital revolution. We can help your organisation go through change, from consultative advice through to creating and building digital solutions for your customers.

We'd love to share some of our insights and help you on your journey.

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