

Telecommunications

Rethinking the wireless business model

By Giuseppe Jannelli and Diego Mora Oviedo

New competitors have crossed the boundaries into the incumbent telcos' territory, squeezing traditional business models and leaving little room to maneuver. Thinking from a customer-centric perspective increasingly is the key to high performance in the wireless industry.

Radically new technologies and devices, faster and more innovative services, a 10-year record of growth that took the industry from \$610 billion to \$1.6 trillion—it's the kind of performance that any executive would envy.

Unfortunately for the telecommunications industry, these remarkable achievements of the past decade have brought little in the way of assurance about the future. Today, the rise of Internet protocol technologies and networks, combined with the commoditization of traditional communications services, has created an environment of uncertainty and hypercompetition. Once in control of the entire telecommunications value chain—from the network to the content to the customer—

traditional telcos now have to compete at every point in that chain.

In short, it's an IP jungle out there. In this hostile, unsettled environment, new predators have crossed the boundaries into the incumbent telcos' territory, squeezing traditional business models and leaving little room to maneuver. New media and Internet players are waiting for the first signs of weakness, ready to capture new ground in areas such as the mobile Internet.

To be sure, the incumbents have their strengths, including existing technologies and core capabilities, which can continue to differentiate them from newer players. But the tel-

cos must quickly learn to hunt in new ways, and in territories where they are most likely to be successful.

Certainly, they are investing in the technologies they need to stay in the chase. Among US carriers, for example, AT&T announced last year a more than \$750 million program to accelerate the delivery of global IP services and solutions to businesses and multinational companies in key markets worldwide. And Verizon Communications invested more than \$17 billion to upgrade the coverage, reliability and speed of its wireless, broadband and global IP networks.

Meanwhile, Asian companies have been especially active—to the point that, according to the International Telecommunications Union, the region now boasts three of the top five broadband economies: China, Japan and South Korea. In Europe, Italy and France are generally considered to be leading innovators, fueling explosive growth in such areas as voice over IP (VoIP).

However, thriving in the IP jungle is about more than just technology. The bigger question is what new products and services will satisfy deep and important customer needs—even or especially needs they might not yet be aware of. Today more than ever, thinking from a customer-centric perspective is the key to high performance in the wireless industry.

Lessons from the past

What did telecommunications companies get right during the industry's growth period? Primarily, they understood what the customer wanted, or what the customer would want if the technology could make it possible. Companies took one of the killer applications of the early 20th century—voice telecommunications—and understood that they could create significant value by offering those communications anywhere and everywhere. Then they took a killer

app of the late 20th century—e-mail—and did the same thing with short-message service offerings.

Mobile voice and text-based messaging, bundled with innovative and function-rich devices, helped fuel astonishing growth—not for technological reasons alone but also because those offerings met deep, often unacknowledged customer needs. Traditional telcos occupied a privileged market position because they were able to aggregate the enabling capabilities needed to deliver the whole bundle of connectivity and access: device, network, sales channels, customer care and billing services.

In other words, the telcos owned the entire customer experience—everything customers associated with the value of their communications services.

The telcos, however, largely missed the opportunities that came with the arrival of the Internet. Constricted by unproven Internet-based business models, immature technologies, unfriendly handsets and inadequate network capacity, companies got burned in their few tentative attempts to catch the fire of Internet innovation. So they pulled back from Internet strategies, focusing instead on building out new, third-generation mobile networks in the hope that bigger pipes would continue to support growth in the wireless marketplace.

In the meantime, the mobile voice and text marketplace has matured and commoditized. Lacking the skills and experience to move into Internet-related businesses, telcos have had to resort to short-term tactics to maintain growth. Some are using different pricing models to try to wring out a bit more revenue. Others are playing the churn game, hoping to steal away a few customers here and there with voice tariffing or extra functions and features or, more recently, new kinds of bundles.

Those tactics are not sustainable. When it comes to a mature market,

the rules of the economic game are immutable. The most a traditional telco can hope to achieve at this point in the economic cycle is enough additional incremental revenue to match margin loss.

New models, old understanding

With their options dwindling, are the incumbent communications operators ready to re-embrace the customer-centric strategy that served them so well in the past? Are they on a trajectory to win the loyalty of today's digital customer?

If not, plenty of competitors in the IP jungle are set to step in with innovative offerings and compelling business models. Apple, Google, Yahoo, Skype, Nokia, Amazon.com, eBay—these and many other nontraditional competitors in the communications industry have developed rapidly into

strong service providers. They also have one big edge: They built their reputations on understanding the customer, and their market value is rooted in that understanding.

These new players are building positions based on strong business models. They are building capabilities in new-product development and are aggressively going after the value being generated from the convergence of the media, telecommunications and Internet industries.

To be sure, the traditional carriers are providing the access and network infrastructure that makes it all happen. But if the telcos are to do more than simply transport other companies' content and services around the world, they must consider a number of key factors for success in the IP jungle.

1. Innovate from the customer's perspective

According to Philippe Reynaud, senior vice president for strategy, transformation and partnership at Orange Business Services, the business communications division of France Telecom, one key to success is what he calls "customer-driven innovation."

"There is no future for a communications operator in just providing connectivity," says Reynaud. "We have to provide value and service anywhere and everywhere our customers are. From a technology point of view, integrating fixed and mobile capabilities is the essential foundation of success. But from a service perspective, we need to be innovative and creative, driven by a sure sense of what our customers want and need. Creating innovative solutions is important, but only if it's customer driven."

Orange is looking at what machine-to-machine technologies can mean to providers and their customers, notes

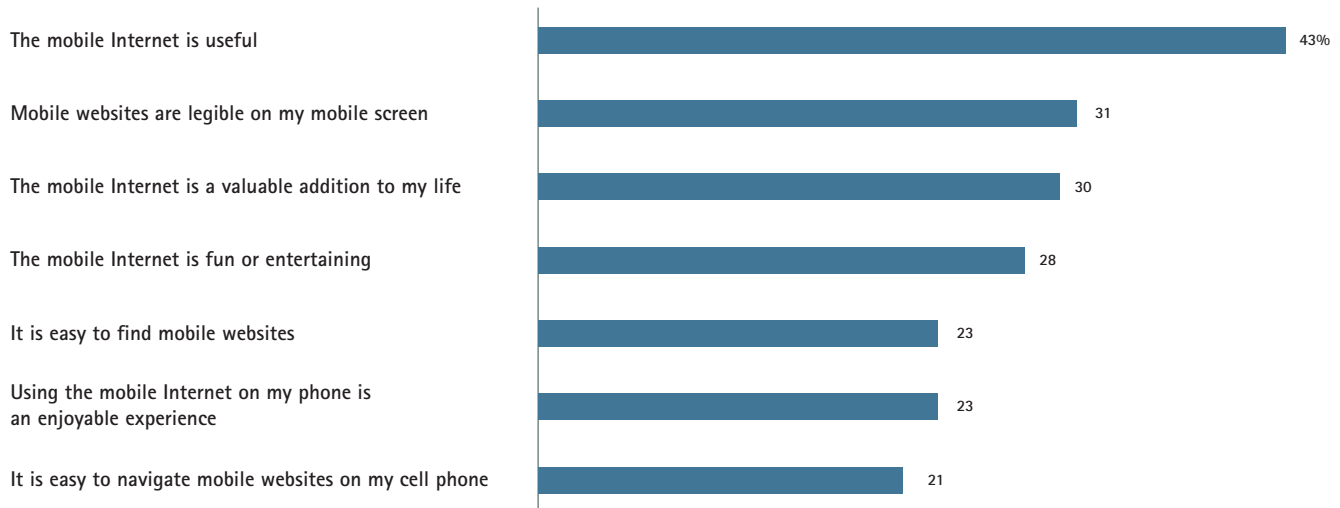
Reynaud, "creating more efficient services for shipping, health care, package tracking, cargo management and so forth." Not all of Orange's customers need these kinds of capabilities today, of course. But the company believes they will at some point in the future. "And when they do," says Reynaud, "we'll be ready."

Another key characteristic of customer-driven innovation is the move toward integrated services. Nicos Timotheou, former CEO of Cyprus Telecommunications Authority, puts the challenge and opportunity this way: "Although we are a full-spectrum communications operator, our customers to this point have experienced each of our services in an autonomous way. Our goal now is to offer our customers integrated, convergent services, using any device of their choice, to satisfy all their communications needs for life or for work."

The mobile web: Useful but not yet usable

The ability to provide a compelling experience for mobile Internet users will be key to thriving in the IP jungle. Recent research indicates that there is currently a huge gap between what users would like to do on the mobile Internet and what they actually can do. Large percentages of those surveyed find the mobile Internet a compelling value proposition. Much smaller percentages believe the experience of navigating the Internet on a mobile device to be satisfactory.

Thinking about the last few times you browsed the mobile Internet, how much do you agree with the following statements?
Percent answering 4 or 5 on a scale of 1 (strongly disagree) to 5 (strongly agree).



Source: Forrester's North American Technographics consumer technology online survey, Q1 2007

2. Own the customer experience

Customer-centricity in the communications industry also entails understanding customers' expectations about their entire experience with services and with the provider itself. A number of important trends are driving this success factor.

Control over content

Customers increasingly expect services customized to their interests and needs. Roberto Di Pietro of 3 Italia, a leading Italian wireless services provider (and a majority-owned subsidiary of Hong Kong-based Hutchison Whampoa Limited), notes that there is no value in simply broadcasting traditional content in a blanket fashion in the mobile world. "Users need to be able to pull content they want, whenever they want it—using Google or

Yahoo or any entertainment provider—as easily as they do in the fixed world. But at the same time, service providers also must be able to push content to customers that, based on previous usage, they are likely to enjoy."

Simplicity, convenience and ease of use

Usability and richness of the device interface are increasingly important today to long-term success in the telecommunications industry. To date, companies have been constricted by some of the limitations of the traditional mobile phone interface, which is based on wireless application protocol (or WAP) specifications.

Newer phones based on the "i-mode" protocol—launched originally by NTT

DoCoMo in Japan—enable mobile users to access mobile Internet sites faster and more easily, and thus promise to enrich the customer experience. “I-Mode is simple and it works,” says Olivier Laury of French wireless communications provider Bouygues Telecom. “That’s essential to our success. Over time, users must experience the same sort of simplicity and ease of access with the mobile Internet as they do at home, accessing the Internet from their PCs.”

Transparency of pricing

Customers also want control and simplicity when it comes to pricing information—a simplified pricing plan with no hidden costs or contracts, as well as pricing consistency between platforms. According to Laury, “Consumer tests have shown that in areas such as instant messaging, if it’s free on a fixed line, it needs to be free on a mobile connection too. Consumers will want more consistency of pricing for all communication services they subscribe to, whatever the type of access. In effect, service convergence is driving pricing convergence as well.”

Thinking in terms of pricing and costs based on the entire customer experience requires a significant change in the typical telco mindset. Traditionally, a customer who “visited” a telco represented increased costs, because it meant the customer had a problem that needed to be resolved. Today, a visit must be seen as an opportunity, not a cost.

Telcos, therefore, need to change the way they think. Their customers are

not like one-time shoppers buying a washing machine or an automobile; instead, they are like customers at a retail store such as IKEA, where the shopping experience is carefully planned to encourage multiple return visits.

A related point here is that providers now need to think not only in terms of traditional performance indicators such as subscriber acquisition costs but also in terms of *service* acquisition costs: As the number of digital services rises, so does the cost to serve a single customer with multiple services. Other developments will also affect the cost of producing, selling and delivering products and services: shorter lifecycles, faster times to market for new offerings, user-generated content and so forth.

In light of those trends, companies need to prioritize the so-called cost to serve—the cost incurred from serving a single customer. The more services the customer uses, the higher the cost to produce, sell and deliver. This implies revisiting the product development processes to improve efficiency and increase innovation in a way that lowers the cost of ownership and protects the user investment. Apple, for example, manages to lower the cost to sell and serve new offerings when customers purchase an iPod. An iPod purchaser becomes an iTunes user and a potential buyer of iPod accessories and other related services.

3. Serve the social needs of customers

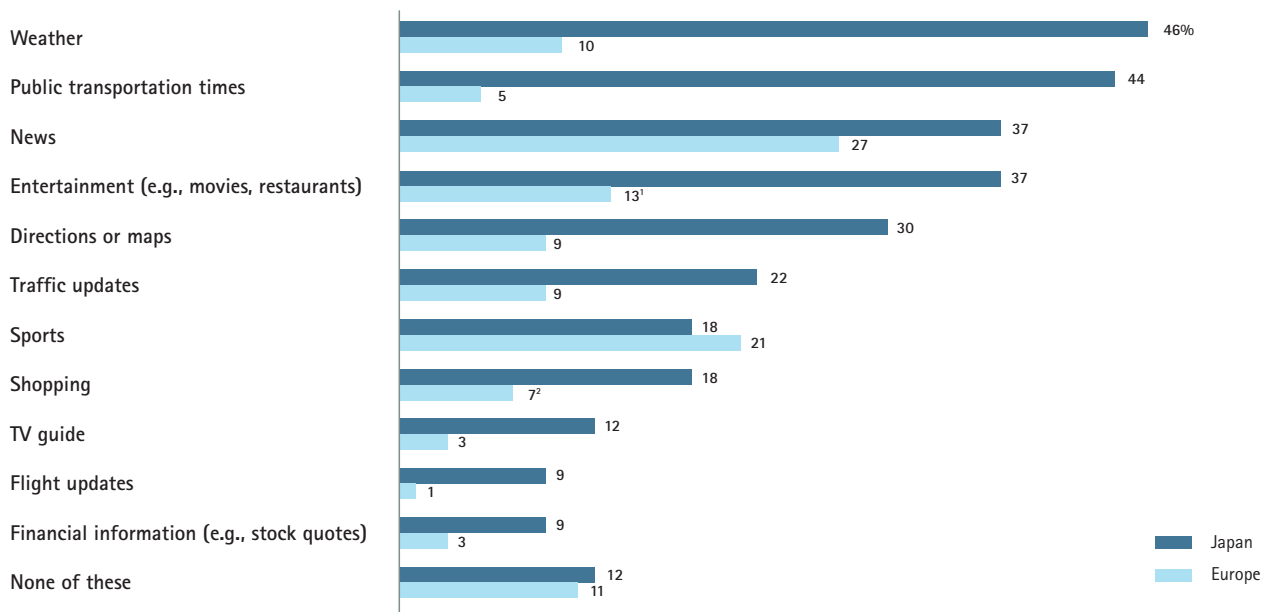
One important trend in the communications world today is that customers are not simply consuming content. They are creating and sharing it as well, establishing communities based on mutual digital interests. Recent

Accenture research has found that what matters to companies today is not so much a person buying certain services but rather a person residing within an extended household and interacting as part of an extended

The geographic divide

Japanese use the mobile Internet in a more advanced way than Europeans.

Thinking about the last few times you used your mobile phone to browse the Internet, please indicate what types of information or content you were looking for.



1. We combined the European categories "bars, restaurants, clubs" and "entertainment" to make the data comparable with the Japanese "entertainment" category.
 2. We combined the European categories "research products/services" and "purchase products/services" to make the data comparable with the Japanese "shopping" category.
 Source: Forrester's APCTAS Q1 2006 survey and Forrester's ECTAS Q4 2006 Devices, Access, and Telco survey

social ecosystem. Yesterday's thinking was about "consumers"; today's thinking is about "communities."¹

Humans are social animals. Understanding the customer means understanding that customer as part of a social community. The mobile Internet is a big part of this future: linking people with friends, classmates, family, libraries, universities, entertainment—anything in the world, from anywhere in the world.

Accordingly, one type of application that has yet to be sufficiently exploited in the mobile world is the "social portal"—the equivalent of MySpace or Facebook or other social

environments in the online world. SK Telecom in South Korea is one early adopter of this idea of mobile social communities. Its Cyworld community has more than 18 million customers, or about 40 percent of the country's population. The site already has more than 20 million unique visitors per month, and more than 90 percent of South Koreans in their 20s use the service. Businesspeople, celebrities and politicians alike use the service to set up their own homepages, called "minihom-pies," with information, blogs, photos, items for sale and much more. We believe that carriers, especially mobile carriers, must create a twofold portal strategy: combining so-called "on-portal" and "off-portal"

¹ "Mastering Social Ecosystem Marketing," Accenture 2006.

propositions to access content and communications services.

In-portal propositions grant users access to dedicated content and communications services controlled by the carrier and delivered through the “idle screen,” or the first screen a user sees on a mobile device. The off-portal proposition simply opens up the gates to the outside world of the Internet, where control of what a customer does or buys would instead be shared by service providers that provide access to final services such as Amazon.com, Google and YouTube.

A good balance of the off-portal and on-portal propositions is one in which access to open Internet (off-portal) is granted through the first screen (on-portal). That would allow

carriers to avoid losing control over data services and the customer experience. Indeed, the primary challenge with the on-portal proposition will be to control the user’s first screen by aggregating innovative services based on several concepts addressed here already: providing control to the end user through a rich user experience, offering competitive prices and using one-to-one marketing techniques.

Only with this approach can carriers hope to create more value than simply providing commoditized bandwidth to other content companies. To be compelling, a portal must be built based on the customers’ desire to maintain control of their mobile communications and entertainment experiences, and to participate as members of a community or social ecosystem.

4. Develop the ability to cater to individual needs

Companies must move away from one-size-fits-all customer offerings and instead target a larger number of smaller customer segments with multiple, differentiated bundles. Companies can find untapped value when they are better prepared to offer something for everyone.

For example, Netflix—the popular movies-by-mail business—has a

business model that offers as many types and titles of movies as possible, not just the most popular ones. The company has discovered with that model that the market for unpopular movies is actually larger than the market for the big hits. Similarly, vertical service offerings can help communications companies target customer needs and desires more accurately.

5. Look for value in aggregation, leveraging innovation and efficiency

Finally, consider important lessons about competitive differentiation in other industries. If, for example, the automobile industry ran on the business model the telecommunications industry is currently using, all the automakers in the world would simply try to make and sell the same highly successful model more cheaply than the competition. When that no longer worked, they

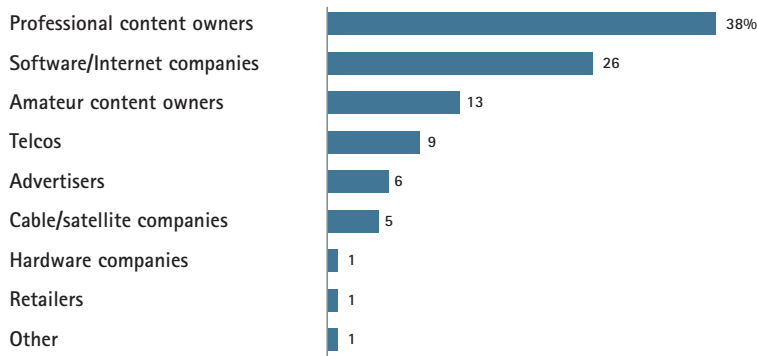
would try to attract customers by offering a few discounts and bundled options.

In fact, however, the companies that are winning in the highly competitive automobile marketplace are those that can work effectively at both the high and low ends of the market. Toyota, for example, knows how to create factory efficiency in

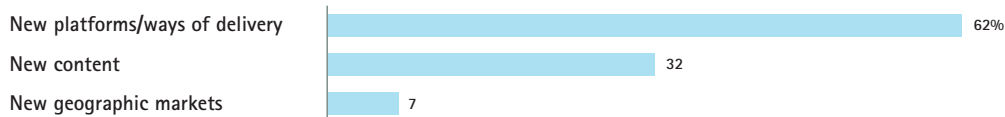
Hot prospects

Accenture surveyed more than 100 leaders in the media and entertainment sectors from around the globe to gauge their views of where the greatest opportunities will come from over the next five years.

Which sector along the media value chain is best positioned to take advantage of growth in content opportunities?



What will drive revenue growth in the next five years?



Source: Beyond the Hype, Accenture Global Content Study, 2007

its operations, enabling the company to succeed in the mass market. But it is also an innovator, having emerged as a market leader in both the hybrid and luxury car segments. Then, by again applying its factory efficiency and effective supplier relationship model, the company can aggregate and manage its innovative suppliers in areas such as automotive audio, navigation, video and interiors.

Telcos must take that message to heart. Service innovation and cost reduction are not necessarily contradictory goals. By choosing and aggregating suppliers based on how well they support the goals of efficiency and customer-centric innovation, telcos can keep a handle on costs. They can also maintain control over the customer experience by keeping in-house the essential activities of defining and designing that experience.

Telecommunications companies have market strengths that should not be underestimated. They, too, are formidable predators in the IP jungle. At the same time, if they are to avoid the threat of extinction, they need to develop new hunting techniques driven by innovation and customer-centricity. By keeping in mind what made them successful in previous technology eras—knowledge of the customer—communications companies can position themselves for high performance, regardless of the challenges that lie ahead.

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