Past is Prologue in Telecommunications

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Whether focused on a particular market niche or attempting to be a triple- or quad-play provider, long-term dedication to a profitable business plan for particular subscriber markets should be the focus for telecom service providers in 2008.

One of Jack Welch's best known strategies at General Electric was to be one of the top two in market share for every market in which they competed. If General Electric could not compete at a first or second place level, Welch wanted them to leave the market and reallocate resources to other activities and markets. During the merger and acquisition activities that took place among the worldwide telecom service providers in late 2006 and all of 2007, it appears that many telecom CEOs were following Welch's strategy to be one of the top two organizations in their respective markets. Either companies decided to add market share via acquisition or investor stakeholders decided to "exit" the market via merger.

While I do not disagree with the targets that Welch put up for General Electric and its associated business units, I disagree that being in the top two should be the goal of every organization in all markets. This is particularly applicable to telecom organizations that have to compete with organizations like Verizon and AT&T in the United States, or Telefonica and British Telecom in Western Europe. Not being in the top two can be a foregone conclusion.

Whether they are focused on a particular market niche or attempting to be a triple- or quad-play provider, long-term dedication to a profitable business plan for particular subscriber markets should be the focus for telecom service providers in 2008, rather than simply focusing on relative market share. The closures of several prominent MVNOs and the failure to launch for major market Wi-Max are just two examples of how telecom organizations either failed in the design of, or failed to stick with, their business plan for those subscriber markets.

In 2008, there are three subscriber markets that may provide the basis for telecom service providers' business plans. They are:

- Low revenue / risk subscribers

- Independent subscribers
- Premium subscribers

The Nail that Sticks Up Gets Hammered Down…

From the evidence presented in 2007, more and more the telecommunications service provider of the future is going to be based not necessarily on the “potential” of their product/service, but rather on the “quarter to quarter” performance of their business. This was clearly shown in the closures of MVNOs ESPN Mobile in 2006, and Disney Mobile and Amp’d Mobile in 2007.

I believe that the MVNO model still has promise and a future. What 2007 has proven is that the “high revenue, value-added content/equipment” play is too appealing to the established telecoms to stay away. For 2008, the US-based MVNO business plan could have a new target subscriber – low revenue or credit risky subscribers. Since the high value MVNO service either failed to catch enough of the imagination or pocketbook of the consumer – and caught too much attention from the established telecom providers – MVNOs may be best served to go after what the established telecoms are leaving behind.

Low revenue and/or risky subscribers are not as “sexy” as the 25-54 year old, high income demographic. However, as economic conditions in 2008 may dictate, those lower revenue/risky subscribers may be in the market for a different support/payment model than those currently “hardwired” into the established telecom service providers. Forward-thinking MVNO business plans could be flexible enough to provide telecom services to these subscribers using variable, or imaginative, service plans.

Granted, it is harder to make high average revenue per user (ARPU) on these types of subscribers, but there is still plenty of opportunity to generate high average margin per user (AMPU) on these low revenue/risky subscribers. While this is definitely not a top-two market share strategy, there is plenty of revenue to be generated for a telecom provider who wants to look at the market and make the decision work with these clients.

It should be noted that this type of model will put MVNOs in similar markets as the current pre-paid offerings from the established telecoms and others. However, if economic conditions create a large enough subscriber pool, there should be enough room for both options. In fact, independent pre-paid organizations might be able to partner with MVNOs for transition paths and marketing strategies.

Content is King

With the consumer success of the iPhone (notwithstanding their relationship with AT&T) and the "debut" of the Google Android platform, an "independent" wireless subscriber market (and associated business plans) should emerge. This independent subscriber's telecom needs will be based more on the handset hardware's ability and bandwidth access/speed than on "network-based features" like dial tone, voicemail, etc. Quite literally, the handset will act as a small laptop, much like the current crop of business directed smart phones.

However, unlike the current batch of "sales and management" smart phone users, independent users will break free from the walled garden to access third-party, or off-deck, content as they see fit. Nokia, as a handset manufacturer, has invested a significant amount of resources in promoting the growth of the handsets associated with this subscriber segment. The established telecoms have also worked to keep those users on deck with locked handsets inside the "walled garden."

In this market, speed and quality of service will be the most important aspect. Current established wireless service providers have some content, but poor network speed and reliability. Should the technological and political aspects be overcome, a Wi-Max provider could offer data connectivity to iPhone-esque, or Android-capable, handset owners. This service plan could offer great value at similar or lesser prices and remove all the network-based "value-add" that established telecoms bring to the table from the solution equation.

The total revenue generated from these users will likely be relatively small since it takes a specialized user to adopt mobile VoIP as their voice option to go with YouTube and other applications to replace the on-deck content from the established players. However, if wireless data users are like DSL/ISP PC-based data users, how long can it be before these independent subscribers break free from the "walled garden" much like current DSL/ISP users broke free from the "AOL" model.

Again, this type of model will have the pitfalls that currently exist with the iPhone / AT&T relationship. Apple has made their exclusive deal with AT&T for specific reasons and unlocked handsets are not available. Yet, should an enterprising organization, say Google, encourage an unlocked handset market from Nokia and others, this situation could be here soon as opposed to later – much to the chagrin of the established telecoms.

Keep Them Down on the Farm

One of the big stories of 2007 was the "firing" of 1,000 customers by Sprint for being too much trouble from a customer care perspective. However, it brought up an interesting concept:

Where is telecom customer care heading?

Has customer care become simply a cost center to be optimized using offshoring and voice recognition software? If so, this will only hasten the commoditization of the telecom service provider "experience" and drive subscribers to cost-only considerations for their patronage. Loyalty, and ultimately churn, will be measured simply on where a subscriber is in relation to their contract obligation and whether or not a telecom service provider can offer enough value over another provider when that contract or handset obligation expires.

Premium customer care will be a key attribute for value-added product/service subscribers' loyalty. Since these value-added subscribers will provide an overall higher level of ARPU and AMPU to the telecom service provider organization, those subscribers should be treated with additional customer care services, much like the stratification of customer care seen in the airline industry. Directing the right subscriber to the right part of the customer care division and having those customer care reps provide the right value will be the key. Yet, with the ever-evolving diversification of the telecom service provider's operations, this will be an issue.

For example, I had a recent experience with my "landline" service provider about the ISP portion of my package. To find the "right" answer to my question, I was in contact with four different customer service representatives before I finally was put in touch with a senior support engineer from the ISP division who could help me with my technical question (*it should be noted that i had completed 9 of the 10 intro troubleshooting tests on the CSR script before i even called, just as i have every time that i call in with these types of questions…*).

Now, imagine if my "landline" service provider were able to capture the fact that I am an adept technical subscriber and that I rarely call for support. I could have been placed directly to a senior support representative rather than on the fourth stop on the route. That would have provided me with value in the encounter, and it would have saved 75% of the overall call center expense associated with my experience.

How and Where?

To implement business cases associated with these subscriber segments, it will not only take contributions from the data warehousing side of the business intelligence division of a telecom service provider organization, but also the active integration of operational business intelligence into these business plans. It is one thing to find and market these options to the right subscriber segments. However, it will be quite another to real-time / right-time monitor their activities in relation to those offerings.

The low revenue/risky subscriber will need to be monitored in both terms of credit rating and usage. Subscribers whose credit rating trends up or down should have their service plan pricing evaluated in relation with the proper level of risk premium and as that level of risk changes. These users should be treated based on how they perform, rather than how some mathematical model predicts that they might perform based on their demographic cohort. Also, their usage should be monitored. This is because, for better or worse, fraudulent activities will probably be higher than average in this group. In a business plan, you should "trust but verify."

The independent subscribers' usage should be monitored to determine how much data they consume and in which ways. This will link back to product plan development and the buildout of the Wi-Max infrastructure to match the coverage demanded by those cutting-edge/early adopter users.

Premium subscribers' usage of customer care should be monitored to ensure the organization is making the most of the past knowledge of their interactions and how often those interactions occur. Frequency will be especially key to the situation since you cannot have unlimited customer care and still be a high-margin subscriber. That would create situations similar to the one at Sprint.

Conclusion

2007 was a turbulent year for some business segments of the telecommunications industry. Will 2008 match that turbulence? For which segments? Only time will tell….

However, as many telecom service providers set out to implement their 2008 strategies, they should follow the advice provided by Shakespeare in the Tempest:

"What's past is prologue."

Or as some would say, "Those who don't learn from history are doomed to repeat it."