

X-raying the customer



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The telecom landscape is evolving fast, especially now that customers are able to express increasingly sophisticated needs. It is time to adapt marketing practices to meet these new challenges.

Today is a great time to work on marketing topics for telecom operators. New market dynamics that have been expected since early 2000 are taking hold. Long awaited market “tornadoes” are already upon us, such as VoIP, fixed-to-mobile convergence and substitution, or about to happen, such as video-on-demand over fixed or mobile broadband connections.

The role of the operator is being redefined. Try to answer this simple question: What is a telecom operator? France Telecom announced in June 2005 that they sold their customers not airtime, not phones, but services. The telecom industry is becoming an ecosystem in which any number of media, technology, and business partners interact.

The role of marketing is strongly impacted by this telecom revolution. For marketers, now is the time to win back the strategic importance which was lost during the

high growth phase, when marketing was limited to communication. A look back at how telecom companies used segmentation and customer lifetime value (CLTV) analyses and how these are likely to evolve will provide examples of how much this exciting market has changed.

The changing role of operational marketing

The first major change in the telecom market comes from the customers themselves. They are now knowledgeable enough to grasp the pros and cons of different subscription offers and to choose between the various technologies available. They are now able to pick and choose to find the best value for their own identified needs, combining professional and personal uses.

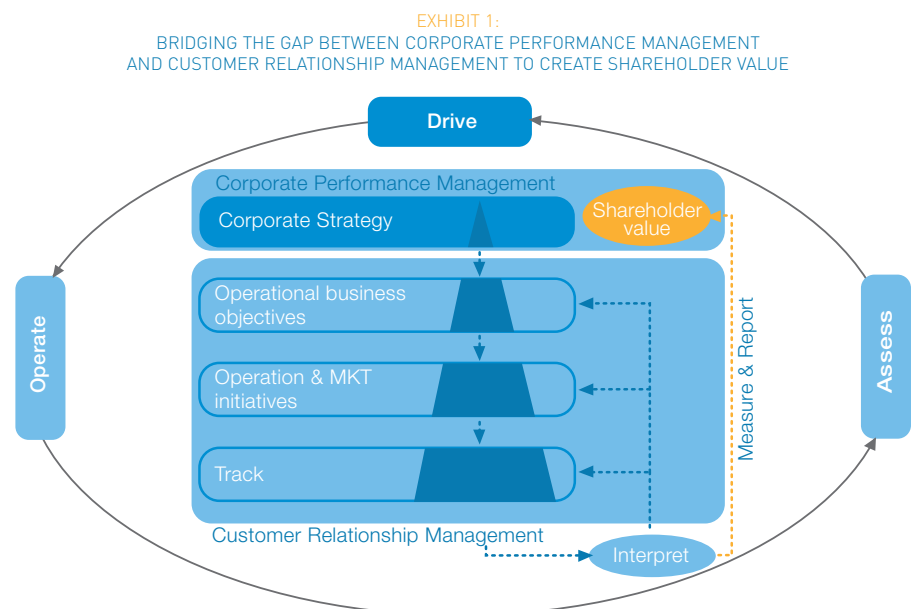
This customer attitude reflects the fact that the telecom offering has been

acknowledged as a commodity product - and even beyond that, as a "handy" product. The mainstream telecom voice product is being inexorably driven to lower and lower prices, until it may reach the zero value line - and perhaps we'll even see subsidised calls soon?

The impact of this changing customer behaviour on marketing and CRM practices is huge. The challenge is no longer to "simply" identify customers at risk with a churn model, or to create loyalty with a system of rewards that can be redeemed for a few free SMS messages. Marketers must find new ways to create shareholder value in a fiercely competitive market.

The greatest challenge in mainstream commoditised markets is to identify new pools of customer value by responding to ever more differentiated customer needs. New questions emerge: a telecom operator cannot possibly address all of the needs in the market, so which should it focus on? In other words, which customers should it choose to serve?

The role of marketing becomes highly strategic: marketers must be able to (a) identify and characterise a range of customer needs, (b) evaluate the company's competitive advantage to meet those



needs, and (c) quantify the perceived value from responding to those needs. Traditional high-level Needs, Attitudes and Behaviours (NAB) approaches are no longer sufficiently accurate and quantifiable to provide the necessary insight for making important strategic decisions.

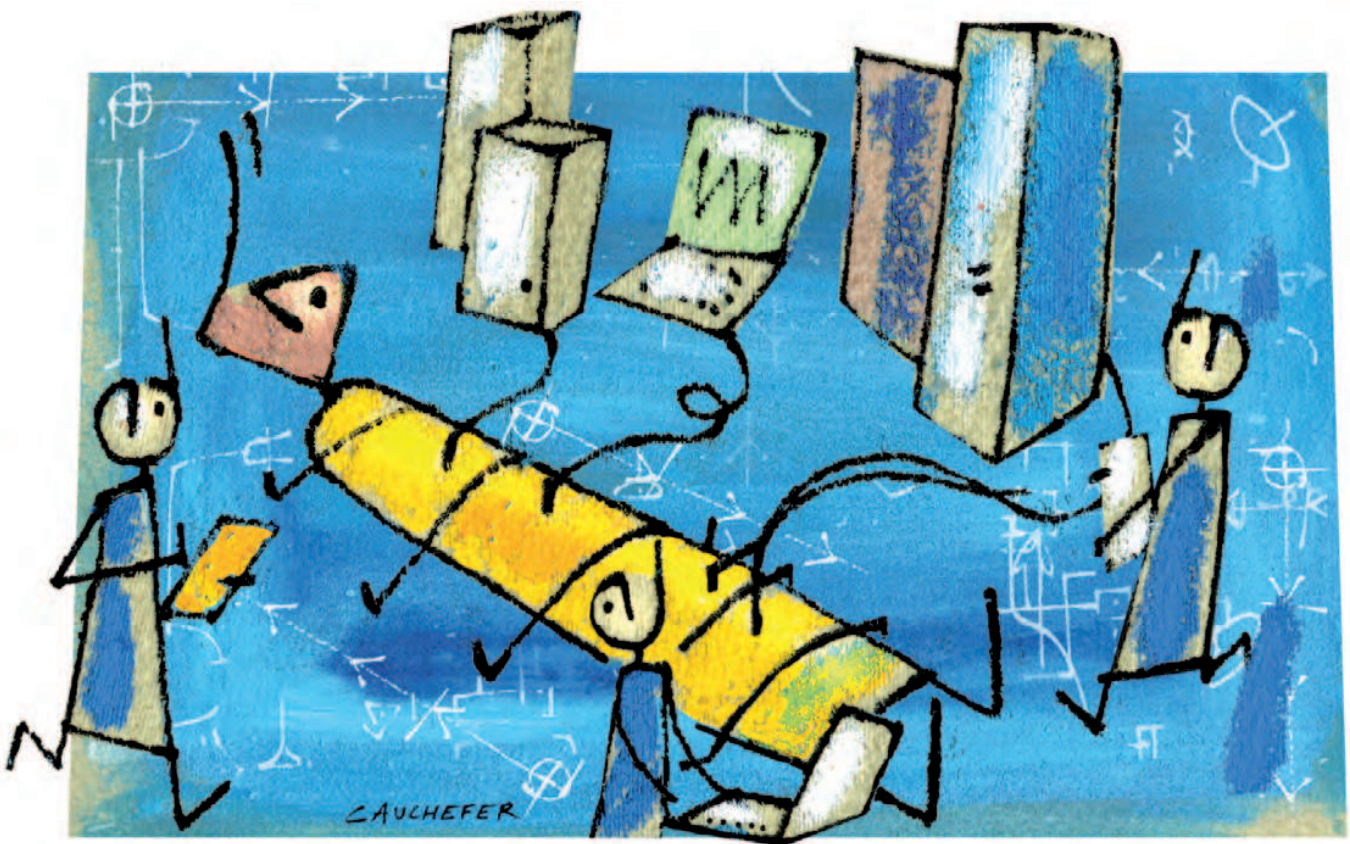
A new value-based marketing approach, dedicated to creating shareholder value by delivering greater value to the customer, is at the same time an answer to the needs of the changing marketing environment and an opportunity to rationalise the

telecom operator's approach to its customers (see Exhibit 1).

Combining analytical marketing techniques to meet evolving customer needs

The shift towards value-based marketing stemmed from a change of focus from the organisation of the business to the solving of customers' problems. In the early days, corporate management focused on streamlining business operations. With

CRM and technologies



experience, management then adapted their offering to customer needs. Today, corporate objectives include a stronger involvement in the customer's business (or consumer expectations) in order to deliver greater value.

If we attempt to recall the evolution of segmentation methodologies over the past few years, we can see a drive from a very "tangible" and general segmentation intended for human understanding, towards a specific, data-driven, technical segmentation used by information systems and, finally towards an actionable value-based segmentation.

Mass-customisation approaches relied on "hard-coded" segments, also called focus

groups, integrating mainly socio-demographic classifications. These evolved in the late nineties towards a deeper understanding of the customer as an individual, with attitudinal segmentation as a means of better understanding the environment in which the user lived, (and not just consumed): which customers are hedonists, universalists, materialists, etc? Data provided by companies like Experian, Claritas and others made it possible to characterise customer lifestyles to street level, mainly for customer acquisition purposes.

Operators felt a growing need to focus on short-term segmentations with more actionable outputs. Behavioural segmentation was introduced in the early

2000s. Its purpose was to identify risks and opportunities for immediate action such as churn and credit collection risk on the one hand, and opportunities like up-selling, repeat buying and cross-selling on the other.

The results of these marketing initiatives in volatile markets were sometimes very satisfactory; In 2002 Telia Sweden announced an 11% churn reduction in four months after using SLP Infoware's software.

However, this type of segmentation was too often used in a technical, automated way. Marketers were not trying to understand the reasons for the risks or opportunities, but rather were striving to stimulate usage of existing products by relying on

algorithms. The technicality of this approach led to the heavy involvement of IT teams within marketing processes. This contributed to downgrading marketing for telecom operators into a support function rather than a strategic core competency. One visible consequence of such an approach was the focus telecom operators put on preventing churn rather than building loyalty. They had few tools to do so because of their little understanding of actual customer motivations.

The quest for an actionable segmentation explicitly raised the question of quantifying the value created by the derived marketing actions. In 2002, the Harvard Business Review published an article¹ calling into question the link between loyalty and profitability. Given their intimate

knowledge of the service, the most loyal customers are not necessarily the most profitable ones. This and similar ideas created the need for new segmentation approaches to integrate the value generated by the customer.

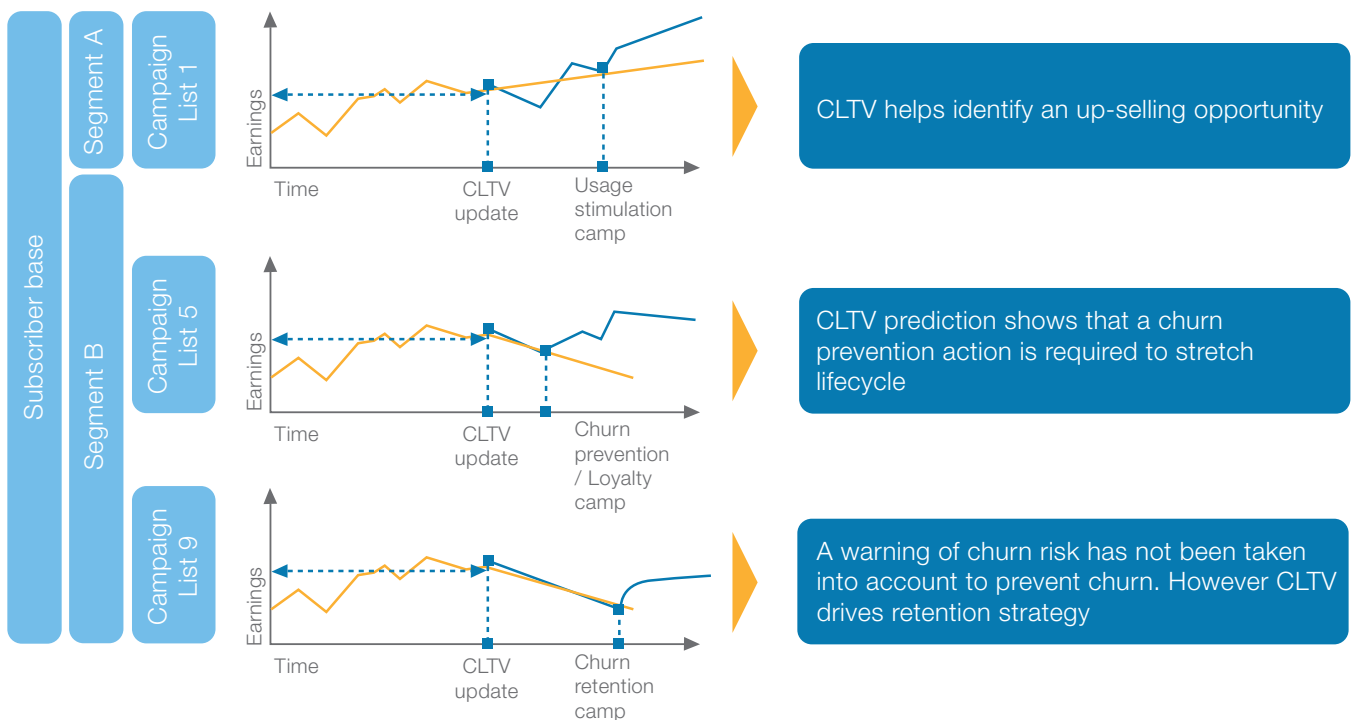
The concept of "value" matured a great deal in the past few years. For a while, Customer Lifetime Value (CLTV) was perceived as an "absolute" metric designed to provide long term forecasts, complementary to short term behaviour predictions. The notion of segment was refined into that of a target group consisting of the customers who were worth the investment of a marketing action.

Only recently has it emerged as an "operational" metric designed to help

marketers create shareholder value. It is the foundation of value-based marketing. CLTV captures the impact of marketing actions on the Net Present Value (NPV) of customers, enabling marketers to report how much value they have created for the company's shareholders. CLTV also drives operations by highlighting potential untapped pools of value in the customer base as a target for future actions (see Exhibit 2).

CLTV should be reconsidered as an actionable resource. It has been regarded as a science-fiction tool for too long because of unrealistic expectations. Several operators have proven that there are simple ways to use the metric to rationalise marketing actions. In particular, the technical aspects of CLTV must be automated, including the data processing and statistical

EXHIBIT 2:
CLTV TO DETECT AND QUANTIFY ONE-STEP-AHEAD MARKETING INITIATIVES AND THEIR GOALS, AS WELL AS TO MEASURE THE VALUE IMPACT OF CONTACT POLICY



Source: Squid Solutions

CRM and technologies

modelling. This is only possible now that the technology is fairly mature.

The combination of a successful segmentation strategy and CLTV approach can have a dramatic impact on the success of marketing operations. Recently, a wireless operator from southern Europe managed to combine various segmentation methods into a micro segmentation, building what he called the "customer DNA" as the true enabler of how to treat millions of users individually. This allowed them to better manage the allocation of marketing and sales resources, effectively bridging the gap between corporate objectives and CRM execution (see Exhibit 3).

Beyond CRM: building customer loyalty by solving the customer's problems

Analytical CRM systems enable corporate policy to be carried out. As more and more features are included, such as activity-based costing and balanced scorecards, management is increasingly able to

control and optimise CRM processes. However, the challenge for operators has shifted and requires more than just operational excellence. The commoditisation threat is strong enough for operators to invest in finding innovative revenue streams by getting more and more involved in providing solutions to their customers' problems, not just airtime.

This has been the operators' approach with corporate accounts for some time now. Major operators often have a service division or subsidiary dedicated to providing tailored services to large companies. The challenge today is to do the same with SMEs and, ultimately, with consumers.

A great opportunity lies in many-to-one marketing. This kind of marketing describes an environment where many services and product providers coexist in the same market to meet the variety of specific customer needs and sell ad-hoc solutions

which have communications embedded in them. For example, content providers market their services directly to the customer, whom they reach via the operator's "marketplace", or supporting infrastructure.

This type of environment redefines the notion of customer and, hence, of segmentation. Whose customer is it? The operator's, the content provider's, or both?

The challenges for analytical marketing are operational, technical and legal. The increasing number of services means that segmentation must be more flexible. Each individual can be viewed as a customer of various service providers. The technical challenge is to build a segmentation when half of the usage data is in the operator's database and the other half in the content provider's. Finally, to which extent are operators allowed to share private customer data with external partners?

This vision is a bet on the challenges to come for the players of the telecom players (operators, content and application providers, etc.). The fact is that there is still considerable value to be tapped into by creating numerous partnerships between telecom operators and niche entrepreneurial players, applying the same "marketplace" model as their Internet counterparts such as eBay, Yahoo and Amazon.

CRM will have to evolve into a collaborative model in which the partners of the operators share knowledge about customers. This vision creates the need for a new type of CRM whose main goals are to create value by better servicing customers, and to share that value between the players

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EXHIBIT 3:
DEEP DATA GRANULARITY GATHERING LEADS TO THE ELABORATION OF A REAL "CUSTOMER DNA"

	Criteria	Residential	Small business	Customer DNA
Core criteria	Value	High	High	
	Socio demo economics	Yuppie + BA	CRM software vendor	
	Tariff plan fit			
	
Supporting criteria	Voice behaviour	Medium sender Big receiver	High receiver	
	FMS sensitivity	Increasing	Very high	
	Value reduction propensity	Low	Medium	
	Voice behaviour	60% airtime	10% airtime	
	

Source: Squid Solutions

involved. This is an opportunity to create a virtuous circle for the whole industry (see: Fulfilling the Promise of CRM The Meridian - Volume 2 - January 2006). ■

NOTES

[1] The Mismanagement of Customer Loyalty, Werner Reinartz and V.Kumar, Harvard Business Review, July 2002

Bio

Adrien Schmidt

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Adrien spent most of his career in software product management in USA and Europe. Adrien joined SLP Infoware in 2002 as product manager of customer-driven developments on SLP's flagship business application dedicated to predicting and managing customer churn for telecom operators. He also spent a lot of time at operators' sites conceptualizing new generation CRM software.

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Grégoire has an extensive international consulting experience in Telco & predictive marketing software industries. He joined SLP InfoWare in 2000 to head the take-off trainings of Predictive CRM projects. He then managed the creation of value models, implementation methodologies for continuous improvement & presales operations. He then joined Gemplus as Solution Marketing Manager in charge of combined applications for sim-cards and predictive CRM. Early 2003, They co-founded Squid Solutions, entirely focused on customer value management for telecom operators, providing services and software applications to deploy and industrialize predictive marketing processes."

