Making Marketing Sense From Convergence

How marketing delivery platforms can effect contextual and personalised marketing to micro-segments in a converging services landscape

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Executive Brief

Marketing delivery platforms are online toolboxes which allow marketing executives to plan, execute and manage user-specific, cross-platform promotions and campaigns in a contextual, personalized and time-sensitive manner. This emerging marketing technology has the potential to bridge many of the hurdles integrating and converging service providers face today in reaching across currently distinct service platforms and customer sets. If the future of service bundles is user-intelligent cross-selling, marketing delivery platforms could play a valuable role in allowing integrating service providers to leap-frog the current period of convergence confusion and disruption for a seamless, and more sophisticated approach to customer lifecycle management. The current climate of confusion in the converging telecommunications landscape is causing service providers to simplify their offers. This is driving a misguided return to the 1990s-era marketing precepts of 'one-size-fits-all'. However, contextualized promotion proliferation (not consolidation), based on end-user preferences and usage patterns is clearly the more intelligent approach. This White Paper discusses the current state of the integrating telecommunications service market, the service provider challenges implicit in effecting cross-platform campaigns and promotions, and the role marketing delivery platforms may play in the development of next-generation marketing disciplines.

The current climate of confusion

The telecommunications industry is currently undergoing a radical transformation which will change traditional telco internal business structures, forever. In the 'old world', telcos were neatly divided into separate 'fixed', 'mobile' and 'Internet' divisions. But today, telcos are being forced to cut the other way, splitting their operations into new 'consumer' and 'enterprise' camps, with separate portfolios of fixed, mobile and Internet services for each unit.

Internally, there's never been so much upheaval and corporate distraction. Well-established teams are now being dismembered and re-formed into new converged units, forcing colleagues from entirely different areas of the business to forge a new, common working culture. Formerly service-specific telco marketing and sales executives are required to take on new service disciplines, and get to grips with new network topologies and service technologies. Sales retail point representatives are now required to understand entire portfolios of fixed, mobile and Internet products and services and service providers consolidate their existing, service-specific retail distribution network. The entire industry is having to scratch everything it knows and start again in a multi-play, converged services landscape.

More often than not, these internal changes are being performed in the name of the customer. In the last year, more than one European service provider has justified such an internal re-organizational exercise with the promise that the changes will transform its business into a 'more customer-centric organization'. However, the benefits to the end-user are, as yet, indistinct.

The real drivers for convergence

For – let's not get carried away by vendor spin here – convergence is about damage control. Although technology vendors touting converged network and product solutions tend to position convergence as an ultimate good, the real incentive behind the industry's transformation is being driven by financial necessity. In the 'old world', telco revenue growth from fixed and DSL services was relatively stable and assured, providing the life-blood of the business. But the onset of VoIP and 'no-frills' broadband competition in recent years has been draining away at that lifeblood, and in most cases, the substitution effect has been far swifter, with far heavier financial consequences, than anyone could have predicted.

This realization has driven service providers to look for a new business model with which to compete in the twenty-first century, and the single most popular idea to emerge envisages an aggregation of service propositions, multi-services, or 'multi-play'. Today, service providers are looking to bundle and up-sell customer bases to take multiple services in order to increase ARPUs, lengthen the contractual relationship and reduce churn by putting more service hooks into formerly disparate fixed, mobile and Internet customer sets. Successfully selling a package of two or more services into the same household, tied together under a single contract, helps make customers more sticky, over a longer time-frame. The prerogatives of multi-play and convergence are realigning and re-defining virtually every aspect of a telco's business, from the integration of networks, to the integration of formerly disparate marketing and support teams.

Multi-play today, versus longer-term 'convergence'

Although much has been made of the potential for fixed-mobile converged (FMC) services in the consumer space, the evidence in the market suggests that 'true convergence' is still very much a future service evolution. The more immediate opportunity for telcos and multi-discipline service providers lies in the multi-play arena of bundled services and up-sell incentives.

Early attempts to bring FMC to market in the shape of UMA-enabled dual-mode FMC services such as BT Fusion, Orange Unik or Telecom Italia's Unico, have all come up against serious hurdles, not all of which have been marketing-related. In Italy, the Italian competition authority placed serious limitations on the launch of Unico, to the extent that Telecom Italia was barred from provisioning the prepaid-dominated Italian consumer market with a prepaid Unico offering, and sales were limited by an artificial sales ceiling in the first six months. In the UK, BT started early with a UMA service, but has been unable to report strong uptake, largely due to the immaturity of the product, handset choice restrictions and non-intuitive marketing.

But for the most part, the largest hurdles in bringing converged services have all been marketing-related. In first launching BT Fusion, UK customers stubbornly refused to 'get it', and BT's early Fusion marketing literature failed to communicate the value and benefits of pushing mobile voice minutes over a broadband IP link in the home in a simple, convincing manner. Early services in the SIP-over-WiFi domain have also experienced teething difficulties. In Germany, Deutsche Telekom's first 'converged' service, the SIP-over-WIFI T-One offer, was dropped in early 2007 after just seven months of service. Despite intense marketing, T-One failed to attract more than 10,000 customers to its one-device proposition, and Deutsche Telekom admitted that it had seriously underestimated the marketing challenges implicit in promoting and provisioning a true FMC service.

Given the inherent problems of 'true FMC', service providers are now opting for a simpler bundling approach to multi-servicing an aggregated customer base of fixed, mobile and Internet users, and service bundling is likely to prevail as the dominant model into the mid term. As a starting point, multi-play and bundled service business models are less technically challenging for the end-user, attract fewer regulator-imposed restrictions and are unencumbered by proprietary handset supply problems.

But most importantly, bundling and multi-play initiatives can be brought to market today. Given the near-term imperatives of convergence, the immediacy of the bundled service model is a strong advantage over more complex ‘true FMC’ alternatives.

The state of multi-play today

However, in their efforts to create bundles of services, all service providers are choosing to ‘simplify’ their key propositions. Notably, many formerly single-discipline providers, such as Vodafone (pure-mobile) or Versatel (pure-fixed) have chosen to approach a new market with a single bundled fixed-and-mobile service bundle initially. Having spent the last five years learning how to segment their distinct mobile and fixed customer bases with distinct products and services, the launch of multi-play is heralding a move in the opposite direction – back to the ‘one size fits all’ marketing practices of the mid-1990s. In many cases, the bundle on offer comprises a set of ‘fixed-rate’ tariffs – eg., example, a fixed-rate unlimited usage DSL, fixed-rate VoIP and fixed-rate mobile voice bundle to provide the user with a ‘total communications package’. New, bundled propositions such as Vodafone Italy’s Casa Fastweb (Fastweb DSL together with a homezone mobile offer) or Versatel Germany’s Triple Flat Rate (flat-rate fixed voice, flat-rate DSL and flat-rate mobile voice, courtesy of a MVNO agreement with E-Plus) attempt to bring, simple, streamlined bundles to market to cover all general communication eventuality. Problematically, European consumers are not used to being treated as generic units.

Why the move towards promotion simplification?

To be fair, much of the move towards simplified multi-service propositioning is due to the service providers’ collective inability to co-ordinate internal legacy platforms and systems to execute on anything more sophisticated than vanilla bundles and one-size-fits-all offers. Much of the drive of convergence today has been fuelled by an associated trend towards market consolidation. Over the last few months, mobile operators have bought up fixed-line and broadband assets (eg., O2 UK’s acquisition of Be, Vodafone Netherland’s acquisition of The Mobile Factory, SFR’s acquisition of Tele2’s fixed and ADSL assets in France or KPN Mobile International’s planned acquisition of Tele2’s fixed and broadband units in Belgium). Correspondingly, formerly cable or fixed-only providers such as Versatel in Germany or Numericable (formerly ‘Noos’) or Versatel in Germany are now inking MVNO agreements with local MNOs to be able to bundle a mobile element into their own portfolio. But both scenarios – acquisition and MVNO partnership – face challenges. In acquisition mode, service providers inherit a host of system and platform integration problems which puts the brakes on cross-platform intelligence gathering and exploitation for the short-to-mid term. And in the MVNO scenario, the new mobile service provider is challenged to take on new expertise and new equipment, as well as an entirely new mobile base with no legacy experience or behavior patterns to draw from.

Early experiences

For service providers, the theory of service bundling appears deceptively easy. For bundling success, service providers simply up-sell new services to their existing customer base, thus increasing customer ARPU and contract longevity. However, in practice, this approach is failing to achieve the desired results. Because the individual elements of the bundle all tend to be simple, flat-rate services, the ‘up-sell’ implies a pretty major end user decision, and probably a contract annulment with the existing provider.

Because of the design of standard communications contracts – fixed, Internet and mobile – most consumers are tied to their existing provider for a number of months, anything up to 24 months depending on the provider and market. Because the single-disciple service provider (such as a mobile operator) can have no visibility into the maturity of the user’s DSL or fixed-line contract, the appropriateness of the up-sell promotion’s timing up-sell can be nothing short of hit-or-miss. This cumbersome choreography makes it all but impossible for a consumer to respond to an up-sell promotion with immediacy. Furthermore, by the time the contract window with the existing provider is starting to close, the user has probably forgotten all about the up-sell promotion, and is more likely to respond to a better timed alternative. But even if the consumer was in the market to switch providers for a bundled service opportunity, the lack of customer segmentation and promotion targeting makes such broad propositions inadvertently unattractive. The lack of back-office system and customer integration platform integration in the past means that even integrated service providers find it difficult to leverage valuable information on an individual user to drive a more sophisticated up-sell campaign. Up-selling consumers to new services is not quite as easy as it first appears, and, perhaps worse, the ‘one-size-fits-all’ approach may be doing more harm than good.

Customer alienation

Today’s consumer market is thoroughly weary of badly-targeted and inappropriate promotional activity. According to a July 2007-published NOP survey commissioned by Pontis, a provider of marketing delivery platforms, current promotions are provoking customer alienation on a dangerous scale. Around 70% of UK mobile customers survey in the NOP poll agreed that the promotions they receive from the current mobile services provider were ‘irrelevant’ and 64% found them downright annoying. The perceived irrelevancy of the promotion encourages many consumers to think of promotional messages as ‘spam’ – a subject which, in the online world, carries a strong negative emotional weight. This is clearly a dangerous trend. But it does point up an antidote. The perceived irrelevancy of the promotion can have many causes. Perhaps the promotion was 'right' for the user, but arrived at the wrong time. Or, perhaps it suggested a new VAS service up-tick which was just ahead of the end-user's personal service consumption curve, such as a mobile music promotion a good eight months before the end-user discovers the joys of digital music for the first time.

Tragically, service providers are, theoretically, able to create promotions along lines as distinct and sophisticated as time-based or behavior-based activity. Theoretically, a mobile operator can indeed identify the moment an end-user starts to demonstrate interest in mobile music by monitoring mobile portal links in the mobile music area, and encourage that new interest with a relevant promotion. Most service providers indeed collect, and store, such information somewhere in the dusty corners of their back office systems, but have not, until now, attempted to leverage it for promotional activity in any meaningful sense. That's because most service providers today segment their customer base down generic age or gender lines, with no more thought to individual preferences or lifecycle activity than that. Promotional activity, it seems, needs to become more sophisticated at predicting customer needs at the appropriate moment, in order to position promotions of real value, based on individual end-user preferences and real-time behavior.

The cross-platform marketing challenge

But the real difficulty in multi-service campaigning and bundling promotions is managing visibility into end-user behavior across the various service platforms. In an ideal world, service providers would be able to cut and deliver a contextual and highly-personalized promotion campaign aimed at a multiple sub-sections of an aggregated customer base of fixed, mobile and Internet users, according to a best-fit scenario of respective preferences and customer activity history. But that ideal is looking woefully remote in today's multi-service marketing practice, as marketing executives struggle with the basics of managing multiple customer sets across different legacy environments, let alone tailoring a cross-platform campaign.

As outlined above, the first instinct for the 'total communications service provider' is to simplify on a basic 'one-size-fits-all' bundled proposition, but the real art in next-generation marketing is going to be a whole lot more sophisticated than that. To this end, a new breed of solutions providers are innovating on a toolbox of marketing delivery platforms to automate many of the marketing prerogatives that appear so impossible to execute on today in a multi-service context. Marketing delivery platforms essentially attempt to take the ideal of the long-tail theory to its marketing conclusion, allowing service providers to stage guerilla warfare on micro-segments of its user bases, with highly-personalized offers which yield a far higher response rate and customer satisfaction than blanket, one-size-fits-all promotions can excite. In a fully-automated world, a marketing campaign managed by a marketing delivery platform can execute on distinct provider objectives and goals, targeting the very sub-sector of the customer base most likely to respond, based on time-specific, end-user behavior patterns. Service providers deploying marketing delivery platforms will also become better equipped at building up a portrait of a customer's history, which takes into account the minutae of user behavioral changes, from usage fluctuations to promotional response.

The impact of marketing delivery platforms

The deployment of marketing delivery platforms is likely to have two very important impacts. Firstly, marketing delivery platform adoption is likely to result in a proliferation of promotions in the field. Automated marketing delivery platforms will serve to significantly cut the cost of promotion creation and execution, and this will make service providers better equipped to respond to new competitive challenges in near-time. Part of the challenge of promotion innovation for marketing executives today is due to the lack of back-office and other delivery system integration. Executing on a simple Summer MMS promotion may take weeks to execute across a mixed base of users, and this is blunting a service provider's ability to play aggressively in the market. Part of the attraction of a marketing delivery platform Software-As-A-Service (SaaS) toolbox is that new promotion decisions can be molded and executed at a touch of a button, without the need to check every part of the delivery value-chain for hurdles.

But the deployment of a marketing delivery platform also allows a service provider to play more surreptitiously in the market as promotion activity is channeled more directly and effectively to the end-user. Better use of messaging and online channels for new promotional communication will make that promotional activity more direct, and less visible to the competition – and that will make the service provider less easily addressable in a competitive context. As marketing delivery platforms start accessing cross-platform messaging techniques to reach out to diverse service customer groups, the marketing dialogue between service provider and end user will be taken out of the public domain altogether. This will, furthermore, detract from the importance of a service's headline pricing proposition. Collective groups of end-users serviced by a marketing delivery platform will learn to get used to their provider's ability to correctly anticipating their next purchasing desires with contextual and highly-personal promotions, and this will make them less likely to churn to the next low-cost offer.

Taking some of the pricing heat out of the consumer services market is a major consideration for all players today. The long-tail-of-the-dog theory of market segmentation has now taken a firm hold within the communications market, with new 'low-cost' labels emerging in all areas of the business, from cable to pay TV, broadband and mobile. Fighting the low-cost providers on their own-terms is a dispiriting exercise – as any mobile operator in a strong MVNO market can testify. Price wars merely serve to lower the value of the market for all participants, yet, up until now, most incumbents have been left with few alternative methods to offset a low-cost competitive challenge. Automating much of the headache of cross-platform campaign creation will serve to make customers more loyal, and less responsive to lower-cost challenges in the market. At the end of the day, great service may well turn out to be the best competitive response to pricing aggression. But consumers have seen very little of this of late.

In the ‘old world view’, good service was defined by the length of time an end-user would wait on hold to speak with a tele-support agent. The next-generation definition of good service, however, will be judged in terms of the quality of the dialogue between the service provider and the end-user, and that dialogue will encompass so much more than a support call.

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