Customer-centricity and selective capillarity

A multichannel strategy for telecom operators
# Contacts

<table>
<thead>
<tr>
<th>Location</th>
<th>Name</th>
<th>Title</th>
<th>Phone</th>
<th>Email</th>
</tr>
</thead>
<tbody>
<tr>
<td>Buenos Aires</td>
<td>Ariel Fleichman</td>
<td>Partner</td>
<td>+54-11-4131-0432</td>
<td><a href="mailto:ariel.fleichman@strategyand.pwc.com">ariel.fleichman@strategyand.pwc.com</a></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Düsseldorf</td>
<td>Roman Friedrich</td>
<td>Partner</td>
<td>+49-211-3890-165</td>
<td><a href="mailto:roman.friedrich@strategyand.pwc.com">roman.friedrich@strategyand.pwc.com</a></td>
</tr>
<tr>
<td>Madrid</td>
<td>José Arias</td>
<td>Partner</td>
<td>+34-91-411-5121</td>
<td><a href="mailto:jose.arias@strategyand.pwc.com">jose.arias@strategyand.pwc.com</a></td>
</tr>
<tr>
<td></td>
<td>Carlos Severino</td>
<td>Partner</td>
<td>+34-91-563-7308</td>
<td><a href="mailto:carlos.severino@strategyand.pwc.com">carlos.severino@strategyand.pwc.com</a></td>
</tr>
<tr>
<td></td>
<td>José Antonio Tortosa</td>
<td>Partner</td>
<td>+34-91-563-7693</td>
<td><a href="mailto:joseantonio.tortosa@strategyand.pwc.com">joseantonio.tortosa@strategyand.pwc.com</a></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Milan</td>
<td>Luigi Pugliese</td>
<td>Partner</td>
<td>+39-02-72-50-93-03</td>
<td><a href="mailto:luigi.pugliese@strategyand.pwc.com">luigi.pugliese@strategyand.pwc.com</a></td>
</tr>
<tr>
<td></td>
<td>Steffen Leistner</td>
<td>Partner</td>
<td>+7-985-368-78-88</td>
<td><a href="mailto:steffen.leistner@strategyand.pwc.com">steffen.leistner@strategyand.pwc.com</a></td>
</tr>
<tr>
<td></td>
<td>Christopher Vollmer</td>
<td>Partner</td>
<td>+1-212-551-6794</td>
<td><a href="mailto:christopher.vollmer@strategyand.pwc.com">christopher.vollmer@strategyand.pwc.com</a></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Moscow</td>
<td>Pierre Péladeau</td>
<td>Partner</td>
<td>+33-1-44-34-3074</td>
<td><a href="mailto:pierre.peladeau@strategyand.pwc.com">pierre.peladeau@strategyand.pwc.com</a></td>
</tr>
<tr>
<td></td>
<td>Paolo Pigorini</td>
<td>Senior Partner</td>
<td>+55-21-2237-8448</td>
<td><a href="mailto:paolo.pigorini@strategyand.pwc.com">paolo.pigorini@strategyand.pwc.com</a></td>
</tr>
<tr>
<td></td>
<td>Ivan de Souza</td>
<td>Senior Partner</td>
<td>+55-11-5501-6368</td>
<td><a href="mailto:ivan.de.souza@strategyand.pwc.com">ivan.de.souza@strategyand.pwc.com</a></td>
</tr>
<tr>
<td></td>
<td>Nuno Gomes</td>
<td>Principal</td>
<td>+55-11-5501-6238</td>
<td><a href="mailto:nuno.gomes@strategyand.pwc.com">nuno.gomes@strategyand.pwc.com</a></td>
</tr>
<tr>
<td>Rio de Janeiro</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>São Paulo</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tokyo</td>
<td>Toshiya Imai</td>
<td>Partner</td>
<td>+81-90-7285-1597</td>
<td><a href="mailto:toshiyaimai@strategyand.pwc.com">toshiyaimai@strategyand.pwc.com</a></td>
</tr>
<tr>
<td></td>
<td>Klaus Hoelbling</td>
<td>Partner</td>
<td>+43-1-518-22-907</td>
<td><a href="mailto:klaus.hoelbling@strategyand.pwc.com">klaus.hoelbling@strategyand.pwc.com</a></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>+1-917-284-3906</td>
<td></td>
</tr>
</tbody>
</table>
About the authors

Carlos Severino is a partner with Strategy& based in Madrid. He focuses on sales and distribution, large-scale turnarounds, startups, and the redesign of commercial models in the telecommunications industry.

Nuno Gomes is a principal with Strategy& based in São Paulo. He focuses on strategy, operations, commercial turnarounds, and multichannel customer management in the telecommunications industry.

Alvaro Tomás is a senior associate with Strategy& based in Madrid. He specializes in the design of sales and distribution networks for fixed, mobile, and integrated telecom operators.

This report was originally published by Booz & Company in 2013.

Also contributing to this report were Strategy& partners José Arias and José Antonio Tortosa.
Telecommunications markets across the globe have evolved rapidly, and that has led to saturated markets and a drastic decline in sales volumes for traditional services (such as basic voice and data). Consumers in every market now demand sophisticated new devices and mobile data services, and expect the companies they do business with to develop new interaction models that provide a consistent experience across every channel.

Telecom operators have responded to the challenge by offering bundles of more and more sophisticated products and services. But they have not evolved either their commercial footprint or how they interact with customers at the same speed. Instead, they continue to pursue a “high-capillarity” channel strategy, pushing high volumes of products and services through physical shops — the large “arteries” of their commercial circulatory system — with exclusive product mixes.

To increase revenues and boost subscriber profitability, operators must reconsider the paradigms that have long ruled their sales strategies and radically rethink the role and structure of their commercial footprint. This must involve developing new online, mobile, and independent sales channels based on the principle of selective capillarity.
Let a thousand channels bloom

Until recently, most telecom operators offered customers a limited range of products and services, which they sold through an equally limited range of channels. Their goal at the time was simple: to capture as much market share as possible, as quickly as possible. They designed their commercial footprint primarily with three high-volume channels in mind — physical stores and call centers complemented by simple e-commerce sites — through which they could push lots of simple services and devices, and straightforward service contracts.

This model is no longer working. It depended for its success on markets that were still growing, where the key was signing up new subscribers. But virtually every telecom market around the world is now fully saturated. There has been a drastic reduction in the ability of operators to capture new subscribers — and a rapid escalation in the cost of doing so. In response, operators are looking to sell both current and new subscribers more sophisticated mobile devices and services, such as smartphones and variable data plans, as well as new fixed-line broadband and television services.

Still, operators’ margins continue to fall, declining 2 percent in developed countries and as much as 9 to 10 percent in developing countries during the past five years. Meanwhile, according to some estimates, operators’ capital expenditures on the infrastructure needed to support the growth of mobile data and other services will continue to grow 5 percent annually over the next three to five years. Clearly, controlling expenses involved in acquiring and keeping customers, which represent 25 to 35 percent of total operating expenditures, will be essential if operators are to sustain and grow their EBITDA margins.

At the same time, consumers have become more sophisticated, demanding increasingly complex products and services, and refusing to succumb to impulse buying. Instead, they use the Internet to diligently compare prices on various devices and services, choosing only the options that best suit their needs. And they have started to use new ways of interacting with companies, such as social media, even though most telecom operators have not yet introduced this new way of selling
in their channel mix. The rise of “prosumers,” who are willing and able to express their informed opinions freely, has only added to the power of the average consumer.

For operators to boost margins and satisfy the new, more demanding telecom customer, they must develop a more nuanced approach to the “capillarity” of their various sales channels, adding flexibility to the channel mix and the relative thickness or thinness of the “arteries” that control the amount of product to be pushed through each sales channel.
Transforming the commercial model

The high-capillarity approach that most mobile and integrated operators currently take depends on a long-standing sales and marketing paradigm based on exclusive networks of point-of-sale shops with simple, straightforward formats. These networks are typically supported by indirect distribution networks of shops that sell various telecom-related products. Operators usually reduce or expand their indirect networks according to the anticipated demand for basic products, with the sole aim of maintaining positive returns for them and for their traditional distribution networks.

The rigid channel structure that resulted from this paradigm, however, has become obsolete, unable to sell more complex products such as smartphones and tablets, or bundled services, even if they are already in the operators’ portfolio. And it hasn’t succeeded in satisfying customers’ expectations for a multichannel relationship with the operator. Meanwhile, operators have failed to develop strategies to exploit social media and mobile commerce without damaging their existing channels.

The only way for operators to transform their commercial footprints is to move to a condition of selective capillarity. In this state, capillarity must be adjusted regularly to fit the needs and expectations of clients and take advantage of the power of specific channels, including the potential for new sales and cross- and up-selling possibilities. Operators need to leave behind the old paradigms and rest their commercial strategy on a solid three-part foundation of customer-centricity, efficiency, and a flexible mix of channels (see Exhibit 1, page 9):

- **Customer-centricity:** Operators must treat consumers the way they want and deserve to be treated, through a one-to-one relationship model that addresses their needs as well as their anticipated lifetime profitability. Subscriber information should be managed consistently across channels so that customers can access the same information and receive the same treatment across all sales and customer care touchpoints. Operators must “listen” to every subscriber across every channel, registering every interaction, and then adapt to satisfy their individual evolving demands. Especially in a mature, saturated market environment, the development of loyalty services should take
precedence over acquisition, as operators aim to provide comprehensive sales and customer care services to the entire user base.

- **Efficiency**: In hopes of capturing new customers in an immature market environment, the traditional commercial model gives preference to quantity over channel profitability. Now, however, operators must adjust their channel mix using a model that justifies each channel in terms of its product-specific margins, where quality and efficiency take precedence over volume.

- **Multichannel mix**: Operators must create a more flexible, balanced, and integrated channel mix by evolving traditional channels, introducing new channels, and exerting greater control over all their channels. And they must gear specific channels to specific client segments, using criteria such as value creation, purchase behavior, and commercial costs, with the goal of offering integrated services on a “one-to-one” basis. Doing so will maximize returns, and allow operators to adjust their commercial strategies and respond to customer needs faster.
Exhibit 1
Rethinking the commercial model: from old paradigm to new triple vision

Traditional paradigm

- EXPLOSION OF POINT-OF-SALE CAPILLARITY
- EXCLUSIVE PRODUCT MIX
- OUTSOURCED DISTRIBUTION CHANNELS
- DEPENDENCE ON THIRD PARTIES FOR VOLUME
- MANAGEMENT FOCUSED ON PHYSICAL POINTS OF SALE

New triple vision

- CUSTOMER-CENTRICITY
  - Management focused on client needs—“one-to-one client treatment”
  - Integrated system of sales and customer care
  - Shift of focus from customer acquisition to retention

- EFFICIENCY
  - Efficiency versus volume
  - Selective capillarity
  - Adjustment of channel mix toward a model that justifies products by margins

- MULTICHLANL MIX
  - Providing the best customer experience in all channels
  - Boosting uniformity and interaction among all channels

Source: Strategy& analysis
Evolution of traditional channels

The primary goal for operators in transforming their traditional channels is to structure them to be able to adjust their capillarity while making them as efficient as possible. In doing so, operators must rethink the role of their traditional channels, and then incorporate them into a new channel mix (see Exhibit 2, next page). The evolution of the operator’s commercial footprint will also require a new product mix to be offered in each channel and a revised revenue model that takes into account the value of each customer over time rather than focusing on the initial one-off commission at the time of sale. This effort will require a different approach for each traditional channel.

- **Point of sale**: Physical stores must evolve to become “centers of experience,” where highly trained employees can actively cross- and up-sell higher-value products and services such as smartphones and tablets (and their applications), and both mobile and fixed broadband packages. Older, simpler offerings have to be replaced with service contracts that include consulting on use and integration, and the stores themselves should be redesigned to provide a better customer experience. At the same time, operators must conduct a systematic analysis of the finances of stores and their capacity to sell premium services profitably, and then develop a plan for flexibly boosting or lowering the capillarity of the channel on an ongoing basis.

Operators should look to the retail industry for inspiration. The United Kingdom’s John Lewis, for example, is developing “boutique department stores” — smaller stores with flexible formats that offer a combined digital and physical experience to customers, including interactive information screens and digital store guides.

- **Call centers**: This channel has great potential to cross- and up-sell profitable products and services at a reasonable cost, but only if operators can shift their focus from dealing with customer complaints and managing churn to creating value — especially as the volume of activity at call centers explodes as a result of more complex products and services. Call centers must also evolve into integrated communication centers, collecting more information
every time they are in contact with subscribers, and linking with all the other channels to leverage revenues and control costs.

- **Large retailers**: Operators often supplement their overall capillarity through agreements with large retailers to sell their simpler products and services. But because these retailers also typically sell competitors’ products, and because they have considerable bargaining power in these deals, this channel often turns out to be relatively unproductive, inefficient, and high in commercial costs. Moreover, as big-box electronics retailers lose ground to online and other channels, this channel is likely to shrink in productivity. Operators should rethink the role and structure of this channel, and find new ways to structure these deals and turn them into a more profitable business for both sides.

---

**Exhibit 2**

Selective capillarity and new ways of selling

---

<table>
<thead>
<tr>
<th>Physical &amp; remote channels</th>
<th>Intensive non-targeted capillarity</th>
<th>Efficiency selective capillarity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Simple points of sale</td>
<td>Large retailers</td>
<td>Centers of experience</td>
</tr>
<tr>
<td>Large retailers</td>
<td>Call centers</td>
<td>Selected retailers</td>
</tr>
<tr>
<td>Call centers</td>
<td></td>
<td>Integrated call centers</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Digital channels</th>
<th>Informational website</th>
<th>Sales-oriented digital channels</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operator’s website</td>
<td></td>
<td>E-commerce</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Social media</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Mobile commerce</td>
</tr>
</tbody>
</table>

**The traditional footprint**

**The transformed footprint**

Source: Strategy& analysis
E-commerce: To date, the online channel has been used primarily as a source of information for customers. Yet it is a powerful tool that can play multiple roles in an operator’s commercial footprint, maintaining a high level of customer contact and boosting both operational efficiency and sales. The many self-service options this channel enables — such as monitoring usage, checking loyalty programs and price plans, and paying bills — can significantly offset the costs of customer contact. Loyalty services gain particular importance in this channel, as subscribers who frequently visit their operator’s websites are four times as likely to be up-sold to new products and services as those who don’t visit as often (see Exhibit 3).

Exhibit 3
Typical online sales conversion rate

Source: MarketLive; Internet Retailer; Jupiter Research; Strategy& analysis
For too long, telecom operators have given priority to their once profitable traditional channels over creating and integrating new channels that could better serve the needs of increasingly sophisticated customers, boost interaction, and increase profitability. It is now critical that operators rethink their approach to capillarity and transform their commercial footprint. Three new channels offer especially promising ways to boost sales profitably.

**New digital channels:** As stated previously, operators must come to terms with new digital channels such as social media, which has already proven itself to be a force in a wide range of other markets and a powerful means of interacting with consumers. Many companies are already using social media to gain new customers through contacts initiated by consumers, and it has great potential to further boost customer care through various sub-channels, including videos, blogs, live chats, and social communities. Operators must prioritize this channel, determining the best strategy for the use of sub-channels and defining the mix of sales, information, and support for each.

**Mobile commerce:** Mobile commerce (also known as m-commerce) is no longer simply online shopping via a mobile phone. Now, through such technologies as event- and location-based sales, it can actively improve the customer experience. Indeed, it is emerging as a key means of interacting with current and potential subscribers throughout the purchasing process, especially given the privileged position mobile operators have to develop and capture this new opportunity. But few mobile operators have taken advantage of m-commerce, despite their considerable insight into subscribers’ movements and usage patterns.

**Low-cost channels:** A variety of low-cost channels have the potential to become powerful tools for controlling spending and gaining additional capillarity in areas where point-of-sale and other traditional outlets are not profitable. These low-cost channels include the following:

- **Direct mixed points of sale:** Operators could increase their control over mixed points of sale — nonexclusive large retailers where their
products represent a low percentage of revenues. Creating a better balance by minimizing or eliminating distributors and intermediaries at these points of sale offers perhaps the greatest potential.

- **Freelancers:** Operators in less developed markets could employ independent door-to-door salespeople, who would be responsible for customer sales, activation, and subscriber registration along a given route. These freelancers could act as providers of basic services such as SIM cards and scratch cards for recharging prepaid phones to low- and mid-value clients, informing them about the operator’s products, services, and promotions. The potential of this model can be greatly enhanced with social media.

- **Street sales:** Operators could deploy a fleet of small vans assigned to specific routes to cover remote areas or specific locations with “sporadic high traffic” where a store would not be profitable. Vans covering remote routes could combine “pull” efforts, with sales generated as the van travels along its route, with “push” efforts, such as planned visits to houses, fairs, local markets, and other venues. Intensive and detailed route planning, as well as the ability to track consumer contacts, is essential if this channel is to reach its maximum potential.

The feasibility of any of these low-cost channels will depend on the operator’s specific market situation — its regulatory and competitive environment, and the degree of market maturity.
A multichannel approach

Taking a lead from sophisticated “prosumers,” more and more telecom customers are demanding a consistent experience across every touch point through which they can contact their operator. Satisfying that demand requires that every sales and service channel be integrated to drive the best customer experience (see Exhibit 4, next page). A true multichannel strategy will maximize efficiency throughout all points of contact with the consumer. Operators looking to develop such a strategy must put in place four critical elements:

• First, subscribers must be segmented according to their spending patterns, consumption habits, channel preferences, and interest in products and services.

• Once the customer segments have been identified, a channel strategy that can ensure a tailored and consistent experience—and maximum profitability—should be designed for each one. The strategy must be flexible enough to accommodate each segment’s life-cycle stage, no matter which channel each segment prefers.

• Objectives and incentives must be aligned across all channels, avoiding possible conflicts and overcoming existing organizational silos. Each channel should focus on performing specific commercial activities—selling sophisticated devices and services in shops, and less sophisticated products through freelancers, for example—while being rewarded for generating sales leads for other channels. Correct alignment will increase customer satisfaction and maintain good relations among channels.

• A powerful customer relationship management system must be developed to provide a comprehensive view of each customer across all channels and interactions, allowing operators to improve their segmentation strategies. Similarly, back-end systems must be integrated to support the ongoing needs of each channel.

Several industries have already demonstrated the power of multichannel integration. In the financial services industry, for example, most banks have developed the means to provide a rich
Experience across channels. Customers searching a bank’s website for a personal loan or mortgage will leave an electronic trace that enables the bank to follow up with the customer, proposing targeted offers in hopes of closing the deal. For instance, the website might offer a set of rate options depending on the customer’s previous history with the bank. As a follow-up to the consumer’s online activities, an account manager can respond with a call or a visit to offer the best possible rate, while trying to up-sell additional business such as credit cards or stock portfolio management.

*Exhibit 4*
*A multichannel strategy allows customers to interact with operators in new ways*
No multichannel approach will succeed if the operator does not make a concerted effort at a major companywide cultural, organizational, and business process transformation. Doing so requires that the company develop new skills and redefine the role of every department. It must internalize the need for customer-centricity through a detailed and consistent analysis of demand, behavior, and needs throughout the consumer life cycle in every channel. The design of a clear value proposition and marketing technology aligned to each channel and segment is vital to maximize efficiency.

The sales and customer care departments will typically face the greatest operational challenges, and thus the greatest need for change. Both must be reorganized to ensure that they interact smoothly and maintain a single view of every customer. For example, BlackBerry has introduced paid hotlines for special requests in order to develop innovative customer service concepts that create extra value and enhance the customer experience. The IT department will need to make significant investments in human and technical capital if it is to support cross-functional services in every channel. Other departments must have the resources needed to carry out all the necessary multichannel functions, including dashboard monitoring and multichannel marketing design.
Conclusion

As markets mature across the globe, every telecom operator is facing the need to maximize value and reduce commercial costs. The only way to do this is for operators to transform their sales channels by rethinking their approach to the capillarity of their commercial footprints. Traditional physical and digital channels need to be updated, new digital channels need to be created to attract new clients and gain market share efficiently, and new low-cost channels should be tested. Integrating all these channels and the information captured in each of them will be crucial if operators are to adapt and respond to consumer demand diligently. Finally, every channel must be designed to increase customer satisfaction through a consistent approach and easy interaction. Getting both capillarity and customer-centricity right offers operators a long-term competitive advantage and a capability difficult for competitors to emulate.
Resources


“Customer Value Management: The Path to Profitable Growth in Telecom,” by Martin Reitenspiess, José Antonio Tortosa, Jesús de la Herrán, and Andreas Putz (Booz & Company, 2012).
Strategy& is a global team of practical strategists committed to helping you seize essential advantage.

We do that by working alongside you to solve your toughest problems and helping you capture your greatest opportunities.

These are complex and high-stakes undertakings — often game-changing transformations. We bring 100 years of strategy consulting experience and the unrivaled industry and functional capabilities of the PwC network to the task. Whether you’re charting your corporate strategy, transforming a function or business unit, or building critical capabilities, we’ll help you create the value you’re looking for with speed, confidence, and impact.

We are a member of the PwC network of firms in 157 countries with more than 184,000 people committed to delivering quality in assurance, tax, and advisory services. Tell us what matters to you and find out more by visiting us at strategyand.pwc.com.

This report was originally published by Booz & Company in 2013.

www.strategyand.pwc.com