# Mature marketing a winning formula for assignment

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In response, telecoms need to transform their current business oodles, while improving execution in an effort to differentiate themselves and sustain or even expand their margins. McKinney recently took an in-depth look at telecoms operator performance In mature markets – those where revenues have populated, prices have eroded, and EBITDA have come under pressure. The results are sobering. Up until now, growth and profitability have largely been driven by portfolio momentum (I. E. The specific markets and segments in which a company operates) rather than by operator-driven execution excellence. Sources of this traditional portfolio momentum, however, are dwindling. To make matters worse, new pockets of growth – notably In applications and convergence – are being disproportionately captured by nontraditional competitors such as device, over the-top, and content players. In all mature markets, the growth pockets that do remain are insufficient to offset significant price erosion – both in fixed and in mobile.

This increases pressure on EBITDA margins – which have been sustained In recent years by onetime efforts targeting cost reduction. This approach, however, Just might be running out of steam. Disturbingly, stagnation of revenue growth is taking place within the context of an exponential growth n telecoms services usage that operators have not data traffic is estimated to grow at a rate of 50 percent per year from 2008 up to 2011, whereas data revenues are expected to grow at a rate of only 8 percent.

Even “ basic” mobile voice minutes continue to grow across countries as price elasticity kicks in with a time lag. In order to derive the “ winning formula” for mature markets, we sought to map the DNA of these markets by analyzing three questions: What currently drives growth in the telecoms sector, both for the market overall and for selected operators?

What is myth versus reality in terms of threats and opportunities that arise from blurring boundaries along the telecoms value chain? What will be the key to competing in these markets going forward? Current growth drivers in mature telecoms markets A rigorous analysis of facts has unearthed several underlying drivers behind growth in mature markets from 2003 to 2008 (Exhibit 1) along with a set of conclusions and insights.

Some of these may be less intuitive than others: 8 01 Several trends – to varying degrees – have contributed to revenue growth in Several trends – to varying degrees – have contributed to revenue mature growth in mature markets (+/-) Correlation of factor tit revenue growth 2003 – 08 1st order 2nd order 3rd order Overall telecoms revenues 0 Presence of mobile broadband (B) offers (-) 0 Household growth (+) 0 Number of Moos (-) 0 Mobile revenues O ARM growth (+) 0 Mobile penetration growth (-) 0 Presence of mobile B offers (-) 0 Disposable income growth (+) 0 Fixed revenues 0 Country regulation and socio-/ stereographic (+) 0 Mobile B penetration growth (-) 0 Presence of pay-TV offers (+) Note: Tree analysis in order to identify most important explanatory variables for mature markets growth (dependent variable: telecoms revenue pool – independent rabbles: macroeconomic; industry structure in each market; disruptions in the market) SOURCE: McKinney First, overall growth in mature markets has been fundamentally driven by further penetration of wirelesses services, with mobile broadband and data services representing the majority of that growth over the last four to five years. Interestingly, the markets with the highest penetration of mobile broadband and data services show the lowest growth rates for mobile and overall telecoms services revenues. This suggests that such penetration is the natural result of a strong push, given he absence of growth in traditional voice services. Second, GAP growth and disposable income are not sound predictors of telecoms growth. In fact, from 1981 to 2008, the correlation between sector growth and GAP growth was Just 0. 17. This is due to the small share results from the growing role of telecoms as a " must-have" basic service.

Our analysis shows that regulatory conditions – in particular, the number of Moos for mobile – and the socio- and stereographic for fixed are better indicators of a particular market's ability to generate growth. Surprisingly, local demographics also explain local market performance. Those markets with higher immigration are experiencing greater revenue growth, especially in mobile services. In Spain, for example, household growth was among the most dramatic in Europe between 2003 and 2008. There, revenue growth in mobile was well above the European average. Finally, in a few markets where local competitive conditions include multi-play-based offers, pay-TV services emerge as the next-generation growth driver. This reverses the negative hireling trend of declining revenues and fewer fixed lines.

All of these trends reinforce the fact that the telecoms industry growth to date can be largely explained by oratorio momentum, which has stimulated organic growth and a wave of mergers and acquisitions. When it comes to superior execution that was translated into increases in market share gains, telecoms lag behind their counterparts in other industries. In telecoms, revenue growth differs widely across mature markets, while profitability varies across operators within each market. Even for players with a multinational footprint, it was the local strategies that led to growth. For example, Avoidance's pricing strategy visibly differs across geographies in terms of ARM, quite similar to weighted market average. This telecoms ARM s EURO 0. 09 in France versus 0. 15 in Spain, while its market share in both countries is around 30 percent.

Mature marketing: A winning formula for a new era in telecoms 02 9 Services players and handset manufacturers benefit from greater global Services players and handset manufacturers benefit from greater share versus operators global share versus operators USED billions, IEEE MOOS Handsets Equipment Online advertising Search 850 160 63% 75% 82% 24 SOURCE: McKinney Only a few operators were able to break the mold and achieve abnormal growth resulting from sustained market share gains in these maturing markets. Such as the case for Razor in Germany, DNA in Finland, KIP in Belgium, Carotene in the I-J, and a few others. In these cases, market share was mostly built on aggressive pricing rather than on real differentiation generated by other marketing levers.

The reality of extending the telecoms business along the value chain Much has been said about the opportunity for telecoms to capitalize on access and noontime traffic growth. This includes the potential for expansion into high-growth pockets of the value chain such as content and applications in consumer segments as well as CIT in the enterprise domain. With this opportunity comes a threat. Many operators worry that other industry players are better positioned to capitalize on the proliferation of bandwidth (based on equipment, content, applications, and services), ultimately diluting the franchise value linked to access. In reality, converging services have been growing much faster than core telecoms services in recent years.

Moreover, telecoms have controlled a diminishing share of the total pie – both in the BBC and in the BIB arenas. Despite the slowing forecasts for the sector as a whole, growth pockets clearly exist, as evidenced by device and over-the-top players. They have been able to capitalize on access assets to offer nonusers and businesses leading-edge services. This growth in applications and services has resulted in fragmented consumer needs – not due to the nature of the pipe or the equipment used, but because of the applications and services run on top. Large segments of consumers are tapping into the services they want across multiple devices, effectively implementing convergence at the applications and services layers.

While operators struggle to implement convergence at the access layer, other players in the value chain are taking full advantage of the need for convergence in applications and services. As rotational industry boundaries blur, what emerges is both an opportunity for operators to access new growth avenues and a threat to their ability to contain value transfer to other players. On the one side, operators can leverage their current customer franchise to venture into new arenas such as service and content. On the other, service and device innovation is margin- 10 03 Pursuing the total customer experience scenario requires addressing Pursuing levers the total customer experience scenario requires addressing all levers Key value-creating drivers Strong 0 Technology (e. G. Speed) will become a key competitive factor in the future Partnering along the value chain/ some vertical integration 0 Cape discipline Competing based on “ total customer experience” 0 Innovation DNA 0 Alternative positioning along the value system 0 Operational excellence Transform the business model to crystallize growth opportunities Growth Stagnating 0 Pursue bold technological investments 0 Consolidate partnerships along the value chain Focus on innovation and excellence in execution Managing as a utility 0 New products do not bring incremental value 0 Leverage innovation role 0 Telecoms are not better positioned than other 0 Focus on executing players to explore converging businesses arresting, strategic, 0 Management focus on regulation and financial, and operational operations action levers Access-based Focus of competition Becoming marketing boutiques 0 All marketing levers gain importance (branding, products, pricing, etc. ) 0 Regulators will push for new entrants 0 Customers do not require/are not willing to pay for faster technologies aligning operators in numerous ways. Despite operator efforts in the mobile world to control the interface, both equipment manufacturers and Web service providers are making significant advances. These players are leveraging their core strengths to increasingly occupy his space.

Handset manufacturers, for example, are capturing significant consumer loyalty and increasingly bundling the services consumers most value in their offers. Also, Internet service providers are demonstrating the ability to replicate their success in the “ traditional” online world to gain ground in the mobile arena. In spite of operators' walled garden efforts, Internet brands in key European markets have already won the mobile search game. After the battle over Internet services has already been lost in the residential world, the new battleground increasingly focuses on enhanced TV revise; in the future, it will include in-home services. Furthermore, service markets are developing as monopolies and duopolies, leaving operators marginalia in the process.

In fact, leading operators have a much smaller global market share than leading service providers or handset manufacturers (Exhibit 2). At such a large scale, these players have the option to impose new standards and ways of doing business, squeezing operators into the role of a pipe. Up until now, convergence has been mainly a game for Sips and Memos who have conquered a growing share of the revenue pool. A new telecoms paradigm – a winning formula Two major developments need to be kept in mind when considering what it will take to win in this new era of mature telecoms markets (Exhibit 3). The first is the coming-of-age of data services and video-related opportunities. This demands new business models that take on a more integrated view of the value chain.

The second is the changing nature of competition from one of privileged access to customers to one of innovation and superior execution in the customer experience. Transforming tells business models takes some bold moves that may further Jeopardize the core traditional offer and current revenue sources, but aim to expand total market size and open new growth avenues. This holds true not only for mobile, for mobile broadband (potentially at the expense of DSL), and for triple and quadruple-play bundles (potentially at the expense of voice and Internet access price), but also for bookmobile convergence products and for fiber network deployment. To ensure that most of these initiatives succeed must be in place: Scale.

Most initiatives must be developed at scale to drive transformation and total market growth – while offsetting centralization. In fact, many negative side 11 The mature market mix: A preview of RECALL No 1 1 This RECALL issue includes a selection of articles calling for action in a set of dimensions that we see as critical to winning in mature telecoms markets. Integrated customer experience management. Muckiness's ICE benchmarking involved 45, 000 customer interviews in 1 5 Western European countries to better understand how multiple touch points influence customer satisfaction and choice. Crossing these insights with the accurate assessment of telecoms' operational performance in each of those dimensions provides a clear map of action priorities.

Channel optimization. Increasing productivity of consumer sales channels – telecoms stores in reticular – often presents a low pain/high gain opportunity. Already implemented by 1 5+ operators in Europe and the US, a standard optimization program, combining operational discipline and commercial best practices, leads to an average 30 percent increase in an operator's physical channels productivity. Mobile data monitoring. Turning the explosion of data traffic into a profitable business has now become the highest priority for integrated telecoms and pure mobile players. In this article, we elaborate on the key success factors to cash in on mobile data. Effects are likely to materialize when only incremental tepees are taken toward innovative offers. The upside of creating new markets is attained by making extensive, wide-scale moves. Telecoms need to take a lesson from the playbooks of technology companies that have experienced the power of scale and global standards. Organizational setup. Many of these initiatives cut across the traditional silos of a typical telecoms organization. For example, in fixed-mobile convergence – with product-based (fixed versus mobile) organizations evolving toward more customer-centric models (personal versus residential versus Seems/corporate). This can even extend to more specific discussions on how to Proportioning PIPIT.

The pay-TV business – once reserved for a few markets where the local competitive context has led to faster development of UP/UP strategies – is now seen as the emerging growth driver in the consumer segments. From those earlier experiences we can learn what it takes to develop a new offer that requires a completely different set of skills and cuts across most traditional processes, from sales to provisioning and customer care. Brand realism. We also call for additional pragmatism, presenting hard evidence that telecoms brands have not achieved true differentiation. We Ramee the conditions for telecoms to choose between developing “ hero brands” that sustain a significant premium versus returning to a much closer monitoring of marketing spend and focusing on proposition-led brand strategies. Commercial transformation.

Using a more than 200-variable assessment tool, we see that most telecoms actually lag behind other sectors in terms of their marketing and sales capabilities. In that context, we suggest that developing and implementing a wide range of proven, commercial tools must be included in any substitutability program. Broadband within the current organization. What links these sizable projects is the need for a 360-degree review of a telecoms operating model, eliminating roadblocks and allowing for a step change in efficiency and delivery across old silos. Ecosystem. To effectively deploy and noontime these nontraditional growth levers, operators will need to develop deeper, less transactional relationships with other players in the value chain – ranging from Memos to the media and over-the-top actors.