

EXPERIENCE-BASED CONVERGENCE

THE ULTIMATE CUSTOMER-CENTRED APPROACH



EXPERIENCE-BASED CONVERGENCE

There was a time, not that long ago, in which soft drinks companies sold refreshing and sparkling drinks, haute cuisine restaurants sold carefully cooked food, car companies sold elegant and powerful cars, and leisure companies sold specific entertainment services. Then, in the early 1970s, it all started to change. Coca-Cola began selling a totally different thing, in fact “the real thing”: an experience of kinship, peace, and selflessness. Car companies followed some years later as they started to sell enjoyment of the driving experience or the sense of adventure. Restaurants now offer multi-sensorial super-sophisticated dining, and leisure companies promote the experience of living a different life for a week or two.

This turnabout was based on one of the deepest insights in the history of marketing: the experience consumers go through when they enjoy products or services is much richer than the products or services themselves. So why not emphasise the experience when creating marketing campaigns?

Focusing on customers’ experiences also provides a substantial opportunity for telecommunications (telecoms) operators. What we’re talking about here goes beyond most operators’ usual understanding of the term “customer experience improvement”. It means grasping how to market telecoms services as rich experiences. In this context, convergence offers the greatest opportunity for achieving this. If telecoms operators succeed in marketing customers’ experiences, they will be in a much better position to reach some of their strategic goals and reposition themselves in the digital ecosystem.

A BARREN DECADE

After a period of rapid and huge growth between the 1990s and the mid-2000s, life has not been easy for telecoms operators. They thought they would have a prominent position in the digital ecosystem but, in many ways, they have been displaced to the periphery. They witnessed customers falling in love with new players, whether they were vendors of handsets and devices or digital companies selling Over-The-Top (OTT) content. At the same time, customers showed indifference, or even a negative attitude, towards operators. And in some countries, especially in Europe, changes in regulation and technology disrupted the prevailing economics by forcing markets to become more competitive.

As a consequence, other digital economy players have massively outperformed telecoms operators in terms of value creation for shareholders and perceived utility creation for customers and societies. Despite showing healthy profit and loss statements (P&Ls), for telecoms operators the past ten years have felt as tough as crossing the desert.

In this context, operators have often devised and communicated strategies to achieve three main goals:

- 1. Reconnect with customers.** Telecoms operators need to reverse the current perception that they behave as oligopolies and are neither transparent nor loyal to customers. They need to establish more than transactional relationships by reaching customers' emotions.
- 2. Escape the curse of commoditisation.** This is true of operators in most competitive countries, and they need to avoid prolonging price wars that have, in some cases, lasted up to five years. This price-based competition has destroyed a significant part of the revenue base and the margin of most competitors in Europe; it threatens to do the same in other geographies as their markets mature.
- 3. Find a comfortable place in the digital ecosystem.** Other digital players have designed and marketed innovative and successful services that use the telecoms network infrastructure, and have done so without sharing the resulting value with those who own (or pay for) the network.

Different levers have to be pulled to achieve these goals. The value proposition offered to customers is one of them, but it often does not contribute to the operator's strategic aims (see Exhibit 1).

On one hand, value propositions are marketed on the basis of functional features; they seldom talk to customers' emotions or emotional needs. Despite operators' claims about building lasting relationships with consumers, their value propositions are still too transactional: "you give me X; in return I give you Y". On the other hand, operators have designed value propositions that might appear to fight the price battle by selling a price (especially in the mobile sector): "5GB in return for \$10". This makes value propositions more easily comparable and steepens the slope of the commoditisation curve.

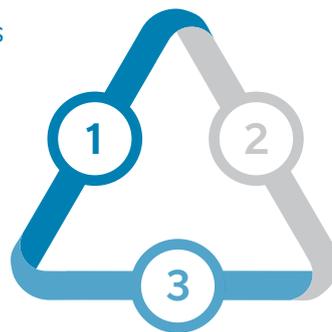
Offers for video content follow similar schemes: "three channels for €30". But many other value propositions are based on connectivity. They reflect a sort of psychological acceptance by operators that they have lost the battle for customers in the digital space. So the question seems to be, "If value propositions must be redesigned, how do we do it?"

Exhibit 1: For years, telecoms operators have been pursuing a number of strategic goals, some of them proving hard to achieve

Some key strategic goals of the telecoms industry

RECONNECTING WITH CUSTOMERS

Being liked and trusted by customers, connecting to their emotions, satisfying their needs, and being part of their lives



ESCAPING FROM PRICE-DRIVEN COMPETITION

Crafting value propositions that emphasise attributes other than price, and escaping from price competition and the growing commoditisation trend of connectivity

FINDING A COMFORTABLE PLACE IN THE DIGITAL ECOSYSTEM

Trying to keep as much value as possible within the digital ecosystem, especially in the digital home environment

FROM SELLING PRODUCTS TO SELLING EXPERIENCES: EXAMPLES IN OTHER INDUSTRIES

Other industries have walked the talk. They have not only designed and marketed value propositions that directly target customers' emotions but also succeeded in building emotional links between supply and demand, thereby escaping direct price competition. Let's look at some examples.

Among the first moves in this direction was Coca-Cola's brilliant "the real thing" campaign in 1971. Before that, the company marketed its drink by emphasizing its functional benefits: refreshing, tasty, sparkling. But from that moment on, Coca-Cola focused on marketing the vast array of feelings and emotions that consumers have when drinking Coca-Cola in different settings: kinship, peace, love, and so on. For many years, car makers sold the functional traits of their cars: safety, power, speed, comfort, equipment, durability, and so on. But more recently, car makers have been marketing a very different set of benefits: things like the joy of driving, the excitement of being an explorer, being trendy and cool, and standing out from the crowd.

Another powerful example of this change in value propositions comes from the world of haute cuisine. Restaurants used to offer the best cooked food, created from exclusive raw ingredients and combined with a top selection of wines and luxury cutlery. Now they offer a comprehensive experience, designed as an indivisible whole, which cannot be unbundled by customers. There might not even be a menu, and no choice of starters, main courses, or desserts. And the dining room might be multi-sensory, with elements that play on customers' sense of smell as well as the visual spectacle, for example.

The leisure industry provides a further showcase for this trend. Theme parks are no longer a collection of attractions but rather "experience spaces" in which to trigger thrilling emotions. When offering tourism packages, leisure companies market the experience of living a different life for days, weeks, or more.

Exhibit 2: What do experience-marketing approaches have in common?

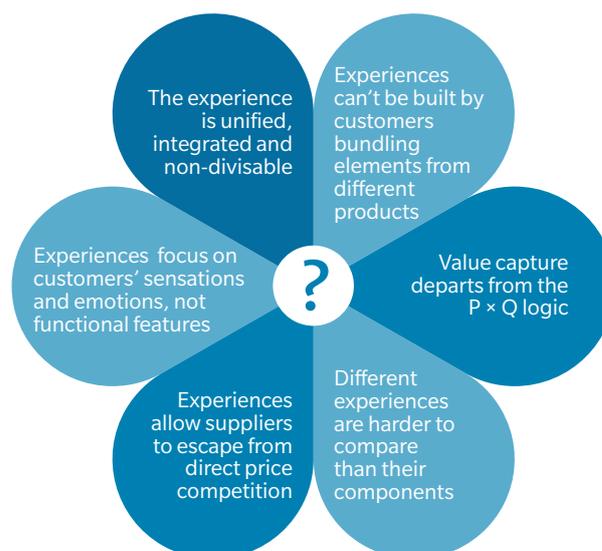


Exhibit 2 summarises the points these experience-based marketing approaches have in common, and we can observe some remarkable characteristics:

- There is an emotional connection between companies and their customers.
- Value propositions are far more differentiated and difficult to compare.
- Experiences cannot be unbundled: for example, a customer cannot order an Audi R8 with an A4 engine and A6 brakes, since an R8 has been designed for a certain experience and each element is required to deliver it.
- Value capture mechanisms are designed to address customers' budgets rather than to manage unitary prices: the price of each component is not visible because what matters is the price of the experience itself.

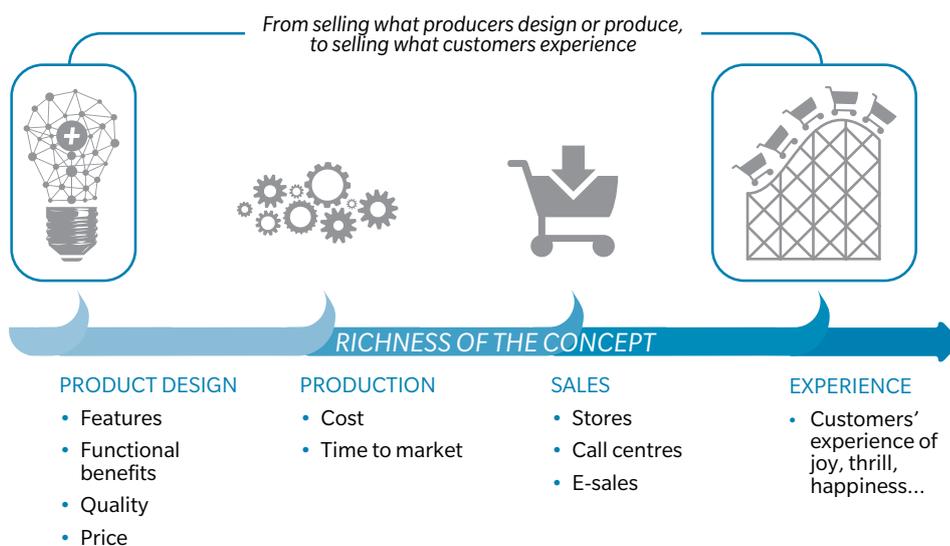
A COPERNICAN SHIFT IN MARKETING

Moving from selling products or services to selling experiences was a real Copernican shift in the way these industries thought about marketing. It was based on a powerful insight:

- The experience customers have when they consume the products or services they buy is a different thing from the products and services themselves.
- That experience is much richer than the products or services because it involves an array of emotions, feelings, and sensations that come not only from the products or services but also from the context in which customers consume them.

The experience of drinking Coca-Cola with friends involves friendship. The experience of driving a BMW promotes feelings of empowerment, distinction, exclusivity, or success. And the experience of trekking in an exotic destination triggers the emotion of discovery and feeling of adventure. So, if experiences are much richer and more powerful than the products and services that enable them, why not shift the emphasis from marketing products and services to marketing experiences? This change in perspective is the real, ultimate customer-centred approach. Radically, it starts from what people feel, not only when looking at the interactions between the company and its customers but also when designing the value proposition itself. But is experience-based marketing a worthwhile route for telecoms operators?

Exhibit 3: A Copernican shift in approach: marketing experiences

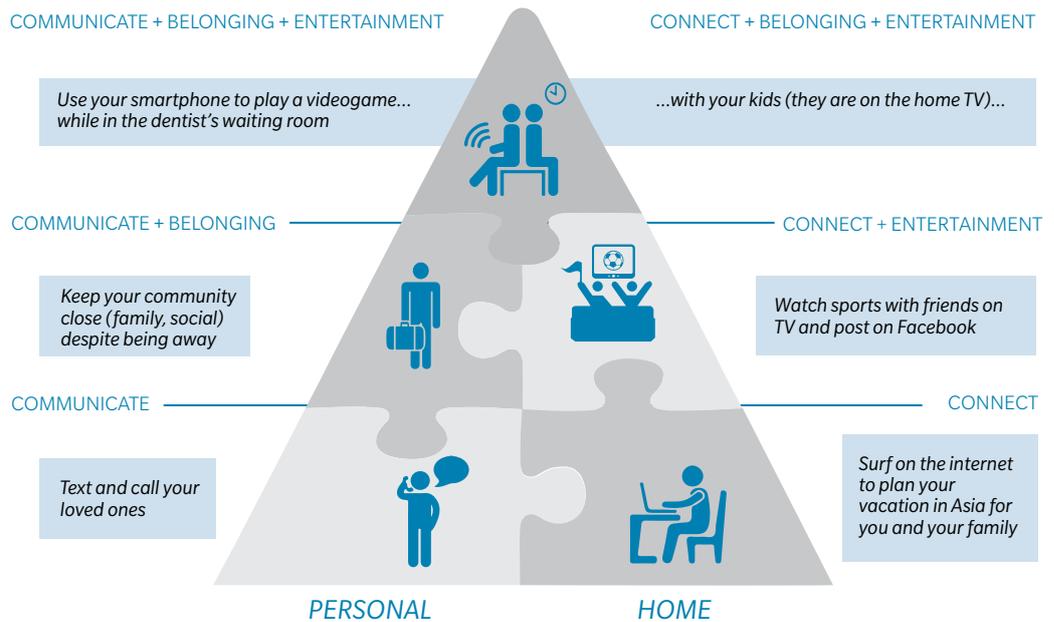


EXPERIENCE-BASED CONVERGENCE

Most telecoms operators' value propositions have so far been based on their products and services. They still use the old approach, depicted in Exhibit 3 (starting from the left-hand side of the diagram). Not surprisingly, convergence value propositions have mostly been bundles of stand-alone elements at a discounted price. We believe there is an alternative to this method of marketing for telecoms, based on what other industries have done successfully, namely marketing the experience. Some of our recent fixed-mobile projects have already taken this approach.

A convergent value proposition could be conceived not as the bundle of some stand-alone products but as three intertwined layers of experiences, which cannot be found in isolation or unbundled by customers: connectivity, content, and service. Converged offers provide the sort of connectivity that cannot be found elsewhere because the rich, accessible content as a whole is qualitatively different from the individual parts. However, the question remains, "What are the emotional elements of this hypothetical value proposition?" To find an answer, telecoms operators could start by understanding the kinds of emotions and feelings that come into play when customers use their services, such as getting in touch, belonging, enjoying, and taking care of loved ones. Exhibit 4 shows a potential model for classifying these sentiments.

Exhibit 4: To create an experience-based convergent value proposition, the starting point should be customers and their emotional and functional needs



Let's think about how this works in practice. A teenager messages tens of friends at the same time through their smartphone. A parent travelling away on business holds a FaceTime session with their children. Friends play a game "together" but on different devices in various locations. These experiences go far deeper than just a set of individuals using a service, and it's true to say that "the real thing" is about emotions and feelings. So we can begin to see that the intertwined layers of experience equate to one or more of the emotions described in Exhibit 4. Telecoms operators need to redesign their marketing narrative based on this connection.

CONCLUSION

Would this experience-based convergence approach really help operators to move in the right direction? We think it would. And it would be different from current propositions (see Exhibit 5).

Experience-based convergence would allow operators to get closer to the strategic goals we described earlier, serving as a key building block to help operators position their products and services in a totally new way. In turn, this positioning would enable operators to appeal to customers' emotions and feelings – about their experience – and, through this different communication style, establish new connections and more emotional links.

It would allow better differentiation of value propositions, thereby creating a competitive dynamic that is driven less by direct price competition and more by better insights into customers' needs and emotions. The result? A richer space for innovative ideas and concepts.

Exhibit 5: Why would this experience-based convergence be different from current convergent value propositions?

1	It speaks directly, to customers' emotions, providing a unified integrated experience of connectivity, entertainment, and service...	<ul style="list-style-type: none">• A fully integrated experience of seamless connectivity, indoors and outdoors, supporting an equally seamless experience of content usage and entertainment, and supported by a 24/7 service• Bring your home with you in your mobile, and manage your home as if it is your mobile
2	...which cannot be rebuilt by customers with bits and pieces from stand-alone products	<ul style="list-style-type: none">• Exclusive features not to be found in other, stand-alone, offers<ul style="list-style-type: none">– Exclusive connectivity (such as abundance of mobile data)– Video everywhere
3	Value capture departs from the P × Q logic and is centred around ARPU management	<ul style="list-style-type: none">• A single price point for the full experience, not broken down to the prices of each of its elements; there is not a "Q" to be multiplied by a "P", beyond the full experience itself• In a world of data, with huge gross margins and technology helping to overcome capacity constraints, the focus has to move from managing price to managing ARPU (caveat: this doesn't apply to content)
4	It's more difficult to make comparisons between value propositions	<ul style="list-style-type: none">• 1GB is 1GB, regardless of who offers it• It's much more difficult to compare two different packages of landline and wireless connectivity, content, and service

Experience-based convergence would also improve operators' ability to capture part of the value created for customers. Value capture would not be based on sustaining a given unitary price point for each of the building blocks of the new value proposition. In fact, these unitary prices wouldn't be visible for consumers. Instead, the new value propositions would target customers' budgets and, through this, focus on managing Average Revenue Per User (ARPU).

And finally, it would give operators a way to reposition themselves. If operators can persuade us that they are enabling our universe of rich emotions, deep feelings, and plentiful utility every time we connect to a network, they might start to move to a more central position in the digital ecosystem.

ABOUT OLIVER WYMAN

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