Innovative service offerings are about pushing the technology to the limit and pumping out content to the largest possible audience. Right? Wrong, says a new study from Capgemini/INSEAD. Marc Aafjes and Jawad Shaikh suggest operators keep it simple

KICK STARTING INNOVATION

Capgemini's TME Strategy Lab recently completed a project with Professor Ben M Bensaou of INSEAD. The overall objective was to gain a better understanding of European operators' strategies in the consumer market.

At the heart of this collaboration was a consideration of how innovation occurs in the mobile industry – ie, what drives operators' strategies and new product/service development – and how to improve it. The study's conclusions not only provide a way for firms to gain a ▶

competitive edge in today's market, but also help illuminate a path towards 3G service development.

Based on in-depth interviews with 27 European mobile operators and a survey of over 1200 consumers in France, Italy, Sweden and the UK, the study uncovered significant disconnects between what operators compete on and what consumers actually value.

Background

In the past decade, the European mobile sector grew explosively, sparked by the breakthrough value of anytime, anywhere communication. This growth was further fuelled by the innovations of prepaid and SMS – both of which, it should be stressed, were unexpected side effects rather than the results of operators' inherent innovation processes.

Today, however, growth in the European mobile sector is slowing down. While the market still grew at 14.2 per cent between 2000 and 2001, forecasts suggest just 5.2 per cent growth between 2004 and 2005[1]. With high penetration rates across Europe, it is clear we can expect little growth from increases in the customer base. This is why operators are currently searching for the next innovation that will stimulate the market.

Unfortunately, recent offerings like WAP and MMS have so far failed to inspire much in the way of growth.

The disconnect

The Capgemini/INSEAD study discovered that growth has been impeded by operators' failure to deliver innovations that create true value for the mass market. We uncovered significant differences between the factors operators compete on and what consumers actually value.

Pricing

Although consumers and operators seem to agree on the importance of price (see figure 1), this was the subject on which 57 per cent of respondents voiced frustration rather than satisfaction.

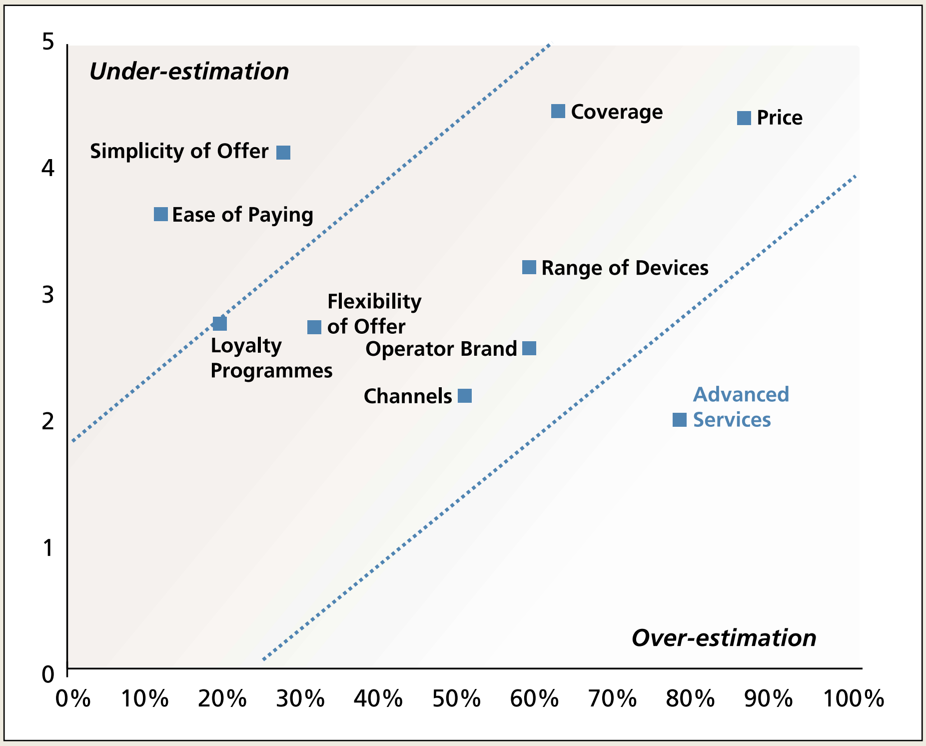

Figure 1: Conflicting views of value (importance of factors driving consumer choice versus factors operators compete on

Obviously, buyers want prices to be as low as possible, while operators want to avoid lowering their margins. Yet it could be argued that reducing prices might spur the market to grow beyond its current boundaries. This might be a way for mobile service providers to create a viable alternative to services in adjacent markets.

Take the example of fixed versus mobile choice. In most countries, users still employ their fixed lines extensively – for every minute spent on mobile, they spend almost two on fixed. The main reason for this imbalance is that fixed services cost less.

[1]. *Capgemini analysis based on data from various press releases from the Mobile Data Association in the UK.*

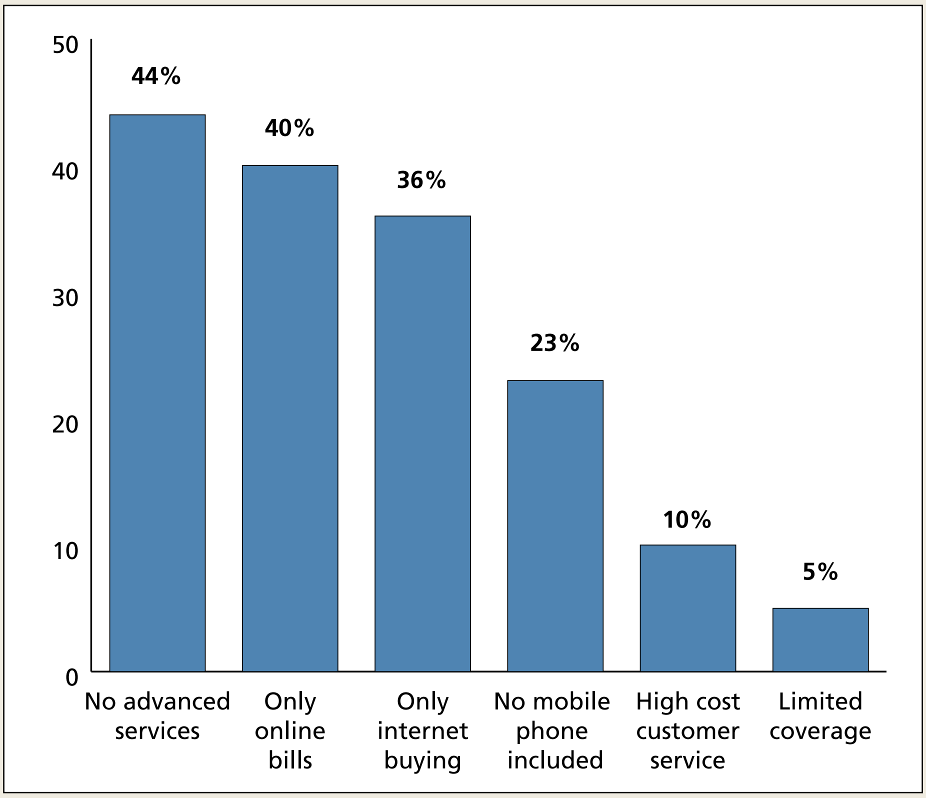

Figure 2: Question: Which, if any, of the following would you be prepared to accept, in order to receive a discount from your mobile phone operator?

Offering price plans that make mobile a viable substitute for a fixed line could grow mobile's market share significantly at the expense of fixed. For example, 79 per cent of consumers indicated that they would use their mobile instead of their fixed-line if they were offered a discount for calling friends or family.

But reduced prices do not have to come solely from operator concessions – it seems a sizeable number of consumers are willing to trade down on certain features. For example:

- 44 per cent of respondents said they would be willing to give up advanced services; and
- 40 per cent would accept online-only buying; and
- 36 per cent would accept online-only bills in exchange for a discount on their mobile costs (see figure 2).

Coverage

Like pricing, coverage registered high with both consumers and operators. More than 67 per cent of Swedish respondents and an average of 44 per cent in France, Italy, and the UK expressed frustration with this aspect of service provision.

From a geographic standpoint, Europe has relatively high coverage. Nevertheless, our survey suggests that 74 per cent of users would increase their mobile usage if in-building coverage was improved and there was better coverage in places like underground and over-ground trains.

It's important to recognise that being able to make calls anywhere and anytime is not just about network availability. Coverage is just one aspect of the broader value element of convenience.

There's no doubt that being unable to make a call due to inadequate coverage is an inconvenience for consumers. But likewise there are some situations in which a consumer may have adequate reception, but is unable to make a call because they have their hands full. Operators can remove this inconvenience by, for example, making the purchase of a car kit a non-decision – 79 per cent of respondents indicated they would use their mobiles more if operators subsidised car kits. And 68 per cent of

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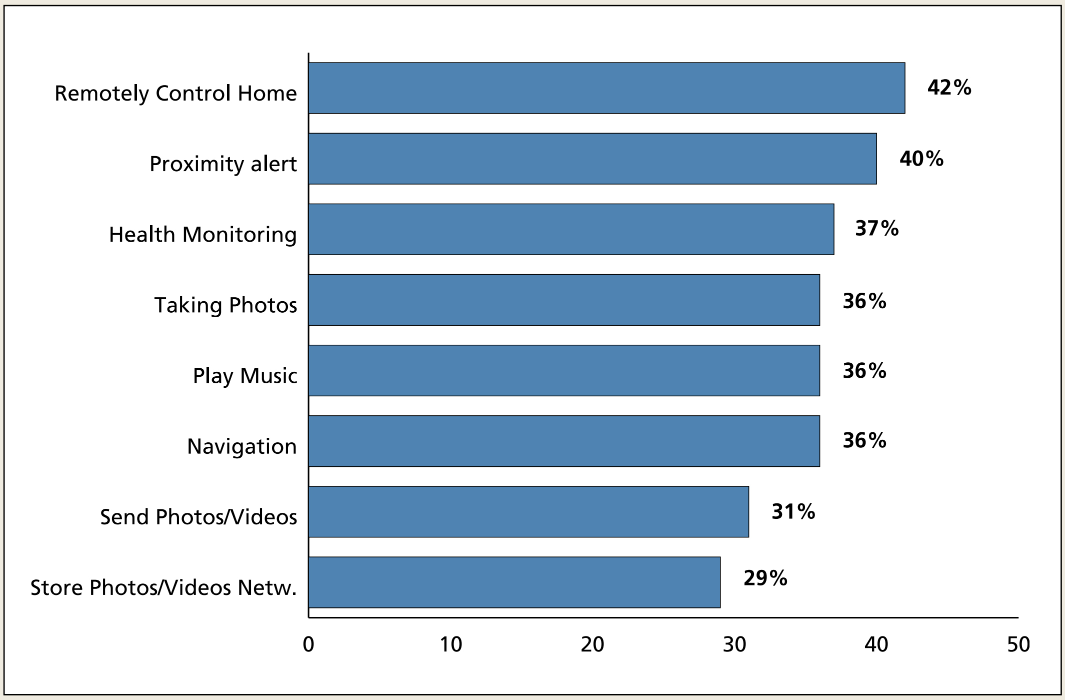

Figure 3: Interest in Selected Mobile Services

should be easier. Surprisingly, 21 per cent of prepaid users – who by design have more control over their mobile costs – feel the same way.

And when it comes to actually paying, both prepaid and post-paid customers find the process far from convenient – particularly prepaid users, who find making top-up payments inconvenient.

consumers said they would increase usage if services were voice-enabled – allowing them, for instance, to dictate an SMS.

Ease of paying

Many operators underestimate the value of convenience in the payment process. In our survey, 54 per cent of post-paid and 78 per cent of prepaid users rated ease of paying important or very important. Tellingly, just 12 per cent of operators identified this as a key factor on which to compete.

"When it comes to actually paying, both prepaid and post-paid customers find the process far from convenient."

More than a third of post-paid users stated that the monitoring and controlling of their mobile charges

Simplicity

The simplicity of both handsets and marketing offers are also more important to users than most operators realise.

Many users believe that advanced features add more complexity than value to a device. They would prefer that handsets were simpler.

Unsurprisingly, age is the key factor in determining which consumers prefer a simple phone with easy-to-use features over a device with many advanced features. Younger users prefer more advanced phones; the opposite tends to be true for those 35 and over.

On a similar theme, tariff and subscription structures seem needlessly complex to quite a few consumers. The study indicated that 'simplicity of offer' was very important in determining consumers' purchasing decisions – on average they ranked it 4.3 out of 5.

Once again, the survey indicates a significant disconnect in operators' view of this aspect of service provision. Only a quarter of the interviewed operators identified simplicity of offer as a key factor on which to compete.

Advanced services

On the other hand, many operators regard advanced services – such as i-mode or Live! and MMS-based services – as key differentiators. By contrast, consumers rank advanced service provision lowest of all, with 73 per cent considering it unimportant.

It is certainly the case that many people simply do not use their mobile phones beyond the basic service offered by all operators. For instance, 66 per cent of our respondents had never sent or received an MMS. In addition, some consumers find that they are already being offered more services than they can cope with. As one interviewee put it, 'Too many services are offered already – less would be more.'

This does not mean, of course, that advanced services have no future. Adoption takes time, and while these services may not be prime purchasing criteria for most consumers today, many are starting to use them.

The watchwords are 'effective targeting'. In specific demographic sectors there are healthy levels of interest across a wide range of services. Operators need to ensure their propositions offer clear and compelling utility to users – at the right price and targeted at the right people.

However, the takeaway here is that given consumers' stated lack of interest in advanced services, operators would do well to recalibrate the emphasis they place on them at the expense of the more basic value elements such as price and coverage.

In the development of future applications, operators can go beyond what is currently available and explore synergies between the usage of mobile phones and the consumption of other products and services.

For instance, music is one area in which there are clear links between mobility and added value. Portable digital music players, such as Apple's iPod, are now gaining traction as they enable people to carry an entire music library wherever they go. This combination of music and mobiles suggests a few service opportunities for operators, such as using mobiles to purchase music.

"Operators need to explore ways to enhance the basic mobile value proposition of anytime, anywhere communication."

The disconnections our research found between the key factors operators compete on and what consumers value, provide several opportunities for innovation. Operators can redesign pricing, make the experience simpler, increase convenience, and take a fresh look at how much they emphasise advanced services.

But beyond exploiting these opportunities, it is critical that operators understand why these differences exist in the first place.

Unlocking strategic thinking

Innovation is vital for mobile telecom players to overcome the gridlock of declining growth and increasing competition. But operators' current approaches to innovation do not take sufficient note of the aspects of mobile communications that consumers value most.

In short, operators seem more concerned with each other's moves and fighting market-share battles, than with creating more value for consumers and finding new sources of sustainable growth.

There are, however, exceptions. Players such as Comviq in Sweden have recognised this latent consumer need, offering a basic, simple service at a low price. To maintain a lower cost structure, Comviq provides few advanced services and does not have its own stores, but uses specific retailers and the internet instead. While at €19 per month the firm's ARPU is relatively low – in contrast to €43 for Vodafone and €31 for TeliaSonera –

Comviq achieved 50 per cent EBITDA margin compared to 43 per cent for Vodafone and 41 per cent for TeliaSonera.

The success of players such as Comviq and Telmore in Denmark suggests that operators need to explore ways to enhance the basic mobile value proposition of anytime, anywhere communication. They need to focus on improving the customer's experience of basic value elements such as simplicity, price, and convenience.

"A no-frills service will only succeed if its lower prices are supported by a lower cost structure, so that profitability can be sustained."

Many incumbents may be reluctant to pursue this opportunity, fearing dilution of their premium brand image or margin erosion. However, the expressed consumer desire for simple and convenient propositions at low prices is a mass-market phenomenon that cannot be overlooked.

It would also be a misconception to equate targeting this market with the pursuit of low-value customers.

Our view is that this back-to-basics market very likely includes many high-value consumers who use their mobiles mainly for voice services. This is a significant opportunity, and there are already signs that new players will enter the market should incumbents choose to ignore it.

Across Europe, low-cost 'no-frills' providers are emerging that are targeting the bread-and-butter revenues of large operators. Telmore in Denmark, for instance, has already captured over ten per cent of the local market.

One way to overcome incumbent concerns might be to set up a second brand focused on exploiting this opportunity. But it is not enough simply to launch a new brand with a big marketing splash. A no-frills service will only succeed if its lower prices are supported by a lower cost structure, so that profitability can be sustained. In practice, for operators to succeed in this market they will likely require a standalone, low-cost operation structure that is allowed to make trade-offs – eg, using an internet-only sales approach.

In parallel, however, operators should continue to explore opportunities to create new market space by adding fresh elements to the proposition. Knowing that today's consumers place less value on advanced services than mobile basics, the breakthrough innovation opportunity for operators might well be in identifying and exploiting demands that consumers themselves do not yet recognise.

Innovative ideas that redefine markets are never obvious. Effective innovations that open up new market space that others have never explored before are, initially, difficult to articulate. It is even more difficult to present a rock solid business case for such offerings.

The bottom line is that operators need an intimate knowledge of their customers and open and creative strategies for exploring opportunities that go beyond current industry boundaries. This means spending less time evolving strategies that address the offerings of competitors and more effort determining the real needs of customers. ■

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