Shift from engineering centricity to services-driven customer centricity, including the continued growth in ‘Over the Top’ services

The increasing availability of technology intellectual property, together with lowered access costs from an investment perspective, has brought about the commoditisation of technology through an array of alternate technology services offered by market competitors.

Whilst traditionally companies in the TMT sector prided themselves on engineering or network excellence, these are now no longer enough of a key differentiator for companies to justify charging customers a premium price for their products or services.

As customer expectations have increased, so have customer demands, along with changing customer spending patterns, as information becomes more readily available and they become more immersed in the digital experience of buying products and services.

In this increasingly commoditised market, and in order to sustain a competitive advantage, companies are shifting their customer service models from being more product centric to more services-driven customer centric. They are differentiating themselves by offering something ‘over and above’ the product, through the integration of products and services to provide personalised outcomes for customers.

In order to better understand their customers, companies are leveraging modern systems and capabilities to create customer segmentation models that can be used to tailor services. These segmentations are typically based on customers’ behaviours and demographics with the goal of creating personas that exemplify their end customers.

**Marketplace evidence – mid-market players**

- **iiNet**, in its effort to delight customers through anticipating their needs and promptly resolving any issues, has positioned its branding amongst its competitors as the strongest in customer service, with an industry-leading Net Promoter Score (NPS) of 62. Furthermore, as part of the iiNet acquisition by TPG, TPG has promised to maintain iiNet’s customer-centric culture and will adopt certain iiNet customer practices as part of TPG’s own culture.

- **The emergence of Mobile Virtual Network Operators (MVNOs) in Australia such as Amaysim, Dodo, Lycamobile, TPG Mobile and AAPT Mobile, has allowed these operators to focus on achieving customer centricity through a focus on customer sales, marketing and support, whilst outsourcing their back-office and customer billing operations. Customers are offered unique customer value propositions, with a different branding approach and strategy.**

- **Cricket Australia** has been successful in understanding the sports fan and needs of a cricket supporter, and providing digital services structured around the customer journey. For example, it partnered with a telecommunications services provider to offer live streaming matches and free season passes to enable customers to watch cricket matches anytime, anywhere.

- **Envato**, an Australian online marketplace for user-created digital assets such as website themes, audio, graphics and fonts, has managed to successfully grow its user base and developer ecosystem. It achieved this through an intense focus on platform user design, user feedback collection, the quality of the offerings, and innovative products such as the ‘Netflix for design’ subscription model. This allows heavy-duty users to have unlimited downloads of products on its platform.

- **Foxtel**, the market leader in paid television in Australia for decades, experienced declining market share as a result of new entrants with innovative customer focused offerings. To combat competition (such as Stan and Presto), Foxtel introduced innovative offerings of its own including Foxtel Go, Foxtel Play, mobile applications and TV combos, enabling customers to choose select channel packs based on their unique interests.

**Marketplace evidence – key local and global players**

- **iiNet**, in its effort to delight customers through anticipating their needs and promptly resolving any issues, has positioned its branding amongst its competitors as the strongest in customer service, with an industry-leading Net Promoter Score (NPS) of 62. Furthermore, as part of the iiNet acquisition by TPG, TPG has promised to maintain iiNet’s customer-centric culture and will adopt certain iiNet customer practices as part of TPG’s own culture.
• International video gaming company Electronic Arts (EA) launched a comeback strategy revolving around player-centric moves, including cutting unpopular online fees for customers and money-back guarantees for PC games. Through its player-focused approach, it will continue to roll out new player-focused initiatives, including its launch of a competitive gaming division.

• Cisco has a customer focused culture as part of its key competitive advantage, where everyone in the company is empowered to act on behalf of customers. Executive KPIs are measured on customer satisfaction ratings. Cisco focuses only on key areas that improve the customer experience and add value to its core routing and networking businesses.

• Facebook is a success with users due to its awareness of the importance of user centricity. By implementing curated news feeds which personalise news for each user based on their interests, the application constantly refreshes the list of stories for users by taking into account status updates, photos, videos, links, app activity, ‘likes’ and interactions. By doing this, Facebook ensures that its users constantly receive compelling content, which will ensure they keep returning.

These examples demonstrate there is a need for mid-market companies to create customer centric offerings and services based on a deep understanding of their target market. Companies that will thrive are those that have the capabilities to analyse their customers’ needs and behaviours, and have the willingness to tailor their core business processes and invest in systems to meet their customers’ demands.

OTT applications and services enabled by smart technologies, modern IP networks, innovative business models, including a shift in consumer preferences towards ‘freemium-based’ pricing models, are seeing an increasing adoption rate.

Impact of disruptive technologies on the way telecom companies serve customers

"To what extent are each of the following technology areas changing how you serve your customers"? (moderate or significant impact)

<table>
<thead>
<tr>
<th>Technology Area</th>
<th>Impact Level</th>
</tr>
</thead>
<tbody>
<tr>
<td>Data and analytics (analysis of data to create real-time change)</td>
<td>80%</td>
</tr>
<tr>
<td>Mobile (mobile devices and applications)</td>
<td>78%</td>
</tr>
<tr>
<td>Cloud (cloud services delivered over the internet)</td>
<td>77%</td>
</tr>
<tr>
<td>Social media (social networking and collaboration platforms)</td>
<td>77%</td>
</tr>
<tr>
<td>Internet of things (IoT) (connected devices and systems)</td>
<td>74%</td>
</tr>
<tr>
<td>Marketing platforms (digital media, advertising platforms)</td>
<td>73%</td>
</tr>
<tr>
<td>Digital payments and currency (e.g., mobile payment systems, etc.)</td>
<td>72%</td>
</tr>
<tr>
<td>Artificial intelligence (AI) (smart robots and systems)</td>
<td>70%</td>
</tr>
<tr>
<td>Opened marketplace platforms</td>
<td>68%</td>
</tr>
<tr>
<td>Wearable devices (IoT) (wearable and connected devices)</td>
<td>64%</td>
</tr>
<tr>
<td>Virtual reality/augmented reality (VR/AR) displays and platforms</td>
<td>64%</td>
</tr>
<tr>
<td>Robotics (physical systems of automation, including drones and robots)</td>
<td>54%</td>
</tr>
</tbody>
</table>

Base: 580 business and IT decision-makers at telecommunications companies
Source: A commissioned study conducted by Forrester Consulting on behalf of KPMG, January 2016

KPMG insight

Becoming fleet-footed and customer-led

Telecom companies believe that their lack of flexibility and agility is a concern, and they are right to be worried. If telcos want to remain competitive and relevant players in our digitally connected world, they’ll have to be able to move quickly to take advantage of the numerous opportunities that will continue to arise — opportunities that go far beyond connectivity.

As connectivity becomes ubiquitous and individuals and organisations rely on a near-perfect network service 24/7, telcos risk becoming commodity providers. Far worse, they could be squeezed out of the network space altogether by new disruptors. The photographic sector offers a good example. People today take far more photos than ever before, but it’s not the traditional companies that invented the digital camera that are dominating the sector. Instead, it’s mobile phone manufacturers and internet businesses, like Instagram, that are deriving the most value. To avoid this fate, telecom companies need to address their flexibility and agility.

Continued Growth in ‘Over the Top’ services

Over the past decade, there has been continued interest and explosive growth in OTT services, particularly in mobile device applications. OTT services are defined as third-party services that are delivered to customers over the internet, bypassing the traditional operator’s network.

The provision of OTT services has traditionally managed to attract large profit margins as a result of high customer stickiness and pricing power associated with their unique service.

Customers use OTT services to find exactly what they want, and often due to competition, for the lowest price available. The provision of these services through ‘unbundling’ allows customers to start fulfilling their own unmet needs and wants as these services were previously unavailable.

From the incumbent operator’s perspective, the OTT challenge (and opportunity) further extends when the content and range of services offered by OTT players provides a substitute for an operator’s core product offering (e.g. SMS) which have traditionally been more restricted, expensive and limited.
As a result, companies are exploring various opportunities or avenues to partner with OTT players and/or to acquire their own ‘value-add’ products to protect and grow their customer base.

According to Nielsen, consumers spent 3.6 hours per week watching OTT video in 2014. By 2020, Nielsen predicts that viewers will spend almost 19 hours per week watching video delivered via an OTT service.

**Marketplace evidence – mid-market players**

- Many mid-market telecommunications and media companies, such as Norwood, Freshstart, M2 group and Mooney Valley Racing Club, are all increasingly using OTT services such as mobile applications to enable their customers to receive instantaneous digital-based services and information.
- Through teaming up with IPMG, a mid-market application creation service provider, Fox Sports created a full digital solution enabling customers to stream international tournaments live, available on any device, personalised with news, analysis, statistics and insights and video – for every conceivable sport, with the service available anywhere, anytime.

Australia has an emerging and vibrant start-up and mid-market player ecosystem, with more than 280,000 players, and with many of these focused on mobile-based OTT services. Through accelerators such as Start Up Australia and Telstra’s muru-D, coupled with Australian venture capital funds looking to triple their record 2015 fundraising efforts with $900 million of new investment, the pace of OTT services look set to increase.

**Marketplace evidence – key local and global players**

- Optus has offered access to free-music streaming services such as Spotify, Google Play and Pandora, enticing customers to switch onto the network’s plans. Telstra via its Ventures division is investing in fast growing OTT providers in China with its investment in Cloopen.
- Netflix, Amazon and Instagram allow users to, respectively, ‘binge-watch’ television shows, shop online, and share images instantly, making it highly convenient for them – which was not the case before the advent of these apps.
- Apple launched Apple Music, offering customers a free trial and thereafter a monthly payment subscription service, made through their single Apple account. In just over a year it accrued approximately 17 million subscribers, reflecting Apple’s success in cross-selling a new product to its existing customer base.

Through partnerships with start-ups, OTT services might be an attractive option for mid-market companies as a means to minimise risk, secure valuable talent and resources, and avoid lengthy capability development cycles.

**Competitive pressures drive disruptive technology fears**

“To what do you attribute the negative impact of disruptive technologies on our organisation’s performance?”

- Our competitors are leveraging disruptive technologies to their advantage: 69%
- New competitors have emerged from within our industry: 54%
- Base: 72 business and IT decision-makers at telecommunications companies where disruptive technologies are having a somewhat, or significant negative impact, on their organisation

**Implications for mid-market companies**

**There is a need to create customer centric offerings and services based on a deep understanding of your target market**

Companies that will thrive are those with the capabilities to analyse their customers’ needs and behaviours, and the willingness to tailor their core business processes and invest in systems to effectively meet their customers’ demands.

These companies will require an overarching customer strategy for achieving customer centricity, supported by a flexible operating model that is designed around customers instead of products. Elements that should be included within the design of a customer strategy include:

- **Identifying your target market** – with the use of research tools to identify common demographic characteristics within your customer base, and behavioural patterns
- **Identifying your customer needs** – focusing on uncovering the key needs of your customers and understanding how your products or services can meet those needs
- **Charting your customer experience** – including identifying the various customer touch-points, available customer options and key pain points
- **Designing the future customer or product experience** – identifying how you can provide the best experience enabled by new capabilities or process improvement
- **Identifying how to achieve a high ROI on customer related digital capabilities.**
Capability acquisition should focus on improving understanding and building a clear view of customers, such as their browsing habits, location movements, and social media listening. Gaining deeper customer insights can reduce customer attrition, grow customer advocacy and revenue.

Mid-market companies are in a unique position to benefit from this environment, given they are traditionally closer to their customers, are not inhibited by legacy decisions and have the flexibility in charting a unique customer experience as part of building their identity, i.e. what they want to be known for.

There is a need to leverage modern systems and capabilities to better serve customers and ensure scalable, efficient back office operations.

Mid-market companies in this sector need to better leverage modern systems and capabilities across:

- **Digital customer experience** – enabling a seamless, digital experience across multiple channels for your customers, enabling the full and latest technological access (leveraging the use of Virtual Reality) for products and services
- **Data & analytics** – leveraging data to identify customer behaviours, spend patterns and trends with the goal to better inform management decision making, improve customer advocacy and improve customer service personalisation
- **Scaleable architecture** – ensuring the system architecture is scaleable in support of future growth of your company through increased customers and internal users of these systems
- **Interoperability** – ensuring there is seamless integration with third party or external party systems in order to minimise manual intervention and touchpoints required
- **Access to best-practice** – through a cloud-based system design and configuration that is continually updated for system improvements and enhancements through ongoing vendor research and development
- **Automation and digital labour** – maximising the level of automation in business processes through use of digital labour that will enable a shift in focus from transaction processing to higher value-added activities.

Given the planning and investment made into these capabilities, companies are able to achieve a high return on their investment through higher margins, higher revenue contribution per customer and increase in the number of customers.

**KPMG insight**

**Using disruptive technology to increase monetisation**

With the advent of digital, powered by the cloud, many tech companies can now reach customers that were previously inaccessible. Take enterprise software as an example. The traditional go-to-market model involved a large sales force and integration team, focusing on bigger, often multinational, corporate clients demanding tailored solutions. All this was out of reach for small or medium-sized businesses (SME) — until now. Cloud enables a largely online sales process and a more standardised solution, with a cloud-enabled model of after-sales support — which puts these offerings within the price range of a far wider audience.

Electronics contract manufacturers, which make a range of wearables and other products for tech companies, have harnessed D&A to expand their solutions. Making use of their knowledge of clients’ supply chains and sales patterns, these producers can offer important intelligence on costs, demand trends and customer needs. Their clients are willing to pay for these valuable insights for benchmarking, operational and marketing purposes.

**Philip Wong**
Principal
Technology, Media and Telecommunications
Global Strategy Group
KPMG in the US
In summary

Mid-market companies, due to their size and speed in decision-making capability, are in a unique position to act quickly on changing trends and customer behaviours. By being not inhibited by legacy systems or large technology investments historically, mid-market companies are able to efficiently leverage the latest technology advances such as cloud-based systems and/or business intelligence platforms to increase their knowledge about their customers, and to utilise these insights to improve their customer management practices.

In Viewpoint 2, we examine the blurring of the sector lines between Technology, Media and Telecommunications, and what it means for mid-market operators in this sector.