



DRIVING TELCO CUSTOMER EXPERIENCE THROUGH COST RESTRUCTURING

Incumbent Communication Service Providers (CSPs) face significant challenges to compete with digital natives. This paper covers how these CSPs can restructure costs to fund required investment. It also provides a perspective on the options available to improve customer experience despite cost pressures.

Driving telco customer experience through cost restructuring

Telecommunications is a complex, rapidly-changing technology business, and that complexity adds to the already steep investments required for this industry. However, in a market defined by consumers expecting nearly free telecom and media services, what can traditional providers do?

CSPs have had to invest billions of dollars to deploy large networks and associated cabling, spectrum and exchange infrastructure. After deployment, they've had to spend additional billions to manage it via hundreds of custom OSS/BSS (operations/business) IT solutions. Finally, they've had to operate their networks with an army of field engineers, network operations, service centers, marketing teams, help desks, local distribution resellers, franchising owners and other pieces of this complicated puzzle.

These huge fixed costs are a big burden to companies, and cost restructuring has emerged as a major CSP priority. Established CSPs struggle to compete with industry digital natives who are less burdened with legacy networks and bring more aggressive and sophisticated marketing strategies, pricing models and modern infrastructure.

The old adage about reputation also holds true for CSP market share: While it takes years to develop, it can be lost in just months. If established CSPs lose market share, it requires much more effort to recover it. Customer experience has become a competitive differentiator, yet cost optimization is necessary for survival and drives investment strategy across enterprises.

For example, T-Mobile's net profit plummeted in 2011-12 as the company lost nearly five million of its lucrative postpaid customers. The decline signaled an imminent crisis, and for nearly a decade, T-Mobile's subscriber count has lagged behind its three largest competitors: AT&T, Verizon and Sprint.

But in 2013, T-Mobile significantly disrupted the US telecom industry, changing the business model and marketing strategy. In addition, T-Mobile invested billions of dollars developing a consumer-oriented image that helped the company become the fastest-growing mobile service provider in the United States.

The disruption started with Un-carrier 1.0, a new kind of cellular plan that avoided annual service contracts and provided affordable pricing plans to customers. Advertisements created nationwide awareness about the program. T-Mobile almost doubled advertising costs between 2011 and 2014, when the company spent \$1.4 billion on advertising and marketing. The company surpassed its largest competitors in relative terms — its advertising costs per dollar of sales were nearly double that of AT&T and Verizon.

An iconoclastic rebel image and extensive marketing investment helped T-Mobile attract 15 million new customers (a 35% increase) and increase sales by \$4 billion since the launch of Un-carrier.

This customer experience improvement was made possible by a combination of bold management and operational cost reduction activities that enabled the spike in advertising and promotion.

To reinvent how CSP businesses approach customer service, T-Mobile went old school by connecting its customers with humans instead of

robots. T-Mobile established a team of experts across the country and turned traditional customer service into customer care. The most recent T-Mobile stage in the Un-carrier journey aims to fix perhaps the biggest problem — the old, broken customer service model, which has disappointed Americans for decades. There are no robots or automatic phone menus. Calls do not bounce from department to department. Now, a customer has a personal concierge within T-Mobile, dedicated to their satisfaction with T-Mobile's services.

Global competition

CSPs compete within geographies for the same customers, and competition can seem to be a zero-sum game. However, global markets offer cases for new competitive models. For example, India is the second largest telecom market in the world and has attracted new entrants. These new entrants include Norwegian multinational telecommunications company Telenor and international telecom giant Vodafone. The number of their telephone subscribers increased rapidly, reaching a combined 255 million in 2018 and adding 10 million new users per month.

CSPs are challenged by their legacy environments and resulting cost structures. However, digital native companies are unburdened by legacy structures and are less encumbered to deploy innovative and cost-effective models. These two factors combine to enable another dimension of competition. For example, Reliance Jio launched its commercial services operations in September 2016, and as of December 2018, the firm became the fourth largest wireless provider in India, with 14% market share.

Reliance Jio's strategy relies on cost optimization, aggressive pricing, and modern technology. The CSP repeated some of the earlier steps implemented by T-Mobile years ago, including low-cost smartphones and market-disrupting plans: low-cost service, free voice calls, apps, text and data (up to 1GB/day). This approach drove a massive 50 million subscribers in less than three months, and the company crossed 130 million subscribers three months later. This growth would not have been possible without a low-cost approach, backed by a high-capacity network, world-class management, infrastructure, technology and customer service.

Operations optimization

Reliance Jio optimized payment cycle frequency by reducing recharges to 4 billing cycles per year, compared to 12 cycles used by other incumbents like Vodafone, Telenor and Airtel. This simplification also reduced pressure on customer service and served as an additional marketing benefit, enabling longer periods of uninterrupted service. It provided other game-changing services like the following:

- Automated ordering and service-activation process — working service in 10 minutes vs. 2-day activation by competitors.
- Data plans at much lower ARPU
- Network Development — network built considering future 5G upgrade
- Network Functions Virtualization
- Software-Defined Networking
- Digital SIM activations through eKYC (know your customer) process.
- Optimized Cost of Sales — Forward-thinking price structures for retailer and

distributors. As a result, Reliance Jio offered its partners margins which are 50% above the market average.

- Starter Business Kit — 4G handsets, related accessories and other materials that supported Reliance Jio's partnership with over 1,000 retailers.

Within three years of launch, Reliance Jio achieved breakeven, where established CSP business models can take 10 years or more to fully recoup major investments.

Redefining cost optimization as transformative growth enabler

Reliance Jio is a prime example of the imminent threat of new entrants to established CSPs. On the other hand, T-Mobile represents how customer experience combined with cost optimization can enable transformative growth for an established CSP. Models will continue to evolve, creating challenges for incumbents; however, this may drive CSPs to evolve even more dynamically than before. Operational problems and cost-reduction initiatives should not be given lip service or pursued solely for their own purposes, but vigorously embraced in order to provide fuel for growth through customer experience.

Rationalization as new optimization and crisis prevention

In the examples above, cost optimization did not simply

represent sharp cost cutting. These companies optimized their cost of operations and strategically allocated funds to drive customer-experience initiatives.

Optimization options

Network Infrastructure:

Our research has found that infrastructure costs can be significantly reduced through analyzing the network ecosystem, diagnosing systemic technological issues, and then implementing practices that leverage new technologies and enable network upgrades. Options include leasing models where a service provider shares space and equipment with other providers. Shared infrastructure reduces the cost of real estate, equipment, maintenance, and even employees. An alternative to sharing space is to lease from other asset-intensive providers like utility companies. Utilities have similar distribution networks and may offer shared assets and facilities, reducing costs for both the utility company and the CSP.

Information Technology: Previous IT solutions required massive investments in hardware, licensed software and siloed solutions with high maintenance costs. Cloud-based solutions offer new options, many of which are open source and support multi-technology, multi-vendor scenarios and are more flexible and less expensive to maintain. Selective application rationalization may also optimize cost. Additional options include selective movement to cloud technologies, infrastructure as a service (IaaS) or platform as a service (PaaS) models, or implementing basic automation. Cloud technology presents an excellent opportunity for infrastructure downsizing. Cloud

usage can be elastically scaled up and down to cover service peaks. For example, certain points in the billing cycle period require a surge in activity when millions of records need to be processed. On other days, system demands are much lower. Savings and ability to respond dynamically come with software as a service (SaaS) models, where the CSP does not need to worry about the infrastructure, performance and applications behind their computing needs.

Operations: In previous operating models, operations relied on human factors, and organizational units operated with fixed in-house teams sized to handle peak demand volumes and standard processes. This approach limited the potential use of automation and intelligence; new models enable teams to redefine processes and continuously improve and automate them. The new models also enable leaders to consider outsourced shared services operations that are contractually scalable and less expensive. As

networks handle high speeds and data volumes, machine-to-machine (M2M) operations can optimize cost structure and enable additional savings. Direct and indirect staff account for 30% of costs for companies in the services industry. Substantial savings are possible from artificial intelligence (AI) and machine learning (ML), moving beyond standard rule-based robotic process automation (RPA) tools. For activities that cannot be automated, outsourcing to reliable and cost-effective service providers can be an option. Leading systems integrators and service providers have a global delivery model and shared services model that ensure cost-minimizing service level agreements (SLAs) are met. In-house automation experts use chatbots, RPA and AI to improve team effectiveness and efficiency. Outcome-based models enriched with reward systems incentivize partners to own risks and creatively solve them. These risks include elastically scaling for demand fluctuations, providing extended business hours coverage and cross-skilling teams.

Integration Challenges:

Unfortunately, not all systems and technologies are truly plug-and-play or perform according to expectations. Solution analysis is required to optimize results and avoid critical problems related to transformation, maintenance and software release. Service providers need to take a gradual approach with targeted initiatives that reduce costs with minimal initial investment. Savings can then be redirected to projects that require seed money. This iterative funding model can create a cascading impact and virtuous cycle, simultaneously saving money and providing funding for customer-experience initiatives. In this way, CSPs can jumpstart transformation efforts and restore their competitive edge while working within financial constraints. Sometimes, the road to improve customer experience runs through cost reduction initiatives.

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