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All-or-Nothing: Raising the Stakes on Customer Retention in an N-Play World

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The triple-play is hot. And no wonder — bundled services are the ultimate win-win. Customers like the price savings and simplicity. Providers like the higher margins, share-of-wallet, and lower churn. Virtually every cable company and traditional telecommunications company now offers a triple-play of voice, data, and either mobility (for the phone companies) or video (for the cable companies). And with Verizon and AT&T rolling out IPTV and the cable companies offering mobility services, n-play has reached the tipping point.

N-Play Growth

The opportunity shows no sign of abating. While 27% of US households have all three triple-play products, only 3% to 4% actually purchase those products as a bundle.[1] This gap will close quickly. AT&T has offered quad-play in limited markets since 2004; Verizon, building on its commitment to FiOS, plans to launch quad-play by the end of this year. The cable companies are major players, as Comcast, Cablevision, Time Warner, and Cox have begun to roll out quad-play service in test markets. Time Warner Cable demonstrated its mobility services at The Cable Show in Las Vegas in May, complete with access to its video content. By 2010, 39% of US households are expected to have triple or quad-play services, according to an IDC study.[2]

For consumers, bundled services offer a killer benefit — cost savings. Indeed, the overwhelming majority of customers are influenced by price in selecting an n-play bundle — twice as much as any other factor. Service providers are happy to surrender the cost savings in exchange for greater share of the customer's communications business and the lower risk that the customer will jump ship.

The research shows that once customers choose a bundle of services, they're hooked. According to the Yankee Group 2005 US TAF Survey, customers of

[1] Source: Yankee Group, "The Communications Bundle: The Time Is Now," March 22, 2006
[2] Source: *San Francisco Chronicle*, "Triple play not enough? Say hey to quad play," Author: Ryan Kim, May 28, 2007

bundled services from the local phone company are 13% more satisfied and from their cable company are 25% more satisfied than their a la carte customer counterparts.[3] IDC found that two-thirds of bundled customers say that they had no plans to switch providers.[4] Among households with bundled voice and data services, only 5% would be likely to switch local phone providers in the next year, compared with 10% of average U.S. households.[5]

Bundled customers spend more with their providers, too. Double-play customers spend between $61.19 and $96.35, and triple-play customers spend an average of $124.39 a month.[6] These loyal, high-spending customers are also the perfect targets for premium data and content services. The British youth of today will spend on average £4,320 (or more than $8,500) on ringtone downloads to their mobile phones over the next 15 years![7]

Indeed, it seems that triple-play customers have reached nirvana. They get a better price and reward their provider with a greater share of their spending and higher loyalty.

The All-or-Nothing Customer

Unfortunately, the formula is not quite that simple for providers. If Comcast loses a data services subscriber to Verizon, it may also lose the television service — depriving it of its long-standing tie to that customer and any opportunity to recapture the business. If AT&T loses a mobility subscriber to Time Warner Cable, it may have no further tie to that customer at all. (In the next five years, 30% of U.S. households will have completely cut their wireline service with their local phone

[3] Source: Yankee Group, "The Communications Bundle: The Time Is Now," March 22, 2006
[4] Source: *San Francisco Chronicle*, "Triple play not enough? Say hey to quad play," Author: Ryan Kim, May 28, 2007
[5] Yankee Group, "Bundles Improve Customer Satisfaction Ratings for Local Telephone and Cable Companies," Jan. 10, 2006
[6] Yankee Group, "The Communications Bundle: The Time Is Now," March 22, 2006
[7] Source: Xingtone, http://www.xingtone.com/UK/press/pr_051026.htm

company.[8]) In short, n-play services dramatically raise the stakes on each customer. If simple bundling is about capturing "share of wallet," n-play services are about "all or nothing."

N-play services are relatively new, but customers already buy them like commodities. (When price is the #1 factor in selecting a provider, no other conclusion is possible.) But that also means that the differentiators — when they emerge — are going to have a disproportionate effect on the market. Let's call this the iPhone effect.

As of this writing, Apple's iPhone has already had over a million inquiries. Even if only half of those customers end up buying… and even if only half of *those* customers don't already have Cingular (the exclusive wireless carrier of the iPhone),… that still suggests 250,000 short-term defections to Cingular for the iPhone when Apple releases it on June 27. If these customers like the phone and stick with Cingular (now part of AT&T), the company may harvest those customers to its n-play. If it gets 39% of *those* customers, that's $12 million a month in new n-play service revenues to AT&T.

Add in Steve Jobs' bold new claim that he expects to sell 10 million iPods through 2008,[9] and the iPhone could be moving the needle for AT&T in excess of $1 billion a year.

Yes, the math above is more than a little speculative. But the point is that the potential exists for killer devices to radically alter the revenue picture for service providers. The same mental exercise could apply to Comcast's partnership with TiVo (since the "generic" cable company's DVRs can't match TiVo's user experience or loyal following) or to Time Warner Cable's video content.

A similar churn risk exists on the service quality and customer care side of the equation. Faster speeds have driven a flight from DSL to cable modem service (at least in the United States). And while customers may *choose* a provider based on price, they *stay* with a provider based on quality of service and customer care. When Comcast wins a customer for data services, they can cross-sell the triple play and steal Verizon's voice customers. This again shows the power of the "all or nothing" phenomenon.

Strategic and Operational Impact

What, then, do these observations tell us about where provider strategy and operations needs to go?

(1) **Service agility is critical**. For years, the communications industry has relied on the network equipment manufacturers (NEMs) to produce new hardware that supported new services. The lead times for service creation were measured in years as offering new services meant putting proprietary carrier-grade hardware in every central office.

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[8] Yankee Group, "One in Seven US Households Will Say "No Thanks" to Wireline Phone Services in 2010," Dec. 6, 2006
[9] *BusinessWeek*, "AT&T's New Operator," June 18, 2007

Today, the adoption of IP Multimedia Subsystem (IMS) standards promises to accelerate new services and help carriers better monetize their IP networks. The Service Delivery Platform (SDP), in particular, provides a way for carriers and their partners to build and deploy new services themselves, using common programming technologies and protocols such as SIP and J2EE. Service providers can lower costs, increase flexibility, and bring new services to market quicker. As long as carriers stay out of proprietary traps, "Web 2.0" technologies will allow them to build networks of partners that can build their service portfolios — perhaps under collaborative or open source principles.

In short, it is no longer okay for service providers to wait for NEMs to innovate on their behalf. Providers must continue to innovate, offering more and better content and services. Today's premium services (think GPS, ringtones, or High Definition) are tomorrow's table stakes. Standards-based, agile service creation environments allow carriers to build or partner for innovative service. The first provider to offer carrier-grade presence services — alerting users to friends or opportunities nearby — will have a genuinely differentiable solution. The first provider to improve cell coverage in the home may lose some landline revenue, but will gain immeasurable customer loyalty.

(2) **Packaging, targeting, and pricing of service bundles is more important than ever**. Offering the right bundle to the right customer at the right time is key to market success. If all a provider has to offer is call waiting and long distance, the "up-sell" doesn't require particular customer insight. But if the company's product catalog includes a ringtone for every song in iTunes, that provider needs to know its customers' tastes and preferences. Customer insight is also critical to keeping the best customers; in the age of United 1K, Starwood Platinum, Amazon Prime, and American Express Black, these customers have come to expect a level of premium service.

Flexibility in crafting service bundles is also crucial. How offers are packaged and priced can be as important as the offers themselves. Many service providers still need IT to write code in order to deploy a new service bundle; a surprising number of product offerings necessitate code changes at the customer, billing, provisioning, and integration layers of the architecture. There is no reason for this still to be true. Modern, packaged business and operational support system (BSS/OSS) products allow providers to deploy such offerings with simple configuration changes that marketing personnel and business analysts can often perform. No provider can afford to be without a long-term strategy for agile product rollout, bundling, and pricing across all portions of the systems architecture.

Given a base level of customer insight and the ability to deploy new services and bundled offerings, service providers can concentrate on "mastering the cross-sell." It is no longer necessary for market analysts to scour the data warehouse, writing endless series of cross-sell and up-sell rules. Self-learning technologies can "learn" what bundles are most successful — and prioritize those bundles for sale. (Think Amazon.com's ability to tell you that 63% of customers who liked book *x* also purchased book *y*.) The same technology allows providers to position the best "retention offers" to help keep disgruntled customers on board.

(3) **Customer service isn't all about the call center.** With few exceptions, most customers first experience a carrier's customer service when they place an order. And since first impressions matter, getting the order right the first time is critical. Once the customer places an order, providers need to provision and bill for it quickly and accurately. Since equipment is often critical to the order, that equipment needs to be available and fulfilled promptly. The customer who goes to a Cingular store looking for an iPhone shouldn't leave in frustration because the phone is caught up in an inefficient supply chain! In short, the customer experience is defined in large part by how well the provider's systems are integrated and perform as a coherent unit.

Of course, ongoing customer service matters. Increasingly, customers demand electronic billing and payment options and the ability to manage their accounts online. True multi-channel customer service is moving from vision to competitive necessity. The ability to report problems easily and get a resolution quickly is essential; a customer may forgive a momentary service outage, but will never forget long hold times and missed appointments to fix the problem. The same ordering systems need to work seamlessly with service assurance, ticketing, and field service systems to fix problems when they occur.

And sales can be a part of customer service, too. Nothing is more annoying than having an agent try to sell you something you already have or are ineligible to receive.

Simply put, customer care is a holistic discipline across the entire customer life-cycle and systems infrastructure.

The emergence of triple and quad-play services has dramatically raised the stakes on customer retention. In an n-play world, customers buy "all or nothing," making them simultaneously more valuable and more difficult to attract from competitors. The bundle price still rules. But in a world where the sleekest handset, the hottest content, and the most compelling customer experience can shift whole portfolios of services to competitors, it's no longer enough to provide reliable services and good customer care. To retain customers, service providers must create the best services, bundle them in the right way, offer them to the right customers at the right price, deliver them fast and reliably, and bill for them clearly and accurately. Customers expect to get the best content and the latest equipment and to be empowered with convenient care options. In short, sophisticated quad-play customers demand a holistic approach to keeping their business. To meet this goal, service providers need to deliver an experience exceeding their customers' expectations.

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