

**CUSTOMER OPTIMIZATION FOR TELECOM PROVIDERS
IN THE RESIDENTIAL AND SMALL BUSINESS MARKETPLACE**

Situation Analysis

Incumbent telecom service providers are facing the most extensive competitive environment in their history. Cable-based phone service represents a real threat to the dominant residential land line franchise of the local phone company. The cable providers have typically used a price driven, bundled product strategy as their competitive weapon. Voice-over Internet Protocol (VOIP) providers also stress price advantages in attempting to gain market share in the local and long distance markets. Finally, the widespread use of mobile telephony has caused some consumers to re-think their need for land line residential service. Each of these competitive threats extends to the small business marketplace, especially the SOHO segment, where customer values are generally higher, cross-sell opportunities are more likely and revenue growth forecasts are significant.



Marketing Objective - Retention

Customer retention is increasingly the most critical marketing objective for most incumbent telecom service providers. While product, price, and customer service attributes still play an important role in the provider decision being made by residential and small business customers, additional marketing program elements can break the tie when the customer views historical attributes at parity.

If attrition in the existing account base outstrips the rate of acquisition, revenue growth is severely constrained. The historical provider has the greatest market share and the most to lose. Retention marketing efforts must move beyond the margin eroding tactics of price matching and discounted product bundle offers to offer sustainable value propositions to existing customers. Superior service claims by the existing phone company no longer achieve the traction they once did in the retention marketing message.

Marketing Opportunity - Increased Yield

Furthermore, increased yield from the existing customer is viable for incumbents who offer local, long distance, broadband, mobile solutions, calling cards, call features and other product/service offers of interest to the consumer and small business customer.

- The upsell and cross-sell potential could be enhanced by extending additional value to the customer based upon the number of services bought and their combined revenues.

- Value-based segmentation, whether derived from revenue totals, profitability analysis or both, plays a dynamic support role in marketing's quest to allocate resources to retention and cross-sell efforts. The ability to identify high value, high potential and high probability to attrite customer segments allows the incumbent telecom provider to maximize their marketing investments against those segments of critical importance.

- The issue is not how much is being spent on existing customer marketing efforts; the issue is what measurable return on investment does each initiative deliver vis-à-vis segment objectives.

- Campaign management needs to be re-evaluated as a tool in favor of sustainable programs and customer segment management.

REWARD STRATEGIES

Today's telecom environment strongly favors the adoption of loyalty marketing principles and practices.

1. Through the adoption of a comprehensive rewards strategy the provider can offer residential and small business customers additional value beyond the price/service bundle currently being deployed.
2. When that value is placed into an accrual account for the customer, it effectively becomes a barrier to exit.
3. When added value is extended for the purchase of additional products, it accelerates upsell and cross-sell efforts.

The consumer understands these concepts given wide spread participation in points-based programs based upon their individual purchase behavior. The points convert to redemption opportunities for the customer which extend beyond the discounting of services already bought. Retail price is not marginalized and although the loyalty program requires an investment by the telecom provider, that investment is compared to the return realized by reduced churn and increased yield from the customer base to determine marketing effectiveness.

A Great Community Opportunity

A variation of this strategy allows point accrual by the customer to be designated for the school of their choice. In this community model the customer elects the local school which will be the beneficiary of the rewards account, but the account is funded with points earned by the customer for behavior beneficial to the telecom provider. If the school itself is a customer, accelerators can be put into the model. The local schools and their students become marketing messengers. Parents will elect to retain their relationship with the incumbent and buy additional services if the school becomes the recipient of the benefit. The PR value of such a strategy is also enhanced. Most phone companies already donate money and services to schools within their local community but few derive a substantial business benefit for that donation.

This strategy has been used successfully for 14 years by Telecom New Zealand. The program has delivered \$50m of technology based products to New Zealand schools over this period and has enabled Telecom NZ to meet retention, upsell and cross sell objectives. Reward Paths parent company managed this program and is making available it's knowledge and systems to allow a lower cost of entry for US telecom providers, a considerable advantage in the current climate.

Additional variations exist. What is right for any telecom service provider depends upon the competitive dynamics of their particular marketplace, the segmentation of their residential and small business customer base and the projected financial outcome of the proposed loyalty design. Reward Paths provides turn key services and technology to enable the design, operation and financial analysis of school based programs for the telecom industry.

About Reward Paths

Reward Paths is a full service Marketing firm specializing in helping customer-centric companies design, enable and operate reward, loyalty and incentive programs for their customers and associates. Reward Paths offers affordable, best of breed technology especially well suited to the consumer marketplace. The company also provides reward program services to B2B clients serving professional, institutional and trade audiences. Reward Paths LLC is majority owned by Incentive Solutions Limited (ISL) of Auckland, New Zealand. For more information visit www.rewardpaths.com.

Contact Us

545 Ridge Avenue
Greendale, Indiana 47025
Ph: 812.537.0003
www.rewardpaths.com

