The global economic turbulence, non-traditional competitors, more informed and budget-conscious consumers, rising commodity prices, and declining customer loyalty are all combining to squeeze margins for retailers around the world.

For telecom operators seeking to tap into the rapid growth in emerging markets, the online channel is a compelling opportunity—albeit one fraught with challenges. Existing business models are under siege as consumers shift their interactions online. Competitive pressure is eating into revenues and causing a spike in subscriber acquisition and retention costs (SARC). Legacy IT systems and traditional organizational structures are bottlenecks not enablers of the online channel. In this environment, telecom operators face challenges and important questions.

For more information on how A.T. Kearney’s Telecom solutions can help your business optimize to win, please contact:

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Telcos in emerging markets face many challenges as they adapt to customers’ increased digital interaction

- Competitive pressures are hurting ARPU and increasing subscriber acquisition and retention costs
- Customers are shifting online, disrupting existing business models
- Legacy IT systems are bottlenecks rather than enablers of the eChannel
- Traditional organization structure hinders the eChannel

How can we engage digitally savvy customers?
What incentives draw shoppers to the eChannel?
What is the best organizational structure for the eChannel?
How do we use IT to foster a seamless online customer experience?
What channel shares can we expect over time?

Source: A.T. Kearney analysis
Emerging markets with strong and immediate eCommerce potential

The Middle East and Latin America promise the strongest immediate eCommerce potential

Non-Exhaustive

- High-potential “fast trackers”
  - Greater than 70% mobile penetration
  - Strong digital laws and regulations
  - Developing online infrastructure

- Slow “growers”
  - Greater than 70% mobile penetration
  - Limited online infrastructure
  - Large market size with potential for scale effects

- High income “jump-starters”
  - Greater than 100 percent mobile penetration
  - Strong online infrastructure
  - Operators’ potential to be eCommerce “market makers”

- Emerging market “leaders”
  - Growing eCommerce markets
  - Large market size offers potential for eChannel scale effects

Size of bubble equals online retail sales in US$ billion

Sources: Euromonitor, ITU, A.T. Kearney’s 2012 E-Commerce Index
The eChannel in emerging markets is underutilized to attract high-value customers at reduced costs

Substrate acquisition channel mix

Channel attractiveness

1 The subscriber acquisition channel mix is based on A.T. Kearney Global Competitive Benchmarking (GCB). It includes gross adds, migrations, and contract prolongations.

2 SARC = Subscriber acquisition and retention costs

Source: A.T. Kearney analysis
Sharing some of the channel arbitrage along with eChannel incentives needs to be in place to move customers online

Typical eChannel shift levers

- Web-only offers, eChannel benefits
- Personalized recommendations
- "Call to Action" campaigns
- Partner and affiliate programs
- ePayment and auto payment
- eCustomer support
- eBilling

EBITDA impact generated by...

- Additional revenues from attracting digital-savvy, high-ARPU customers
- Optimized media budget through higher digital spend in the mix
- Reduced top-up commissions
- Paper and postal savings
- Savings in subscriber acquisition and retention costs (SARC) by shift from more costly channels
- Additional cost from new personnel, SW licenses, and maintenance

Source: A.T. Kearney analysis
To boost the eChannel, three critical elements need to be addressed

<table>
<thead>
<tr>
<th>1</th>
<th>Experience design</th>
<th>2</th>
<th>Organization structure</th>
<th>3</th>
<th>IT infrastructure</th>
</tr>
</thead>
<tbody>
<tr>
<td>Attractive web propositions and compelling touch and feel</td>
<td>Fully empowered and accountable organization structure for eChannel economics</td>
<td>Enabled eChannel supported by an agile IT infrastructure</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: A.T. Kearney analysis
### 1. Customer experience

#### There are several best practices for eSales and eService

**eSales**
- **Engage customers online**
  - Define Web-only propositions (e.g., Sprint’s 40% higher discount on handsets when bought online)
  - Add user-generated content for each online sale (e.g., product reviews)
  - Use sophisticated recommender engine to design offers based on session and usage based profiles, etc.
  - Provide comprehensive payment options online (e.g., debit card, credit card, Paypal)
  - **Sprint** (US)
  - **Verizon** (US)
  - **Amazon**
  - **O₂** (UK)

- **Add value to sale**
- **Perform up/cross-sell**
- **Conduct sale**

**eService**
- **Engage in client service**
  - Offer personalized look and feel and content for each user
  - Provide multimedia guides to assist with complex problem resolution
  - Ensure timely response to complaints/queries online using internal SLAs, etc.
  - Revise online service content and features at very high frequency to ensure relevance
  - **Vodafone** (UK)
  - **Skype**
  - **AT&T** (US)
  - **T-Mobile**

Source: A.T. Kearney analysis
2. Organization structure

An organization design is required that leverages the existing functions to drive eChannel business forward.

- **Initiate digital push with self-contained organization:**
  - Separate eBusiness unit
  - Total responsibility over eChannel allowing for maximum push
  - Minimal cross-channel integration

- **Reintegrate parts of the eBusiness back into the organization:**
  - Leveraged eBusiness unit
  - Better-performing organization with important eChannel touch points still self-contained
  - Higher dependency on related functions in the organization

- **Disperse the eBusiness unit into all other functions:**
  - Embedded eBusiness function
  - eBusiness integral part of all traditional business functions
  - Seamless user experience more difficult to obtain

Source: A.T. Kearney analysis
Design based on Service Oriented Architecture (SOA) provides flexibility to quickly ramp up a scalable eChannel

- Compelling customer experience through interactive elements, payment options, and personalized settings
- Quick time to market made possible by business managed content management system
- Seamless back-end system integration with easily available “out-of-box” capabilities
- Targeted customer offerings using integrated sophisticated analytics and monitoring tools such as recommender engine

While back-end integration remains a challenge, SOA solutions accelerate eChannel ramp-up

Source: A.T. Kearney analysis
Overall, three key guidelines will help market operators in emerging markets boost their eChannel

Key guidelines

1. Create a compelling channel experience
   - Entice customers with promotions and propositions exclusive to the eChannel
   - Share channel arbitrage benefits with customers

2. Revamp the organizational structure
   - Begin with a temporary self-contained empowered eChannel team
   - Disperse the team into traditional functions after a few years

3. Build a solid IT infrastructure
   - Ensure a seamless, compelling customer experience
   - Use flexible, scalable SOA solutions

Source: A.T. Kearney analysis