Digital Marketing in the Telco Industry

Catalyst

The telecom (telco) industry today is characterized by intense competition as traditional industry giants seek to repel the disruptive business models of innovative over-the-top (OTT) vendors. Telco industry players are aiming to leverage their deep and rich veins of customer data to deliver valuable customer experiences. One key mechanism to achieve this goal is the use of digital marketing platforms. In this survey of 250 marketers from telco companies—fixed service providers, mobile service operators, mobile virtual network operators and integrated fixed and mobile service providers—across EMEA and the United States, conducted during November 2015, 68% of the respondents had already invested in a digital marketing platform, and another 13% planned to do so.

This survey is part of a series of reports commissioned by Adobe that provide an understanding of the driving forces behind such investments and a detailed industry roadmap for digital investment priorities. It reveals six key competitive pressures shaping the telco industry and eight strategic responses to challenges being deployed. It also outlines telco companies’ 2016 and 2017 investment plans in 14 broad digital marketing areas and 17 specific digital technology categories.

This report is essential reading for telco industry senior managers and digital executives. It will help them benchmark their own digital strategies against industry norms and understand the digital strategies that will define the future of the telco industry.

Key research findings

- Telco companies need to respond to competitive pressures by enhancing customer experiences. By leveraging their customer data assets, they can inform marketing planning and decision-making.

- Investments in digital marketing platforms can help offset four key business risks that telco companies foresee: cost cutting and rationalization, downward pressure on pricing and margins, increased product and service commoditization, and customer churn.

- Social media and customer experience will be the prime areas of investment during 2016 and 2017 under the auspices of “data-driven marketing.”

- Telco marketers will invest in every aspect of digital marketing. These investments will often be part of large, enterprise-wide digital transformation projects.

- Overall, telco marketers are optimistic about the growth of their budgets and more than half (52%) of telco companies plan to increase their overall software and services spend.
Competition drives change in the telco industry

**Competition within the telco industry will intensify in 2016**

Telco companies face many business challenges. The most critical is the increasing and sustained intensity of competition. For this survey, Ovum asked telco company respondents to rate the current and expected levels of competition, with 10 the highest level and 1 the lowest. As Figure 1 shows, they reported that competition is currently within the mid to high levels. However, the respondents expect these levels to increase: Almost 60% of respondents forecast competition to move to the highest range of 8–10 by 2016.

![Figure 1: Competitive intensity is growing in the telco industry](image)

The impact of these growing levels of competition is evident in the poor financial performance of telco companies across the globe since 2012. Revenues from fixed services have declined over this period, and mobile services (once the telco companies’ “cash cows,” with growth driven by the increasing penetration of mobile devices) are seeing slower growth. Overall telco revenues were flat by the end of 2014 and, according to Ovum’s Communication Provider Revenue and Capex forecasts: 2015-2020, 2015 full year revenues are expected to dip by approximately 5% compared to 2014.

Several factors account for this decline, including consumers’ increased use of OTT services. Although the adoption of smartphones has grown, with the developing markets of Asia-Pacific and Africa accounting for the highest growth rates, telco companies in these regions have been exposed to revenue cannibalization from the Internet-based services provided by OTT players. Consumers are purchasing devices and subscribing to data plans, not essentially to consume telco services but rather to gain access via the Internet to services such as Skype, WhatsApp and Facebook. In African countries, such as South Africa with smartphone penetration of approximately 30%, telco companies like Vodacom continue to see declining voice and messaging service revenues as a result of these trends.
The release of new products and services fosters competition

When Ovum asked the survey respondents which factors are driving these higher levels of competition within the market, the top-three contributing factors they suggested were:

- Introduction of new products and services (24% of respondents)
- Ease of substitution of products and services by customers (22%)
- Broadening of telco companies’ portfolios of services (19%)

The growing variety of telco products and services is a core driver of competition. Customers today have an expansive selection of services and providers from which to choose.

![Figure 2: Several factors are driving competitive intensity in the telco industry](source)

As more products and services are released by existing and new players, telco companies need to do more to appeal to their current customers, attract new customers and retain the trust of their shareholders. They are therefore broadening their services portfolios.

Moving beyond core telco services

Some tier-1 telco companies are extending their market reach beyond their current customer base by exploiting opportunities in digital media. For example, Verizon has acquired AOL and, more recently, Millennial Media, with the aim of leveraging its mobile data attributes, such as location and mobile web behavior, to enhance the precision of Verizon’s mobile advertising services. Similarly, AT&T acquired DirecTV to extend its pay-TV service offerings. Vodafone/Vodacom also plans to acquire the disruptive South African operator Neotel in 2016.

Extending services through mergers and acquisitions

In recent years, telco companies have been increasingly involved in merger and acquisition (M&A) activity. In addition to strengthening the merging telco companies’ presence within a market, such activity broadens the portfolio of services being offered by the new entity. European telco players are the most aggressive in M&A activities because they require greater global scale to compete effectively. BT’s acquisition of EE and Three Mobile’s acquisition of Telefonica’s O2 are good examples from the United Kingdom. Meanwhile, VimpelCom (Wind) and CK Hutchison Holdings (3) are to merge in Italy to create that country’s largest carrier. Orange plans to purchase Bouygues Telecom in France and has been involved in M&A activity in Africa, most recently acquiring Airtel’s assets in Burkina Faso and Sierra Leone.
Services created through telco-OTT partnerships
Many telco companies and OTT players are partnering to offer bundles of services to customers. The most popular OTT service for telco companies to work with is Facebook’s internet.org initiative. These telco-OTT partnerships commonly include fixed or mobile connectivity bundled with subscriptions to music or video streaming services or discounted or free access to applications or social networks.

Although OTT players are not the top contributors to the competition faced in the telco industry (based on the results of our survey), their influence on the market cannot be overlooked. Some 17% of respondents see OTT players as important contributors to the competition and challenges the market faces today. OTT players have entered the market with services—often free—that are alternatives to or substitutes for the traditional paid-for voice and messaging services offered by telco companies, creating a dent in the revenues generated by these telco core services. OTT players, such as Amazon, Facebook and Google, have agile systems and processes and are not encumbered by the legacy systems with which telco companies have to contend. They can continuously evolve their offerings to remain highly competitive.

In response to being challenged in the messaging market by OTT players, some telco companies have created their own versions of IP messaging apps. One such example is Telefonica with its Tu Me app. For most telco companies, this approach has not worked well. In response to these failed attempts and the need to drive customer adoption of 4G services, telco companies are now bundling access to OTT services, such as WhatsApp and Facebook, into their data service offerings. They are viewing OTT players more as business partners than as competitors.

How the telco industry is responding to changing market forces
Cost and pricing models are heavily affected by competition
The high level of competition in the market is leading telco companies to adopt new pricing and cost models. More than 80% of respondents to Ovum’s survey agree that competition has resulted in cost cutting and rationalization, and 73% indicate downward pressure on pricing. Just as cost issues affect the daily operations of telco companies, so the downward pressure on pricing affects their overall revenue performance and external positioning within the market.

![Figure 3: Competition in the telco industry weighs heavily on companies' cost and pricing models](image)

Telco companies must constantly innovate with respect to their offerings and the operations that support the sale, delivery and support of these services. However, given the current flat-to-declining performance of the overall telco market, operational and cost efficiency have become core requirements of every transformation project. As a result, cost reduction is now an important component of internal business cases and a key motivation for investing in new technology.
Improving customer experience is key
Telco companies must strike the right balance between cost reduction and improving quality of service. The current perception of the quality of service provided by telco companies is poor, which explains why a quarter of the survey respondents highlighted “improving customer experience” as a core response to competition and meeting customer expectations, as shown in Figure 4.

Although the other strategies identified in Figure 4 are important, if they are not hinged on the experience delivered to the customer, they are likely to stall. T-Mobile US’s current Uncarrier strategy initiative is paying off: Customer numbers are growing, and retention rates are high, yielding market-leading subscriber growth, revenues and EBITDA. The Uncarrier strategy aims to identify and address customer pain points with a view to improving customer satisfaction. It has led to several changes within the market, such as a breaking down of the barriers faced by customers looking for early termination of their contracts and a reduction in international calling and data roaming rates.

Investments in improving the customer experience fall into different departments within a telco business.

• Networking—Networks are being monitored and maintained consistently.
• Customer service—Care needs to be administered quickly and precisely.
• Marketing—Targeting of products and services requires high accuracy to ensure that customers receive relevant information and offers.

Leveraging digital strategies to improve customer experience
Digital strategies can be viewed in different ways depending on the business area. For example, the CMO might think of digital strategies as a means to change the culture and mindset of the business toward customer centricity, whereas the CFO might consider them as an opportunity to streamline legacy systems and processes to reduce costs. Both perceptions are correct and need to be viewed not in isolation but as complementary to each other.

Digital strategies should be viewed as a set of initiatives that help to improve customer experience, change existing operations and enable the delivery of new services at reduced costs. Those telco companies that are developing their digital strategies primarily aim to deliver agile business operations that enable quicker responses to market changes and customer demands. Interestingly, Ovum’s survey indicates that 70% of respondents believe that speed of response to customer needs is a core challenge impeding telco companies’ ability to meet customer expectations. Telco companies must therefore embrace new digital technologies that enable enhanced service delivery.
Telco companies should seek to engage customers using digital channels such as mobile and social media. They should also use data analytics to enhance business operations and self-service. Figure 5 indicates that most are either using or plan to use these capabilities. The most important capability is using data to inform marketing planning and decision-making. For marketing, which sits at the intersection of these two digital capabilities, data-driven insights enable the personalization of customer engagement. The survey found that 88% of the respondents currently use data to inform marketing functions.

![Figure 5: Digital capabilities are increasing in importance](image)

**Digital marketing technologies enable personalization**
Customer engagement and communications have increasingly moved into the digital domain, including online and mobile apps. Telco companies need to make a similar transition from traditional physical channels to digital channels. Digital marketing systems provide capabilities to improve customer experience. Although most telco players have already adopted digital channels and digital marketing systems, they still struggle to deliver personalized communications across digital channels. When asked to indicate which challenges they currently face with digital systems serving their marketing departments, almost 70% of respondents stated that the systems do not deliver enough personalization of digital communications and customer interactions.

![Figure 6: Achieving personalized digital communications is telco companies' top challenge with existing digital systems](image)
Digital channels do not directly allow for the interpretation of body language provided by face-to-face communications, yet the digital footprints left by customers online can be deciphered to inform a personalized customer experience. Digital marketing technologies, such as big data and advanced analytics, allow customer behavior prediction, enabling the delivery of services tailored to the customer's needs and offered at the right time. In addition to the analysis of customer behavior, reasons for customer dissatisfaction and potential churn can also be detected. Proactive service actions can be taken to avert customer losses or brand perception damage.

Today’s digital marketing systems help telco companies to leverage their customer information assets and deliver better customer service over digital channels. They enable telco companies to test the performance of service launches and target those customers with a high propensity to buy. They also enable companies to avoid customers with potentially little interest in specific new products or services.

Telco companies' digital investment plans and future priorities

**Migrating to digital channel engagement**

Ovum asked marketers what percentage of their sales are currently delivered via digital channels and what percentage they predict it to be in 2020 (see Figure 7). These answers were “banded”: 0–20% of sales, 21–40% of sales, 41–60% of sales, 61–80% of sales, and 81–100% of sales.

![Figure 7: Telco companies will invest significantly to enhance their digital channels](image)

For 2015, there is a relatively even distribution of answers between the highest-scoring categories of 0–20% of sales, 21–40% of sales, and 41–60% of sales. Between them, these three categories accounted for 95% of responses. For 2020, the distribution is different. The 21–40% of sales and 41–60% of sales categories will still represent approximately 60% of responses. However, the categories 0–20% of sales and 61–80% of sales (that is, the top end and bottom end of the scale) are radically different: The former category is reduced by 16 percentage points, and the latter has increased by 17 percentage points.

There has effectively been a cumulative shift of responses around the pie chart, as indicated by the arrow to the right of the 2020 chart. Sales channels will shift significantly toward digital between 2015 and 2020 as telco companies look to digital for ways to improve their industry conversion rates, which are low in comparison to retailers, for example.
Investing in social and customer experience

Social had the highest number of investment plan responses (83%) of all the 14 broad digital marketing areas suggested to respondents, 10% more than the second area, customer/user experience. It should be noted that these percentages refer to the volume of responses. In most cases, the value of investments in social is relatively smaller than in other areas of digital. All 14 categories are investment areas for more than half of the respondents, with incremental differences between each one. This reflects the need for marketers to advance on all fronts in digital, embracing a holistic approach rather than persisting with the piecemeal strategies seen in the past. By definition, this drives marketers toward the adoption of digital marketing platforms that “do everything.”

When the top-three priorities are taken into consideration, social retains its lead, highlighted by 83% of the respondents, followed by real-time marketing (71%), customer experience (64%), and mobile (61%). Customer experience is now starting to figure in marketers’ view of customers, and real-time (responsive) marketing is equated with the high growth of mobile device engagement. These areas are therefore starting to rise to the top of marketers’ investment priorities. Social and mobile were also adoption trends in Adobe’s 2014 research study into the telco industry, and their prominence reflects a continuing ongoing investment mandate.
Data-driven marketing is a priority for the future

When Ovum asked respondents to identify the most important area of investment over the next 18–24 months, social slipped to a middling position: seventh. Data-driven marketing rose to the top position, with 50% of respondents suggesting it is their most important area of investment. This area has a significant lead of 9% from joining up online and offline data, which is in second position. These two priorities are closely intertwined, given that joined-up data is a key enabler for data-driven marketing. Combining good-quality digital data with the ability to use that data in marketing actions is fundamental to telco companies’ marketing priorities.

Just 15 percentage points separate joining up online and offline data in second position (41%) and cross-channel marketing in 14th position (26%). This spread underlines the need for marketers to “do it all,” which will drive further adoption of digital marketing platforms. These investments are likely to be part of large, enterprise-wide digital-transformation projects. Today 44% of respondents are undertaking digital transformation projects, and 48% plan to do so in the future.
Social media analytics and social media engagement head respondents’ list of technology investment priorities for 2016 as the importance of adding advanced social capabilities to telco marketers’ digital armory escalates. Again, there is little to choose between the following 12 categories (referring to figure 10, these categories run from Ad targeting with 68% to conversion rate optimization at 49%), which are separated by only 19 percentage points. Somewhat adrift at the bottom of the list are omnichannel personalization, which has a level of difficulty with which many marketers are uncomfortable, and video optimization and video content, which are still in the early stages of market adoption.

Interestingly, targeting and personalization, video optimization and data management platforms all appear in relatively low positions in the list. However, when Ovum analyzed the most important investment areas, these three product areas figured highly, which means that those marketers who are considering these areas value them highly and view them as top investment priorities. Telco companies not currently evaluating these areas should start to do so, because the business benefits, especially with regard to online conversion, are potentially significant.

Adobe’s 2014 research study found that social media engagement, mobile optimization, targeting and personalization, and video marketing were digital-related priorities for telco companies. The results of this 2015 research study are consistent with these earlier findings; these four areas reflect an ongoing telco investment trend.
Growing 2016 digital technology marketing spend

Overall, telco companies are upbeat about marketing spending plans for 2016, with fewer than 2.5% of respondents forecasting a decline in any of the seven relevant marketing functions. These declines have been excluded from Figure 11 because they are not statistically significant, which is why the totals do not quite add to 100%. Digital media marketing and new innovation and product rollout are the highest areas of spend growth, with nearly one-third (29%) of respondents planning an increase in spending of 6% or more. Usage and retention has the highest overall number of respondents planning to increase spend (66%), closely followed by enhanced customer experience (63%).

More than half of the telco companies (52%) plan to increase their overall software and services spend; 47% plan no increase. More than one-third (37%) plan to increase their total marketing spend overall. It is thus clear that digital spend will increase its share of the overall marketing budget relative to other areas of marketing spend. This direction is to be expected. Digital is becoming the primary marketing tool for telco companies wishing to respond to customer expectations, digital disruption and competitive pressure.

The overall measurement of marketing effectiveness within telco companies is relatively good, likely due to their investments in digital marketing platforms, as discussed earlier in this report. On a scale of 1–5, where 1 is “not at all confident” and 5 is “extremely confident,” respondents rated their own measurement capabilities as more than 3.5 in the areas of campaigns, online advertising, events, direct marketing, social and corporate initiatives. Only in the new area of mobile apps and agency management were the telco companies less confident about their performance measurement capabilities.
Appendix
This report was researched, authored and produced by Ovum in association with Adobe.

Research methodology
The goal of this research project was to assess the current state and the future of digital marketing adoption and investments within large organizations in the telco industry. During November 2015, Ovum, on behalf of Adobe, conducted 250 telephone research interviews with marketing directors, marketing managers and digital marketing managers in telco companies with 500+ employees operating in Europe, the Middle East, Africa, and the United States. Of these interviews, 90% were completed with global headquarters staff. Interviews were conducted in 27 countries, including France, Germany, the Netherlands, Scandinavia, Switzerland, the United Kingdom, Albania, Bulgaria, Ukraine, Turkey, Kuwait, Oman, Qatar, the United Arab Emirates and South Africa. The United States accounted for 46% of the interviews, Europe for 45%, and the Middle East and Africa for 9%. Ovum conducted telephone interviews with fixed service providers, integrated fixed and mobile service providers, mobile network operators, and mobile virtual network operators serving enterprises, consumers, and a mix of the two.

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