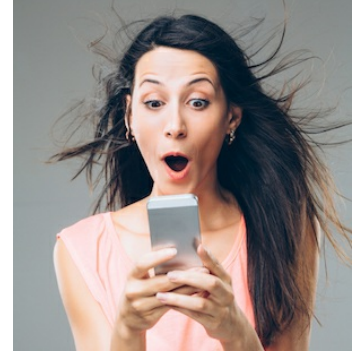


Digital Engagements: The Importance of Being Loyal

By: Adhish Kulkarni

Mobile communications service providers have historically been network engineering organizations largely founded on their technology expertise. As they transition to a digital services landscape, it can be argued that this paradigm is changing, and that mobile CSPs will increasingly need to become sales and marketing organizations. Thus, driven by the explosion of value added services, the 'what' (do we sell) has replaced the 'how' as the first area of focus for telcos.



The fact that this requisite shift presents a challenge can be seen in the many carriers now experiencing a negative revenue trend across both core and VAS lines of business. CSPs have to find new ways of leveraging new, digital channels in order to increase customer engagement and reduce costs, retaining their most profitable customers in the face of disruption and hyper-competition. Accomplishing this balancing act requires a reprioritization, not least in making critical marketing technology decisions as effective future infrastructures are developed. The technologies likely to be required in the future will put the question of loyalty firmly front and center.

One result of this reality is that the industry is presently at a turning point in the evolution of loyalty programs. Smartphones enable rich interactions with customers on the move, powerful technology platforms allow marketers to deliver real-time rewards, and the barriers to acquiring, processing and storing data for such interactions are falling. Approaches to loyalty in the telecoms sector, however, haven't really changed much in the past few years. Points programs, Recharge & Win and VIP clubs are ubiquitous but come with varying levels of measurable success and little innovation in recent times.



This is striking given that mobile technology has evolved incredibly rapidly in the past five years in terms of bandwidth, devices and new applications. Instead of leading in mobile-centric loyalty, mobile operators are now lagging behind brands and retailers—like Starbucks—that have wholeheartedly embraced the smartphone world. These on-point brands are seeing quantifiable revenue benefits of upselling and retention as a result. Operators like O2 in the UK have begun the fight back by building marketing programs that embrace multiple brand partners, but the reality is that these approaches remain nascent. Meanwhile, the traditional industry faces disruptive entrants (such as WhatsApp and Viber), regulatory constraints and increased price competition.

If these trends continue the future will be predictable; as markets reach saturation, the retention of

profitable, loyal customers must increasingly become a priority for operators' C-suite executives who are becoming desperate for new, innovative concepts to stem customer attrition. Let's look here at four different approaches.

Recharge & Win

With Recharge & Win programs, such as ours with Orange Spain and Telefonica/O2, customers are instantly rewarded with prizes based on how much and how frequently they top-up their prepaid accounts. Recharge & Win is a tried-and-tested formula, which still generates strong customer engagement and has been prevalent around the world for some time. There are many aspects of Recharge & Win that are interesting but the most important ones in the context of next-generation loyalty are listed below:

- **Real-time interactions** – the appeal of the 'instant win' is not to be underestimated and the top-up event offers a perfect, timely opportunity to say thank you.
- **Reward optimization** – balancing the allocation of rewards based on their appeal to customers with the size of the prize pool is key to optimizing costs for the operator.
- **Gamification** – adding gameplay is often overlooked as a key element but it remains the best way for operators to differentiate themselves in the customer's mind.

Digital loyalty programs need to be fun and exciting; elements such as real-time interactions, instant gratification and gameplay have been proven repeatedly to drive customer engagement.

Points-based Programs

Leading points-based programs like STC's Qitaf or Rostelecom in Russia represent another tested method of rewarding actions with credits that can be exchanged for prizes.

These programs are successful in their own right but suffer from issues, including points overhang—when operators carry significant points liabilities over time on their books. They are also limited to high spender—over-redemption from small groups of point-hoarding customers who only redeem expensive prizes—and vulnerable to delayed gratification because it can take a long time for most average users to accumulate enough points to exchange for a meaningful reward.

For many operators, points-based programs represent complex collection and redemption mechanics that are barriers to customer engagement. As the 'points or credits' mechanics evolve, we expect to see far more flexibility in terms of banking, earning or burning points. Equally important, points can facilitate social interactivity by allowing participants to gift or share points with others. Additional flexibility in points collection and redemption is crucial to incentivize customers to reduce balances at a steady rate to avoid building large liabilities on the balance sheet.

Surprise & Delight

Today, telco loyalty programs can broadly be split between those that offer a 'known' set of rewards that customers work towards and those that 'surprise' customers with 'unknown' prizes. Both approaches present pros and cons.

'Surprise & Delight' programs allow operators to deliver the WOW effect of an unexpected reward to a broader customer audience without requiring explicit actions in return or membership of any loyalty scheme. From a next-generation loyalty perspective, the key to success is to make Surprise & Delight mechanics smarter. Since a broad-based program would typically be costly to run, the operator needs to be laser-focused on high value and high-risk segments of the base that need additional incentives to remain with the operator. Increasing amounts of customer profiling and third-party behavior data can help align customer preferences to the reward offers.

We believe that customers actually like a combination of surprise and 'catalog' prizes. Why? It's human nature: we all love some level of control but there is nothing like an unexpected surprise to

generate goodwill. Going forward, Surprise & Delight programs need to be highly personalized and to prioritize customer segments that matter the most.

Brand Partners Ecosystem

A number of operators have embraced partner loyalty programs, leveraging the mobile device and location capabilities to provide consumers with a bouquet of location-aware offers. The most attractive aspect of this approach is the partner ecosystem that helps operators develop a competitive differentiation. With its app-based program, Three Plus in Ireland is a trailblazer in this space, using a combination of personalization, gamification and sponsorship assets to engage customers and enable brand partners to reach the right audience.

Operators typically begin by striking deals with national partners for offers in return for targeted access to their opt-in customer base. As a program evolves, it then usually extends to local partners. One area, however, where most of these programs have room to evolve is customer targeting by value and preferences. Today, the emphasis is on contextual offers (which favor the partner) as opposed to customer identity (which would be better for retention and customer satisfaction).

A key component of next-generation loyalty programs is leveraging 'context'—when and where—to define the best offer for the customer. In addition, programs need to be much more 'intelligent' by integrating customer data to deliver personalized customer experiences. For operators that want to survive and thrive in the future, opening their 'end' customers to 'upstream' customers (brands) could become a key strategic play. Which brand would not want access to millions of high-value customers, instantly? The challenge, of course, is to manage this access in such a way that the 'end' customers see this as a benefit, not a nuisance.

Done right, a portfolio of partners will allow operators to differentiate themselves from the competition while potentially creating a new revenue stream. Done wrongly, consumers will jump ship and let everyone know how they feel across social media channels.



Badges: Making Next Generation More Social and Personal

When we evaluate next-generation loyalty, many of the current mechanics are still very relevant and should form the core of the offering. However, the new opportunity is to leverage contextual marketing, real-time customer targeting, gamification and evolving social channels. We need to take a page from the world of apps and online gaming book to encourage and recognize customers.

One such next-generation play is the badges concept, which is designed to recognize customer achievements across multiple dimensions such as spend, tenure and brand advocacy. 'Badges'

bring together gamification, social recognition and contextual marketing by rewarding customer actions over the web, apps and other channels, such as SMS.

Orange Belgium stands out as the leader in this space, having delivered a badge experience integrated with cinema rewards based on customer tenure. It's the company's way of saying 'Thank you for your loyalty to the brand.' The longer you stay, the more badges you earn which, in return, extends the cinema offering benefits you can receive.