

Learning the Mobile Magic of Disruptive Operators

By Jesse Cryderman

Making Magic Happen : Learning Successful Strategies from Disruptive Operators

"The world is full of magic things, patiently waiting for our senses to grow sharper."
W.B. Yeats

Much to the chagrin of incumbent wireless communications service providers (CSPs), there is a new breed of CSP strutting through the telecom landscape and cutting a wide swath. In saturated markets, these CSPs are pulling off some rather incredible feats, like causing a market-wide 50-percent drop in the average price of wireless service in less than a year. What dark divinations give rise to such magic tricks?

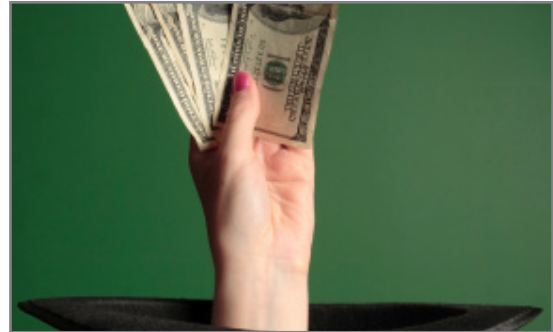
Truth be told, these disruptive CSPs have access to the same tools and techniques as every other service provider, they just use them differently. Handcuffs are a source of income in the hands of a Houdini.

The industry has seen the success of mobile virtual network operators (MVNOs) ebb and flow over the past decade, and in some cases, MVNOs have had a major impact on their regional wireless markets. Similarly, prepaid or contract-less wireless service has been on the rise and represents a strong growth segment, even as postpaid growth stagnates. The story of disruption includes both MVNOs and contract-free service, but it is bigger than either subject alone.

While a review of the impact these challenger CSPs have made on the telecommunications landscape is pertinent, the bigger question, as with any magic trick, is how is it done? There are numerous lessons that can be learned from these disruptive service providers, and they represent a pathway forward in an increasingly competitive environment.

Modern-day magicians

Telmore, deemed "the mother of all no-frills MVNOs" by Strand Consulting, was arguably the first MVNO to significantly shake up a wireless market. When



Telmore entered the Danish wireless market in 2000, none of the incumbent operators took notice. A scant three years later, the story was remarkably different. By 2003, Telmore drove the overall price of service down by nearly 50 percent, as its competing operators rushed to keep customers from churning. Telmore's dramatic success was enough to serve as an [example](#) at top business schools. Equally impressive is that Telmore posted much higher customer satisfaction numbers (roughly 90 percent) than the average for Danish mobile operators (65 percent)

In Germany, the E-Plus Group has delivered the most dynamic growth in its market for several years. Since employing a multi-brand strategy in 2005, the low-cost service provider has grown to become the third-largest in Germany, and leads its competitors in margin and customer development. Similar to Telmore, E-Plus relies heavily on the internet and social media to connect with its customers

The biggest story of disruption in Europe these days, however, is Free Mobile in France. Free grew up as an internet service provider (ISP), built out a massive hotspot network, and then set its sights on mobile. When Free launched mobile service in early 2012, it had a staggering 5 million Wi-Fi access points—enough that in most instances, nearly every person in urban France had Wi-Fi coverage. By leaning on a combination of Wi-Fi, HSPA+, small cells, and an all-fiber backbone, Free could comfortably offer its unlimited wireless voice, data, and messaging plan for \$25 per month. The result? The price of wireless dropped dramatically in France last year and incumbents felt the pinch, like France Telecom, which [cut its dividend](#) by 40 percent.

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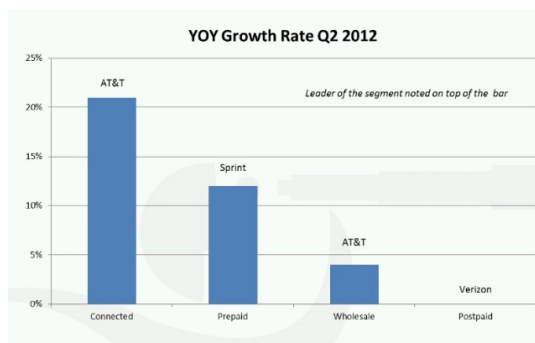
In the United States, the duopoly of AT&T and Verizon has successfully fended off the kind of disruptions that have occurred in Europe, but there are some challengers worth mentioning. C-Spire Wireless began life as Cellular South, but re-branded and changed direction in 2011. The carrier has achieved success on a platform of personalization and community interaction, and rolled out [shared data plans](#) ahead of Verizon and AT&T. In 2011, C-Spire signed a contract with Apple to sell and support the iPhone 4s, just behind Sprint.

Leap Wireless, better known as Cricket, has seen dramatic growth in the past five years, and last year became the first wireless service provider to offer the Apple iPhone 4s without a contract. Cricket has recently begun to explore a multiple brand strategy, and despite servicing a price-sensitive customer base, Cricket has consistently improved its the average revenue per user (ARPU). The hybrid network operator also owns one of the most successful [digital music services](#) in the US, Muve music.

Lastly, if the merger of T-Mobile and MetroPCS is approved, the US market may soon experience the kind of disruption seen in Denmark, France, and Germany. But until then, let's take a look at what's working for these wizards of wireless.

Prepaid is paying off

Consumers have voiced a preference for greater freedom and flexibility from their wireless service plans, which has driven solid growth in the prepaid market. The year-on-year growth rate for postpaid has flat-lined, while prepaid continues to grow at about 12 percent annually. As figure one illustrates, the only segment growing faster than prepaid is connected devices, which encompasses machine to machine (M2M) connectivity.



Source: Chetan Sharma Consulting, Aug. 2012

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When Pipeline examined the success of prepaid wireless service [last August](#), we predicted this trend. Prepaid service no longer has an image problem, and prepaid customers today enjoy iPhones, LTE data, direct-pay billing, and numerous value-added digital services—all traits that once defined postpaid service.

T-Mobile USA intends to dominate the no-contract, prepaid market by absorbing MetroPCS and offering unlimited 4G service with no strings attached. While outlining his company's challenger strategy during a webcast last October, T-Mobile USA CEO John Legere commented, "the no-contract market is growing at more than three times the pace of the contract market." He went on to predict that, "in terms of revenue, we will be the leading provider of no-contract services."

It's clear that as CSPs move into 2013, they must have a solid prepaid strategy in place. "Prepaid is critical to revenue and subscriber growth, at a time when wireless providers are striving to boost performance in an increasingly saturated market," says John Weber, analyst at IDC Research.

Wi-Fi is a game changer

"Wi-Fi has become more than an offloading solution, as operators are embracing it as simply another radio network," Torbjörn Wård, CEO, Aptilo Networks, told Pipeline. "They're using it for coverage for dense areas, or indoors. One driver of this is cellular base station vendors, which are starting to sell their regular micro and pico base stations with Wi-Fi radio access built-in, just like GSM, UMTS and LTE."

When Free made the successful transition from broadband ISP to mobile service provider in France, it did so by leveraging a massive network of 5 million Wi-Fi hotspots for mobile service. By comparison, France Telecom only operates about 30,000 Wi-Fi access points. How did they do this? Free developed an innovative set top box for broadband internet, video,

and VoIP customers that functions as a nano cell. The set top box was created in-house, runs on a fiber backbone, and separates the private Wi-Fi network of the home user from the public Wi-Fi used by the mobile network. Some of the boxes even have a built in cellular femto cell. In essence, every new terrestrial customer that Free adds expands the operator's network infrastructure. And instead of charging a fee for the set top box, like MSOs and MNOs might in the US, Free provides the unit for...you guessed it, free. Free has also built out its own HSPA+ cellular network, but the cornerstone of its success is clearly Wi-Fi.

Tapping overcapacity—particularly if fiber is the backbone—is an innovative strategy that is generating more interest from service providers, especially in light of Free's success.

"An incredible amount of Wi-Fi access points have been deployed at homes and small offices, often with good backhaul capacity," continued Wård. "Operators can tap these access points for public use by implementing two separate parts (SSIDs): one for the subscriber and one for public use. We're seeing a strong interest among our operator customers for this concept, because we can make sure that the subscribers never suffer from this as only excess capacity is used. Just think about a big cable operator. They can potentially create a huge hotspot network virtually overnight."

Network operators who don't have their own massive Wi-Fi resources or a set top box that functions as a nano cell can still jump on the Wi-Fi options with a partner. FON, for example, uses the same model as Free for its terrestrial customers—its [FON Spots](#) share Wi-Fi with the greater community, creating an ever-growing mega-network. Numerous mobile operators [have partnered](#) with FON to tap into this network of more than 7 million access points, including BT and MTS.

Next-gen OSS and BSS

It's no secret that legacy OSS and BSS systems and their disparate silos of data have created a headache for many service providers. By utilizing less-complex, more modern operational and back-end software that is engineered from the ground up to support next-gen telcos, service providers can realize substantial benefits.

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E-Plus Group replaced its OSS and BSS systems with Comarch and didn't look back. "Comarch skills and OSS strategy helped us in smooth transition from complex legacy architecture and processes into new lean approach for network planning, delivery and integration," said Bernd Kreiling, department manager processes & support, E-Plus. The disruptive operator realized a 50 percent improvement in overall business process efficiency as a result.

C-Spire Wireless replaced its CRM, backend customer support structure with a system from Credera that resulted in such significant change that Information Week [recognized C-Spire](#) as a top innovator in telecommunications in 2012. The Credera implementation, with its configurable rules engine and deep integration with billing, allowed C-Spire to condense an 8-screen process into a single-screen, holistic customer view, resulting in dramatic improvements in customer service.

Leveraging the power of the internet for automation

The continued success of information technology rests on a fundamental maxim: automation and virtualization saves money. Service providers who effectively leverage the power of the internet can lower costs and even improve the customer experience. Telmore embraced an unheard of idea from: internet-based sales and service. The operator learned from other industries (airline and hotel/hospitality) applied the lessons, and used the internet as its primary channel for service and sales. This greatly compressed Telmore's cost structure.

Today, the advantages are even greater with the realization of cloud computing. Companies like Metrtech [offer solutions](#) that can be deployed in the cloud and offer CSPs a turnkey, automated solution for billing and customer care. Similarly, E-Plus Group, Free, and C-Spire Wireless lean heavily on customer portals and social media to engage with customers in a low-cost manner.

Going green

Energy consumption used to be an unavoidable cost when operating a mobile network. E-Plus teamed up with Nokia Siemens Networks to change that. NSN built a base station for E-Plus that relies on solar and wind energy instead of the German electricity grid. NSN also provided advanced remote management capabilities for the site. This was part of E's successful strategy to become the most efficient network in Germany.

"ABI Research has found that 86 percent of the energy needed by an operator is consumed by its networks, and we are always committed to innovation that enables energy conservation for the communication service provider," said Rohit Kumar, head of energy solutions at Nokia Siemens Networks.

Personalization

When it came to defining a disruptive strategy, C-Spire, like Telmore, looked outside of telecom for answers. The answer for C-Spire was Neolane, a "conversational marketing technology" company with customers like Sephora, IKEA, Continental Airlines, and Sony Music. Neolane enabled C-Spire to triple the number of campaigns they were running and make personalization the cornerstone of its business strategy.

"Neolane is helping C Spire to fulfill its promise of delivering personalized wireless," said Justin Croft, manager of marketing and promotions, C-Spire. "We're able to sustain more meaningful, relevant conversations across all touch points, which has not only improved the customer experience but business results."

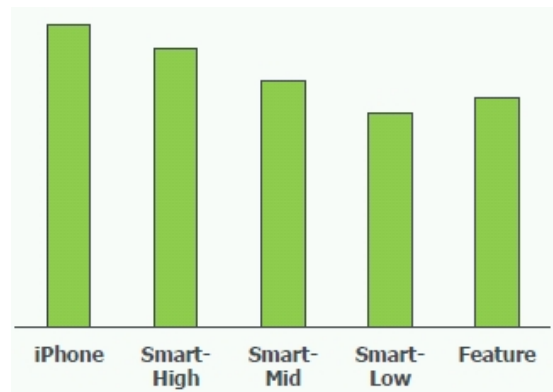
For C-Spire, this personalization extends beyond the consumer base and into business customer base as well, which is another mark of innovation. The operator has combined its personalized approach to activation and service with proactive customer support to become a trusted partner for businesses of all sizes.

Sexy phones are sticky phones

Offering high-end devices can be a winning strategy, especially for pre-paid brands that may face a higher churn potential. In other words, sexy phones are sticky. In its third-quarter 2012 financial report, Leap

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Wireless described how high-end Android devices and Apple iPhones contributed to longer account , as you can see below.



Percentage of new subscribers active following three months of service

Source: Leap Wireless

Conclusion

While not every mobile operator can move as quickly as some of the CSPs covered in this article, there many lessons that can be applied in part or whole. They include:

- Look outside of telecommunications for innovative business strategies
- Establish a contract-free/pre-paid offering
- Create a plan to harness the power of Wi-Fi
- Explore the latest OSS and BSS offerings for increased efficiency and cost reduction
- Utilize social media and personalization to improve the customer experience
- Find new ways to benefit from the automation offered by internet and cloud-based sales and service portals

- Lower the total cost of business by reducing energy needs
- Offer mobile devices that are sticky

Using strategies like these, France's Free Mobile snared 1.5 million customers from its rivals in the first thirty days of life. This might seem like magic, but it's not—it's possible and the tools are available today.

Telmore in Denmark has a customer satisfaction level of close to 90%, while the average level for all Danish mobile providers is 65%.