BUSINESS CONSULTING

QUANTUM RETAIL

DIGITALIZATION AND MULTICHANNEL FOR TELCO SALES & SERVICE STRATEGIES

NEO

IDEAS E INNOVACIÓN

Telecom & Media

EXECUTIVE SUMMARY

Retail can no longer be considered a single, physical channel. The digital age is upon us, and customers expect blended digital/physical touchpoints.

European operators face EBITDA[i] challenges: this is nothing new. But the lack of any real recovery is not. Between 2008 and 2012, European Operators have lost up to €12 billion[ii] in profitability. EBITDA margins are dropping as much as 3 percentage points per year, depending on the region[iii]. Even worse, new entrants to the market such as Google and Microsoft are now grabbing 35% of the Telco business[iv].

Operators in Europe are pushing many initiatives trying to reverse downward trends. However, these initiatives have limited and sometimes negative impact on quality of service/experience at channel touchpoints where the "moment of truth" creates meaningful value. Retail strategy needs revision in order to provide value-driving customer experience.

Such a strategy should be selective and include the channels that represent the most customer experience impact and the most cross-channel synergies: retail, online with other digital channels and contact centers. Monobrand retail should be seen as the spearhead of these channels since it is the most tangible point for customer experience and cannot be separated from the others to deliver holistic customer experience.

This new retail approach for Telco finds an evocative parallel in the world of Physics. Once the singularity and cumbersome norms of Classical Physics had been firmly established (i.e., retail channels today), science began to evolve its views of the world, and Quantum Mechanics emerged (i.e., retail from now on). Often defying intuitive prejudices, Quantum principles introduced multiplicity of existence – just as is required in retail sales channels to fight back at revenue erosion.

In other words, retail can no longer be considered a single, physical channel. As proposed by Quantum theory, it must evolve and exist in many forms at the same time such that boundaries between channels are minimized and blurred. The digital age is upon us, and customers expect blended digital/physical touchpoints.

However, deploying a holistic channel ecosystem without barriers requires a customer centric organization. Individual channels need smooth interaction as a single engine. These challenging topics require elusive collaborative and innovative mindsets. Operators able to reinforce fundamental sales channel management and operations, while evolving channels to become digitalized and multichannel will be able to react to new customer needs and purchasing dynamics.

This paper is an exposition of a new Telco retail approach not limited by outdated management models, inconsistent multichannel execution, and non-digitalized customer interaction. It leverages best practices in both Telco and non-Telco industries to provide a view into the near future of digitalized retail models.

INTRODUCTION: DINOSAURS NEED TO DANCE

Changing market needs and pressures demand effective digital strategies across sales & service channels and a multichannel approach to keep Telco operators in the game.

The telecom industry has matured and traditional Telco business is shrinking in most European regions. By 2006 The Economist had coined the term "dinosaurs"[v] to refer to European operators, who were previously better known as "giants". To pull out of the nosedive the industry is currently enduring, operators are developing strategies to protect the bottom line. Sales channels should play a key role in this effort – especially Retail and its cross-channel counterparts that provide primary touchpoints for demanding modern customers. Changing market needs and pressures demand effective digital strategies across sales & service channels and a multichannel approach to keep operators in the game. To paraphrase former IBM CEO Lou Gerstner, "Who Says Dinosaurs Can't Dance? "[vi]

European EBITDA margins are dropping as much as 3 percentage points per year, depending on the region; €12Bn lost in profits in the industry between 2008-2012

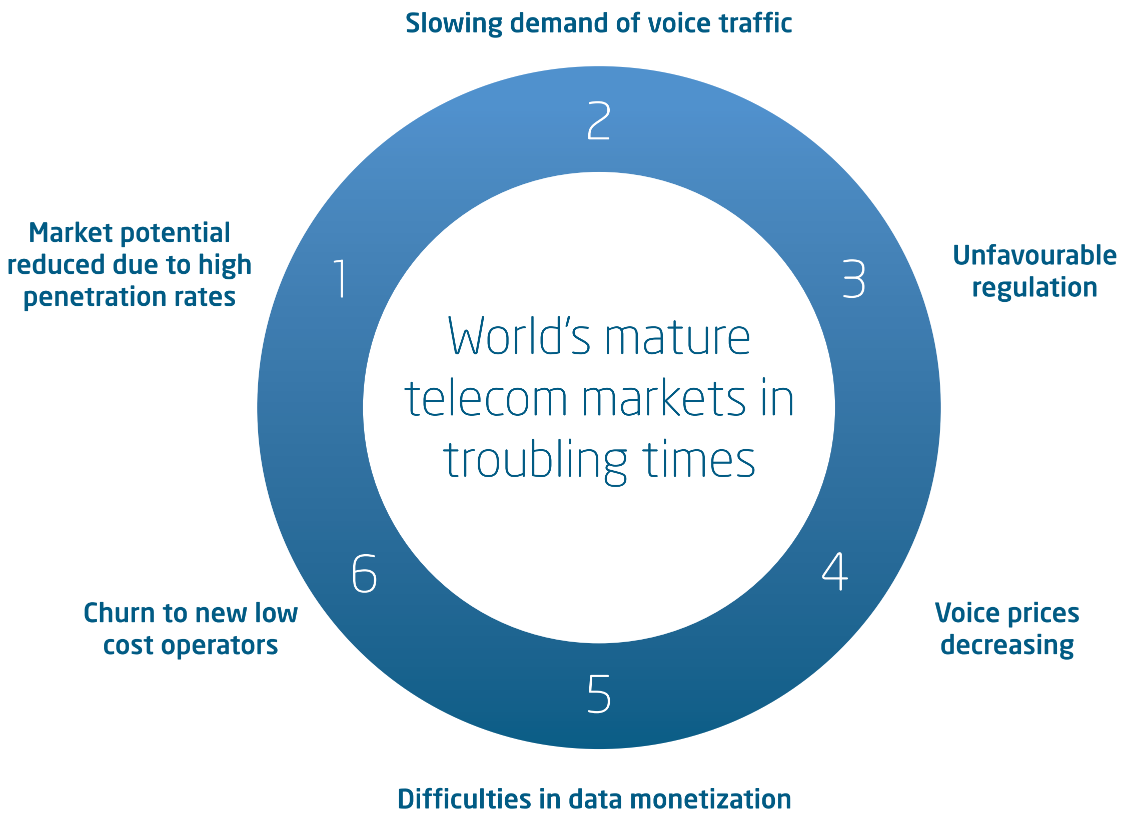
CONTEXT: SOME PROBLEMATIC MARKET FORCES

Many market attributes are causing EBITDA decrease in the industry. Some of these include:

1

Downturn economy creating a heavy load in the saturated Telco market: Mature telecom markets are characterized by declining revenues from traditional fixed and mobile products and an increasing difficulty in creating new growth. According to UBS[vii], incumbents' economies of scale are not offsetting the increasing number of market entrants with low cost bases. Many incumbent operators have carried out a short-term solution to this dilemma by bundling different products (triple, quadruple play) to compete in value-price proposition against low-cost providers who are usually unable to offer such products[viii]. Additionally, operators have evolved their networks at no little cost to provide modern (LTE) mobile data services that are not producing enough revenue to allow them to recover their investments. Indeed, even industry regulation contributes to the problem of limited returns by limiting pricing levels congruent with investments made and risks taken.

Exhibit 1: Saturated Telco markets face real challenges



2

Shrinking existence of traditional Telco players: New digital Telco entrants such as Google and Microsoft provide digital services and products that are disrupting infrastructure players' earnings. Some Telco players have reacted by trying to move up in the value chain and create those digital products and services, creating digital units (e.g., Telefonica Digital, Deutsche Telekom Digital Business Unit). The success level of those ventures and their returns is still unclear. Such market tactics can be successful to some extent in B2B, because incumbent Telco operators have strong business ties with larger corporate clients. However, it is extremely unlikely that newcomers to digital B2C (in this case, the Telco operators) can successfully create mainstream digital services and products. Further, while Telco players stood by, mature IT or Internet companies began to buy successful companies in order to properly capture adjacent markets (to name a few: Microsoft with Skype, Google with Youtube...).

3

Customers changing their behaviour: At the same pace that new digital technologies are increasing their importance in the market, consumers are modifying their purchasing habits and embracing more and more digital and electronic interactions. Today's consumers use new personalized and digitalized physical channels and expect not only smooth sales and service access, but also brand and experience consistency at all touch points: online websites, shops, email, chat, SMS advertising, contact centers, social networks. Those companies that do not keep pace with these customer expectations lose high value customers to alternative providers.

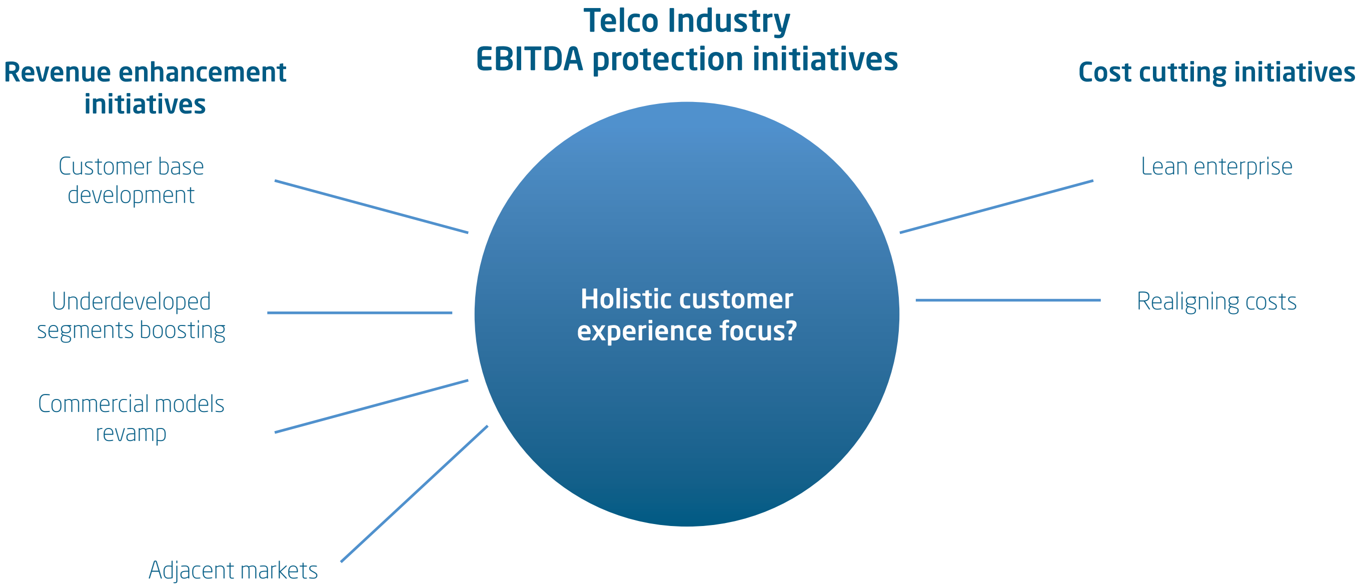
Exhibit 2: Today's customer journey can be a bit circuitous

	Get informed	View & compare	Select & purchase	Pay	Receive product	Get service & support
Customer´s journey A	E-mail	Shops	Agencies	SMS	Shops	Social Networks
Customer´s journey B	Contact centers	Online	Shops	Online	Postal mail	Contact centers

Operators have been taking measures in the last years, but need to strongly act on the moment of truth.

As one would expect, both revenue enhancement initiatives and cost cutting initiatives are prevalent throughout the industry. However, the main focus is not yet on quality of service/experience at channel touchpoints where the "moment of truth" creates meaningful value. Retail strategy needs revision in the framework of value-driving customer experience -- ultimately resulting in more sales and better service.

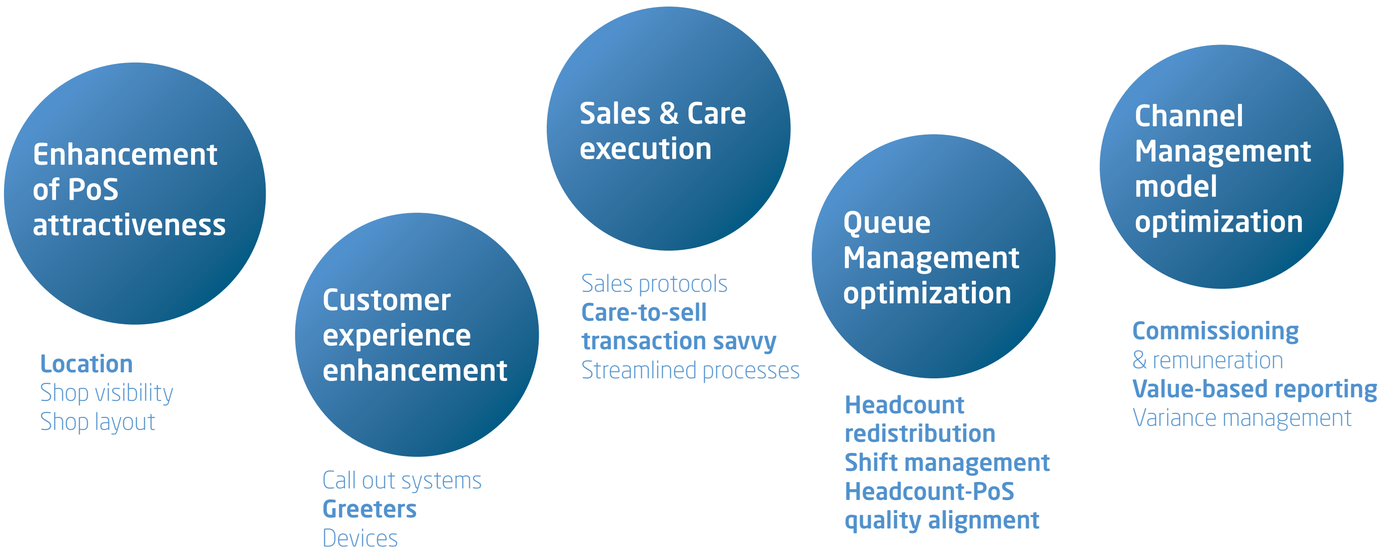
Exhibit 3: Initiatives aiming to reverse top and bottom line downward trends are not yet focused on quality of customer experience



FUNDAMENTAL PRINCIPLES OF SALES & SERVICE: BUILDING UPON A SOLID BASE

Before evolving sales and service channels per a digitalized and multichannel approach, it is essential to be sure there is a sound foundation upon which to build. Existing sales and service management and operational capabilities must be able to maximize sales potential from a "classical" sales point of view. This means getting the fundamentals right to reinforce and improve upon current management and operations. Such a strategy should in turn be selective and include, in a first phase, the channels that have the most customer experience impact and the most cross-channel synergies to leverage: monobrand retail, online (digital channels) and contact centers. In fact, monobrand retail should be seen as the spearhead of the trio since it is the most tangible point for customer experience. The sales and service fundamentals that need to be reinforced can be put into 5 main categories:

Exhibit 4: Even in the new digital retail landscape, fundamentals of retail management need to be in place



1

Enhancement of PoS accessibility provides immediate sales improvement when location and visibility are tuned to keep pace with changing high street trends, traffic flows, and required service levels in contact centers. Store and website layouts and merchandising then need to show the right things to the customer for him to easily know where to go in the store or on the site to settle his service needs or investigate new offers.

2

Outstanding in-shop customer experience has always been a decisive element of sales performance, so the basics of managing customer expectations and satisfaction need review. Key satisfaction indicators such as first contact resolution and time-to-resolution need to be optimized. Routing mechanisms to help appease waiting discomfort should be investigated. For shops, providing hardware demo's and other interactive device merchandising that keeps the customer entertained and browsing helps customer experience as well.

3

The protocols for sales and care execution most likely will need simplification and better revision loops with marketing to keep the focus on customer needs when identifying sales opportunities. This is especially true for creating sales from service, since between 75% and 85% of customer shop visits are made for service issues.The streamlining of sales procedures and after-sales administration should be reinforced to support sales execution and customer satisfaction, while enhancing morale in the shops and contact centers by reducing transaction complexity and duration.

4

Queue management needs to address service and sales bottlenecks that increase customer waiting times. Call out systems (line order ticketing) and greeter roles and processes need review to be sure someone is acknowledging the customer and managing his wait-time expectations. Enough sales and service agents need to be scheduled at peak business times to capitalize on sales potential, and matching best sales or service performers with corresponding store or contact center campaigns and inbound peaks that have the highest sales potential reduces waiting times and increases sales.

5

Proper channel structure and its management model must be reinforced. The right roles and responsibilities are needed to run and maintain the channel with proper closed-loop feedback mechanisms that keep performance continuously under scrutiny. This is especially so for monitoring poor performers to identify the sales and service recovery steps needed to bring them up to par performance. Commissioning should also be reviewed to be sure it is aiming activity toward value; reporting and performance dashboards need to exist with a view into value being created (or leaking) within the channel.

THE NEW APPROACH IN TELCO RETAIL: FROM CLASSICAL TO QUANTUM

Retail is reaching a key point in its development thanks to the digital age. Just as Classical Physics and its singular approach to matter evolved to the more granular and agile Quantum Physics that introduced the multifarious nature of matter, Retail can no longer be considered a singular physical channel. As paralleled in Quantum theory, it must exist in many variations of forms at the same time to attract, delight, and, in the end, convert visits into sales. Operators should deploy digital and selective (contact centers, monobrand retail shops, and digital) multichannel mechanisms able to increase customer satisfaction and sales while minimizing total acquisition costs across the channel ecosystem. The best place for this is in the channels, led by retail, that have most controllable influence on customer experience and high affinities for cross-channel connections. This is the case for many industries where retail presence is far ahead of Telco (e.g., consumer goods) when it comes to harmonizing digital and physical channels to provide a consistent multichannel experience. The market requires Telco channel evolution to catch up in digitalized models in the three main categories below:

Attract

Physical shops have to be a magnet to new and current customers as much as online websites or contact centers.

Retail, contact center, and pure digital channels need to attract customers with the right offer per channel, as well as provide meaningful digitalized sales, service, and communications to suit customer preferences. The offerings in every channel need to be placed where particular customer segments expect them to be (not where the business plan has allocated them based on trends from previous years). There need to be new channel forms such as social networks, online chat and mobile in-shop apps adapted to customer preferences that foster customer satisfaction and operational efficiencies: new digital tactics that provide for repeat customer visits, and proper channel partner steering to leverage digital opportunities that provide proper attraction for the customer base.

For sub-segments of customers who have established digital habits, it is necessary to attract them through digitalizing the shop experience. For example, allowing use of mobile applications to purchase products and services in a shop window when the shop is closed or lines are long will help attract customers and let them cope with deterring waiting times or limited opening hours.

Another example comes from DSL outbound campaigns. Normally this type of campaign delivers low conversion rates that support last-minute efforts to fill target gaps, but does not bring real value for the cost to the company. Training outbound contact center agents to sell DSL, preparing campaigns and spending a long time on the phone to sell this product is usually a waste of valuable resources with low efficiency in attracting customers. If we look into customer behavior, we see that inbound calls enjoy much higher conversion rates for DSL sales. Customers simply do not want to be bothered by DSL via an outbound channel. Sometimes it is enough to replace one channel with another to increase customer satisfaction.

Physical shops have to be a magnet to new and current customers as much as online websites or contact centers. For instance, smartphone rookies (young and old) appreciate introductory courses in the stores explaining new handset features and gimmicks available. These users are often later the ones ending up engaging with digital channels in their interactions with the operator.

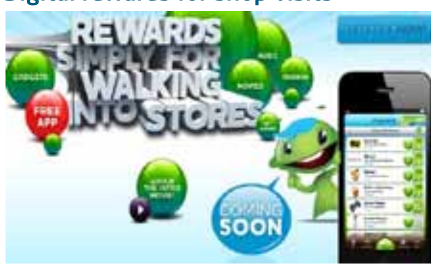
And all of the above applies to sales channel partners. Agreements may need to be modified and partner management evolved, but it is important to include partners in the digital. For example, extending geo-fencing (customer triggered promotions sent digitally to the phones of customers walking into or nearby a location) to partner monobrand shops can bring immediate results and help show partners the benefits of going digital.

Exhibit 5: Attract customers with round the clock access and touchpoint ubiquity, combined with individualization

KSFs	Examples
Develop new channels forms	**Shop windows for 24hr digital shopping** Mobile apps **rewarding PoS visits** **"Virtual shops" in the subway of Seoul** **Provide care** through **social networks**
Adjust offer placement	**ADSL in outbound campaigns** **Ad-hoc promos based on customer data insights**
Aim for recurring visits	**Introductory courses** in the stores **Geomarketing tactics** to drive **footfall** **Ethnic & green retail techniques** **Digital discounts for visiting the shop** and browsing
Leverage OTT partners network	**3rd parties** normally **do not always consider leveraging digital PoS tactics** or **multichannel requirements**

Digital window shopping

Digital rewards for shop visits



Maximizing sales potential from a "classical" sales point of view becomes key

Warby Parker: creating the right channel

In 2010 Warby Parker created an eyewear business that broke the industry mold of using face-to-face channels. Since a pair of glasses is a product that faces online sales resistance because of its "look and feel" nature, Warby Parker developed a differentiated approach to win in this channel. They ship non-obligatory orders that include five of your most preferred pairs of glasses, so you can test them for five days (their home try-on program). Warby Parker also uses social media and word-of-mouth to promote their products. To complete the sales channel picture , they set up experience stores in top locations to complement their online leadership and allow customer to physically experience the brand.

Delight

To delight customers with digital approaches, both sales and service should be touched upon. For example, providing an application in the shop (and on the Web) that helps a customer, through a digital questionnaire, identify "the phone that is right for you" would help customers decide on what phone suits their needs and individual style before purchase. An example from the service side would be using social media channels to identify customers with an undetected bad experience in the channels and help with recovery for that customer – avoiding negative word-of-mouth.

Handover among channels for customer sales and service activity should be smooth and cogent from the customer perspective. If a customer becomes aware of an offering in a call with the contact center, researches the benefits online, and makes the purchase in a shop, a system and proper organization structure with proper roles, responsibilities, incentives and information flows among channels must be in place.

Similarly, brand consistency brings customer delight from various touchpoint interactions. Recruiting and training for employees should rigorously aim for brand and experience enthusiasm and consistency. Then the organization must measure and incentivize brand experience standards and draw on instilled employee enthusiasm.

If a customer becomes aware of an offering in a call with the contact center, researches the benefits online, and makes the purchase in a shop, a system and proper organization structure with proper roles, responsibilities, incentives and information flows among channels must be in place. Brand consistency brings customers closer to the brand.

Tesco: leader in digital delight

Starting with their program "Click and collect" -- supermarket drive-through collection of orders made online -- Tesco has evolved towards more complex approaches that include simultaneous interactions with several channels at the same time, devices and apps providing physical shop navigation, for example. They even launched the world's first virtual store in South Korea, where commuters buy groceries via their mobile phones from subway walls covered with pictures of shelved goods for sale.

Convert
Turning customer interactions into sales

The strategies mentioned here create a sales environment to bring the customer recurrent and pleasant digital channel experiences. But such efforts are in vein if corresponding costs are not covered by high value conversion. Achieving increased conversion rates comes with three main management thrusts: collaboration agility among channels, evolved management model with a customer-centric focus and proficient sales and care execution leveraging service to create sales.

Exhibit 6: Needed capabilities for increased conversion

To get to better sales capabilities among channels, namely contact centers, monobrand retail and digital channels, channel conflict must be removed. Channels can be incentivized as a whole and rewarded for their collaborative sales activity. Regional sales and service targets should reflect cross-channel handover and conversion (i.e. , monobrand shop employees rewarded for all the sales in a given neighborhood no matter whether done in the shop, CC or online).

Management models should further increase conversion by providing reward/incentive schemes where new levers measuring new customer experience skills are introduced. Channel objectives should be fine tuned to focus more on customer experience and the sales activity that can be derived from high levels of customer satisfaction. Further, clear business rules among channels for sales and service activity should help the channels work together to close more sales.

Profiling and recruiting sales agents has to focus on skills/experience that bring empathy and customer connection to propel customer service and assure impeccable sales. This should come from service execution with digitalized sales tools, e.g. sales agents or customers using sales applications in tablets in shops to provide product and service tips for the customer (both for sales and service) and help the customer "prepare" for purchase.

Amazon: optimizing conversion

One clear example in how much detail is being applied to creating digital channels able to delight and, above all, drive sales is Amazon. Amazon has set up a team of highly skilled experts to constantly test the structure and sales appeal of their web portal. This team deploys up to 7 different design tweaks at a time that are tested for customer satisfaction while sales performance is examined. The designs driving fewer sales are replaced while customer satisfaction factors are protected.

HOW TO APPROACH THE QUANTUM CHALLENGE

The scenario described in this document requires a proper framework for developing and steering channel evolution. Such a transformation to digital/multichannel presents difficulties not only in structural and management model designs, but also in changing mindsets and overcoming resistance to change. Within such a context of change there are 4 main steps to getting to Quantum retail:

Step 1
Assess the channel fundamentals: before we begin to evolve the channels, there must be a solid base from which to advance. Honest and objective diagnosis is key. Current management and operational models that deliver on available sales potential and that create a positive customer experience need to be functioning properly. Shop location coverage should be evaluated and partner structure and capabilities analyzed. These and other aspects of channel sales capabilities need review, so they can be reinforced to withstand the evolution into a new digital format.

Step 2
"Fix the basics" -- derive sales & service enhancement programs: once the gaps in sales capabilities have been identified, they can be corrected while implementing the most immediate steps in building the digital and multichannel approach. As such, sales fundamentals such as measuring sales not only by transaction amounts, but also by transaction value can be accompanied by preparation for measuring cross-channel sales and associated value. Variance management (supporting the poorest performers by example of the best) should be a key tool of the performance management, and sales/service execution should be blueprinted, while conversion rates of leads and handovers among channels should be pushed.

Step 3
Develop the digital strategy: the culmination of the above-mentioned activities matched with insights into the customer base and its segmentation provides the foundation for a digital retail strategy. The strategy should leverage examples from international best practices adapted to the local reality of the Telco operator: many industries are well advanced in the digital and multichannel aspects of retail. The wheel does not need to be re-invented but adapted to Telco. Once the strategy is derived, tactical actions should be identified and overall guidelines for new channel models.

Step 4
Implement: From the strategy guidelines and tactics, a comprehensive project plan will drive the transformation providing clear tasks and their owners, well defined work teams and milestones. Monitoring implementation KPIs enables a governance team to track and enable smooth realization of the transformation.

Exhibit 7: Approach towards Telco quantum retail

1	2	3	4
Assess fundamental sales & service channels capabilities	**"Fix the basics" - derive programs for sales & service enhancements**	**Develop new digital & multichannel strategies and tactical programs**	**Implement**
Footprint and shop accessibility Customer experience Sales and care execution Queue management Management models	Value and variance mgmt Partner model optimization Sales and Service protocol execution	International best practices New "Attract" initiatives New "Delight" initiatives New "Convert" initiatives	Clear tasks and dependencies Milestone and KPI monitoring Disciplined project governance

FOCUS ON SALES

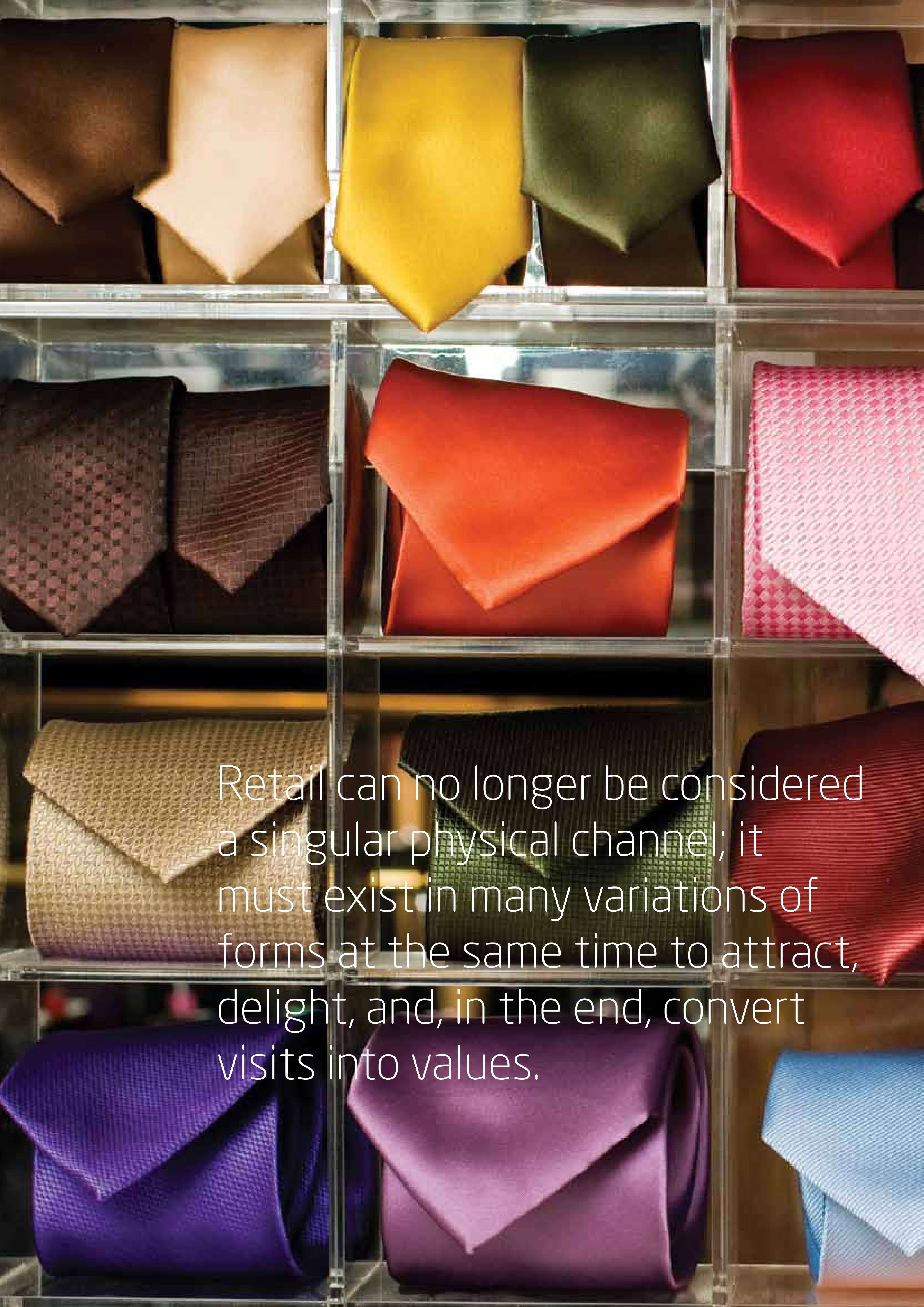
Sales is still the focus of retail: whether through providing great service, optimal customer experience, or digitalized channel developments. The transition to a "Quantum" retail is needed, but it must be done within the framework of profitability and customer needs. This may slow the transition in the short-term, but, again, the customers have to believe in the change and embrace it with purchases, or there is no need to evolve the channels. Performance management, sales from service skills, sales execution protocols – all wrapped in a value-based management approach is necessary to continue driving sales results when the brand is not as cool as Apple or Google.

Apple and JCPenney: don´t forget the customer fundamentals

For Apple, entering the world of retail was risky due to its lack of experience. So retail savvy Ron Johnson was brought in to leverage a strong brand and created the Apple retail concept to provide a new digital retail experience that goes beyond traditional retail. The concept was relatively simple – do not compete with on-line shopping but transform physical retail to work together with digital approaches and "go beyond transactional" in the shops.

Thanks to his success at Apple , Johnson was hired in 2011 as CEO by JCPenney, the department store retailer based in Plano, Texas with over 3 000 locations in the US serving "middle America" for over 100 years. He eliminated commissions and created cross-channel sales KPIs; he introduced a common platform to make customer information more accessible across channels; he beefed up the online presence; and he even began to introduce mobile check-out that could be done by phone from anywhere in the store .

However, Johnson's rebranding did not transform brand perception away from that which had been established over the past 100 years – not a brand of sexy digital progress, but one of basic value and tradition. Employees were not evaluated so much on sales, and performance management leaned too much on the customer experience. But in the years before, customer experience had been so much about coupon-driven promotion in the mailbox that a radical (and relatively fast) jump to a digital experience was not effective. Sales dropped by 9% and the stock price took a 30% dive.



Retail can no longer be considered a singular physical channel; it must exist in many variations of forms at the same time to attract, delight, and, in the end, convert visits into values.

CONCLUSION

Those operators able to react fast enough to the digital changes in the market and the new purchasing dynamics of contemporary customers will be the best suited to balance out the decline in revenues from traditional commoditized Telco products and to profit from the introduction of new services. Only those operators able to understand the new customer purchasing dynamics will effectively compete in the new paradigm.

This change is something only recently being addressed by the Telco industry, and operators are likely to find themselves struggling against organizational inertia and lack of management know-how to implement such a shift of focus. In this context, Telco executives are likely to be heavily burdened in their task to drive such an essential transformation.

In order to set this new approach in place, Indra Business Consulting has leveraged its expertise as an experienced advisor in the Telco Sales & Service arena over the last 20 years to develop a framework to accompany operators in their journey towards a new customer centric model from Quantum retail.

Dinosaurs can still dance.

i Earnings before interest tax and other deductions – a measure of a company's ability to generate operating cash
ii AlixParters consulting, European telecommunication operators need to accelerate; Dec. 11, 2012
iii Ibid
iv Goldman Sachs 2012 estimations of net cash for: Apple, Samsung, Google, Microsoft, Amazon, Cisco and Qualcomm
v http://www.economist.com/node/7943222
vi Who Says Elephants Can't Dance by Louis V. Gerstner, Jr., March 2002
vii GSMA – The Mobile Economy 2013
viii Ibid

Such a transformation to digital/multichannel presents difficulties not only in structural and management model designs, but also in changing mindsets and overcoming resistance to change

About Indra Business Consulting

Business Consulting is the **strategic and management consultancy** of Indra. With over 15 years of experience, we have become one of the leading strategic consulting firms that operate at local, regional and global level.

We have the ability to support our clients from the initial **strategic formulation until the final operational implementation.**

We work in strategic projects for our clients who are leaders in the telecom, media, banking, energy and utilities, tourism and leisure, automotive, transport and operations sectors.

We have carried out more than **2,500 projects in more than 40 countries on all continents** since 1994. We help our clients in designing and implementing business strategies to enhance revenues, reduce costs and boost the profitability of their businesses.

We count on a team of around **500 professionals, distributed among 12 countries all around the world**, coming from top international Strategy and Management consulting firms and, in many cases, with MBAs from top international business schools.

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