In Search of Differentiation

Ultimately, price and service performance are what count.

Jacqui Namsoo and Barbara Lancaster
jnamsoo@LTCinternational.com
blancaster@LTCinternational.com

To win in a competitive market, companies must differentiate their products from those of their competitors. A problem for telecom service providers is that in the telecom business, differentiators have often been short-lived.

How is genuine, long-lasting differentiation possible in this market? Marketing and technology can contribute. But ultimately, price and service performance matter most.

To win in a competitive market, companies must *differentiate* their products from those of their competitors. Everyone knows this. Indeed it is built so much in to the way we do business, the concept is probably on the curriculum in elementary schools. As competitors catch on and catch up, market leaders have to invent new products and services, or add new features to existing services, or do something that isn't being done by someone else right now.

Telecom carriers understand this as well as anyone. The problem that carriers have is that differentiators have usually been short-lived. Price packages and bundles are easy to copy. New functionality is supplied by the technology vendors and is available to everyone, sooner or later. Invent a completely new service and either it stays unique (that is, hardly anyone buys it) or it takes off, everyone offers it, and it's suddenly not a differentiator any more.

There are exceptions. In telecom, differentiators that tend to be longer-lived are either based on having a genuine edge in customer-service standards, or by having a genuinely lower operational cost base, allowing pricing advantages to be sustained without financial damage.

Over the years, telecom companies have tried hard to create value added differentiators. Call management services, fax, voicemail, cellular SMS, web hosting, email hosting – all started off as differentiators for connectivity service providers. They have lasted as products, but not as differentiators in themselves.

Other new services are sometimes only "new" because of the packaging or the underlying technology, not because they offer anything functionally different for customers. There are many ways of delivering point-to-point data, for example: frame relay, T1/E1, fractional T1/E1, DSL, MPLS, VPN. They all deliver bits. Each new variation has its brief span as a differentiator, and then becomes "table stakes" for everyone in the bit-delivery business.

Marketing departments invest lots of time and effort in imaginative price packaging. Long Distance carriers offered "new services" that were really only pricing packages for the same old toll call, but still didn't protect themselves from a downward price spiral. In the early days of the cellular explosion, competing companies "differentiated" themselves from each other by inventing more and more complex pricing plans. (This eventually created an opportunity for companies to offer simplicity as a differentiator. Orange, AT&T Wireless, and Leap Wireless are examples of companies who, in different ways and at different times and in different markets, went against the “me too” trend of the industry and won market approval by simplifying billing for the customer. Sometimes the new thing is going back to something old that works.)

As markets for telecom services mature, the emphasis has to shift from winning first-time buyers to retaining existing customers and winning customers from the competition. Then inertia becomes an important force. Customers think about changing suppliers because they are unhappy with their current supplier, not necessarily because they see better deals being offered by the competition. Most consumers view their devices as tools to make their life easier – to keep them plugged in, connected to the people and information important to them. They do not want to spend their time with complicated rate plans or comparing the relative virtues of different technologies.

Just because we (those of us in the industry) are consumed with new and creative ways to package connectivity, it does not mean that the end users are. In fact, for most customers, value in telecommunications is all about reliability and stability, traits most often associated with the long-standing service providers. Customer inertia, the incumbents’ friend, is founded solidly on the critical differentiator of reliable performance.

The churn rate for mobile phone customers in the US is around 3% *per month*. In Europe and Asia it is somewhat lower, but still high. Does this mean that companies are successively creating better and better differentiators to entice customers? Or is it just that lots of customers are unhappy?

In a review of service offerings from several major mobile operators, we found it impossible to find a compelling differentiator for any one of them. We visited their retail outlets and asked them to convince us that they were in some way better than their competitors. We heard all about better coverage, fewer dropped calls, better rate plans and cool handsets. But we heard it from everyone. If everyone has it, it’s not a differentiator.

So how is differentiation possible in what is rapidly becoming a commodity market? Service providers still need differentiators to take to market. The more standardized and ubiquitous the service, the more difficult it is to create a genuine differentiation, because the parameters that come to dominate the purchasing decision are ultimately price and performance. And customers judge these things based on their actual experience of price and performance, not just by reading the sales brochures.

This means that the real differentiators in telecom cannot be only in the minds of the marketing department. They must be carried throughout the company, by the network planners and engineers, the people who run network and customer operations, the customer service representatives, the people in the IT department, and their managers – all of the people who construct and run a highly effective and efficient *operational environment*.

Operators can differentiate by having better performance or having lower prices – or ideally, by doing both. Other things can make some difference too – and this includes all the fun things that marketing departments really like to do, such as loyalty schemes, affinity programs, quirky advertising and creative bundling. But only if they build on the solid fundamentals of good quality service at a price customers perceive to be fair, not if they are used as a substitute for the hard work of creating operational excellence.

In telecom, everything new becomes either a failure or ubiquitous. To succeed as a telecom carrier, you have to do what everyone else does – enable connectivity – but better and cheaper. What looks difficult – the technological wizardry – has been made easier by the technology vendors. What looks easy – being better than competitors in service performance and price – still needs hard work, knowledge, and vision.

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Jacqui Namsoo is a Strategy Specialist at LTC International.
Barbara Lancaster is President, and a founder of the company.

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