

Reinventing Telecom Distribution

How to Rationalize and Innovate Telecom's Physical and Online Retailing



CEOs of telecom operators are getting concerned that distribution networks are increasingly becoming a driver of costs rather than revenues. Historically the main source of acquisitions, retail has become an expensive inheritance for telecom operators in mature markets and needs to be rethought. Telecom operators need to rationalize their distribution footprint, leverage multichannel opportunities, innovate store concepts to meet new market trends and, as a result, be able to restore the use of distribution networks as a strategic lever.

Tougher telecom business – looking for cost reduction

Fast evolving client needs

Smartphones have become commonplace – Arthur D. Little expects a smartphone penetration above 90% in Europe by 2015 – and consumers are seeking increasingly sophisticated mobile devices and services. But they also want to test those devices and services before buying them. A recent survey¹ has shown that 62% of customers expect face-to-face interactions when buying telecom services.

Maturing markets are putting pressure on revenues

Mobile and fixed broadband markets are maturing in Europe and North America. In Europe, mobile penetration will reach 130% by the end of 2013 and roughly 66% of households will have fixed broadband. In these almost saturated markets, operators compete fiercely to gain new clients and spend a fortune enticing customer's to switch from their competitors. At the same time, revenues are declining and marketing budgets are being cut.

Even though telcos are introducing innovative offers (e.g. quadruple-play bundles) and developing value-added services

(e.g. VoD), they will face sustained revenue decline of -1.8% p.a. over the next years².

Distribution, a source for cost savings?

In telecoms, distribution costs are typically in the range of 5 to 15% of revenues and are now considered a key area for cost cutting and performance improvement. Therefore, telecom executives are increasingly looking at short-term cost saving strategies. But this should not compromise longer term distribution transformation in the industry.

Three trends are shaking up telecom distribution

More and more consumers prefer online shopping even for telecom services

Online distribution has become mainstream, in particular for content and electronic devices – two markets close to telecoms. Buying mobile devices online has become common, just like buying a PC. In advanced markets, more than 31% of Internet users have already purchased mobile devices online³ and this trend is also increasing for telecom services.

Paradoxically, telecom operators have only partly embraced online channels so far. Arthur D. Little's international benchmarks show that telcos' online sales (excluding SIM-only) account for only 10- 20% of acquisitions.

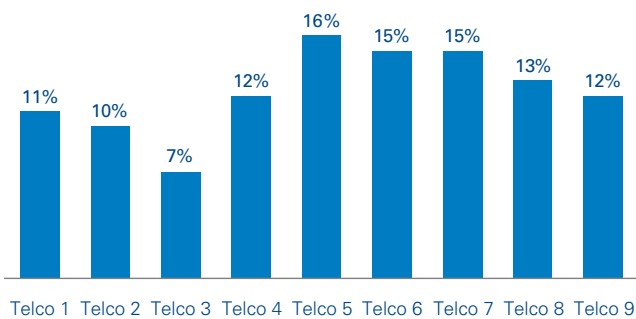
1 BVA Institute, 2012

2 Arthur D. Little & Exane BNP Paribas latest joint report "4G – going faster but where?"

3 Think Insights / Google, 2012

Figure 1: ~10-20% of sales through direct online channels at European telecom operators (2012)

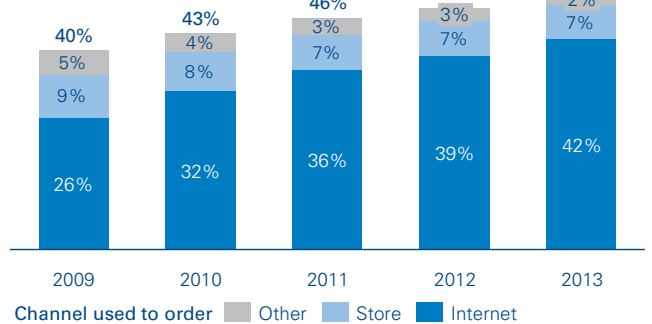
In % of telecom operators gross adds



Source: Arthur D. Little international benchmark

Figure 2: More than half of Argos sales are now multichannel (2009-2013)

% of total sales



Source: Home Retail Group, Arthur D. Little analysis

Customers utilize multichannel

Online is only a part of the equation. Consumers are increasingly using the Internet to search and find relevant information but then largely purchase the product or service using another channel⁴. “Research Online, Purchase Offline” (ROPO) has become the new buzzword in the world of multichannel and involves the combination of physical and digital channels to create an innovative and consistent customer experience. Telcos should embrace the opportunity that ROPO brings as multichannel customers typically show stronger conversion rates: +20%⁵ vs. traditional shoppers.

The emergence of multichannel practices is also affecting telecom distribution. A recent survey revealed that although over 80%⁵ of telecom store customers also visit the company’s website, telcos do a poor job sending their online traffic to their physical stores. And while more and more customers are buying online, they still emphasize the importance of interacting with a sales person during their purchase journey, highlighting the value of a physical sales channel.

In other sectors, innovative companies have successfully adopted their distribution strategy to this new multichannel environment.

One of the most successful multichannel retailers is Argos – a UK merchant mainly focusing on technological, home and health products. Argos has achieved £2 billion in revenues with c.a. 750 stores. Multichannel features are supported by their website, a mobile app and a dedicated TV shopping channel. Some key statistics include:

- 51% of sales are multichannel
- 42% of sales are online, of which 10% is captured by mobile shopping

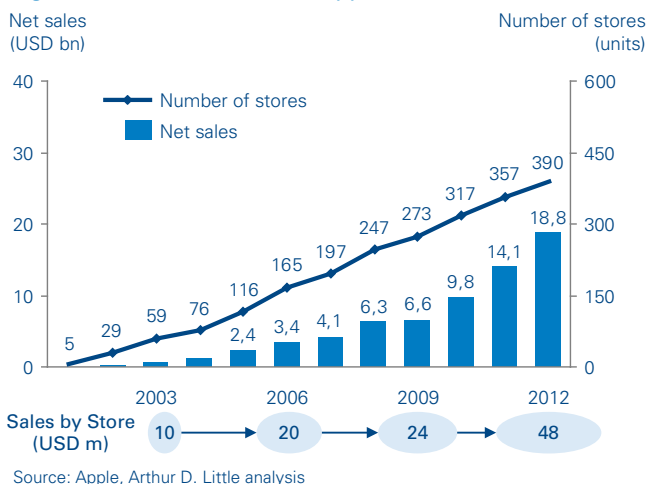
Physical distribution is a key factor for growth as Over-the-Top players have discovered

Who said distribution will be purely online? Alongside their online developments, Over-the-Top players have become leaders in re-inventing physical distribution.

Apple. The turning point in Apple’s retail strategy dates back to 2001, when emblematic CEO Steve Jobs opened the first Apple Store in Tysons Corner, Virginia. The majority of stores are located within shopping centres but Apple has also built several flagship stores in premium locations – e.g. in midtown Manhattan on Fifth Avenue.

As of December 2013, Apple has over 415 Apple Stores in 14 countries. This channel represents c.a. 12% of Apple’s \$156 bn total sales. Apple is smartly combining online with physical retail. Apple stores are an ideal showcase for their products and allow potential customers to discover and try everything before they buy – in physical stores or online.

Figure 3: 19 USD bn sales in Apple Stores



Source: Apple, Arthur D. Little analysis

4 See Arthur D. Little’s recent report “U-Channel Retail” for more on recent trends in retail

5 Full Six, 2013

Microsoft. Microsoft started in 2009 and have opened over 50 stores – mainly in the US. Through a specific customer experience based on technical advice, the Microsoft concept aims at improving image rather than sales.

Other players. Several companies have opened physical stores e.g. Sony, Samsung and Acer. By late 2013, Google even opened holiday showrooms in six US locations – called “Winter Wonderlabs” – giving consumers an opportunity to test Google’s branded electronics, including the Nexus 7 tablets and Chromebook computers, before ordering them online. With such stores, Google is getting into “show-rooming” confirming their interest in new shopping experiences.

Adapting to customized distribution

The role of distribution has changed, therefore historical networks need to adapt to this new reality. While telecom retailing was originally a strong driver for acquisition, telecom operators now need to redirect their networks towards a model that focuses more on customer experience and retention. It is now time for customized distribution, with:

- Adapted footprints
- New channel combinations (including online offerings)
- Refreshed concepts and combinations

Arthur D. Little has developed three levers that will allow telcos to redesign and reinvent their distribution strategy and channels.

Lever #1: Go for targeted capillarity of your distribution network

Long gone are the days when telecom operators used to roll-out large distribution networks to maximize customer numbers. Telcos now need to modify their distribution footprints. Modifying a distribution network is not an easy task and the biggest challenge is not to destroy value. Arthur D. Little’s recent

experience shows that telcos must be extremely careful in selecting which shops to close. While closing a store will lead to immediate savings, it also reduces sales - particularly in semi-urban or rural areas. The optimal distribution footprint must be assessed carefully. It is about targeted capillarity.

Lever #2: Invest now in multichannel enablers

Multichannel strategies are a necessity to meet new behaviours and start unifying the customer experience. It is about leveraging customers’ habits to maximize their engagement, thereby increasing sales. So telecom operators should push strongly for multichannel distribution by developing online, rolling out “click-and-collect,” creating rebounds between offline and online to enhance traffic in physical stores, and leveraging “show-rooming” by including mobile/online connections within stores.

Blending the online and in-store experience is particularly important. Inside shops, connectivity will provide valuable insights about customers, in turn helping to redefine concepts and product mixes.

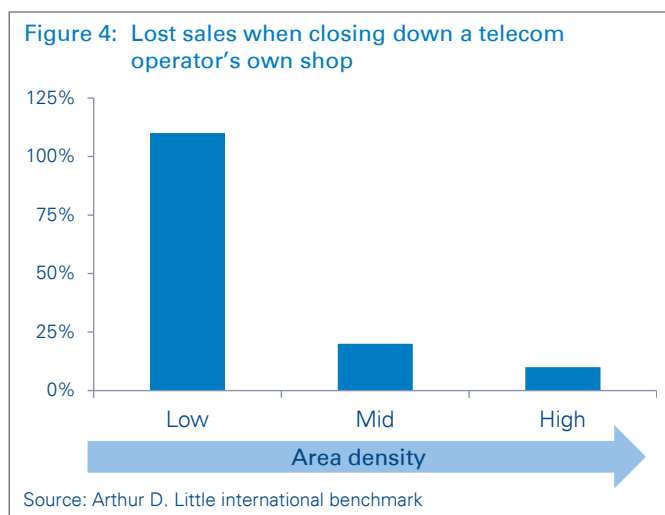
To achieve such changes rapidly, telecom operators should also consider technological enablers such as QR codes, NFC, upcoming Bluetooth Low Energy (BLE), as well as interactive kiosks - which can help to lead and innovate their multichannel strategy.

Lever #3: Refresh and combine brick and mortar concepts with proprietary experience

The “one size fits all” approach to store formats was relevant for market conquest but it is somewhat outdated now. Telcos have to design the appropriate mix of concepts to face competition and serve customer needs and experiences.

Several options are available to telecom operators and retailers:

- Minimal stores focusing on proximity (e.g. “Best Buy Mobile”)
- Premium sales and service stores (e.g. “Orange Très Grandes Boutiques”)
- Concept stores focusing on own customer experience with demonstration and sensorial marketing (e.g. Apple Store)



Case Studies: Some innovative concepts at the forefront of telco initiatives

Around the world, several operators have launched new concepts and are refreshing their distribution networks.

(1) Orange "Très Grandes Boutiques": different ways to buy and experience the brand

Orange has launched an original concept based on the co-existence of two notions within the same "Very Big Store" serving two possible customer journeys: a "short customer journey" focused on sales in a premium environment and a "long customer journey" focused on services, support and advice.

(2) AT&T new store concept: service and product exploration

AT&T opened a new flagship store in August 2013 in Chicago (US). Based on a new concept, it aims at providing unique customer support instead of being purely sales-driven. The focus is more on services, aftersales and demonstration, and the store is designed to allow customers to explore, learn and play with AT&T's products and services.

(3) Singtel concept store: technology, innovation & digital content

Singtel in Singapore won the "Best Retail Concept" award from the Retailers Association for its new flagship store focusing on interactive experiences of digital content in a high-tech cosy shop, with interactive tables, interactive windows and touchscreen tables. The whole store is content-centric, focusing on customers' interest in infotainment.

Key takeaways

- In a tough business environment, cutting your physical distribution massively may destroy value
- Physical distribution in telecoms is not dead but needs to be transformed
- What to do? Rationalize, but with caution, leverage the power of online and multichannel options, and redesign your store concepts

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