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## Chinese telecommunications operators: accelerating online strategy to seize the internet blue ocean



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*The rapid development of the internet and e-commerce is changing telecom users' preferences for contact channel access. Online channels have become enormously popular due to the relatively low set-up cost, wide geographic coverage, lack of time constraints, and rapid information dissemination. Overseas operators' experiences have shown that online channels are a crucial tool for achieving channel synergies, with great potential for lowering service cost, improving user experiences and elevating overall sales channel capability. Currently, both internal and external conditions for the online channel development in China are ripe. After a large-scale expansion of physical channels followed by intensified competition, operators are now starting to look at the online blue ocean by accelerating online channel development as well as launching distinctive online strategies. However, compared to the leading operators abroad, Chinese players' online channels are still in their infancy. There is significant room for improvement in such aspects as information communication, service and marketing capability development, user experience and business contributions.*

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### Online channel with unrivalled advantages can highly satisfy the strategic needs for Chinese operators

The online channel, based on internet and communications technologies, is a digital sales & service channel directly facing end users. It enjoys unparalleled advantages in enhancing overall sales channel capability and reducing operating costs, since there are lower operating costs to scale up, compared to physical channels. Other benefits include:

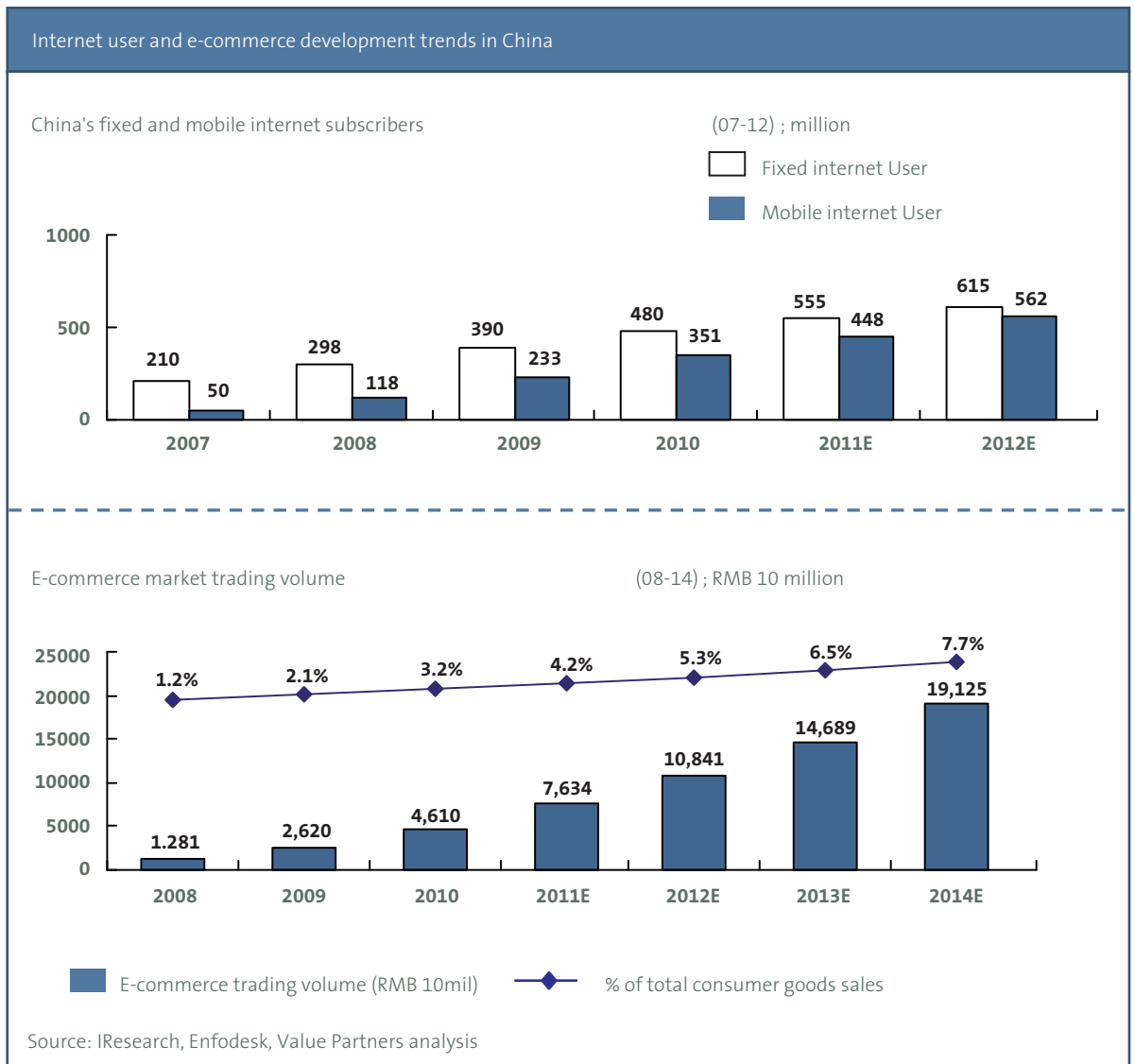
- A short set-up period and timeliness that can rapidly divert business pressure from traditional channels
- Wide geographic coverage, 24/7 uninterrupted service, and rapidly increasing channel coverage and convenience
- The facilitation of demonstration, experience and sales of complex 3G and integrated services, quickly enhancing brand image
- The strengthening of channels integration and synergies, providing traditional channels with system support and presentation tools.

As the telecom market matures and competition intensifies, increasing cost pressures will begin to slow Chinese operators' revenue growth. The nature of online channels fits the "low cost, high efficiency" approach. In the long run, they can satisfy operators' needs or their future strategy development in many ways, by:

- Reducing services and channel operation costs
- Accelerating the reform of physical channels, driving the overall sales and service capabilities
- Gradually easing employment problems
- Efficiently supporting 3G and full-service development
- Improving overall user experience

The proliferation of internet users, the increase in broadband penetration and the rapid development of e-commerce is facilitating the shift in user channel preference. External conditions are now ripe for Chinese online channel development.

By 2012, the number of internet users in China will exceed 615 million; while mobile internet subscribers will reach 562 million. Meanwhile, e-commerce transactions will exceed RMB1 trillion, making up more than 5% of total consumer goods sales.

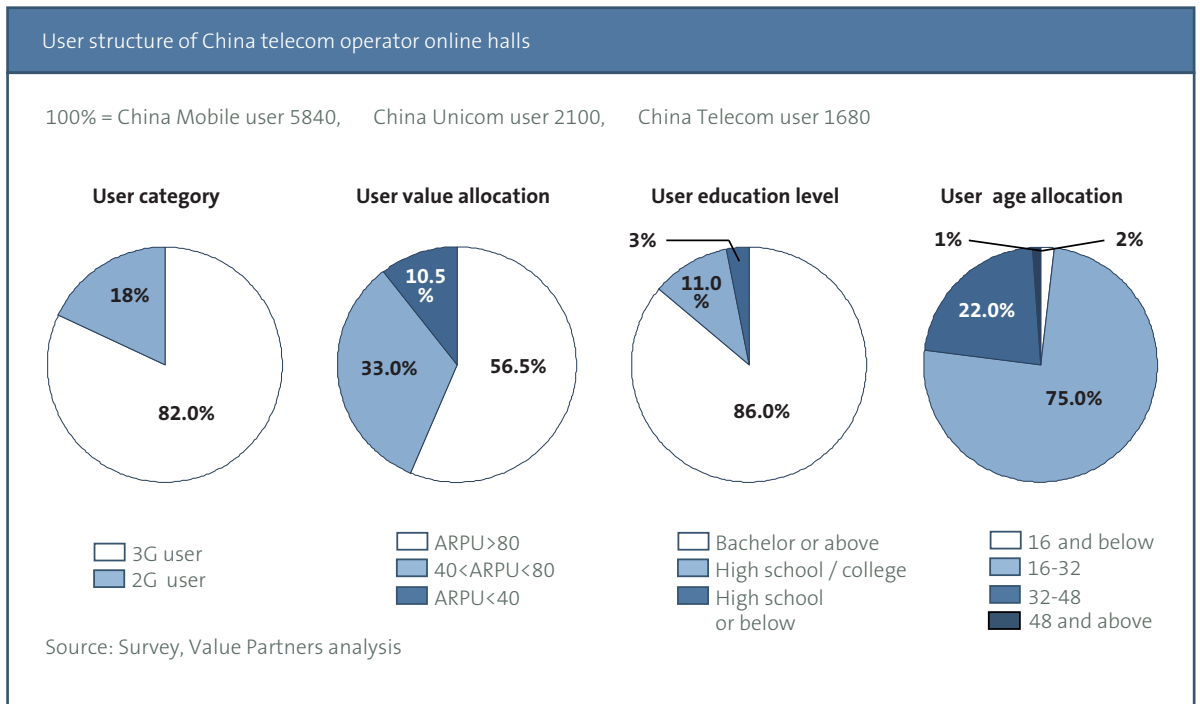


In this context, Chinese telecom users are increasingly mirroring the behaviour of internet users in terms of preference for convenient, 24/7 online channels and higher demand for online user experience. Therefore, in addition to meeting the basic requirements of convenience, efficiency and security, online channels should also cater to the needs of personality, intelligence, user-friendliness, one-stop shop, or even social networking and entertainment .

Value Partners recently conducted a survey on the access preferences of Chinese mobile and fixed network users. The key findings are as follows:

1. Convenience, service quality and reputation are the key drivers for telecom users in channel selection. They wish to use online channels more when obtaining basic pre-and post-sales services such as inquiry, products and services information, payment, or changes to their subscription plan, and reduce the use of physical

channels; while obtaining new business experience, filing complaints, and processing complex after-sales service through self-owned or partnership stores.



2. Online channel users are highly educated, of high net worth and young. In the increasingly mature Chinese market, building a full-featured, advanced online experience is crucial to retaining this demographic. In the long term, it will be vital to establish online channels with better experience, clearer layout, and stronger interactivity and sociability in order to attract and secure key future user groups and take the lead amongst fierce competition .

Overseas operators usually assign low-value, repetitive activities to electronic channels, to divert traffic from physical channels, decrease service and channel operating costs and optimise channel resource allocation according to the *high-cost channels deliver high value services* principle.

*Telecom Italia* achieved rapid transformation of its self-owned stores by stripping basic services, which were then directed to electronic channels. During the transformation of self-owned stores from service centres to sales centres, *Telecom Italia* stripped repeated, low-value services from its physical stores to phone or other electronic channels. This helped to ease business pressures and quickly enabled self-owned stores to focus on new business, customer experience education, end sales and other high-value services. Currently, 70-80% of the payment service in *Telecom Italia* is completed through online and ATM, while 90% of VAS is enabled through SMS, IVR and WAP.

*Verizon* achieved significant service cost reduction and user satisfaction improvement by optimising its online user experience. In 2009, *Verizon* invested 30 million USD to improve its online channel, strengthened back support, fully optimised user online experience, and achieved significant progress in channel shifting. In 2010, business from *Verizon*'s online channel rose by 30%, call centre traffic was reduced by 15%, repeat calls declined by 22%, and manually processed calls declined by 18%, with a successfully reduced cost of 15%.

*Vodafone* sped up its global online strategy in 2009 and expects cost saving of 5 to 6 billion euros by 2014. Cost reduction – due to effective diversions from the call centre – is expected to exceed 400 million euros.

The cases above are useful references for Chinese operators. With the maturity and increased competition in the telecommunications market, operators' revenues are growing at a slower pace while cost pressures increase. By developing an effective online strategy, user experience will be enhanced and costs significantly lowered.




Overall, foreign operators' establishment of online channels have gone through the evolutionary path of information delivery → services → sales while the development of e-commerce contributes to the great potential in online sales. Take AT & T as an example. Its online sales (including user development, customisation and services upgrades, and terminal sales) account for about 30% of all channel sales.

In the UK, *British Telecom (BT)* places great value on its online channel, which is positioned as the main sales channel for public and SME customers. To rapidly gain operational capabilities, BT acquired a professional e-commerce website, *Dabs*, in 2006. BT's online channel provides a broad range of products, which fit well with its "one-stop shopping experience" value proposition. In addition to card numbers, packages, terminals, fixed-line and other traditional telecom products, BT also sells non-telecom products. Users can therefore purchase cutting-edge electronic products through this online channel.

*Orange*, meanwhile, positions its online channel as the core channel for selling mobile content. Orange and *e-Bay* formed a partnership committed to providing its own one-stop shopping experience. Like BT, it offers a range of non-telecom related products. Moreover, its online channel breaks the traditional operators' walled garden concept by connecting to many well-known social networking sites, including *Facebook* and *Twitter*, which greatly contributes to its popularity. Advertising has become an important source of revenue for the site.

### Comparison of online channel development between Chinese and international operators

Fierce competition is anticipated as the three leading Chinese operators have introduced distinctive online strategies to snatch online blue ocean. Recognising the great potential of the online market, Chinese operators have all begun to accelerate their strategic planning for online and propose distinctive development strategies.

| Domestic operator online strategies  |  |  |   |
|--------------------------------------|--|--|---|
|                                      | <br>中国移动通信<br>CHINA MOBILE  | <br>China<br>unicom中国联通  | <br>中国电信<br>CHINA TELECOM  |
| <b>Goal</b>                          | <ul style="list-style-type: none"> <li>E-channel as <b>main channel</b></li> <li>Improve channel shifting</li> <li>Strategic channel for cost reduction</li> </ul> | <ul style="list-style-type: none"> <li>Build leading E-channel</li> <li>Unicom's distinct advantage</li> <li>Supporting channel for overall marketing</li> </ul> | <ul style="list-style-type: none"> <li>New E-commerce platform</li> <li>Channel shifting from traditional channels</li> <li>Operating cost reduction</li> </ul> |
| <b>Development and control model</b> | <ul style="list-style-type: none"> <li>Two-layer structure</li> <li><b>Specific framework and goal</b> set by Group while subsidiaries follow</li> </ul>           | <ul style="list-style-type: none"> <li>One-layer structure, country-level incoming, service and interface</li> <li>Systematic planning</li> </ul>                | <ul style="list-style-type: none"> <li>Two-layer operating structure</li> </ul>   |
| <b>Organization</b>                  | <ul style="list-style-type: none"> <li>Online hall managers</li> <li><b>Uneven scales at provincial level</b></li> </ul>   | <ul style="list-style-type: none"> <li>Group E-channel center</li> <li><b>Undergoing expansion</b> at provincial level</li> </ul>                                | <ul style="list-style-type: none"> <li><b>Innovative Business Division</b> in charge of E-channel</li> </ul>  |
| <b>Positioning</b>                   | <ul style="list-style-type: none"> <li><b>Service-oriented</b> first, with progress in channel shifting</li> <li>Gradually develop sales</li> </ul>                | <ul style="list-style-type: none"> <li><b>Sales &amp; Service-oriented, Sales focused</b></li> </ul>   | <ul style="list-style-type: none"> <li>Sales &amp; Service-oriented, increasing online sales</li> <li>"User-friendly" E-channel</li> </ul>                      |
| <b>Key action</b>                    | <ul style="list-style-type: none"> <li>More radical E-channel shifting goal with good results</li> </ul>   | <ul style="list-style-type: none"> <li><b>Industry new leader</b></li> <li><b>Keep upgrading function and user experience</b></li> </ul>                         | <ul style="list-style-type: none"> <li>Recently renew, simple and clear</li> </ul>  |

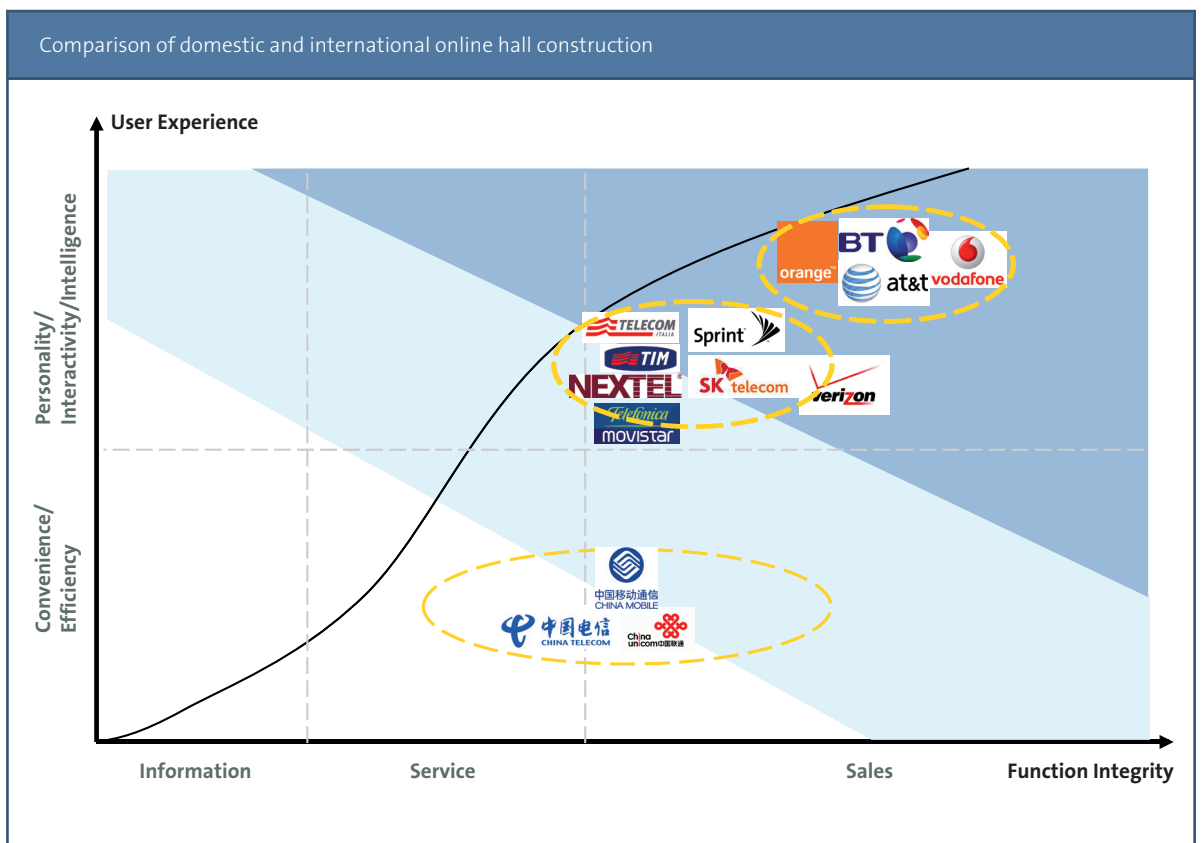
Source: Survey, Value Partners analysis

China Unicom has the most unique online channel of the three, with a single interface for all provincial web-sites, centralised operations, a large initial investment and significant advantages. It is clearly sales-oriented, with frequent feature upgrades, which quickly attracts wide attention.

China Mobile took an early initiative in electronic channels with good results in channel shifting. With the goal of low-cost and efficient operation, the Group proposed a more radical type of channel shifting at the end of last year. In the next two years, it expects significant advances in mobile electronic channel development.

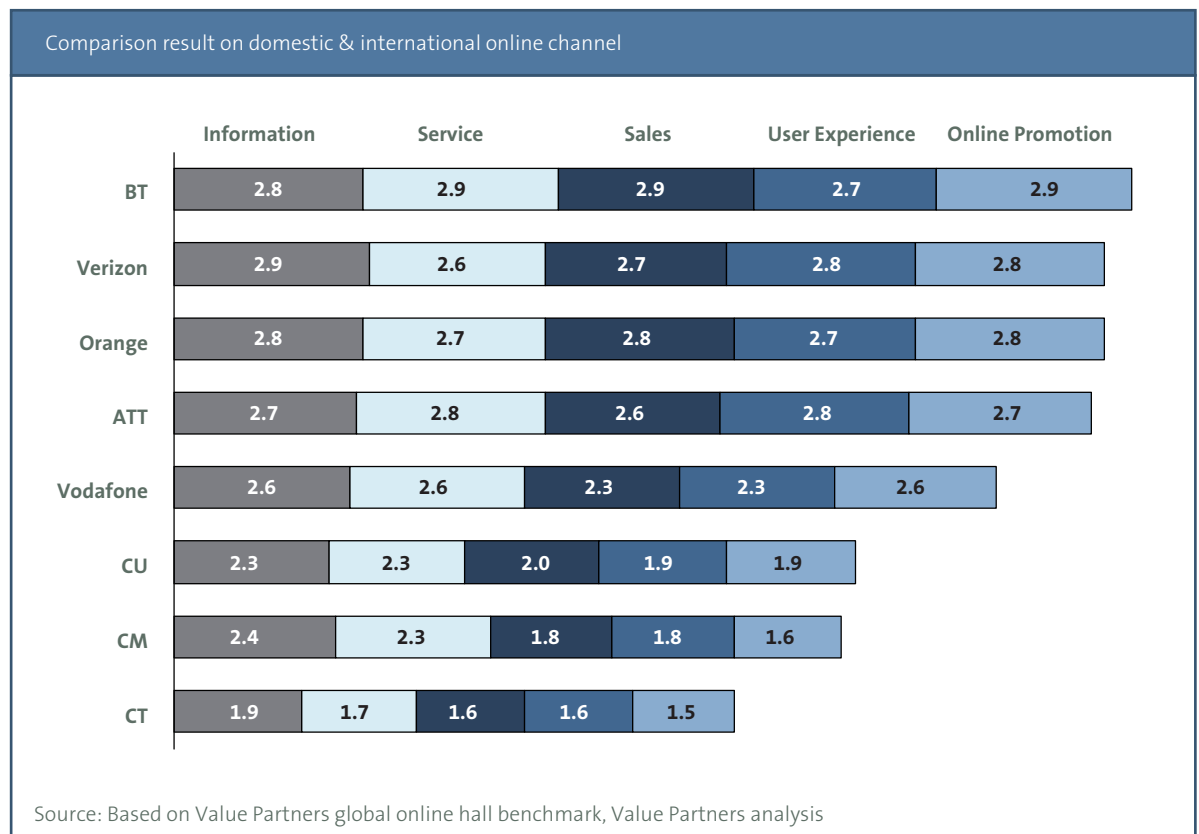
Value Partners has accumulated rich experience by assisting leading Chinese and international operators in the development of online strategy and the optimization of online usage. During this process, we found that the comprehensiveness of functionality and user experience was the most important starting point for designing an online channel.

Overall, the online channel development in China is still in its early stages. From a functional point of view, players are gradually developing e-commerce, with China Unicom taking a



slight lead. From a user experience point of view, they are at the stage of meeting users' basic requirements of convenience and efficiency. In order to further meet users' need for personality, intelligence, and user-friendliness, a strong back-office system and IT support are necessary, and this is the future direction of online development.

Based on Value Partners’ global benchmarks, we conducted a comprehensive comparison of the construction standards and promotional efforts of both Chinese and international leading network operators. The results are shown below:



### Success factors of online channel strategy and key suggestions

Based on our extensive global experience, we believe that the quality of the online channel (the functional integrity and user experience) and promotional impact will jointly determine the effect of channel shifting, which further determines the success of the online strategy. A user shift towards online channels is difficult to cultivate, so an online strategy will be a long-term, systematic project, where deep understanding of user preferences, multi-channel mix and online operation is needed.

We would summarise the key success factors for online office strategy as follows:

- *Clear positioning and development strategy.* Clear positioning and planning ensures efficient resource co-ordination and utilisation of initial investment. The online development also involves the reallocation of marketing resources.
- *Function comprehensiveness.* Online channels should enable unlimited interaction between users and operators, which is why leading foreign operators have put forward the “one-stop experience” value proposition.
- *Continuous improvement of user experience.* A poor user experience reduces the appeal of the services. Leading foreign operators, without exception, put great emphasis on the continuous improvement of user experience. With the development of internet and 3G technology resulting in higher user demand for online functions, leading operators continually refresh the user experience and improve user stickiness by introducing more advanced concepts and technologies.

- *Marketing efforts.* Marketing is key to attracting users to online channels and developing usage behaviour. Achieving this goal requires an in-depth understanding of website operation and internet marketing by operators.
- *Multi-channel co-operation.* Avoid potential channel conflict through effective channel mix.

### Key suggestions for online development for Chinese operators

Chinese operators have fully realised the strategic importance attached to online channels and are starting to accelerate their development. In order to unlock the great potential of online in cost reduction, user experience improvement and overall increase in channel capability, we would highlight the following key focus areas:

- Users have their own expectations regarding online usage, but there is a need to educate their habits and foster loyalty with an effective approach. The current focus should be on promoting online channels and shifting user behaviour towards online
- The differences between the operation of physical and online channels require different mindsets when approaching the operations of the two
- Current Chinese online channels are still mainly service-only channels. In order to fully achieve transformation from a service only channel to a full feature channel, other e-commerce functions need rapid improvement;
- Operators should gradually establish coverage for corporate customers
- Establishing and promoting online usage under a multi-channel mix system will help avoid channel conflicts
- Continuously improving user experience and strengthen IT system support are the key success factors of online.

### Value Partners global online hall benchmarks - assessment methodology

#### Dimensions:

- Information release (7 key indicators): provide required information, taking into account the diversity of users and their needs and assessing the effect of the website as an information channel
- Service quality and standard (12 key indicators): assess website function as a self-service channel, considering all the services categories the company offers
- Sales capability (9 key indicators): assess sales function of the website, considering the full product lines provided by the company (terminal sales, pricing plans, accessories, etc.)
- User experience (11 key indicators): assess the user experience of online offices and whether the website design meets user needs
- Promotion level (5 key indicators): assess promotion efforts and impact and whether it helps to attract users and enhance user stickiness.

#### Score calculation:

- Full score is 3 points for each indicator
- Set target weights for each indicator, calculate the weighted average for each dimension
- Calculate the weighted average of four dimensions (information, services, sales and customer experience). The result will be the final score of the overall online channel
- Calculate the weighted average of the indicators in online promotion dimension. The result will be the score of online promotion efforts.

## About Value Partners

Value Partners is a global management consulting firm that works with multinational corporations and high-potential entrepreneurial businesses to identify and pursue value enhancement initiatives across innovation, international expansion, and operational effectiveness.

Founded in Milan in 1993 by 16 partners and senior consultants from McKinsey & Co, Value Partners' rapid growth testifies the value it has created for clients over time. Today it draws on 30 partners and over 350 professionals from 23 nations, working out of 12 offices in Milan, Rome, London, Istanbul, Dubai, São Paulo, Buenos Aires, Mumbai, Beijing, Shanghai, Hong Kong and Singapore. Value Partners has built a portfolio of more than 350 international clients – from the original 10 in 1993 – with a worldwide revenue mix, as over 60 percent of the management consulting revenues are generated outside Europe.

Value Partners combines methodological approaches and analytical frameworks with hands-on attitude and practical industry experience developed in an executive capacity within each sector: telecommunications, new media, financial services, energy, manufacturing and hi-tech. In 2007 Value Partners acquired Spectrum Strategy Consultants – a leading UK company specialized in publishing, broadcasting, entertainment, IPTV and mobile – thus further strengthening its international presence. Today Value Partners is a leading advisor in the telecom, media and technology sectors worldwide.

At the beginning of the 2000s, Value Partners decided to expand its service offerings beyond management consulting to include complex, innovative and business-critical IT services: Value Team was created and, and in less than 10 years, reached on 3,000 professionals active out of offices in 4 countries. In April 2011 NTT DATA – one of the main players in the IT sector in Japan – acquired Value Team for an enterprise value of over 270 million Euros, to make its platform for growth in the key European and Latin American markets.

Value Partners and Value Team will continue to co-operate on complementary projects for individual customers.

**In Asia**, Value Partners has been active since 2004 and has established a strong presence over the years, with offices in Hong Kong, Shanghai, Beijing, Singapore and Mumbai. We are committed to Asia and have capitalised on the opportunities that exist in both developed and emerging markets across the region.

Value Partners serves clients in diverse industry sectors, including telecoms & media, industrials, consumer goods and retail amongst others. We also work across multiple functional areas and provide assistance to organizations in various capacities, ranging from corporate strategy, company valuation and international expansion, to cost optimization and business turnaround.

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