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A people-based telecom
business
Breathing new life into
segmentation strategies

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Introduction

The principles of segmentation and personalisation – splitting a market or customer base into segments that behave or purchase differently – are almost as old as commerce itself. While not performing formal segmentation exercises, the concept was inherent in trading practices of early merchants – targeting trading partners that place high value on their wares and tailoring their approach and pricing appropriately.



Though the principles remain true today, the terminology and techniques have evolved considerably. Organisations have grown to serve increasingly large customer bases due to macro-trends of industrialisation, consumerisation and globalisation. In response, segmentation has become critical in many sectors and is now practiced routinely by the professionalised disciplines of strategy and marketing. Typically, practitioners must exercise judgement in balancing the depth of segmentation and personalisation against customer reach and associated costs of customisation.ⁱ

For digital goods, services and marketing the associated costs of customisation are considerably lower. As a result, digital companies may be able to move closer to the ideal of mass customisation – “producing goods and services to meet individual customer’s needs with near mass production efficiency”.ⁱⁱ Internet portals of the 1990s were some of the first to allow this degree of customisation but the possibility exists for all companies with digital assets.

In an age when so many people are online, there is an opportunity for operators and manufacturers to personalise experiences in a meaningful, privacy-safe way. And as connection gateways to the digital world, mobile manufacturers and operators could be some of the first to benefit from the next phase of segmentation’s evolution.

This report explores the role of traditional demographic segmentation and the potential of a moment-based approach, whereby people are categorised according to who they are and what they are experiencing in life, rather than characteristics largely determined at birth. We illustrate this through a closer look at the mothers segment, and highlight the steps operators and manufacturers (OEMs) can take to reach them and seek to increase lifetime value.

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Reach and segmentation in the mobile telecom sector



As people increasingly use mobile connectivity in their lives the ability to determine behaviour based on their mobile usage becomes all the more valuable. Last year, the top 10 operators made \$305bn in revenues by providing their customers with over 2.8bn connections.ⁱⁱⁱ As a result, Mobile network operators (MNOs) have a significant amount of customer data at their fingertips, such as age, gender, billing address, data plan and device details. MNOs can use such data to segment their customer base and thereby develop exceptional user experiences, earning customer loyalty and continued spend in return.

Segmentation is a fundamental part of corporate, product and marketing strategy. However, it has become all the more important as markets have become more complex, and digital channels, such as mobile, have rapidly evolved. People can now choose from a wider range of operators (many of them virtual), bundles of services based around broadband or entertainment packages, and of course an array of smartphones, tablets and phablets at various price points.

OEMs and network operators are already investing in retention and acquisition of high value customers. We believe they would benefit from re-evaluating how they use the wealth of data they possess, and focus on developing more sophisticated approaches, to better segment, target and reach existing and potential customers.

Unfortunately, following industry expansion and consolidation, these data are often stored on legacy systems and compartmentalised. Extracting insight retrospectively or in real time can be very difficult. Equally, achieving mass reach has frequently been favoured over customisation. For this reason, MNO customer segmentation still tends to use data to confirm a high-level assumption about how consumer behaviour differs by demographic. Such an approach historically provided relatively little in the way of explaining consumer behaviour, offering segments too broad to be of any actionable value.

Demographic segmentation aggregates and assimilates people from disparate life stages into a handful of broad buckets based on shared characteristics. It does not explain why customers behave in the ways they do. In any large population with normal distribution of behaviours, the segment 'mean', or persona, is likely to be a diluted representation of the majority; and is unlikely to provide a meaningful way to increase relevancy. Importantly, valuable customers (with high ARPU and low cost to serve) may occupy the same segment as low value customers due to some shared characteristics.^{iv} Retention and acquisition efforts applied equally across the segment would therefore result in over-paying for customers that provide inadequate return, as well as under-investing in retaining and attracting high-value customers.

Moreover, people change; not necessarily because of an attractive handset deal, but because their life changes. They leave home, they fall in or out of love, they relocate, have children; the list goes on. These might seem like characteristics too granular and subjective upon which to base segmentation, but in truth segments need not break up the entire population, just identify and focus on those likely to change usage or purchasing habits. This is a moment-based segmentation and the basis of this report.

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Demographic segmentation as a starting point

This is not to say that demographic segmentation is without merit. Having a broad view of market segments can help spot overarching market trends. Take the recent preponderance of large-screen smartphones, for example. In the UK, 92 percent of customers surveyed by Deloitte did not consider a large screen to be important when choosing their next phone, and this is true across all demographic groups and both sexes. Large screen phone sales have increased in recent years suggesting that customers are purchasing for other reasons.^v Such insight can be used to focus strategic, growth-related investment in product development and marketing.

A deeper inspection of sub-groups can reveal differences that significantly impact a business' ability to tactically execute in the market. For example, price is often assumed to be a key factor for customers when choosing their next phone. But younger men – often thought of as having little disposable income and thus being more price sensitive – were actually less likely than other groups to say it was their key consideration. Even more importantly, 18-24 year old men in higher socio-economic groups were actually more price sensitive than those in lower groups. Such results begin to challenge traditional thinking about 'high value' customers, in which socio-economic status, tech savviness, ARPU and customer value are assumed to go hand-in-hand.

The challenge is strengthened further when looking at mobile data use. 18-34 males with a higher socio-economic status – who we might expect to be constantly on their phones, with a salary to afford it – report using less data than their lower socio-economic status counterparts, with a lower average usage as well as fewer reporting having unlimited data tariffs.

There are also significant differences between price insensitive customers and early adopters; two groups that are, logically, often conflated. Historically, networks have charged a premium for 4G services, although this has eroded somewhat over time.^{vi} Though lower socio-economic groups feel less concerned about price, they are also less likely to be on 4G than their higher socio-economic counterparts.^{vii} Moreover, affluent 18-24 males are also more likely to switch to 4G in the next 12 months.^{viii}

Identifying what criteria people value can also serve as a trigger or indicator as to possible churn behaviour. For example, 16 percent on average highly value internet connectivity, but this rises to 25 percent in higher social-economic group men aged 35-44. Quality of customer service is highly valued by around 14 percent of people in general; 22 percent of higher social-economic group men 55-64 found it important. Different parts of the mobile offering are prioritised differently according to age and socio-economic status.

Isolating and acting upon different values of demographic segments can have demonstrable impact on return on investment. The ideal segmentation for campaign execution on digital platforms, which now comprise 50% of operator marketing expenditure, is one that enables decisions to be made in real-time, at a more granular level.^{ix} For example, a segment of 18-24, London-based, early adopter, low spender, multiple device owner, high socio-economic group of men, interested in quad play service. These data exist, but to date marketers have been largely limited to executing digital advertising programs in the same way as with traditional channels; with segments that are too broad to achieve cut-through and thus do not deliver the highest possible impact.

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Reaching mothers at the right time: A moments-based approach



There are moments in life when everything changes; and people change everything around them, including the type and volume of product and services they consume. These include beginning higher education, getting a first job, moving in with a partner, or having a child. It is our contention that marketing directed to people in these moments can markedly improve return on investment as it offers a rare opportunity to capture people with high total lifetime value, rather than habitual churners. Lifetime value models already exist within some mobile operators but we believe they are likely to be far more effective when combined with moment-based marketing.

Parents are an interesting group in this regard. Becoming pregnant, perhaps giving up work for a period of time, having one or more children, all represent significant life changes. They often accompany other significant events such as moving house or getting married. Segmenting parents, and mothers in particular, presents an interesting example of moment-based, people-centric segmentation. Successful targeting depends on real insight into their needs at different points, in a journey that can take decades.

Deloitte's survey data show that mothers are 10 ppt (percentage points) more likely to have changed operators over the last five years than women of the same age without children. On the whole, mothers are less likely to be early adopters; less likely to own or plan on owning a 4G-capable handset in the near future, deem screen size less important and have fewer devices than women in general. Despite their relative conservatism, price is a less important factor for mothers when choosing their next phone. Insights gained from such granular segmentation suggest vastly different advertising strategies for mothers and non-mothers.

But this isn't enough to tell us about the moments where change is most likely to occur and thus where products, services and marketing should be targeted. To get that insight we partnered with Facebook to provide actual examples of behaviour of mothers, related to their phones.

With 1.39bn monthly active users, Facebook has a bigger population than India.^{x, xi} This vast resource enables us to look far beyond binary questions and into individual behaviours. A continuous time series of data allows for isolation of trends, influences and behaviours in specific groups to build a portrait of comparative behaviour. The results were immediately apparent, confirming our initial survey findings.

Mothers appear to have different behaviours online than women without children. We found mothers to be significantly more active on Facebook than non-mothers and possibly more influential. Mothers uploaded more photos, left more posts and connected to more Facebook friends than non-mothers. For example, while women who were not mothers posted an average of six photos during a 3-week period in 2014, mothers posted an average of twelve. And while non-mothers had on average 227 Facebook friends, mothers had 318.^{xii}

Moreover, as an important additional data point, mothers watched more video. This is relevant for telecom companies for two reasons. First, it indicates that mothers may use more data than the average customer across cellular and WiFi or wired networks. With a potential interest in higher tariffs, operators may consider expending more effort retaining these mothers. Second, video advertising is becoming a staple part of reaching customers. Facebook data implies that mothers, a valuable customer segment, will be receptive to such communication.

Identifying churn patterns is a crucial point for telecoms providers. Currently some of the more sophisticated operators are trying to develop customer lifecycle models based on length of contract, handset type and broad segment category. This is an attempt to personalise communications, improving relevancy and customer experience throughout their relationship. However, even these lifecycle models are prone to broad strokes, which let many customers fall through the gaps and, worse, can push customers to churn when they receive the wrong type of communications, at the wrong time.

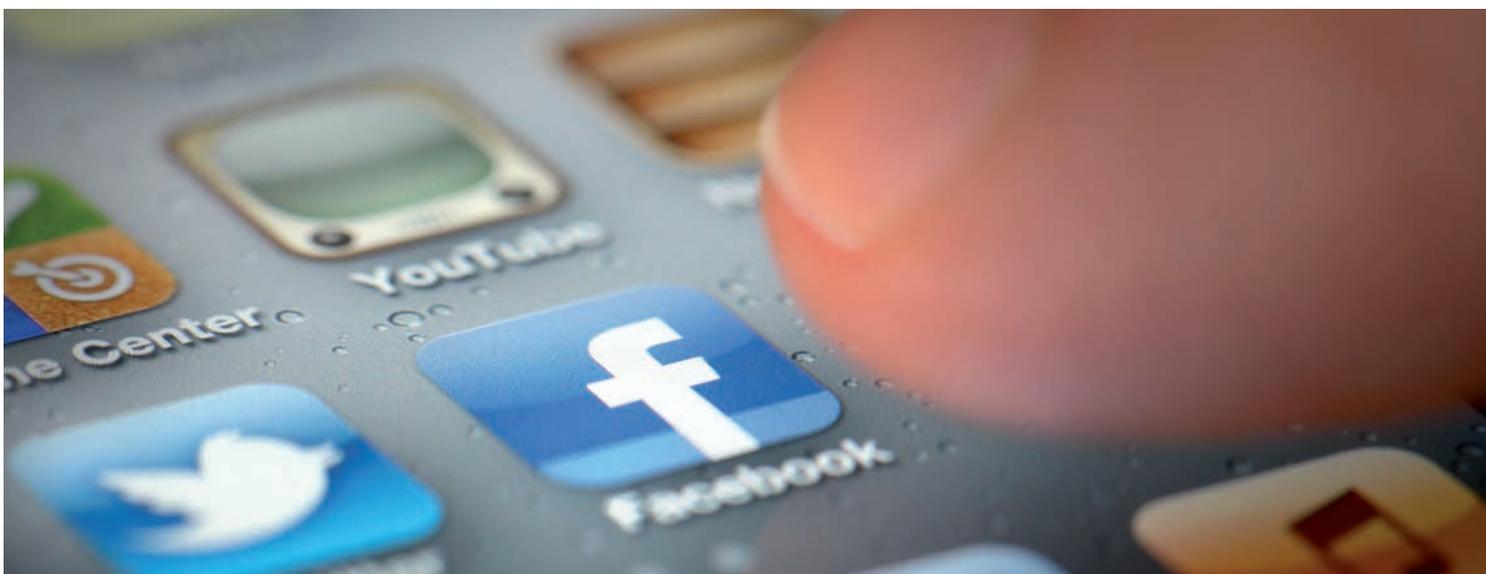
... networks that wish to keep customers paying the highest tariff will need to work harder to maintain their loyalty, not least because all their competitors are most likely targeting the same audience.

Deloitte analysis suggests that mothers have churned more frequently than non-mothers; Facebook data indicates that the age of children appears to correlate with a mothers' propensity to churn. It suggests that mothers with young children (0-10 year-olds) are almost 50 per cent more likely to churn than those with older children. There are likely to be many factors relating to a mothers' lifestyle that contribute to this, but child-related reasons may range from upgrading handsets for enhanced photo capability; changing tariffs to suit a different life routine; replacing handsets damaged by inquisitive toddlers; or even changing operator and handset as an old device is passed down to her child.^{xiii} Understanding these root causes and spotting early intention to churn could allow operators to devise more successful retention strategies.

In the Deloitte survey data, we identified that more active customers, who traditionally might be seen by network operators as prized customers, also had a higher likelihood to churn. Facebook data seems to indicate a similar pattern suggesting that networks that wish to keep customers paying the highest tariff will need to work harder to maintain their loyalty, not least because all their competitors are most likely targeting the same audience. However, customer value is much harder for operators to quantify.

Sophisticated lifetime value assessment may need to balance ARPU, customer advocacy and influence against consideration of cost to serve and propensity to churn at various life stages. Other than ARPU, these are all difficult elements to measure. Therefore any attempts to understand the moments that drive cost, advocacy or churn can only strengthen operators' assessment of customer value. Many technology and telecoms companies focus on traditional early adopting 18-24 males, however we suggest that the overlooked mothers segment may be exceptionally valuable due to their high level of influence within and outside the family, and potential for advocacy. Additionally, the major life-changing stages of motherhood may provide a suitable starting place for predicting and reducing instances of churn.

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Turning the promise into a reality

There is a difference between a business being content with inertia and one actively encouraging retention.

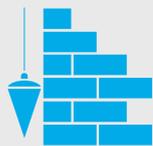
Adapting to a people-based segmentation, based on life stages, available carrier or third party data, can illustrate triggers for certain types of behaviour. In other sectors such as gaming, 1,000 segment categorisation of specific groups is not uncommon, providing agile and profitable approaches to offer excellent experience for customers, by treating them like individuals. These granular segmentations are used in conjunction with algorithmic approaches to media and service interventions, to stimulate activity in the right context to inform an execution.

The concept of such data mining might initially make consumers wary and should be handled with care and transparency. Data providers can anonymise and aggregate data to a level such that buyers of advertising only know they are targeting a segment more likely to be interested in seeing new offers from them. In this way, it is similar to the type of segmentation that classifies an individual as likely to be receptive because they are female and 25 years old; but is in fact a good deal less patronising and more accepting of likely personal priorities. The potential upside for the consumer is receiving communications that are more relevant and interesting to them.

In order for mobile operators to improve segmentation, provide a personalised customer experience and target the associated business benefits, we suggest several steps for consideration:



1. **Identify** loyal customers with high potential total lifetime value that are most important to retain.



2. **Build** a deeper understanding of the life changes that cause these customers to churn.



3. **Construct** segments based around those life changes and map the customer's life journey.



4. **Identify** in-house and external data along that journey to enable personalised segmentation



5. **Create** tailored offerings that bring more value to these customers.



6. **Reach** out and tell likely churners about these offerings via the channels they prefer.

Steps 1-3 require operators to interrogate their own data sets, make use of existing lifetime value models, and speak in depth with their customers. Focus groups and interviews will yield greater insight than the most comprehensive survey. Operators regularly conduct research by these methods but less frequently focus on people's life-changing events.

Step 4 is the critical change in transitioning from demographic segmentation, or lifecycle segmentation, to one of moment-based segmentation. Moments must be significant and detectable, such as a child starting school. And leading indicators, in this case childbirth will provide greatest opportunity for the operator to act.

Triggers could be developed and refined that inform the business when a customer is most likely to require an intervention to discourage churn. Depending on the trigger, different products or services may be more appropriate and over time operators can learn when to deploy each tailored offering. Triggers may indicate when a "surprise and delight" call (e.g. free upgrade to a higher data tariff) may be most effective, when a customer might be willingly upsold (e.g. a new handset), when they may be receptive to additional services (e.g. phone insurance) or when they might appreciate and take advantage of cross-sell approaches (e.g. family bundles).

Step 5 suggests taking this further as greater customer understanding allows for greater tailoring of products and services. In order to take full advantage of moment-based segmentation, operators need to have more flexible pricing, purchasing options and channels, as well as a more sophisticated approach to management that allows for a more tailored personal communications experience.

Operators may reach their customers through a range of channels, either directly through operator-consumer channels (e.g. email, online accounts or SMS) or through third party publishers. Step 6 requires operators to assess which publishers can provide sufficiently granular segmentation of users to be effective. And publishers should be aware of higher demand for increasingly specific targeting; requiring them to develop capabilities for capturing segmentation data and being able to make this readily available to those wishing to advertise.

Such a drastic departure from traditional segmentation models conjures up images of major investment and year-long initiatives to redesign processes and manage change. But this is not necessary; indeed not advisable. In a new and inherently uncertain venture a small-scale, lean approach offers an efficient way to test hypotheses and learn critical lessons before scaling. Operators can adopt an experimental approach by identifying just one 'moment' relevant to some of their customers and defining a segment around it. Running a pilot using existing offerings and one publisher will be sufficient to begin learning and will establish a process appropriate for testing additional moments, tailored offerings and a portfolio of publishers.

An operator with 1,000 segments may not exist today, but the first is most likely to emanate from those that embrace a people-based segmentation approach and successfully combine it with traditional demographics. These operators could capitalise on a differentiated level of customer understanding, enhanced ability to serve and retain those customers, and the ability to earn greater returns for the business. In turn, lessons learnt maintaining the customer base can be focused on customer acquisition; and those quickest to master the emerging art are well placed to capture market share growth.

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Methodology

The Deloitte data used within this report was collected as part of the Global Mobile Consumer Survey 2014. Data cited in this report are based on a 22-country online survey of mobile phone users around the world. All research has been undertaken via online research. Fieldwork took place between May to August 2014. 37,000 responses have been included in the study.

For the US, UK, Norway, Finland, Sweden, Netherlands, France, Germany, Italy, Spain, Australia, Japan, Singapore and South Korea, respondents were surveyed online and data was weighted to reflect the general population. The questions for this survey were written by Deloitte member firms. The multinational online research program was managed by Ipsos MORI and On Device.

Additionally Deloitte conducted analysis on anonymised data for over 50m people using Facebook in eight countries (France, Germany, Italy, Netherlands, Norway and the United Kingdom). Random sampling was used for statistical analysis of the data set. No weighting was applied to this data during the process.

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Endnotes

- i Segmenting to a lower level allows for more precise personalisation; however each tailored message, product or service applies to a smaller set of customers.
- ii Tseng, M.M. and R. J. Jiao, 1996, "Design for Mass Customization", *Annals of the CIRP*, 45/1:153-156
- iii Published September 2014. 12-month mobile revenue, Q2 2013 to Q2 2014. <https://gsmaintelligence.com/analysis/2014/09/operator-group-ranking-q2-2014/444/>
- iv Average Revenue Per User
- v Large screen phones or "phablets" are typically defined as smartphones with 5.0-6.9 inch screens
- vi <http://www.pcpro.co.uk/news/broadband/387832/ees-14-mth-tariff-marks-end-of-4g-price-premium>
- vii 23 percent, versus 19 percent, respectively
- viii 37 percent versus 32 percent, respectively
- ix Based on UK figures. <http://www.telegraph.co.uk/finance/newsbysector/mediatechnologyandtelecoms/11418000/Digital-to-account-for-half-of-UK-ad-spend-for-the-first-time.html>
- x Facebook Inc. Q1 2015 Earnings call http://files.shareholder.com/downloads/AMDA-NJ5DZ/4016806580x0x805520/2d74edca-e02a-420b-a262-bc096264bb93/FB_Q414EarningsSlides20150128.pdf
- xi Published January 15, 2015. Population figure of 1.27bn. <http://www.indiaonlinepages.com/population/india-current-population.html>
- xii Average number of photos posted and friends calculated as an arithmetic mean, inclusive of outliers
- xiii In August, 2013 a UK based online and telephone comparison and switching service reported that nearly one in ten children get their first phone at the age of five. The figure is likely to have risen since then.

Notes

Notes

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