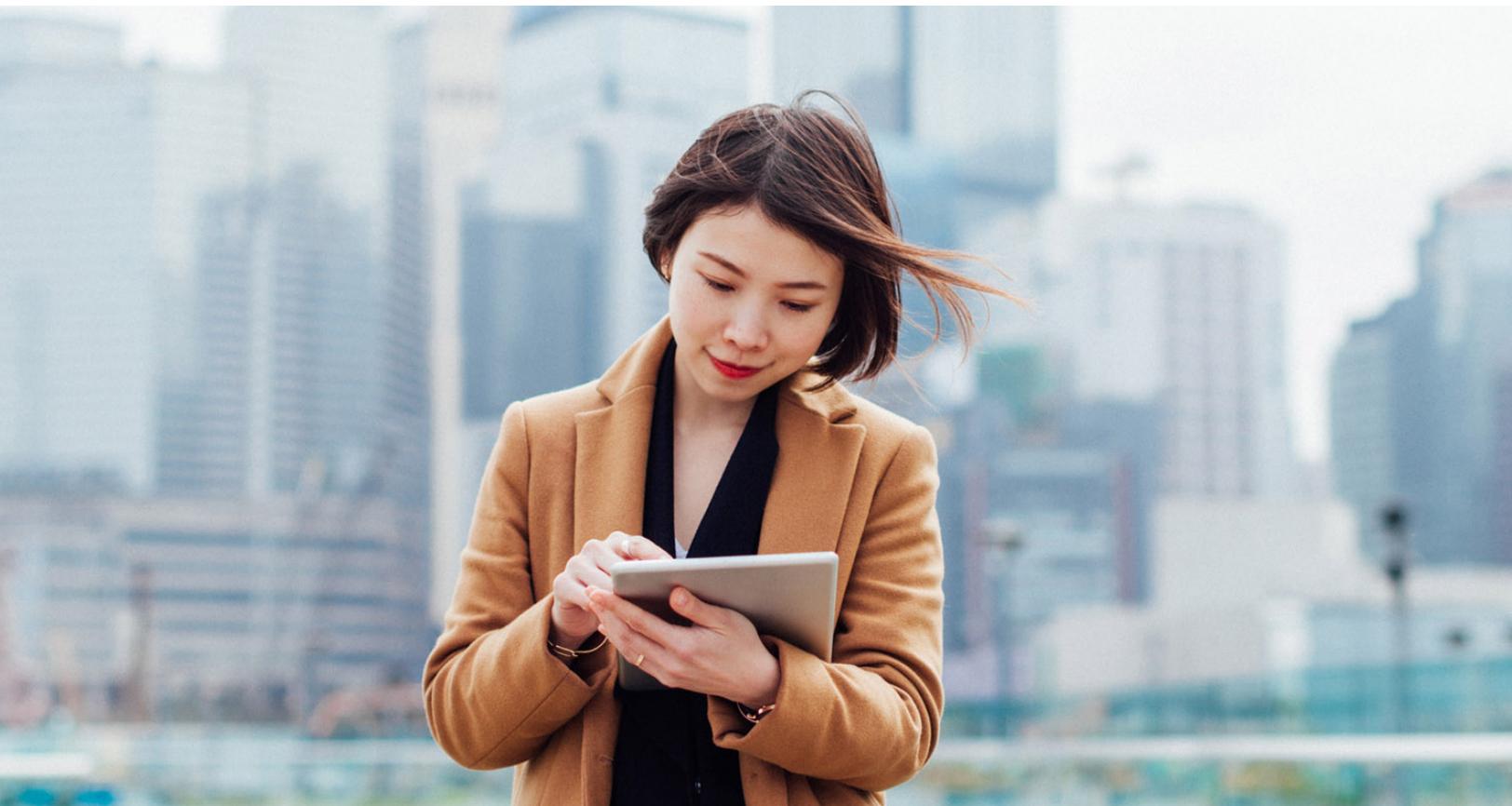


Telecommunications Practice

A new path for telco customer engagement

Next-generation marketing and sales techniques offer incumbents real opportunity to thrive in a challenging landscape.

by Daniel Glaser, Jesper Ludolph, Ruben Schaubroeck, and Theodor Vendrig



After years of looking to do more with less, telcos at last have the opportunity to experience actual upside with a next-generation marketing and sales transformation. The long-promised concept of omnichannel, in which various distribution channels are truly integrated, is finally becoming a reality now that mobile and web are seamlessly connected, and automation and personalization are possible with advanced analytics. These factors present a chance to take customer engagement to a new level, accelerating the whole organization.

Two main threats have already exposed the old way of doing business as quite vulnerable. The first, digital attackers, have taken over significant market share. For example, MyRepublic launched in Singapore in 2012 and rapidly captured 7 percent of fixed-broadband market share. In France, Free

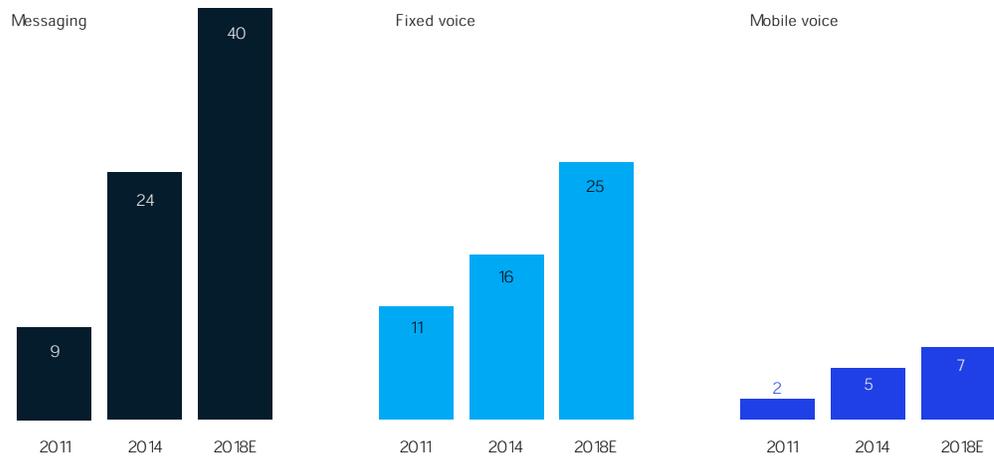
Mobile captured a 19 percent telecom market share within four years of launching in 2012, leveraging its strong digital customer engagement and a lean business model supported by digital-only distribution. And in the United Kingdom, a similar model combined with crowdsourcing for customer service helped Telefonica's venture giffgaff become a very popular telecom brand.

The second threat is that over-the-top (OTT) players, such as WhatsApp, Apple's FaceTime, and Tencent's WeChat, are also growing quickly,¹ which could decrease spending on traditional fixed and mobile communications services (landlines and mobile devices) by up to 36 percent, according to our research. We expect this trend of continuous pressure on revenues to continue (Exhibit 1).

Exhibit 1

Over-the-top (OTT) players are growing quickly in comparison with traditional fixed and mobile communications services.

Over-the-top share of relevant revenue, %



Source: Jürgen Meert and Niko Mohr, "Overwhelming OTT: Telcos' growth strategy in a digital world," January 2017, McKinsey.com

¹ Jürgen Meffert and Niko Mohr, "Overwhelming OTT: Telcos' growth strategy in a digital world," January 2017, McKinsey.com.

Exhibit 2

Telcos that advance their digital customer engagement will experience the biggest upside.

Engagement	Levers	Upside	
 Drive customer acquisition	Increase incoming traffic	50%	increase in year-over-year organic visits from search-engine optimization
	Drive lead conversion	50-165%	conversion-rate improvement
 Evolve operating model	Transform internal processes	3-6x	improvement in speed to value capture through agile marketing war rooms
	Revisit agency partnerships	10%	cost savings from consolidating agency relationships
 Drive customer value	Personalize outreach and cross-sell	15-30%	increase in revenue from cross-sell
	Reduce churn and grow advocacy	15-40%	absolute churn reduction
 Marketing technology and infrastructure	Build technology stack	30-40%	adtech cost savings through consolidation into global contracts
	Manage vendor relationships	10%	cost savings from contract renegotiations on martech
 Marketing return-on-investment (ROI) optimization	Performance steering	2-5%	sales increase or 15-30% cost savings
	Advanced ROI approaches	10%	performance improvement with similar spend or 20% spend-efficiency improvement with similar performance

We believe all telcos can find immediate benefit from a structured, digital marketing-and-sales approach regardless of their digital maturity, though companies that advance their digital customer engagement will experience the biggest upside. Even over a very short period of time, we have seen significant results (Exhibit 2). For example, a global telco in the process of transforming its marketing and sales by combining digital, analytics, and agile methods quickly achieved a threefold uplift in digital sales, moving from the bottom quartile to the top in less than a year in its first pilot in a mature market. The company is now scaling the change across its other mature markets, with similar results.

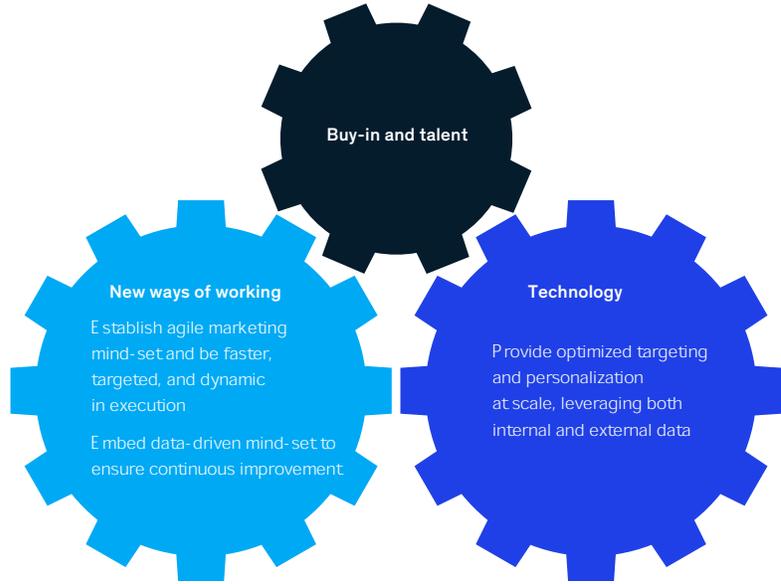
Three pillars of next-generation marketing and sales

To pursue this kind of supercharged marketing and sales, incumbent telcos need to start by transforming digital customer engagement. Next-generation marketing and sales require both leadership buy-in and excitement and company investment into new ways of working and technology (Exhibit 3). Incumbents, especially, will need to think in these terms, as many years of M&A have left them with disjointed systems that rely on outdated processes.

Exhibit 3

Next-gen marketing and sales requires investment in new, agile approaches to work as well as advanced analytics and technology, all enabled by leadership buy-in and a deep talent pool.

3 pillars of next-generation marketing and sales



Buy-in and talent

In our conversations with telcos undergoing agile transformations, we have heard a consistent message from executives: they wish they had released employees from the existing organizational structure to the new cross-functional teams sooner, which would have accelerated the process and demonstrated management’s determination to change.

Change, especially cultural change, doesn't happen without C-suite buy-in and active use of role models. And it doesn't really take hold until it is executed at the smallest unit possible in daily operation. To drive the required radical shift in the way work gets done, as well as in a telco's technology foundation, buy-in to the program must come from the top. The power of C-level presence and engagement on platforms such as company town halls, internal social portals, and even key meetings of the cross-functional teams can't be overstated. Active championing of progress and learnings (even failures) helps to motivate employees to join the journey. Once the

transformation is under way, C-level buy-in also extends to empowering teams. Without it, agile decision making can't happen.

Choosing the right core team members is also crucial. They need to be advocates who exhibit high energy, strong curiosity, pragmatism, and entrepreneurial spirit within the teams. Moving some of the organization's best resources into agile squads can be challenging, but it is key to ensuring ownership on subsequent levels, including education and participation in the design and execution phases.

Finally, the transformation toward next-generation customer engagement requires deep digital talent for a set of new roles, such as data architects and marketing and advertising specialists. Existing staff probably won't be able to perform all roles, so training and external recruitment will be essential. Of executives interviewed, 77 percent mentioned skill gaps as hindrances to driving digital transformations.² External recruiting will require

anchor hires (hire one great developer, and his or her colleagues will follow) and new processes to attract the right prospects (such as conducting digital networking events and dedicated recruiting days) paired with digital employer branding (such as developing a unique selling point for digital talent).

The approach to recruiting itself can also help build a brand and bring in the best people. (For more on digital talent, see “The new tech talent you need to succeed in digital,” September 2016, McKinsey.com.) The types of talent telcos need are attracted to forward-thinking companies, so recruiting culture matters. Having the right company representatives give the right talks at the types of conferences at which talent can be found is one such method. Involving key team members in the entire hiring process is another. This method can ensure that recruiters are completely on board with the goal of transformation and can effectively convey that message.

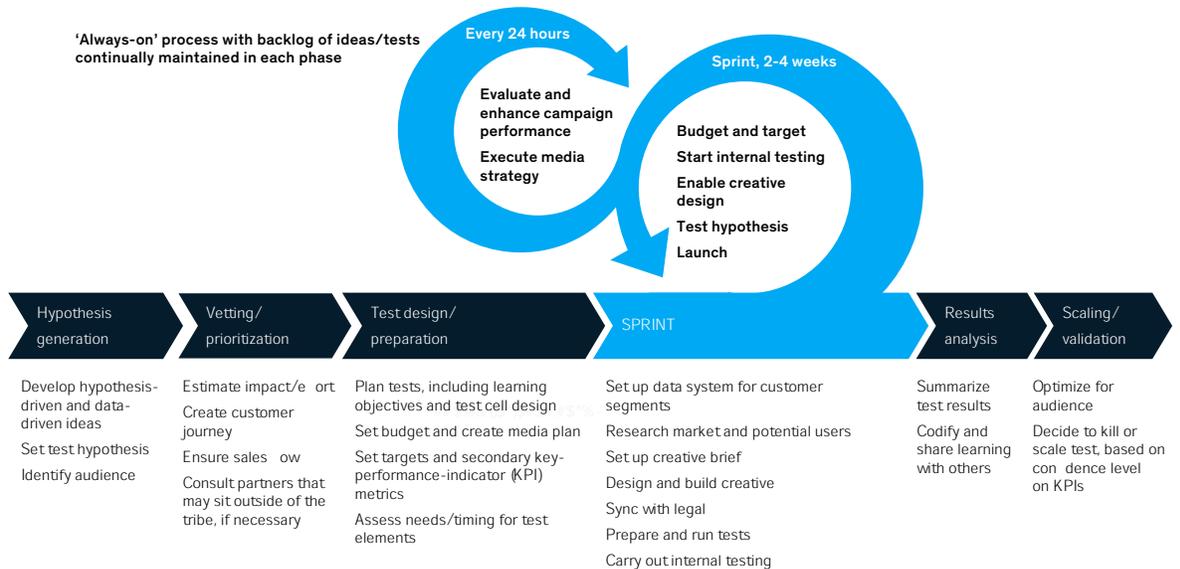
Transitions on this level almost always require some external support in the beginning. But as the capabilities become cores of the business model, those roles should be converted to internal ones in a six- to nine-month time frame to ensure the new culture is embedded, and a lower cost base achieved.

Digital ways of working

Traditional telcos tend to be highly siloed, often with marketing and sales teams working separately. This results in slow processes and low customer centricity, which is no longer sustainable. While it can take weeks and many back-and-forth handoffs to do something like put together a new discount campaign, working across functions in multidisciplinary teams can shorten the time to market for a new campaign to just days. This, plus agile working methods,³ is what accelerates digital customer engagement (Exhibit 4).

Exhibit 4

Working digitally means each squad must follow a defined sprint process.



² Didier Bonnet, Andrew McAfee, and George Westerman, “The digital capabilities your company needs,” MIT Sloan Management Review, October 29, 2012, sloanreview.mit.edu.

³ Aaron De Smet, “The agile manager,” McKinsey Quarterly, July 2018, McKinsey.com.

For example, a UK telco successfully transformed its performance-marketing group into an agile squad and achieved an increase in digital acquisitions of more than 16 percent in just four months. It then used the increase to build out to a broader agile transformation at scale across the company.

To achieve this faster, targeted, and dynamic approach, multidisciplinary teams need to bring together the consumer-functions and IT groups to ensure the latter isn't left behind. Together, they should focus on ambitious, short-term minimum viable products that follow a data-driven test-and-learn methodology. They should be empowered by top leadership to act quickly so decisions won't get stuck in middle management, which would negate the benefits of the agile setup.

Since impact can be achieved by even a small team, the proven approach is to start with select proof-of-concept use cases, followed by a rapid rollout to the wider organization, to avoid the friction created by a two-speed business.

Comprehensive and flexible technology

To succeed in digital customer engagement, the agile processes and mind-set must be complemented by a strong technical foundation that will increase execution power and channel reach, as well as enable new use cases. Failure to resource effectively and invest up front can leave teams without the tools and technology required to unlock next-generation opportunities, such as personalization at scale. Unlocking these use cases will require four elements to work together effectively: data, decision making, design, and distribution. (For more on the capabilities needed to drive customer engagement through personalization, see “No customer left behind: How to drive growth by putting personalization at the center of your marketing,” July 2018, McKinsey.com.)

However, this doesn't mean that companies have to wait to build up their digital maturity before starting to use digital tools (Exhibit 5). Significant impact can still be made without the tech stack in place. For example, a telecom operator looking to improve up- and cross-sell revenue identified

an opportunity to enable its app's front page as a new “pull” channel to serve more personalized offers. However, it estimated the time it would take to build an automatic solution between the app and the company's personalization engine to be six to nine months, which was far too long. Looking for a simpler alternative, the squad instead spent a little more than a week coming up with a manual minimum viable solution to target customers in the app. The process was more time consuming and less sophisticated than the initial design, but it gave the company the ability to harness part of the value immediately and gain valuable insight about what worked with its customers. The process also helped the squad members better understand which features and capabilities were critical, which allowed them to deliver an automated, sustainable solution in around two months, as opposed to the six to nine months initially estimated.

We recommend that companies focus on the fundamentals in the early phase to build competence and identify value, rather than become distracted by the latest marketing technologies. Later, with that solid footing in place, greater sophistication in personalization efforts will need more advanced technology.

Key factors to get right

Even with the three pillars of buy-in and talent, agile ways, and flexible technology in place, a next-generation digital marketing transformation will undoubtedly encounter obstacles. To prevent some—and prepare to overcome those that are unavoidable—incumbents need to get some cores right.

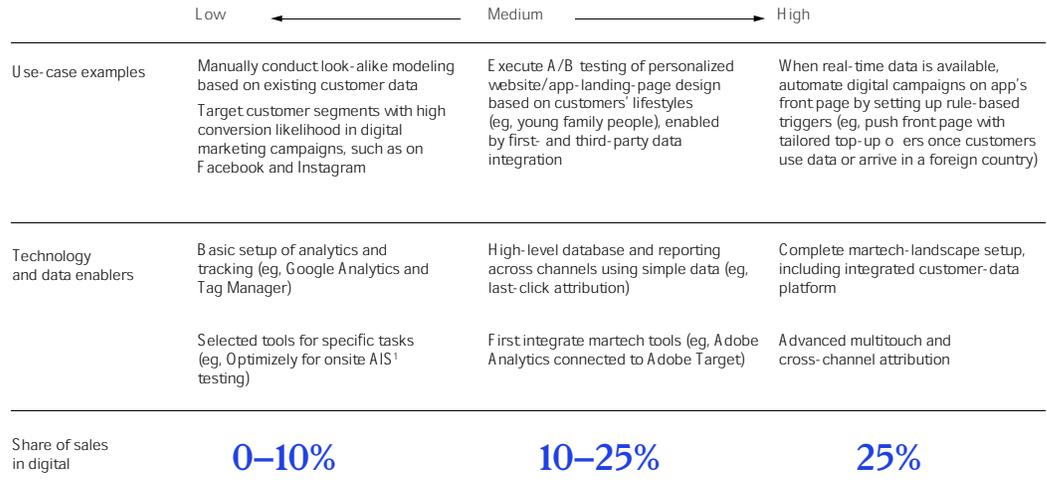
Worry about how you look

An unattractive employer will have a hard time finding new talent. The types of recruits telcos need are looking to work at dynamic companies where they can make their marks. The strongest candidates shun the characteristics of old thinking, such as duplicative layers of approvals and restrictions on open-source tools.

Exhibit 5

Regardless of technology maturity, companies can and should invest in technology enablers to drive growth in marketing and digital sales.

Maturity-level comparison



¹Automatic identification system.
Source: Finalta by McKinsey

Ensure end-to-end responsibility

Decision making often happens in cadence and at a channel level, which can result in long lead times and inconsistency. To avoid that and succeed with multidisciplinary teams that truly deliver value, an end-to-end ownership mind-set must be instilled. Rather than waiting for orders or permission to act, teams should be empowered to take responsibility and get their work done.⁴

The significance of this shift is not lost on the telcos that have undergone this customer-engagement transformation. For example, the way that even the most basic product-configuration changes are made is radically different now. In the past, as telcos have told us, product owners would have to submit long documents to request those changes; now, the product team has its own IT members who can make them almost immediately. If the team doesn't have the particular technical capability required, it simply meets with developers to figure it out.

Overcome inflexible legacy systems

Traditional players often lack the basic technology needed to achieve encouraging results rapidly. This includes tracking, basic marketing tools, and flexible IT to allow for better customer flows. Getting the technology foundation implemented quickly is critical to managing the low flexibility of legacy systems, many of which are particularly disjointed as a result of years of industry M&A.

Corral your data early

Customer data are typically spread throughout the enterprise and have not been centralized in a single repository where they can be made available across channels. Developing a plan that prioritizes use cases and builds a single source of customer insights for these use cases is critical. As the number of use cases expand, the data platform should continuously add more data signals as required.⁵ This will empower marketing activities and enable a consistent customer communication across digital and physical channels. (See "Boosting your sales ROI: How digital and analytics can drive new performance and growth," February 2018, McKinsey.com.)

⁴ Ibid.

⁵ Alejandro Díaz, Kayvaun Rowshankish, and Tamim Saleh, "Why data culture matters," McKinsey Quarterly, September 2018, McKinsey.com.

Be clear about privacy and the General Data Protection Regulation

The complexity of privacy assessments and the European Union's General Data Protection Regulation (GDPR)⁶ require extensive analysis that can cause delays. At an early stage, companies need to identify areas that will handle personal data and assess whether these areas are affected by the GDPR or other integrity requirements. Furthermore, they need to define ways to use available data not covered by these restrictions.

The three pillars of next-generation marketing that we have laid out are not sequential—they must be done concurrently. The right people with agile marketing mind-sets and corresponding ways

of working will attract digital talent who will help build the technology by integrating and providing actionable data, which will then create the ability to automate decision making and next-best actions. After that, scaling up the transformation is possible, starting with select proof-of-concept use cases, followed by a rapid rollout to the wider organization.

As next-generation digital marketing tools and approaches take root in the marketplace, telecom players can understand and approach customers in completely new ways. To capture this opportunity, telcos need to undergo a fundamental digital marketing and sales transformation. Telcos that don't embrace this development—and soon—not only pass up an opportunity to increase market share, they risk losing a major part of existing market share.

⁶ Daniel Mikkelsen, Kayvaun Rowshankish, Henning Soller, and Kalin Stamenov, "Tackling GDPR compliance before time runs out," August 2017, McKinsey.com.

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The authors wish to thank **Thomas Foege**, **Jason Heller**, **Bo Krag Esbensen**, **Candice Li**, and **Warren Oakes** for their contributions to this article.

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