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From afterthought to asset: How top telcos succeed with SMBs

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From afterthought to asset: How top telcos succeed with SMBs

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As the consumer market nears saturation and competition builds in the large enterprises segment, telcos are compelled to focus on a customer group that has received the least of their attention so far: small and medium-sized businesses (SMBs).

Telecoms players have traditionally served three main segments: consumers (individuals seeking residential and personal connectivity services), large enterprises (corporations and governments often needing complex ICT solutions), and SMBs (small and medium-sized businesses frequently looking for business-critical, tailored solutions). For most telcos, the hands-on requirements of SMBs have been a tough proposition. In comparison, the consumer segment has always comprised massive numbers, enabling a standardized approach. Similarly, the large enterprises segment has translated into huge per-customer value by serving a country's largest corporations and government offices. As a result, it has been tough for many telcos to justify giving significant management attention to SMBs. This is the most complex segment, given the wide variety of customer types – from individual entrepreneurs to large companies – with a diverse range of telecoms needs.

But priorities are changing. The past decade has brought increased competition and very high service penetration rates to the business-to-consumer (B2C) market – even in emerging markets – and telcos can no longer look to the consumer segment for the same sustained attractive growth rates and margins they once enjoyed. Consumer market maturity has often led to price wars, which led to value deterioration. In parallel, however, SMBs are a burgeoning economic force. Some telcos have recognized this and reoriented their strategies to give them much more attention.

Benchmarking: The impact of a winning SMB strategy

In 2013, McKinsey conducted its first comprehensive SMB business unit (BU) benchmarking

effort with 20 telcos to see exactly how they stack up against each other when it comes to serving SMBs. The tool's unique design and methodology encompasses all geographies equally to provide truly global insights. Thanks to its design, the benchmarking survey also collects deeper information on a host of quantitative and qualitative metrics that cover all the relevant areas of an SMB BU: organization, segmentation, offering, channels, and operations among others.

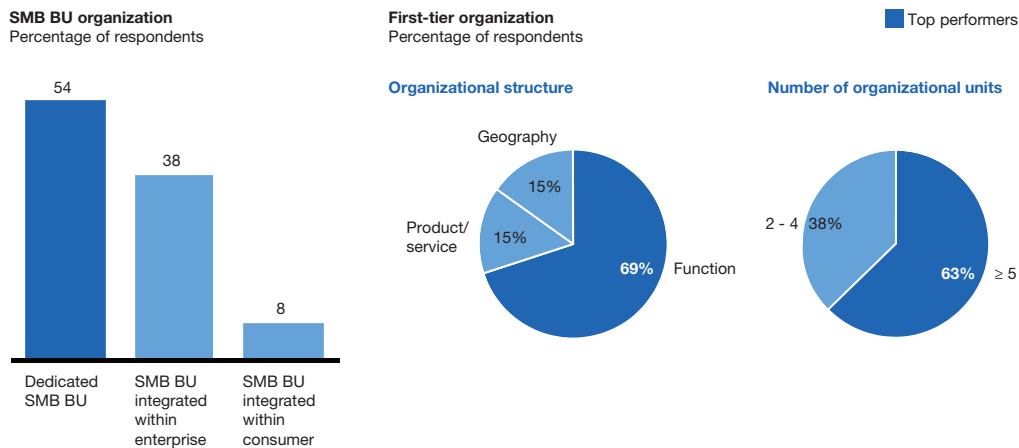
This benchmarking revealed a group of telcos that have been able to sustain above-market growth and high profitability in serving SMBs. For each of these top performers, SMBs represent a significant share of business – more than 20 percent versus 15 percent for average players. They also capture a much larger share of their local SMB markets – 50 percent versus 30 percent on average.

SMB practices of top performers

Beyond determining which telecoms players lead in the SMB market, benchmarking also revealed a shared set of best practices in four specific areas that have helped these companies secure their top performer positions.

Organization. When it comes to institutionalizing its SMB function, a telco needs to determine the organizational importance its SMB-focused BU will have. The first component of this decision involves the SMB BU's relative level of independence versus other BUs. Top performers tend to establish a dedicated SMB BU – rather than integrating it into the consumer or enterprise BUs – with more than five reporting units organized by function (Exhibit 1). The SMB head typically sits on the company's executive committee, further solidifying and giving

Top performers establish dedicated SMB BUs with at least five units organized by function



SOURCE: McKinsey Global Telecoms, Media, and Technology SMB Benchmark 2013

Exhibit 1

relevance to the SMB unit's role within the company. But more important than setting up a separate BU, top performers excel in prioritizing and structuring SMB-dedicated functions – or service level agreements (SLAs) – to serve this segment.

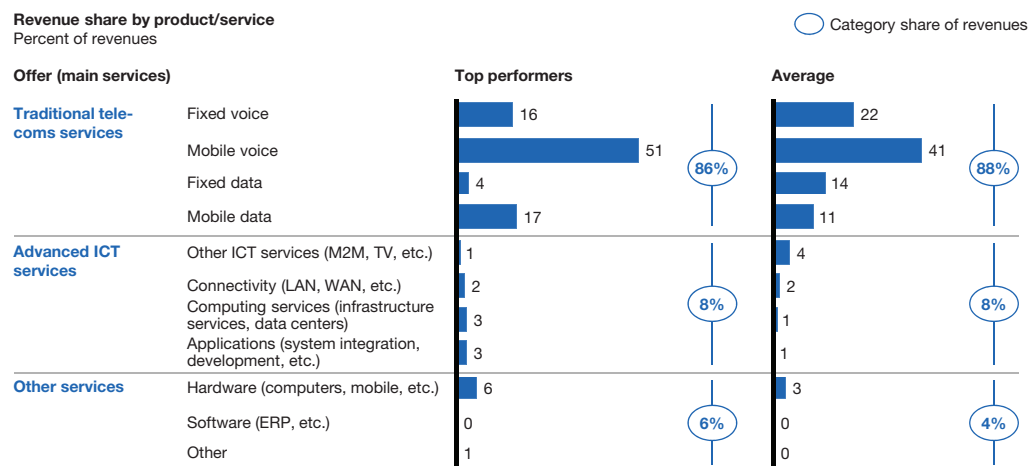
Another relevant decision is how telcos structure the SMB BU in the context of the consumer and enterprise segments. Traditionally, players have distinguished between SMBs and consumers based on legal entity – a relatively straightforward criterion adopted by top and average performers alike. But the distinction between the SMB and the enterprise segments varies – and this is often a source of contention with the other BUs. The majority of players in McKinsey's benchmarking effort use the number of employees as a criterion to differentiate SMBs from large enterprises, but top performers use the customer's estimated business potential, resulting in less conflict with the enterprise BU than most players experience.

Channels. All the telcos participating in the benchmarking effort indicated that optimizing the channel mix is a top priority. Top performers, however,

have taken a uniquely nuanced approach. For them, the channel mix is informed by the value of different subsegments. Top performers use a combination of three criteria to understand their customer base. The first value dimension is current revenue, the second is the estimated future business potential, determined by integrated, high-quality, internal and external information on potential demand and other CRM dimensions. Thirdly, they determine the sophistication of subsegment and/or industry vertical service needs. This approach allows top performers to continuously address and evaluate cost to serve versus customer potential, ensuring profitable coverage.

The resulting subsegment coverage model and channel mix – designed to extract the most value from sales and marketing spend in each of the subsegments – varies depending on the specific characteristics of each market. But agents and relationship managers are typically seen as the most relevant channels. They can represent more than 50 percent of revenues and focus on the largest accounts and customers with the highest growth potential. Telesales – both inbound and

Voice and data services make up the biggest part of the product portfolio for top and average performers alike



SOURCE: McKinsey Global Telecoms, Media, and Technology SMB Benchmark 2013

Exhibit 2

outbound – can equate to 20 to 30 percent of revenues, typically focusing on smaller accounts with less growth potential. Top performers are also very good at maximizing the utilization of their physical stores. This can generate up to 30 percent of revenues. Online and value-added resellers (VARs) are less relevant channels today, but their importance is expected to greatly increase in the future.

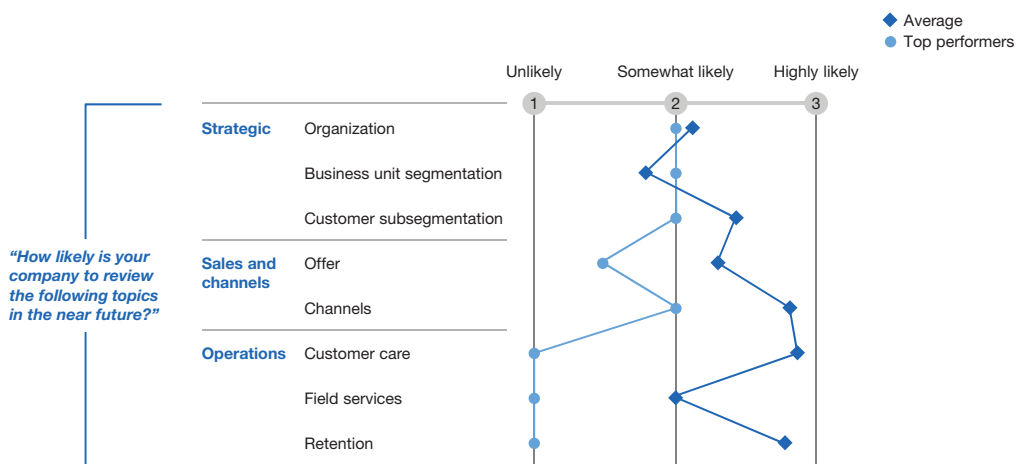
In terms of channel management, most benchmarked players provide incentives based on a mix of individual and collective performance, taking the entirety of the customer lifecycle into consideration: acquisition, retention, and upsell. While their incentive systems for partners are sophisticated – 45 percent claim to have integrated compensation models that do consider the entire customer lifecycle – these players are often weak on quality and certification. Only 10 percent have advanced programs to certify agents.

Additionally, the majority of players stake out their geographical footprint to cover larger geographical units – only 5 percent of respondents manage their channels at the micro-region level. They also

emphasize conflict management – 75 percent of benchmarked players have clear rules and set procedures to avoid channel conflicts.

Product offerings. Another way top performers excel is in developing and positioning their products for SMBs. When it comes to the overall product mix, little differentiation across telecoms players is apparent. Traditional voice and data products – both mobile and fixed – still make up over 80 percent of revenues for most players, including top performers (Exhibit 2). In fact, the relevance of telecoms players in the information and communications technology (ICT) market is small. While leading telecoms companies have captured 30 to 40 percent of the market for voice and data products, they have only 10 to 20 percent of the ICT market. In general, telecoms players do not foresee this situation changing. Most participants in McKinsey's benchmarking do not anticipate gaining significant market share in ICT products – with the exception of machine-to-machine (M2M) and advanced voice and data. They expect traditional voice and data to remain their core revenue-driving products.

A telco's future SMB priorities depend on its current level of success with this segment



SOURCE: McKinsey Global Telecoms, Media, and Technology SMB Benchmark 2013

Exhibit 3

Despite the focus on voice and data across the board, top performers do a couple of things differently. First, their business-to-business products are designed to spur future growth, anticipating future relevance. Their offers include software/infrastructure as a service, Internet protocol television for specific verticals, virtual private network, network outsourcing, and advanced voice and data, with the extensive use of partnerships. Their horizontal portfolios are often complemented by vertical offers/applications. Second, top performers extensively use bundles – flat-rate fixed and capped mobile service, cloud service, unlimited fixed and mobile-to-mobile, etc. – for cross-/up-sell and retention, on top of aggressive and more sophisticated retention offers.

Operations. Top performers succeed in their SMB business by differentiating field services, customer care, and retention. More than 40 percent of the benchmarked telcos stated that they do not differentiate between SMBs and the rest of their customers. Yet top performers not only have differentiated SLAs for SMBs, they also have three to five operational subsegments to provide differentiated SLAs. Top performers use a mix of direct models –

e.g., agents for their highest-value customers – and indirect models – e.g., SMB call centers for smaller accounts. They also blend outsourced and insourced capacity to ensure deeper operational knowledge for more informed discussions and control of providers. For critical operations such as retention – much more important to a telco than to an external provider – top performers typically have a stronger focus on insourcing. Beyond this, they use active and predictive mechanisms – not just reactive ones – to clearly specify retention processes across touch points and dedicated cells.

Future priorities

An SMB BU's future priorities will vary significantly, depending on its current performance. Average players today have limited operational segmentation for SMB clients, but they understand the importance of a more nuanced and tailored approach to SMBs in the areas of channels, retention, and customer care. The priority for top performers – who already address the specific and diverse needs of their SMB customers – is to use even

more sophisticated customer segmentation and tackle organizational issues so they can best respond to the complex nature of SMBs (Exhibit 3).



Historically, telcos have placed less emphasis on SMB customers. But as a maturing market limits consumer segment growth, telcos are starting to see untapped value in the diverse, dynamic SMB segment. McKinsey benchmarked SMB performance among a select group of telcos to reveal that top performers have adopted best practices in differentiating their organizational setup, product offerings, channel mix, and operations for SMBs – and they enjoy outsized success as a result.



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