Consumer Survey

Moderator: Ekow Nelson
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Ekow Nelson: Hello and welcome. IBM has released the findings of its global survey of communication services users conducted in early 2009. The rise of the informed consumer has no doubt impelled organizations to become more responsive and sensitive to the need of their customers.

Over the past few years they pulled a formation of communication tools from social networking, e-mail, instant messaging to traditional telephony, as increased choice have fragmented the communications industry with multiple suppliers vying for the attention of the same customers.

Technological innovation has played a key role in lowering communication cost and increasing flexibility, but it has also placed consumer’s center stage. More than ever before consumer behavior and preferences have become critical to service providers.

Today, consumers of communication services have to be courted, offered what they need at affordable price points, and supported with good quality customer service if you want to keep them for long.

Indeed according to IBMs survey, as much as 40% of consumers changed providers over the last three years, but this expression of choice has significant financial implications for service providers both in terms of revenue lost and customer acquisition/retention cost designed to reduce churn.

My name is Ekow Nelson from IBMs Institute for Business Value, and with me to discuss these and the findings of IBMs Consumer Survey and its implications to service providers are: Mr. Chris Pearson, Partner and Global Telecommunications Leader for IBM Global Business Services; Nick Gurney, also Partner and Communications Sector Lead for the Growth Markets; and Judith List, Telecommunications Leader for IBM Global Business Services in North America. Welcome to you all.

Let me first turn to you, Chris. I gather you are the main sponsor for the study. Can you please explain to our listeners why IBM invested in this survey, its coverage, and what you hope to achieve with it?

Chris Pearson: Yeah, thank you, Ekow. And in terms of the survey the reason why we invested in a specific survey is absolutely to support our thought leadership from point of view material.
As you’re probably very well aware, having thought leadership is absolutely intrinsic to IBM in our role as industry consultant, but what we found is in order to be really creating value for our clients our point of view has to be informed and supported by tangible data.

The consumer survey that we commissioned provides that tangibility. It also provides as an opportunity to dig into industry trends globally and locally, hence why when designing the survey we went for a global nature and some local specifics in certain countries so we could validate the global/local nature of trends.

In the global nature what we wanted to do, Ekow, is also look at the mature markets and the growth markets to see if there were any distinctive features. So again, when we’re going back to clients we could be differentiated and distinctive in our point of view delivery.

**Ekow Nelson:** So what will you say are the main findings of the survey and their implications for service providers?

**Chris Pearson:** The findings of the survey are actually quite difficult to summarize in just a few key points, and I would really encourage people to dig into the detail and have a look. But if you’re forcing me to look at the few keys points, then I think I would summarize in the following way.

Communication services has absolutely crossed the boundary from luxury from necessity. That doesn’t mean to say, you know, subscribers will pay for expensive services and they won’t shop around for value, but they absolutely see communication services -- voice, data and broadband -- as intrinsic to their lifestyle needs.

But actually the other critical point that comes out is there’s a new segmentation required by our service provider clients. No longer is it one-size-fits-all or even the traditional fixed/mobile, young/old voice data segmentation. What we’re actually seeing in the survey and the results is absolutely a lifestyle difference, a location and preference differentiation.

So increasingly, Ekow, one of the findings of the results is its clear that we need to take a social network analytic point of view to actually understand, attract and retain the subscriber base.

And finally, Internet data services are absolutely key to growth within the CSP business. CSPs see this as a way of capturing value in the new world, in the new economy, but actually the survey clearly shows there are some challenges to our service provider friends.

One, from the over the top Internet providers who absolutely have the brand recognition and acceptance to provide the next generation of services and secondly, CSPs need to leverage their assets in a much more unique way in order to overcome the fears around trust and security that consumers clearly indicate are there in the next generation of services.

**Ekow Nelson:** Thank you very much for that, Chris. Let me try and dig a little bit deeper by looking at some of the regional findings.
Nick, Asia-Pacific has some of the fastest growing communications providers in the world by revenue and subscriber. One thinks of China Mobile, Bharti, and many others.

What other priorities and behaviors of consumers in these markets and their implications for operations in so-called emerging economies?

**Nick Gurney:** Good question. There are a number of key differences in the emerging economies included in the survey. For both India and China a primary driver is the mobile is the first time most people have had a phone due to very low penetration of fixed lines.

In addition, the phone becomes an important device for information and other services, such as banking and payments.

On the flip side, however, the ARPU is dropping in theses economies, as the mobile penetration reaches out to the poor rural population. The implication here is the necessity to have very low operating costs in order for the service provider to maintain profits.

Additionally, Australian, Indian, and Chinese consumers are relatively less concerned about the impact of the global economic downturn on their use of telecom services than other countries.

In these markets, only about 15% think the downturn will impact their use, as compared with about 30% in the U.K. and the U.S. These consumers are far less likely to give up their mobile due to economic downturn over the material markets.

So, for the service provider, the overall opportunity remains very strong, given the role and demand for the mobile with multiple services beyond telephony.

**Ekow Nelson:** Could you share with us how the results of the survey in Asia-Pacific contrast with others and with the global set?

**Nick Gurney:** Yes. There are some key differences. Let me list out a few of these. India and China show a number of major differences, such as much higher track record of switching, about 55% having switched in the past three years. Most of these markets are heavily oriented to prepaid, and as such, are more susceptible to hot price offers aimed to encourage churn.

Additionally, low cost of customer acquisition in these markets has a major impact on this dynamic.

The most popular alternative use of the mobile phone, is to pay for goods and services, as in other countries, but Indian and Chinese consumers also like to use their mobile phones for banking and everyday credit cards.

The Chinese and Australians also have a higher trust in the service provider to manager private information and this is a very positive sign for the Telco’s as it positions them well for higher value services in finance and retail.
Further, we see a willingness to accept advertising on mobile is highest among in Chinese and Indian consumers. Over half of the consumers will accept advertising if it relevant, personalized and they are offered something in return.

For example, discounts on calls in batches. The Chinese take this one step further and are looking for integrated devices with multiple capabilities of a laptop, DVR, fun MP3 player, games console, etc., to use both at home and on the move.

Australians on the other hand, prefer multiple separate devices.

**Ekow Nelson:** Now let me turn to you, Judith. Judith, could you please follow that with key highlights of the survey’s findings and value implications for providers in North America?

**Judith List:** Sure, Ekow. Thank you. I’d be happy to. Interestingly, according to the survey consumers spend more time communicating than consuming content, but they do this across a fragmented set of tools -- whether its e-mail, their mobile devices or their landline phones -- on a daily basis.

Like the rest of the globe, US and North American consumers see mobile devices and broadband access as being critical necessities, despite the economic downturn.

So, for example, we asked them what things they were most likely to give up and mobile access and broadband access were ranked very high in terms of things that they would keep. The only item that was ranked higher than mobile devices and broadband access were their home, and they listed mobile devices and broadband access are more essential than family holidays, going out to restaurants or the theater, and pay TV.

But they’re very cost-conscious, so cost is one of the most important criteria for choosing a communication service provider, and it’s more important than network quality or customer service.

So while the North American consumers are unwilling to give up their mobile and Internet access, they will do whatever they can to keep their costs down - switching to all-inclusive bundles, free services such as voiceover IP, deferring device upgrades, canceling second mobile lines or fixed lines, and even cutting back on monthly spend by anywhere from 10 to 20%.

**Ekow Nelson:** Thanks. If we extend that a little further, in contrast with emerging Asia, North America has got some of the largest global players and has a more established communications market, but it’s also acknowledged generally that the US, for example, is behind Europe in mobile and advanced Asia and broadband. Are there any lessons your clients can learn from both these regions?

**Judith List:** Definitely. Particularly when we talk about mobile services and the convergence between mobility and broadband North American consumers want access to additional capabilities on their mobile devices. This includes video, music, gaming, social networks. They want to be able to pay for goods and services. And for older consumers they want remote health monitoring and authentication capabilities.
All of these additional services require greater bandwidth on mobile networks - something that we are behind on in North America and we can learn many lessons from both Europe and Asia-Pacific where those markets are more mature in providing broadband capabilities and the applications that use that broadband network in those parts of the world.

**Ekow Nelson:** Thanks. Now let me bring this back to you, Chris, and wrap up with a two-part question. First, could you please highlight given you are the only European here, a couple of contrasting observations from the European findings?

And secondly, how can IBM help its clients to make them more relevant to the growing band of informed consumers?

**Chris Pearson:** Ekow, thanks. In terms of Europe I think I’d just like to draw out two points. From an economics point of view I think the survey clearly shows that Spain and UK has perhaps the economic downturn had the deepest impact with the consumer confidence being very much hit in those areas. So Spain, UK hit more than other parts of Europe in terms of the economic downturn. That really does come loud and clear.

I think the other point that’s very interesting is in Sweden. Sweden perhaps can be seen a weather vein for the new services that service providers could be launching, and in particular in Sweden they’re very willing to use the mobile wallet, e-wallet, as a replacement to credit cards.

So their adoption of technology and willingness to adopt technology in innovative ways I think is, again, very clearly signaled by the survey.

**Ekow Nelson:** What about helping our customers? What can we do to help our customers to help themselves this growing band of informed consumers much better?

**Chris Pearson:** Ekow, helping our clients is absolutely essential and is why we’ve created the survey. Having the data is essential, but actually with IBMs depths and breaths of industry consultants we’re able to take the data, the point of view, and our worldwide experience and really drill into this to make it specific for our clients and that each and every operating environment.

So where we can help is make this data, these scenarios really specific within the operating environment of our clients. And through that working with our clients to apply the solutions that IBM has in many of the areas where we can really make a difference by accelerating time to market, de-risking implementations, and helping our clients take advantage of some of the technology - adoption technology innovation as we talked through with things like the mobile wallet, e-wallet, for example. But also as we link these kinds of activities into the broader strategy with things like Smart Planet where we can help our clients understand the real market opportunity to create innovative solutions for the Smarter Planet, the smarter world.

So our opportunity here is really, Ekow, to leverage this data, make it real, and help our clients create roadmap both for economic benefits in capturing new markets as well as cost reduction in their operations environments today.
Ekow Nelson: Thank you. That's brilliant, Chris. Thank you very much and thanks also to Nick and Judith for an informative discussion on consumers and their growing impact on the business of communications.

If you would like more information about the survey or indeed IBM and communications please visit us at www.ibm.com/telecom. Thanks for listening.