Selling Wireless Services on the Internet: Turning Clickers into Buyers

Wireless operators are in a constant race to provide consumers with the latest technological gadgets and services. But while they make every effort to one-up each other in offering increasingly powerful phones, many have yet to extend their high-tech proficiency to their sales approach. Leading U.S. operators sell about 3 percent of their products online, compared to U.S. retailers that sell about 12 percent of their goods online.

Why aren't more wireless operators selling more products and services online? In our experience, it's because operators believe that focusing on online sales would create a channel conflict with their retail stores. But any hesitation to sell online is becoming a costly mistake as online discounters move into their markets. In Europe, companies such as Telmore in Denmark, Heyah in Poland and Simyo in Germany are using the online channel to sell cheap no-frills phones and services. In the process, they are stealing customers away from the major incumbent operators. Last year alone, 12 new discounters emerged across Europe. In Denmark discounters now account for more than 20 percent of the total market and about 40 percent of new customers.

The start-ups are beating the incumbents by attacking their Achilles heels—incumbents are trapped in high fixed-cost retail infrastructures and network investments, from which they are either unable or unwilling to break free.

Retail has become an expensive habit. Estimates suggest that an incumbent operator will spend as much as 20 percent of its ARPU (average revenue per user) to pay for its retail channel. In the United States, a 10 percent drop in ARPU will erode 40 percent of a company's pre-tax earnings—making operator financials highly vulnerable to any shift.

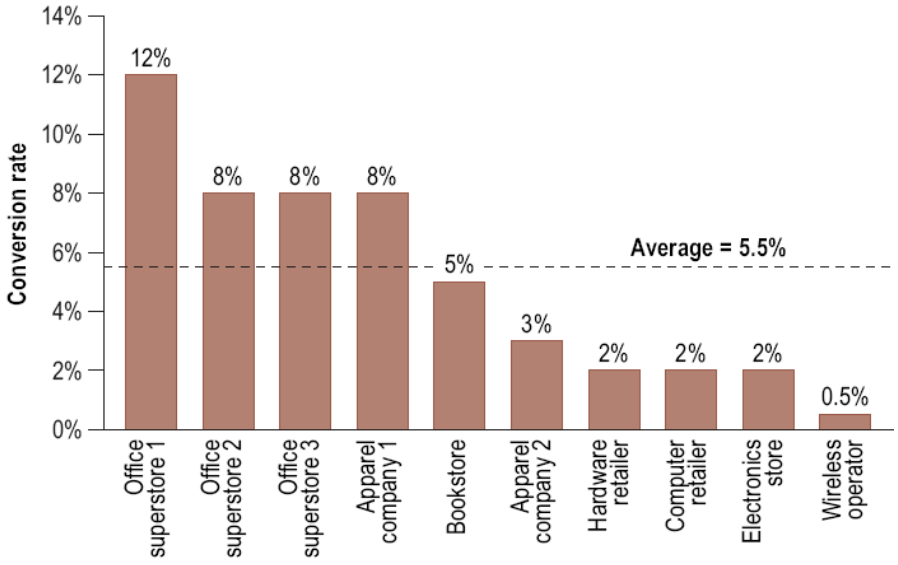
Although operators know they must begin closing the gap on their online competitors, so far, they seem reluctant to do so. Most operators put little effort into selling products and services online, and spend less than 1 percent of their advertising and sales budget on the online channel. Yet with nearly 70 percent of customers going online to research wireless products and services before they buy, it's time to turn these clickers into buyers.

Time to Focus Online

If the results in other industries are any indication, wireless operators might be able to convert 2 to 5 percent of annual visitors to their websites into buyers *(see figure 1)*. This could translate into as many as 15 million new online customers and account for as much as 20 percent of an operators new accounts in the United States. These potential customers are either late entrants or are defecting from competitors.

FIGURE 1

Conversion rates differ by stores and industry



Sources: JP Morgan, Forrester, Compete, Alexa.com and A.T. Kearney analysis

Overall, internet sales could improve operators' EBITDA margins anywhere from 1 percent (in Europe) to 8 percent (in the United States).

Customer acquisition is also cheaper via online channels. Acquiring a customer on the internet costs just one-quarter what it costs in the traditional retail channel. Because it costs less to market products and services online, operators could significantly reduce overall customer acquisition expenses. Companies can reduce these costs by about 5 percent in Europe, and by 9 percent or more in the United States.

Similarly, customer support via the internet costs about one-third of what it costs to have employees in call centers. When customers use online self-service features such as bill payment, account management and FAQ pages, customer support costs could drop 15 to 30 percent or more.

Clearly, online is an important channel for mobile operators to focus on.

Getting Stuck in Bricks and Mortar

It's understandable how operators have become stuck in bricks and mortar. In the early days, mobile phone customers were not familiar with mobile phone technology and they needed operators to teach them. To do this, wireless operators sold phones through their own stores and other retail channels characterized by high levels of service. It was a strategy that worked well for years. Today, however, 80 percent of mobile phone sales are to existing customers. As customers have become savvier about mobile phones and the services they want and need, the retail channel has become far less effective in educating them.

Retailers in the early dot.com days wrestled with the same dilemma. Since then, however, many retailers such as Lands' End, Office Depot and Barnes & Noble have mastered the art of blending the physical with virtual sales approaches and are reaping the rewards *(see sidebar: Online Pioneers).* Although these companies used different strategies to become successful online, they all used a retail-focused business model to successfully expand from "bricks and mortar" into "clicks and mortar."

Mobile operators that go back to the basics can apply lessons learned from these best-practice companies to their own operations.

Back to the Basics
To sell successfully on the internet, wireless operators must design the right offer to attract the right customers—and then convert them from browsers to buyers. In other words, operators need to go back to the basics of online selling by focusing on four key lessons:

Lesson 1: Choose your customers
Most marketing techniques rely heavily on consumer psychographics and behavioral information. But for wireless operators, such traditional approaches can be ineffective. For example, as much as 40 percent of wireless customers fall into the "late adopter" group—customers who are satisfied with last year's handset model, want basic voice and service functions, and focus on getting the lowest price possible. They do not want a phone to use every day but rather to keep in their glove compartments. These customers span a wide range of income levels and age groups; they use the internet and are comfortable making online purchases—and operators can easily target them with an online offer. In addition to usage patterns, demographic characteristics such as age and ethnicity can help identify customer segments that can be targeted online.

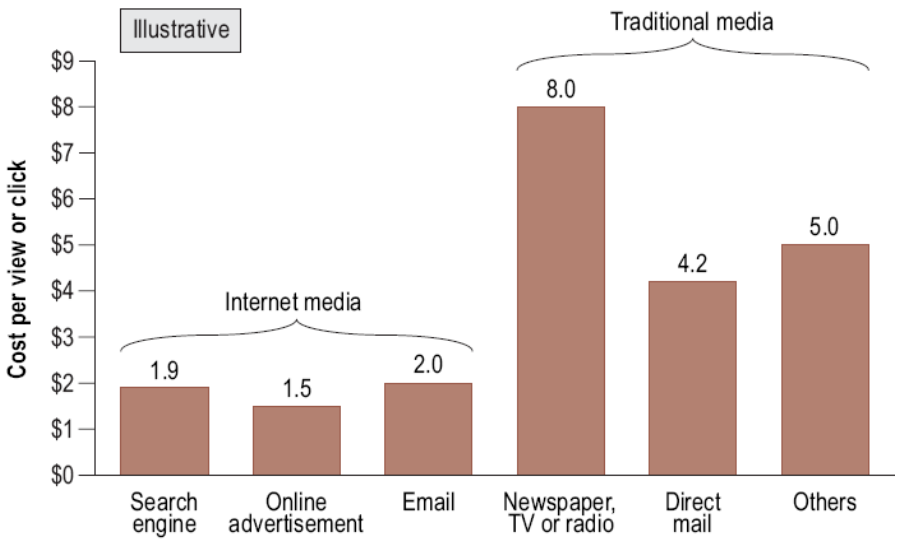
Lesson 2: Give them what they want
After identifying target customer segments, operators must create equally targeted products and services and steer customers to them. Consider how the front page of Dell's website, www.dell.com, directs customers to distinct shopping areas, such as home, business or gaming. By creating this "call to action," Dell effectively guides customers to the products that best meet their needs. In contrast, many operator sites make the mistake of listing all of their product options on a single page, forcing visitors to compare more than 20 phones—with a kid-friendly handset incongruously displayed next to a feature-loaded Blackberry. Some operators pack their homepage with too much irrelevant information, sometimes to the point of obscuring the products and services. Offering entertainment features might be a good lure, but additional content should not become a distraction from the main product.

At the same time, operators must ensure that their products and services align with their brand image. Boost Mobile exemplifies how to use a brand to target a discrete customer segments. Visitors to www.boostmobile.com will find just five Motorola handsets, each supporting the company's youth-oriented brand image, offering pay-as-you-go wireless service and hip features such as games, ring tones and wall paper.

Lesson 3: Turn Google into your next competitive weapon
Marketing vehicles such as search engines, email pitches and online ads—along with newer channels such as podcasts and blogs—are cheaper and more effective at capturing customers than traditional media *(see figure 2)*. Consider that it costs anywhere from $150 to $300 in media costs to acquire a retail customer, but just $50 to acquire an online customer.

FIGURE 2

Online advertising is significantly cheaper than traditional channels



Sources: Google, Yahoo, MSN, quotes from high traffic sites such as CNET, *New York Times* and network and cable TV, (CNN, TNT)

By designing search-engine ads with the right keywords, operators can attract visitors who are more likely to buy. A properly designed ad in Google, for example, could bring in 80 percent of total visitors at one-third the cost of traditional media. Many operators, however, overspend in this area, sometimes paying as much as $30 for a customer to click on a single ad, when the cost should be closer to $2.

To bring costs in line with results, make sure your marketing managers are skilled in online strategies. Selling online is more technical and data driven than traditional sales. Creating advertising text that soars up the Google ranks or tracking conversion rates are skills unique to the online world—and having employees who understand and master them is crucial.

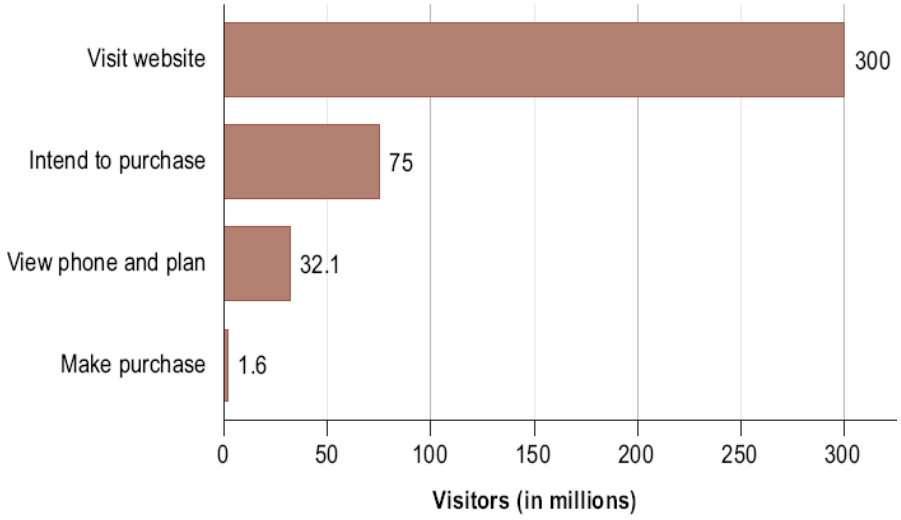
Also, to make purchasing online more appealing, operators must pass on some of their online cost savings to their customers in the form of price breaks on handsets, free shipping or free accessories. Exclusive web offers of products or services not available in retail stores will help avoid channel conflicts.

Lesson 4: Develop an effective website

Operators have a significant opportunity to turn clickers into buyers. As figure 1 notes, of the 300 million visitors who click on U.S. operators' websites each year, just 1.6 million—or 0.5 percent—actually buy something versus 5.5 percent on average across industries. And fewer than 2 percent of people who spend time to create accounts on the websites actually purchase a product or service *(see figure 3)*. In part, these low numbers reflect the fact that operators' websites have traditionally focused more on dispensing information than on making a sale. By now, an operator's website typically reaches between 10 to 30 percent of its customer base. Redesigning company websites, or at least portions of them, to shift the emphasis to sales will be the first step in increasing purchase rates.

FIGURE 3

Operators struggle with turning online visitors into customers



Sources: Google, Overture, Compete, Bear Sterns and A.T. Kearney analysis

The second step is to learn from the leaders. Consumer websites such as Amazon and eBay set the standard for easy shopping experiences and operators should emulate their strategies. Converting online visitors into buyers requires a simple ordering process and an incentive for the final buying push, such as free shipping or an online-only discount. It also involves simple terms and conditions, easy return policies, straightforward and transparent pricing, and a minimum number of clicks from beginning to end. Although many operators worry that loyalty is difficult to maintain among online shoppers, yearlong contracts provide strong incentives to stay put.

Operators must also ensure effective online customer support. After the spate of mergers and acquisitions, many of the larger operators are still linking together disparate back-office systems, with various self-help functions on the front-end an amalgamation of numerous legacy systems. The result is a cumbersome experience that frustrates consumers. Creating a seamless customer experience—from purchasing a new phone to managing an account—will help subscribers gain confidence in using the internet as their primary contact point with the company. Operators should also not miss the opportunity to use online customer-service functions to sell additional products and extend service contracts.

From Clickers to Buyers

The fact remains that not everyone will rush online to buy their next phone or gain access to new services. But more people than ever are becoming interested in clicking their way to a new handset or to download new ring tones—and they are expecting operators to provide the same seamless online experience they have come to expect from other retailers. The basic rules of online selling have held steady, as illustrated by the tremendous profits companies in other industries are enjoying. Now it's time for operators to go back to the basics as well, and fully click into this opportunity.

Sidebar: The Online Pioneers

A quick snapshot of three online pioneers illustrates how venturing online can strengthen both operations and business strategy:

Lands' End. Early on, this venerable retailer saw the internet as a potential solution to stem the rising costs of its mail-order business. The first iterations of its website simply mirrored the company's traditional paper catalogs, but executives soon understood that the internet could significantly enhance the customer experience. Today, the Lands' End website allows shoppers to "try on" outfits by building an interactive 3-D model with their exact measurements, offers advice on styles and recommends figure-flattering clothes. Going online has increased Lands' End reach, allowing the company to expand into new international markets and attract more unique visitors than the Gap, J. Crew, Eddie Bauer or Macy's.

Office Depot. In the 1990s, executives of this office-supply emporium realized that the internet should complement, not compete with, their existing business. To this end, the company integrated its database to allow for a seamless customer experience whether customers shopped online or in the stores, and kept its direct sales force intact. Today, Office Depot is the world's second-largest online retailer behind Amazon.com and generates close to $3 billion a year in online sales.

Barnes & Noble. Barnes & Noble was slow to adopt an internet sales channel and went online only after it was clear that the online powerhouse Amazon was not a temporary nuisance. Executives began creating a multichannel strategy that focused on generating more sales from their existing customers. Barnes & Noble also used its retail presence to provide same-day delivery in some markets and offer online customers easy in-store returns. The retailer now has one of the world's leading e-commerce sites with a large selection of books, CDs, DVDs and videos.

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