Strategic White Paper

Why customer value propositions really matter!
Delivering communication, IT and media offers that people want to buy
Executive Summary

Today’s end-users have a growing choice of Web-based services to choose from to meet their broadening needs. These services are delivered over-the-top of telecom network service provider’s Internet access. As a result of the growth in mobile Internet services, evolving user behaviour and changing expectations, end-users no longer look to network services providers to fulfil their needs in areas such as communication, collaboration, entertainment, information and productivity.

These market changes have pushed the value away from the networks used to deliver services, to the services themselves, allowing more companies to compete for end customers using a range of business models.

In a world where the growth of traditional services is unlikely for most service providers, and cost reduction is not enough to compete over the long term, focusing on developing better, customer-centric value propositions is a key value-creation strategy, offering top and bottom line impact.

For Product and Marketing leaders at service providers and ICT vendors, designing and delivering effective customer value propositions requires a coordinated blend of diverse skills and activities, working across organizational functions, yet firmly focused on customer needs. This involves leveraging a range of inbound and outbound marketing activities, used respectively to understand market issues and needs and facilitate the commercialization of subsequent customer value propositions.

This fundamental yet complex development process must be managed in a dynamic and disruptive context, where innovation and competition can come from anywhere, at anytime.

In this market context, Product and Marketing leaders can improve their service/product performance by executing key decisions better and faster than the competition.

This critical, competitive imperative can be systematically achieved by using a full set of integrated, decision-driven go-to-market methods, to develop and deliver more relevant, customer-driven value propositions. This approach offers Product and Marketing leaders at service providers and their ICT partners several benefits including:

- A clear, customer-driven approach for developing new offers
- A systematic way to make quick and effective decisions resulting in better performing, market-driven offers
- The means to train managers and staff in the techniques for developing effective customer value propositions

Applied effectively, this methodical yet practical approach helps service providers and ICT vendor partners deliver the service offers that their customers really want, in turn helping them achieve a sustainable, competitive advantage within the quickly changing market for communication, IT and media services.

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1 ICT: Information and communication technology
# Table of Contents

**Executive Summary** .................................................................................................................................................. 2  
**Introduction** ............................................................................................................................................................ 4  
**Why are telecom service providers losing their competitive advantage?** ................................................................. 4  
  - Service convergence.................................................................................................................................................. 4  
  - Mobile services revolution ......................................................................................................................................... 5  
  - Evolving user behaviour ........................................................................................................................................... 6  
**What are the consequences of current market trends for telecom service providers?** .................................................. 7  
  - Decline of telecom network infrastructure-centric services ....................................................................................... 7  
  - Commodityization of network infrastructure ......................................................................................................... 7  
  - Changing business models .......................................................................................................................................... 7  
  - Emergence of two kinds of service providers ......................................................................................................... 8  
    - *Network communication service providers* ............................................................................................................ 8  
    - *Specialized service providers* .................................................................................................................................. 8  
**Why customer value propositions have become strategic?** ............................................................................................... 9  
**What specific assets should service providers use to develop new customer value propositions?** ............................... 9  
  - Company brand ......................................................................................................................................................... 9  
  - Billing relationship ...................................................................................................................................................... 9  
  - Customer relationship experience .............................................................................................................................. 9  
  - Subscriber data .......................................................................................................................................................... 10  
  - Service policy management ......................................................................................................................................... 10  
**How to create better customer value propositions?** ......................................................................................................... 10  
  - Two examples of effective customer value propositions .......................................................................................... 10  
    - *Freebox Consumer Triple-Play* ............................................................................................................................... 10  
    - *BT Business for SMBs* ............................................................................................................................................ 11  
  - Decision-driven, go-to-market methods .................................................................................................................... 13
Introduction

The total number of mobile subscribers worldwide is expected exceed 5 Billion in 2010\(^1\); having already far out pac ing fixed line service usage. Despite a worldwide decline in voice revenue due to competition from low-cost IP voice services, total mobile service revenues are forecasted to exceed $1 trillion by 2013\(^{11}\). Over this period mobile data service revenue are expected to grow 10% annually, reaching $330 B by 2013, or 1/3 of the total.

While nearly 90% of today’s mobile data revenue\(^{11}\) comes from basic Internet access, in a market where both fixed or mobile Internet connectivity is less and less differentiable, additional services are what customers see, what they appreciate and what they really value.

However, under the pressures of accelerated innovation coming from a multitude of new services delivered “over-the-top” of existing Internet access, many telecom network service providers are finding it difficult to compete. In a market where communications, IT and media services are converging more day-by-day, they are now faced with a growing range of non-traditional, Web-based competitors. Within this context many service providers are slowly loosing their once unrivalled, competitive advantage.

In this ever-changing market, telecom service providers who are unable to find ways to differentiate their service offers by quickly and consistently delivering new and innovative, customer-centric value propositions, may be relegated to simple carriers of data traffic, while Web-based companies capture the bulk of new services revenue and profit.

Why are telecom service providers losing their competitive advantage?

Users no longer look to traditional telecom and Internet service providers to fulfil their needs with specific services and content. Instead, they can chose from an ever-growing range of innovative Web services, often delivered “over-the-top” (OTT) of service provider offers, usually bypassing existing billing and customer care relationships, using only service providers’ Internet connections.

This shift in the marketplace is a result of various related trends, including:

Service convergence

- Users have access to a growing range of services, from a wide variety of Web-based service providers. Such services cater to a growing range of needs, including communication (ex. calling, messaging; www.skype.com), news (ex. www.yahoo.co.uk), entertainment (ex. music, TV; www.deezer.com, www.hulu.com), information (ex. local information; www.google.com/latitude), personal IT (ex. file storage; www.dropbox.com), and work productivity (ex. office documents; http://docs.google.com). Such services also offer users a mix of communication and collaborative elements, facilitating usage and interaction with others.

- Most services are available “over-the-top” of telecom service providers’ offers, and are delivered using any standard Internet connection. This connection acts a direct channel to market for the Web-based services, offering little if any additional value-add from the network service provider.
Underpinned by the Web, users can access their personalized set of services through a range of different device platforms, according to their context and preferences at any given moment or place, with little importance for the Internet connection being used.

While certain network service providers have tried to compete with OTT players, most have had little success. *How can telecom service providers play more effectively within this converging services market?*

**Mobile services revolution**

- Driven by mobile Internet devices like the Apple iPhone, the wireless web is reaching maturity. This has largely been enabled by a slick user experience, offering easy access to a large range of Internet ‘Apps’ dedicated for mobile use. As early leaders in mobile Internet usage, Japanese mobile Internet services spend grew 28% yearly between 2000 and 2008. Their share of spend on non-‘mobile data access’ grew to 34% of the total, up from 15% over the same period. iii

- More and more people are adopting mobile communications at the expense of fixed line services. There are already close to 70 mobile subscriptions per 100 people worldwide, compared to 19 for fixed telephony (see Figure 1). By the end of 2010 the ITU expected over 5 Billion mobile phone users worldwide⁴. Furthermore, in many markets in emerging regions like Africa, Asia, Middle East and Latin America, and in hard-to-reach zones worldwide where fixed-line services and Internet usage is low, mobile services will continue surging. Many people in these areas will experience the Web for the first time thanks to wireless service access.

- The number of connected devices is exploding across diverse industries. Mobile Internet applications have emerged in areas like car electronics, transactional services, healthcare and home appliances. Morgan Stanley (See Figure 2) estimates that between 2010-2015 the total number of connected devices will exceed 10 Billion iii, while Ericsson estimates that this will grow to 50 Billion by 2020iv.

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**Figure 1 – Global Communication Subscriptions**

<table>
<thead>
<tr>
<th>Year</th>
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<th>Internet users</th>
<th>Fixed telephone lines</th>
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<td>60</td>
<td>40</td>
<td>40</td>
<td>20</td>
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</tbody>
</table>

*Source: International Telecommunication Union*

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**Figure 2: Connected Devices**

*Source: Morgan Stanley, Economy + Internet Trends, Apr 2010*
Mobile service innovation is accelerating. The mobile development community is wide reaching and highly active. The Apple App Store, which opened in July 2008 and currently operates in 77 countries, now offers over 185,000 apps created mostly by 3rd party developers from around the world. As of April 2010, users had downloaded over 4 Billion apps*. Other mobile app stores serving Android, Blackberry, and Windows Mobile devices have seen similar growth trends on a smaller scale.

In an effort to play a greater role in mobile service development, a group of leading global telecom network service providers and equipment manufacturers including Orange, Telefónica, Vodafone, AT&T, NTT, China Mobile, Samsung and Sony Ericsson, recently founded the ‘Wholesale Application Community’ [www.wholesaleappcommunity.com](http://www.wholesaleappcommunity.com). The WAC’s primary objective is to establish a simple route to market for developers, in turn, providing access to the latest and widest range of innovative applications and services to as many customers as possible worldwide.

Initiatives like the WAC offer service providers potential access to Billions of customers worldwide. How can service provider effectively leverage their respective strengths and assets to improve their competitive position?

**Evolving user behaviour**

People expect easy access to a growing range of services. Users now have access to an ever increasing set of ‘Web 2.0’ services and applications via the Internet, fulfilling needs such as communication, socializing, entertainment, gaming, personal and business productivity, education, security and more. Most services are available on-demand, in real-time, and with low / no sign-up fees.

Users are actively creating and sharing content via the Internet. While the early Web was characterized by companies publishing media and advertising, today’s Web gives people the ability to directly contribute as ‘creators’ of content, personal opinions and other forms of self-expression with tools such as chat groups, blogs, video and photo sharing sites, social network services. This has spawned a mass participatory culture previously reserved for an elite few.

Virtual interactions are becoming the norm. People around the world, are growing accustomed to interacting with others remotely, in personal and professional contexts. This is illustrated by the growing popularity of blogs, social networking services (ex. Facebook, Twitter, LinkedIn) and other collaborative tools (ex. Wikis, shared workspaces, etc.). By breaking the barriers of time and space, these tools are changing the way people relate with each other.

Users expect greater service customization and management. As a result of richer, more interactive services, users have come to expect open and flexible service environments that can be tailored, self-configured and managed by each individual in real-time, in a way that makes the most sense to them.

While most telecom service providers already have access to a rich set of customer data including user profile, preferences and behaviour, most have been relatively unsuccessful in launching or selling effective Web 2.0 services. How can such service providers effectively deliver compelling services that are tuned to each user’s evolving desires, in a profitable manner?
What are the consequences of current market trends for telecom service providers?

Today’s fast changing services market has been made possible by the use of open-standards software for developing flexible IP-based services, quickly and cost-effectively. This is pushing the value from the network infrastructure used to deliver services to the services themselves, while allowing a growing number of companies from all industries to participate in the value chain. This has lead to a repositioning of many service providers and ICT vendors.

These changes in the ICT landscape is a result of different factors:

Decline of telecom network infrastructure-centric services

Traditional, proprietary network-centric services models (ex. IN services, PSTN Voice, closed messaging and other data communication networks) are in decline. They cannot deliver the flexibility, quick time-to-market or cost advantages offered by many open-standards, software-based services.

On the other hand, most OTT services are delivered using IP environments via the Internet. IP-based services, like consumer and business IP voice, related calling functions or IP contact centres, are supported by a large base of developers, offering quick and easy evolution, thus lowering operation and maintenance costs.

Open-standards, IP-based software has become the new fabric for service development. Service providers and ICT vendors who cannot evolve in this changing landscape are slowly being marginalized as their services lose relevance in an ever-changing marketplace.

Commoditization of network infrastructure

While service innovation continues, supported by IP-based software development, the network infrastructure used to build-out voice and data transport networks has become more standardized and widespread. As a result of consolidation in the service provider sector, combined with the arrival of lower-cost ICT network equipment suppliers, network equipment revenue and margins have fallen, signalling its commoditization.

In an effort to further control CAPEX and OPEX, many services providers have begun outsourcing their network operations to 3rd parties and in some cases have started sharing infrastructure among each other. These changes further demonstrate that service differentiation can no longer be based only on specific infrastructure deployment strategies.

Changing business models

New competitors – often Web-based companies or integrated hardware/software manufacturers – are offering a growing range of OTT services, supported by innovative business models, including white-labelling, fee/commission-based transactions, revenue sharing, and advertising-sponsorship.

This growing range of business models enables the effective commercialization of customer-driven services and applications by easily satisfying the varied interests of the different parties involved while mitigating risks. With time, many of these new business models will become common across service providers of all types.
Emergence of two kinds of service providers

As a result of current market dynamics, service providers are beginning to cluster into two main types:

Network communication service providers

Providers of reliable, high quality network connectivity services including proprietary voice, Internet and other dedicated data communications networks. Their focus is on assuring a consistent connection for their network-based communications services. This includes guaranteed service availability, service coverage or any other relevant SLAs, related to their network service offers. They might sell directly to a broad range of end-customers, including consumers, businesses or governments, or indirectly as wholesalers to other specialized firms including niche service providers and large private and public organizations. While some resources will be dedicated to managing and developing their product portfolio, greater efforts will be placed on assuring operational excellence of their services network in order to assure high scalability and production at the lowest possible cost.

Specialized service providers

Providers of specialized services fulfilling the particular needs of targeted customer groups. Specialized service providers will focus on delivering targeted and effective value propositions offering a better customer experience through greater service relevance, simplicity and higher overall customer satisfaction. They own or will try to develop a recognized brand and positioning, customer relationship, and local and/or virtual presences in order best serve their specific target markets. Their primary focus will be on the development, marketing and selling of customer-driven solutions, fulfilling their clients’ particular needs. This may require joint collaboration with any number of relevant, best-of-breed service partners from different industries, many non-technology-based, in order to deliver the right customer solutions, in a consistent manner. This requires using different business models to satisfy each party’s interests, while maximising their unique assets. Where necessary, this also means buying network communication services from other dedicated service providers, moving away from such non-strategic activities.

While traditional network communication services providers will continue to exist, faced with market changes, many will need to refocus on delivering more specialized and relevant customer value propositions, as a key strategy to compete more effectively over the long term.
Why customer value propositions have become strategic?

In light of evolving user expectations and continued innovation in a nearly border-free market for over-the-top mobile and Web-based services, most telecom service providers worldwide can no longer rely only on existing network-centric services to generate top and bottom line growth. Moreover, for all but a few service providers, focusing on lowering network delivery costs through diverse outsourcing strategies is not enough to ensure a long-term, sustainable competitive advantage.

Many regulators, which have already allowed infrastructure sharing among network service providers while forcing them to wholesale network access to new entrants, are now pushing strongly for Net neutrality. If successful, this ruling will mean that telecom network providers cannot even receive rent for bandwidth usage from Web-based content providers.

In this context, Product and Marketing leaders at telecom network service providers and their ICT vendor partners need to find more distinctive and strategic ways to compete. If growth of traditional services is unlikely and squeezing costs or claiming subsidies is not enough, the focus must turn to developing and managing more relevant, customer-centric service offers as a key strategy to drive top and bottom-line growth and re-establish a sustainable, competitive advantage.

This requires offering specific customer groups – for example homeowners, nomads, grand parents, or control seekers - discernable value through solutions addressing their distinct needs and issues. This is driven by gaining an acute sense of what those people and organizations value, through insights into their specific needs, problems, motivations, expectations, preferences and behaviour, which in turn conditions the solutions to these issues and what they are willing to pay someone (i.e. a specialized service provider) to help resolve them.

While the idea of developing more relevant and compelling value propositions seems apparent, judging by the range of similar, complex and often technology-centric services in markets today, it seems that further progress is possible.

Finally, during this time service providers have built-up a unique set of assets, which must be used to stay competitive when designing the next generation of customer-driven offers.

What specific assets should service providers use to develop new customer value propositions?

Prior to the growth of the Web, telecom service providers were the main suppliers of communication and IT services. During this time they developed long-standing customer relationships, and gained a variety of specific assets that are hard to copy. This includes:

- **Company brand**
  - High brand awareness within current markets, an established brand-promise, an existing customer base and a varying degree of market power.

- **Billing relationship**
  - A trusted client-provider billing relationship, including existing real-time transaction capabilities, credit guarantee mechanisms, purchase history and buyer profile data.

- **Customer relationship experience**
  - An established, personal customer relationship experience across a variety of
touch-points, including dedicated customer representatives, retail stores, contact centre and customer Web portals. This covers the personal relationship experiences before, during and after a client subscribes to any services. It may also include a documented customer history combined with an implicit knowledge of the local market context.

Subscriber data

- A collection of customer metadata including service registration details, user preferences and profiles, usage statistics, address book, geographic location (in real-time for mobile services) and purchase and payment history.

Service policy management

- The ability to define and actively manage network policies (ex. Uptime guarantees, SLA parameters, traffic prioritization), application policies (ex. Allowed services and options, service limits, other conditional parameters) and subscriber policies (ex. promotional tariffs, usage rewards), on a per-customer basis.

These assets are a combination of hard and soft attributes and are valuable so far as they can be used to enhance customer propositions by offering appreciable added value.

Using these assets to create effective, customer-centric value propositions can help lead to more satisfied customers and greater loyalty, helping to fuel business growth. The key question then becomes, “How does one create better customer value propositions?”

How to create better customer value propositions?

Creating the product/service offers that people and organizations really value is strategic for business growth, yet it remains a challenge for many Product and Marketing leaders at service providers and technology companies. It requires gaining a deep understanding of the specific problems, issues and needs of potential customer groups, in order to then quickly design and deliver effective customer solutions that offer clear value, all at the right time. What are some examples of good value propositions?

Two examples of effective customer value propositions

Freebox Consumer Triple-Play

French Internet service provider, Free (www.free.fr) launched its Freebox broadband, triple-play offer at the end of 2003. At that time, it was the first ISP to offer French consumers an all-inclusive package including unlimited broadband Internet (2MB/s download / 512kB/s upload speeds), TV and unlimited national calling, all for just €29.99/mth (see figure 3). This was in stark contrast to the incumbent service provider, Orange’s (previously Wanadoo) 2-8MB/s broadband Internet-only offer for €26/mth.

Free’s simple, yet innovative offer quickly won over new customers who were tired of searching through a plethora of different and complicated offers to get what they needed, while ultimately paying more for less. During the first three years they more than doubled their market share, mostly at the expense of the incumbent service provider Orange.
By continuing to add value to the Freebox offer without ever changing the price, Free has remained competitive, winning new clients, while ensuring the loyalty of existing ones. Today’s Freebox users benefit from:

- Internet access of up to 28MB/s download / 1MB/s upload (or 100 MB/s fibre access in eligible zones)
- Unlimited e-mail addresses and 10GB for personal websites or Blogs
- Wifi access at home and in Free’s public hotspots
- Unlimited calling to fixed lines in over 100 countries
- 30 supplementary calling services (ex. voice mail, call waiting, call forward)
- TV features such as DVR², VoD³ and multi-TV access

Maintaining a fixed pricing strategy while regularly adding service value has required a solid business case, with a concerted effort on managing the underlying related and overhead costs. This has been achieved by:

- Using in-house SW development to create a customized set-top box, meeting market requirements and aligned with their product roadmap.
- Focusing mostly on a single offer, enabling reduced marketing and support costs.
- Using a direct distribution model including online ordering and mail fulfilment.
- Delivering plug & play functionality, with remote software set-top box upgrades
- Offering online and chat-based customer-care capabilities where possible.

Today Free has amassed 4.6 M clients, making it the third largest ISP in France, with over 23% of broadband market.⁶

BT Business for SMBs

As BT’s channel to market for small and medium businesses in the UK, BT Business (http://business.bt.com/) had been under attack by its rivals since competition began. During the 2002-2007 period its revenues had fallen by 16%.⁷ At the time, this business was characterized by its supplier-to-customer push approach for selling a range of separate, technology-focused communication and connectivity services; the use of a standard SMB segmentation model that covered over 90% of all UK businesses; offering components vs. business solutions; a set of underlying customer management processes that were heavy and time consuming to use, making them frustrating to deal with.

In an effort to redesign its SMB business to offer greater relevance and convenience, BT made a number of important and strategic changes to its BT Business offerings.

Its new philosophy has been to focus on the distinct problems and needs of SMBs by offering connected solutions with discernable value. It achieved this in several ways:

- Demonstrating a deep understanding of SMB daily business concerns through insights on the different aspects of running a small business (ex. planning a business, effective sales and marketing, dealing with suppliers or partners, etc.).
- Helping prospective clients choose the right offer based on their practical needs (ex. according to their stage in the business’ lifecycle).
- Focusing on selling business-centric offerings that contribute to greater

² Digital Video Recorder
³ Video on Demand
business efficiency, (ex. Website consulting, SEO\textsuperscript{4} consulting, CRM\textsuperscript{5} , e-mail marketing services), described in terms of the business benefits offered (ex. cost control, increased sales) and not the technology used.

- Leveraging ICT capabilities themselves in order to improve their customers’ relationship experience through simplified capabilities like electronic contract signature and self-serve customer service portals. Such changes reduce the sign-up time from weeks to hours.

- Helping SMBs quickly develop more connected and efficient businesses through pre-packaged, Internet-age propositions like eShop - an e-commerce starters pack that’s integrated with e-Bay and Paypal - or BT Tradespace - an online market place for SMBs to connect and interact customers or suppliers.

These significant changes have allowed BT to increase its Business revenue by 1.6\% in 2008-09, despite the recent economic downturn. At an event in June 2009 it reported +9\% in Communication and Infrastructure sales (i.e. calling and connectivity services), +19\% in Hardware / IT / Devices sales (i.e. traditional CPEs, IT devices and related maintenance and support services), and +100\% in Software and Applications sales (Salesforce.com and other SaaS).\textsuperscript{8}

The Free Freebox and BT Business examples demonstrate the top and bottom line impact that developing great value propositions can provide companies.

In practise, bringing new and innovative offers to market, that deliver better performance, is not easy. This requires a coordinated blend of specific skills and expertise across distinct organizational groups, including strategy, product management, product development, product marketing and sales, all while maintaining a common customer-driven focus.

Effective Product and Marketing leaders draw on inbound marketing activities for listening to the market to understand the unresolved problems and needs facing users; to draft customer-focused solutions to these market problems; and to create a coherent and detailed plan to deliver new offers to market, profitably. Such activities are usually the domain of Product Management, following Strategic lines, but working closely with selected key or potential customers and Product Development functions to gather market requirements and test early service / product prototypes.

These leaders then use outbound marketing activities to speak to the market for delivering the subsequent customer value propositions via their distribution organizations. This includes translating technical ideas into relevant market messages; designing customer-driven programs to stimulate and support the introduction of new offers; making it easy for potential buyers to make the right purchase decisions. Such activities are usually the domain of Product Marketing, in close collaboration with Communications and Sales functions.

This complex process must also be managed within a dynamic and disruptive market context, where innovation and competition can come from anywhere, at any moment. In this environment, speed usually matters more than perfection. This means quickly developing, testing and bringing to market new product and service offers, while leaving room for constant improvement - incremental or disruptive - based on changing market conditions.

Companies like Google with their ‘Beta’-labelled services, and Apple with their

\textsuperscript{4} Search Engine Optimization
\textsuperscript{5} Customer Relationship Management
Why customer value propositions really matter!

periodic and easy-to-use software updates, already apply this philosophy to their products and services, providing an overall better customer experience.

Ultimately, a company’s Product/Marketing structure will only result in better performing offers if it can make and execute key decisions better and faster than the competition.

To achieve this, Product and Marketing leaders must focus on the key decisions that lead to maximum value, and the actions that follow. With a clear understanding of the critical choices to be made, they can decide where in their organizations such decision must be taken, to align and adapt their structures accordingly.

**Decision-driven, go-to-market methods**

Whether we consider the inbound or outbound marketing activities needed to bring new services and products to market, employing a complete set of decision-driven methods (See Figure 4) facilitates the strategic shift needed to develop and deliver more relevant, customer-driven value propositions, more often. This offers several key benefits to Product and Marketing leaders at service providers and ICT vendors alike:

- A clear, customer-driven focus to design and deliver customer value propositions, with a quicker time to market
- A systematic way to make quick and effective decisions resulting in higher performing, market-driven offers
- The means to train managers and staff in the requirements for developing effective customer value propositions

Applied effectively, decision-driven, go-to-market methods allow Product/Marketing leaders at Service Providers and ICT vendors to jointly design and deliver more relevant, higher performing customer offers, more often. This will in turn help them achieve a sustainable competitive advantage within the quickly changing communications, IT and media services marketplace.

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**Figure 4: Decision-driven, go-to-market methods for delivering effective value propositions**

<table>
<thead>
<tr>
<th>Product Marketing</th>
<th>Sales Support</th>
<th>Sales Readiness</th>
<th>Market Programs</th>
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<td>• Buyer Personas</td>
<td>• Thought Leadership</td>
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<td>• Sales Tools &amp; Collateral</td>
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<td>• Solution Use Case</td>
<td>• Value Propositions</td>
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<td>• Use Case-to-Feature Map</td>
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<td>• Decision-Making Analysis</td>
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<td>• Buy, Build or Partner</td>
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Conclusions

The traditional business of telecom network service providers remains threatened by the continued development of innovative, converged, Web-based services, serving a growing range of user needs, and delivered over-the-top of any Internet access.

As the value continues shifting to the services, and away from the networks used to deliver them, more types of companies are vying for the end-customer, leading to the commoditization of underlying network access services.

While a few telecom service providers have the scale and capacity to become the leading providers of network communication services, most need to rethink their competitive strategy. For these players in particular, along with their ICT partners, focusing on designing and delivering more relevant customer value propositions, more effectively, all while taking advantage of their unique assets, is a key strategy to remain competitive and grow their top and bottom lines in today’s market.

For Product and Marketing leaders at service providers and ICT vendors, designing and delivering effective customer value propositions is challenging as it requires managing a range of diverse activities across organizational functions, while staying firmly focused on customer problems and issues. This process must also be managed within a fast-moving and disruptive market context, where innovation and competition can appear at any time.

Using an integrated set of decision-driven, go-to-market methods to develop new offers, provides Product and Marketing leaders many benefits, including a clear, customer-driven focus for quickly developing new value propositions; a systematic way to make quick and effective decisions leading to higher product performance; and an ideal way to train managers and staff in what is needed to create effective, market-driven offers.

Service providers and their ICT partners who are not able to quickly and systematically deliver the customer value propositions that people and organization want will be relegated to low-margin data packet purveyors, as more market-driven companies jump at the opportunity to fulfil customer demands, reaping the associated benefits.

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3 “Internet Trends”, Morgan Stanley; Apr 12, 2010
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