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Back to the Future: Rebuilding the Core Carrier Value to Consumers

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Carriers are among the largest spenders on advertising in America,¹ but if the customer survey below reflects the reality, they are not getting much for their money . . .

Carriers are facing a difficult challenge: just as the use of services over their mobile networks is exploding, they need to redouble their investment in these networks even as their own brands are capturing less of the value they enable and create. While Apple and AT&T had an exclusive arrangement, iPhone 4 users rewarded Apple for the features that they liked, but often penalized AT&T for what they disliked, assigning blame somewhat independently of the actual cause of the issue. More generally, problems in capturing value are restraining the growth in carrier brand value, the value as perceived by consumers, and as a result, their enterprise value.

FCC documents show that AT&T has managed an (impressive) increase of over 8,000% in its mobile data traffic since 2007.² Thus, the data in Figure 1 is even more disconcerting from the carrier's point of view, given that many of the items for which consumers blame the carrier are actually Apple-created or -controlled problems.

¹ Kantar Media March 12, 2012 on advertising expenditures.

² AT&T submission to the U.S. FCC in the proposal to acquire T-Mobile USA.

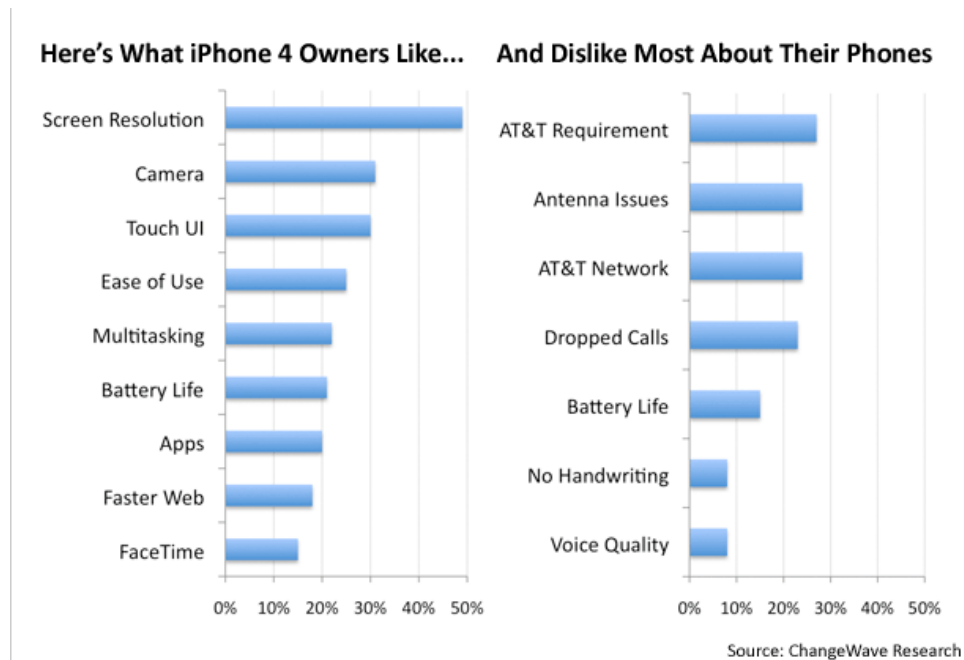


Figure 1. Consumer survey results on iPhone 4 likes and dislikes.

The geek answer to the question of who is responsible for the shortcomings of the iPhone experience is revealing. First, Apple's radio and antenna design³ causes many dropped calls, but consumers mostly ding AT&T, not Apple, for the dropped calls. Second, the iPhone uses a relatively high bandwidth solution to send data, which is up to 20-50 times the data volume of other commercially available advanced compression solutions.⁴ Carriers cannot expect that these challenges are unique to Apple; Android data bandwidth usage may be as much as twice that of the iPhone for the same amount of data, so the problem is not limited to one smartphone vendor.

³ Apple radio antenna design, manufacturing problems as noted in multiple industry reviews.

⁴ HTML4 to date (henceforth HTML5). Apple selected HTML for the availability of applications, developers, and compatibility across different platforms, but its low rate of compression overburdens carrier networks with a huge data load. This presents a challenge to the physics of data transmission, given current networks' limited bandwidth, and slows the network transmissions. Sources: HipLogic, Streameezo, et al.

The initial press on the rollout of the iPhone 5 follows a similar pattern in both the consumer and trade press: The device is praised, but questions and doubts are expressed as to whether the (LTE or 4G) networks can handle the increased traffic.

Although the rollout of HTML5— the software standard widely used throughout the Web—may lessen the domination by Apple and Google’s Android ecosystems, it comes at a steep price in bandwidth demand. No carrier will be able to handle the avalanche of data that continues to grow exponentially without significant compression improvements; thus, carriers face a continuing divergence of claims, such as Verizon’s “rule the air,” and challenges to their ability to deliver on those expectations for the foreseeable future.

Carriers are concerned that the rise of smartphones has brought significant separation, or disintermediation, of carriers from many of their best consumers. In short, carriers now must share their relationship and direct value to consumers with such powerful brands as Apple and Google, and the carriers are not perceived as the lead brand. An old adage aptly describes the situation: “If you are not the lead dog in a dog team, the view is the same,” and only the lead dog gets to determine where the sled goes.

The Lead Dog Sets the Pace

As with the Apple iPhone, the supplier that “owns” the consumer’s eyeballs for a given application is in the business decision-making seat and sets consumers’ expectations. These suppliers usually reap a greater share of the margins and value identification by consumers. Much of the value provided by carriers—from handset subsidies to wide distribution of call centers—is difficult to differentiate from the easier-to-see smartphone value. AT&T’s iPhone “franchise” helped it grow subscribers and it even gained some value relative to its competitors, but until very recently the market value of both AT&T and its arch-rival Verizon have been flat. Their recent stock-price increases were mostly a result of their attractive dividend yields which drew in investors seeking large-cap high yielding dividend stocks with strong safe cash flow. Notwithstanding, their performance lagged far behind the growth in value of the new ecosystem suppliers, Apple, Google, and others. Despite the billions of dollars invested in networks, the carriers have not captured new consumer value.

The Message Isn’t Clear: Differentiating Carrier Value to Consumers

At present, carriers promote their services in different but mostly complementary ways. Carriers advertise their coverage, market their services, and in the store, (mostly) sell handsets. This rough synergy of messages helped the carriers claim part of the halo effect (market share and some of the profits) for the features of the newest handset for their brands.

But there is more: carriers play a critical role in the distribution and subsidy of purchase prices of all phones; yet this role is only partially visible to consumers and is often difficult to convey.

Now, the rise of smartphones makes the paradigm of how carriers market mobile services partially obsolete because consumers see the handset as containing most of the value. Smartphones present two challenges to carriers: carriers now have to share their value with stronger "attention-grabbing" Silicon Valley brands with distinct offerings, and no carrier will make it through the explosion in data demand without losing some brand value in consumers' eyes due to the overloading of the networks.

None of the value propositions by U.S. carriers address these challenges to strategy, value, and brand. The change of consumer brand identification to the smartphone brand, away from the carrier's brand, further obscures the carrier's value and undermines the consumer's willingness to pay for the carrier value they receive.

Billions Spent—No Iconic Brands

Brand value comes from consumer value; brand recognition is how consumers express their awareness of this value. Google became a verb almost instantly. We eat Jell-O and throw our trash in the (Dempster) Dumpster, but there is not a carrier in the world—after billions of dollars in advertising—that has become an iconic provider in its field. Two near exceptions were AT&T's previous incarnation as "Ma Bell" (which had no mobile services) and pre-acquisition Orange™, the UK mobile carrier that was purchased by the France Telecom group, which then used Orange's significant brand value to upgrade their branding group-wide.

Branding problems are more than messaging problems; they reflect deeper strategic value problems. What is the value position of a carrier with the rise of the smartphone providers with which they collaborate? What are major changes in consumers' views of themselves due to the rise of social networking, the down economy, major social and demographic changes, and a transformation of customer aspirations? What kind of value do they seek?

Carrier Branding Today: Always Running for Second Place?

In the new, shared brand relationship paradigm, carriers are struggling to capture their share of the enormous value created by mobile communications. The carriers have yet to define their direct value relative to their competitor carriers and have failed to show how their value relates to their competing partners' value and how to tell the two apart. Carriers come up short in image and brand, but also in margins and in actual enterprise value, as reflected in their stock prices. The prospects for carriers to regain consumer loyalty and improved stock values while pursuing their current strategies are not promising.

Brands often define an anti-brand to clarify their own image; for example, Coke needs Pepsi and so forth. But classic brand-messaging is more about promoting one's own identify rather than pitting one's brand directly against another. Advertising campaigns do include taste tests and face-offs between brands, but brands are generally perceived to be in trouble or in a come-from-behind position when their main messages are against competitors. (Why would a successful brand spend its money to spread the name of its competitor?)

Verizon's "Can you hear me now?" campaigns demonstrate the hidden challenges in carrier branding. The campaign is widely seen as hugely successful in establishing in consumers' minds that Verizon is the best U.S. network. The campaign, widely recalled by consumers, includes some noncompetitive soft aspects, such as the security of choice and the confidence of support. However, the focus on carrier coverage in the United States at this late stage of the industry's development is revealing.

If branding is defined by coverage, which is always relative, it implies that the carriers have nothing special beyond coverage to sell. This leaves all the carriers in a weaker position to capture the new value being produced by their smartphone partners.

Since 1950, the core of brand science consisted of selling newer and better. Advanced technology products depend especially on the newer-is-better theme, also known as the "Myth of Progress." Apple, Google, and many other brands represent the promise that is at the heart of the Myth of Progress—the belief that somehow progress in technology results in better products through science and invention and also produces a better (emotional) life, higher self-esteem, and ultimately, better people. In other words, newer is not only better, it makes you better.

Carriers attempt to match this newer-is-better paradigm by promoting their latest obscurely named network technologies—3G+, 4G, or whatever comes next—against Silicon Valley's latest toys. The carriers come up short because networks and services are tougher to understand and visualize than are handsets and an application icon.

More disturbing is the tension between carrier and smartphone brands. Consumers may be directing Apple product "anti-brand" sentiments against the AT&T network, not against a competing phone brand. Carriers are blamed when they cannot meet customer expectations set by their smartphone partners. This is more than a branding discussion; it goes to the core of the value carriers provide and highlights the urgent need for carriers to redefine the value they provide to consumers and support it with a new and better narrative.

A Radical Rethink

Carriers need a radical rethink of how they define the challenge and compete to be valued by consumers, how they will compete with their competitors on issues other than coverage, and how they will establish a bond with consumers by differentiating between their brands and those of their smartphone partners.

Coverage and network speed issues were once real and thus proper battlegrounds for presenting carrier advantages versus those of competitors. But these struggles have outlived their usefulness. Today, all carriers disappoint their users with overloaded networks, and consumers expect more than carriers can deliver in the short term. Moreover, the unstructured framework of advertising coverage and the sale of smartphone handsets are inadequate to establish the carrier's contribution to what consumers value and enjoy.

What Would a New Carrier Brand and Value Positioning Look Like?

Combining the Brand Power of Carriers and Their Partners

Brand is shorthand for how to describe one's value to consumers. Some carrier partners have evolved into worldwide iconic brands; you cannot beat them, so join them. The carrier's position as a brand of brands is an old idea, but it may deserve another look. A brand at the meeting place of services, subsidies (financing), and choice of handsets establishes its own value alongside fast-moving, iconic mobile phone brands.

In learning from iconic brands, carriers must do more than advertise the carrier's performance, or in the brand-of-brands scenario, handset choices relative to competing carriers. Carriers require a strategy and message that make clear what their role is in bringing value directly to consumers.

For example, when a consumer faces a choice between Google's Android products and Apple's iPhone, the carrier provides consumers a choice, guarantees levels of trust, and service and serves as an honest broker to get services to work together. The carrier's role of honest broker can yield Proctor and Gamble-like effects in promoting its brands: it plays on the competition between handset brands, as well as the consumer's natural predilection to switch, to garner greater market share by offering enough choices to keep consumers away from competing carriers. Carriers that do so can rise above the brand fray of competing handset ecosystems.

The timing of this rethink is critical. Carriers face staggering traffic increases and must invest huge amounts in next generation networks but lack focused strategies for increasing value for shareholders. In addition, at the height of this carrier value crisis, consumer behavior analysis is changing. Traditionally, product positioning, development, and branding were heavily based on the premise that consumers seek security, connection, status, and to some extent, self-esteem through purchases. Branding helps identify product features and brands as providers of these attributes. But this accepted premise is changing.

Themes Defining Value: the "Myth of Progress" Versus the "Need for Connection"

For the last six decades, selling "new and improved" products has been a critical messaging vehicle. This tactic is at the core of the Myth of Progress theme, which portrays technical progress as synonymous with human (and personal) progress. In the new evolutionary-psychology-driven analysis, "If you buy the new technology, you are likely to have better or more resources and thus be more attractive as a friend, companion or mate." Improved self-esteem is an added benefit—you feel better when you know that you are more "attractive" as a group member, friend, or mate. It is difficult for venerable, slow-moving carriers to compete against fast-moving handset companies that can redefine themselves around a limited set of products that they control; note how intensely Apple and Google fight for the limelight for their respective iPhone and Android products.

Today, the Myth of Progress paradigm is being challenged by a new, compelling story—the “Need for Connection.” The Need for Connection bypasses much of the psychology of purchasing as an intermediary step, jumping directly to “buy” resources to provide the desired connection. Thus, Facebook has come, seemingly from nowhere, to challenge Google. Facebook is an exemplar of the challenge to the paradigm of newer is better, as it established a new paradigm of connection and self-expression as its brand value.

Facebook is not unique in purveying the Need for Connection; the meteoric rise of Zynga to about \$1 billion in sales in 2011, which accounted for about 12% of Facebook’s revenues in 2011 from simple social games highlights, that there is a huge market and profit in the new paradigm. But, the fragility of this situation was made equally clear by the sharp decline in Facebook and Zynga’s market value after their IPOs. For example, Zynga was priced at \$10 per share in December 2011, climbed almost to \$16, but then cratered to less than \$3 per share. This roller coaster effect indicates the volatility of both solutions and companies monetizing the shift in consumer focus, yet more combinations of social connections, commerce, and self-expression will emerge.

Many outside Silicon Valley see the market for virtual goods as mystifying or worse, as a “snake oil” business, with a limited life. However, from the consumer’s perspective, social games may be a rational “buying” decision. To illustrate, suppose upper middle-class consumers purchase only standard products of guaranteed minimum quality levels at current volumes at Wal-Mart (but not Gucci bags!). If consumers reinvest a fraction (perhaps 5% to 20%) of their estimated savings of differentiated brand value purchases—brand premium usually constitutes 20% to 60% of the value of goods purchased—in virtual goods to sustain social connections or self-esteem, even dour economists might consider it a rational buying decision (Kahneman & Tversky, 1979, pp. 313–327).

Back to the Future

For decades, carriers exploited both the Myth of Progress and the Need for Connection to sell communications products and services. A large portion of communication industry branding during the 1970s to 1990s was built on the Need for Connection story. (Until divestiture on January 1, 1984, a significant part of cutting-edge global technical progress was developed at Bell Labs.) From the “reach out and touch someone” to “friends and family plan” campaigns, the carriers met the consumer’s desire for connection directly without such intermediaries as new apps or services. Carriers explained their value based on connectivity (making physical connections) and branded themselves as enablers of social and emotional connections. Phone calls are the original form of electronic “user-generated” content, and they were social from the start.

Carriers also spiced up the Need for Connection story with Myth of Progress-themed programs. Sprint’s “Pin drop” commercial and the AT&T “You will” commercials are memorable examples. It may be that much of consumers’ Facebook loyalty builds on the fear of missing out. This motivating fear is rooted between the Myth of Progress and the Need for Connection, much as an earlier keeping-up-with-the-Joneses pressure was exploited by advertisers. An AT&T business advertisement in the 1990s—“Call the

office . . . lots is going on . . . some of it may even be good”—shows that the fear of missing out is not a new idea and has long motivated consumer behavior and the branding of communications services.

It is complicated to find the right balance between the Myth of Progress and the Need for Connection themes. The 2010 T-Mobile USA “Stick Together” rebranding exercise could be classified solely as a Need-for-Connection-focused approach. Most industry experts, including those at T-Mobile, generally viewed the campaign as an underperformer. The analysis suggested that “sticking together” alone is not enough to lure consumers. T-Mobile probably needed an inviting twist or “cool” factor to appeal to the innovation-friendly, Myth-of-Progress-believing side of consumers. The challenge for T-Mobile USA is to provide a positive buying experience to consumers who feel held back by their family plans and whose budgets are too small to buy iPhones or more expensive AT&T plans for the whole family.

Now is the Time to Reexamine Carrier Value and Branding Strategy

Although the value and branding discussions are intermingled here, the core issue is to define the value that carriers provide that meets consumers’ needs and exceeds their expectations. Carriers must redefine their value claims that rest on billions of dollars of handset, network, and branding investments relative to other carriers and their smartphone partners.

This refocus on core carrier value and on the interplay between the Myth of Progress and the Need for Connection is necessary because carriers’ current value positioning relative to each other is so blurred that carriers cannot establish their distinctive value in consumers’ minds.

Smartphone partners are winning the battle with the carriers to build enterprise value. Carriers are not being rewarded and may be penalized by consumers when they are compared side-by-side with their smartphone partners. The answer for carriers may lie in a new framework along the lines of the carrier as a “brand of brands.”

Carriers need to reexamine the value they provide to consumers before they launch new service promotions with huge associated investments on branding. Marketplace revolutions and powerful new competitors have won the margin, brand, and value wars with carriers. To thrive once more, carriers must differentiate themselves and the value they provide consumers. Then, to grow in enterprise value, they will need to communicate this value and differentiation effectively to consumers. They will need to implement a more sustainable brand framework that utilizes the association with the smartphone brands that boosts the visibility of the carrier’s brand. This new brand framework likely will need to move away from the Myth of Progress and work to recapture some of the positioning of the Need for Connection.

Back to the Future.

Reference

Kahneman, D., & Tversky, A. (1979). Prospect theory: An analysis of decisions under risk, *Econometrica*, 47, 313–327.