



Gateway to the connected world

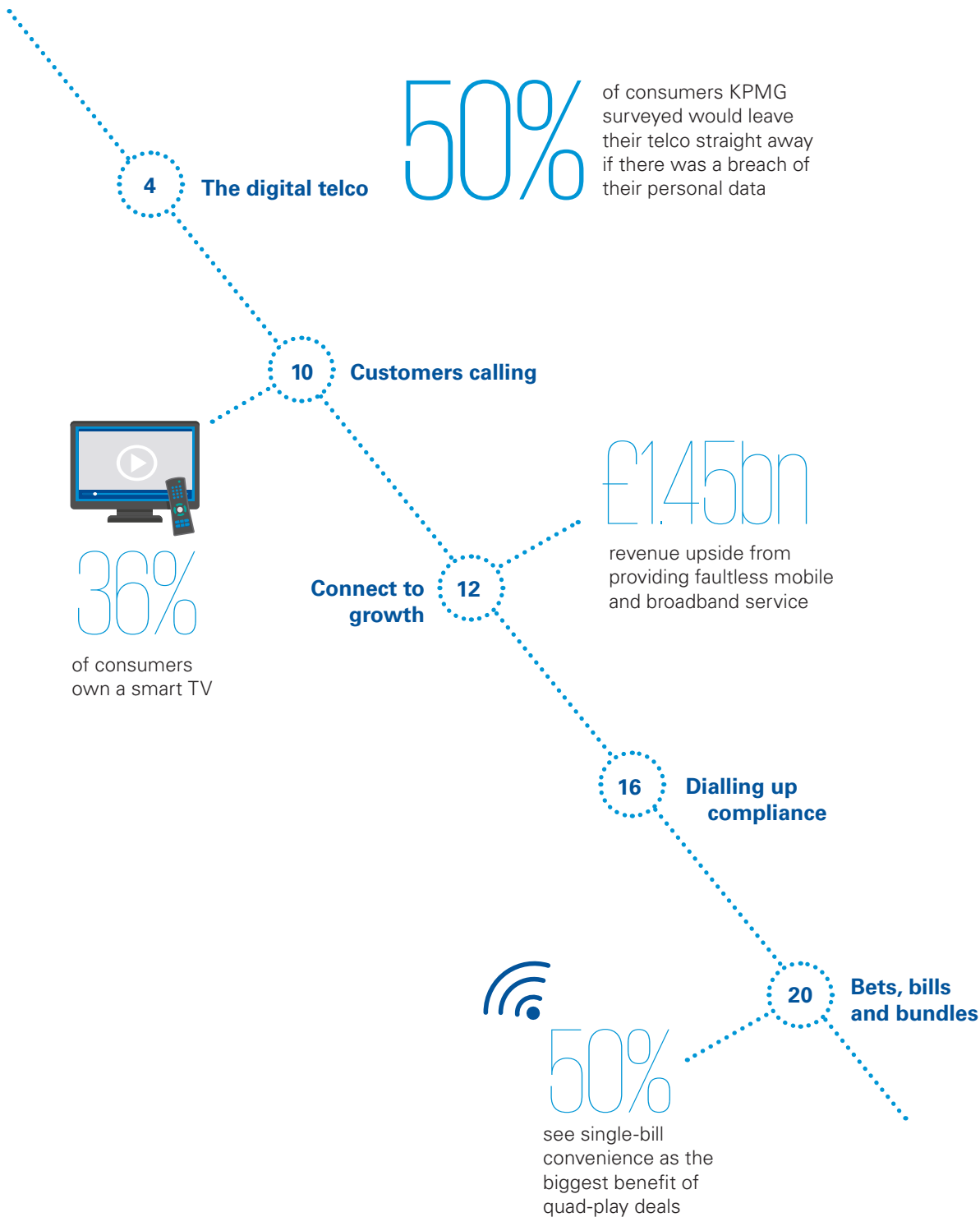
The digital telco

November 2016

kpmg.com/uk/digitaltelco



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The digital telco in a connected world

Telecoms brands have an opportunity to define the connected world. This summer, KPMG surveyed 2,000 UK consumers to explore that opportunity. What do they care about? What turns them off? And what will convince them to pay more?

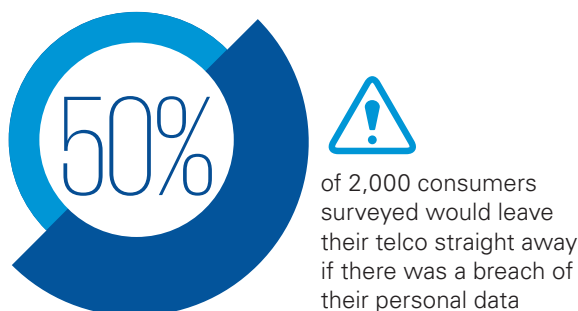
Telecoms providers have an opportunity to define the connected world with their efficient, scalable networks and billing relationships; their knowledge of customers' behaviour and needs; and their desire to build consumer trust.

However, to remain relevant and drive revenue, now and in the future, they must continue their transformation into agile, customer-led organisations that provide a faultless, seamless service across both broadband and mobile.

Our findings reinforce the view that trust, customer experience and reliability are key; and also highlight the associated potential revenue.

- **50%** of consumers surveyed would leave their telco straight away – even with financial penalties – if there was a breach of their personal data.
- Based on our survey results, we have calculated UK consumers would pay **£900m** a year extra for a faultless customer experience and no dropped connections from their mobile provider.
- For a guaranteed, consistently reliable broadband service, that figure is **£550m**.

The message? Telecoms providers need to get the basics right today to realise the opportunity of the connected world tomorrow, whether that's additional revenue or new lines of business.





**“There’s
a massive
prize for
telecoms
operators
that get
this right.”**

Alex Holt, Head of TMT

The £1.45bn opportunity

Some customers only ever care about lower bills. But a clear majority would pay more for guaranteed service quality.

Consumers will pay more

The revenue opportunity from delivering reliable connectivity and faultless customer service is around £1.45bn, based on our extrapolations of the extra amounts consumers told us they would pay (*see below*).

That is a considerable ARPU upside – more than 10% for a typical telco – that can boost profits quickly. It's proof that investment in infrastructure, services and skills needed to build customer trust and improve ongoing customer experience has clear potential to grow a business.

Changing the model

As we'll see later, customer service levels in the telecoms market are neither universally nor exceptionally poor. And while 50% of consumers see paying one bill as a key advantage of quad-play, 38% see imperfect customer service as a barrier to bundled deals.

The holistic customer experience – not just service levels but also support and billing – needs to improve. Without the right approach, consumers will be unlikely to buy extra services from their telecoms provider and will be prone to switching.

Getting it right

Customers are, on average, willing to pay...

£1.91

a month extra for broadband with excellent customer service



£2.29

more a month for a 'consistently reliable' broadband



£1.78

more per month for faultless mobile connections with consistent coverage



£1.55

extra per month for excellent customer service (10 out of 10)



Risk, reward and the connected consumer

Consumers rely more than ever on connectivity. At home, broadband has shouldered the burden of smartphone, smart TV and tablet use via Wi-Fi. And the growing trend for automated appliances and digital concierges is cementing the importance of reliable home connectivity. No wonder 35% of consumers would like to be switched automatically to a working network in the event of an outage – more than would choose a refund.

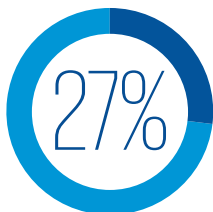
Always online

More of the critical services we rely on, for personal and business use, need to be delivered regardless of location – via smartphone – fuelling the expectation of great coverage and reliability.

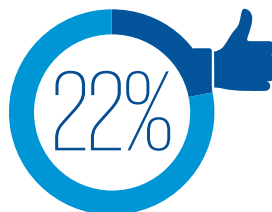
Consumers are increasingly demanding on how this service is delivered and how problems are resolved. They expect seamless and reliable connectivity both in and out of the home.

According to the results of our survey, one-third of consumers want to be automatically switched to a working network if their broadband provider has problems. For mobile networks, it's 45%. And we know many would pay for that uptime guarantee.


It's classic risk management. Avoid the downside – and delighted consumers will deliver upside. The connected world is a huge revenue opportunity.



of consumers told us that their mobile provider was consistently meeting or exceeding their expectations



of consumers are very satisfied with how their broadband provider resolves problems

A photograph of three young adults sitting on a wooden bench in a park. On the left, a man with short dark hair, wearing a dark quilted jacket and a grey knit scarf, is looking at his smartphone and smiling. In the middle, a woman with long blonde hair, wearing a tan coat over a white turtleneck, is also looking at her smartphone and smiling. On the right, a woman with long dark hair, wearing a white knit sweater and a brown fur-trimmed jacket, is looking at her smartphone and smiling. The background is a soft-focus view of trees with yellow autumn leaves, suggesting a warm, sunny day. The overall mood is happy and relaxed.

**The connected
consumer who's
happy and secure
offers revenue
opportunities**

Customers calling

Our research shows telecoms firms need to address consumers' rapidly evolving appetite for tech, their new consumption habits – and, above all, their need to feel they are in safe hands.

Connectivity is now a human right

Consumers treat their digital, connected lives as a state of being, not a form of consumption. How they are connected, where and by whom, is becoming secondary. Connectivity underpins society – and today's telco is positioned as a utility provider for most consumers and households.

The hallmarks of a utility, of course, are reliability and efficiency. And these now underpin consumer expectations for both mobile and broadband.

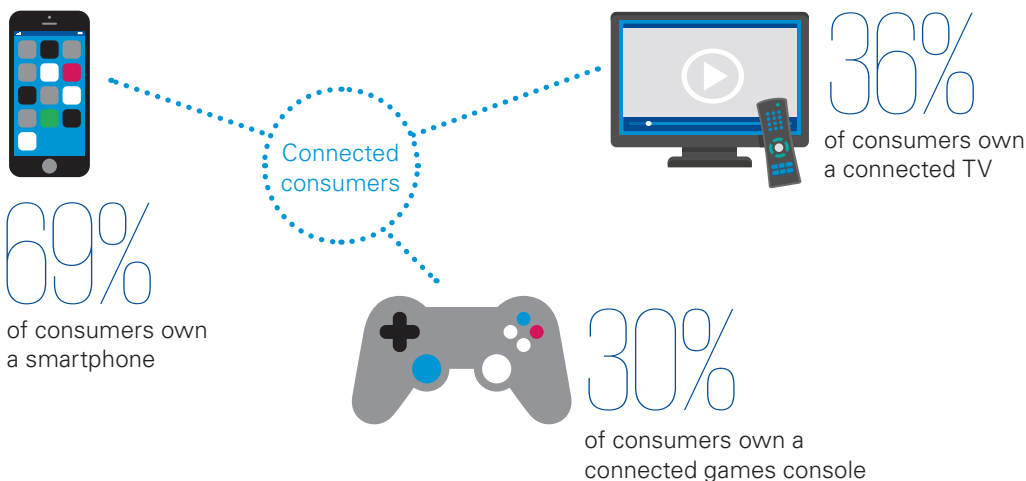
"Your telco can make life that little bit easier"

The telco's position is under threat

Core services such as landline subscriptions and SMS traffic are declining. Connectivity is expected to 'just happen'. With more consumers increasingly reliant on networked devices (such as games consoles and smart TVs), tolerance for suboptimal service is low. And although some providers have bolstered their share of the market through triple and quad-play bundles, others have found diversification harder. This creates more competition for the provision of 'being connected'.

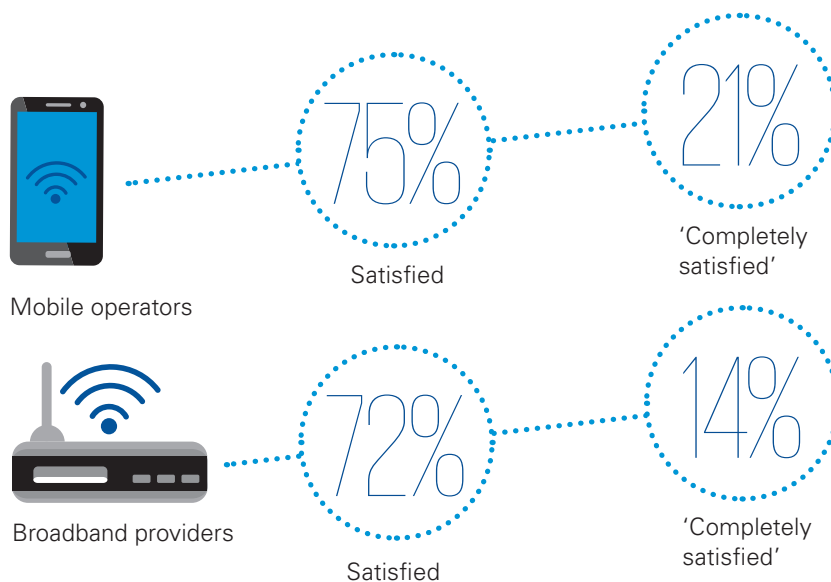
Boxing clever

Multiple access points push 'connectivity' itself into the background



Satisfaction on the line

Marks are good on average – but there's upside in delivering 'complete satisfaction'

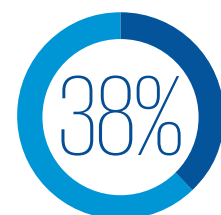


Customer experience: room for improvement

Our research shows poor experience is deterring many consumers from signing up to bundles with a single provider. It is sustaining demand for over-the-top (OTT) services – and raises the prospect of new entrants emerging, disrupting the market.

Conversely, the opportunity is huge for incumbent telecoms providers. Outstanding customer experience offers them the chance to become the trusted gateway for tomorrow's connected consumer – becoming device and content agnostic in the process.

“Being the trusted utility provider is a platform for diversification”



of consumers see imperfect customer service as a barrier to using quad-play services

Connect to growth

Broadband providers sit at the heart of the connected world. Consumers want a rock-solid network at home – and will reward organisations offering it with add-on sales opportunities.

Broadband still trumps mobile (just)

Despite the rise of mobile, consumers' love for broadband is understandable. The home Wi-Fi network is the bedrock for an increasingly diverse range of home services. Diverse – and becoming increasingly important, too.

Appliance control, smart meters, healthcare monitoring and home security need extremely reliable connections. Superfast fibre offers the volume and speed of data for entertainment.

And as the Internet of Things (IoT) becomes more pervasive, this importance will only grow.

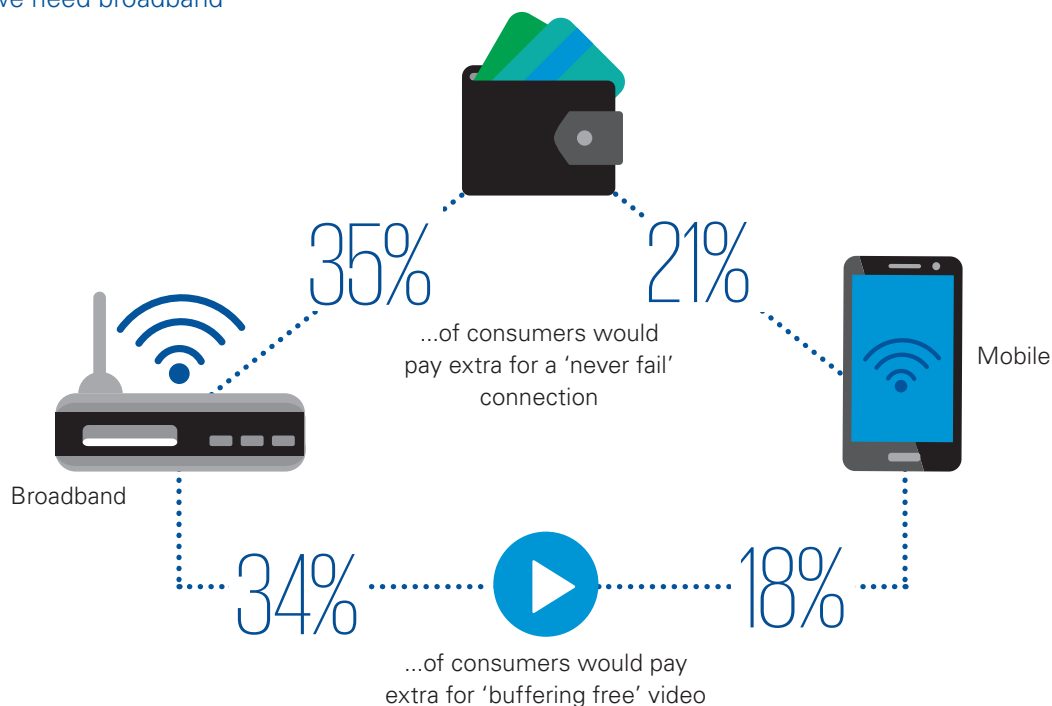
No wonder consumers see reliable and fast home broadband as more important than a good mobile connection – and would be more willing to pay extra for ultimate reliability at home than on the road (*see below*).

Mobile is no mere add-on, of course. And we can expect consumers' willingness to pay for faultless mobile data to grow as that on-the-go experience gets richer and more indispensable.

New uses for GPS and sophisticated telemetry, such as usage-based car insurance, will further grow mobile data's importance.

We love mobile

But we need broadband



Driving the consumer experience

Our research shows that appetite is limited for new types of connected devices – at least over the next six months. Smart energy meters are the most popular potential add-on, but just 7% of our respondents plan to purchase one this year.

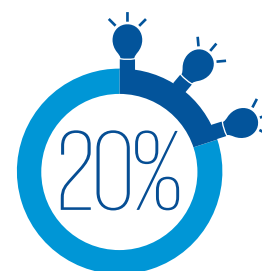
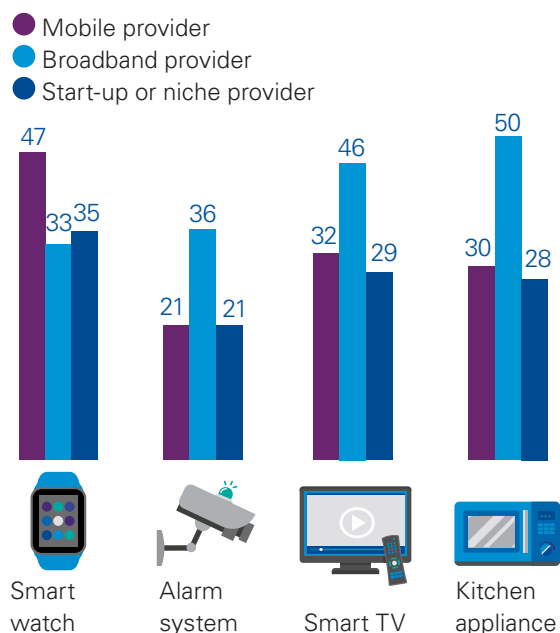
Even so, many consumers are willing, in theory, to buy connected devices from their telco. In most cases, they make a conceptual match from the type of device to the type of provider (*see below*). If the device is carried or worn, the mobile provider is a more preferred route; for home appliances, their broadband provider is the more likely option.

We have extrapolated the survey data for a crude look at the potential add-on market for telcoms companies. Based on 2016 prices, smart watches alone represent a £375m sales opportunity for mobile providers. For broadband firms, it's just £225m – but smart TVs are a £900m market for them, versus £675m for mobile operators.

Embedding new devices – from pet accessories to home lighting – into the consumer's ecosystem, starting with purchase, is a big opportunity for any telco keen to cement their position in the life of connected consumers.

Telecoms providers selling devices?

The percentage of people who said they are "willing to buy these connected devices from..."



of consumers would consider purchasing utilities such as water and electricity from their telco – a huge opportunity

Be trusted to be loved

Redefining 'utility' for connected consumers

In the past telecoms firms have missed out on profits from services that use their infrastructure, with device manufacturers and OTT providers reaping the benefits.

Every telco should be able to capture more of these revenues. The test for going beyond utility – being more than just the 'invisible enabler' – is customer experience.

We mapped our survey respondents' answers onto the KPMG Nunwood Six Pillars of Customer Experience™ (*see below*). Three areas telecoms brands currently strive to improve in pursuit of add-on revenues are personalised services; saving consumers time; and empathising with them.

But these are not the priorities our research highlighted. Instead, our survey suggests, telecoms companies should strive to meet expectations on service levels; resolve problems quickly; and be trustworthy.

(The desire for reliability is more marked in broadband – a sign consumers treat the fixed-line service as more of a commodity, perhaps.)

But we also uncovered a harsh truth for companies that want to be more than just a utility. Cost, our survey shows, is by a considerable margin the biggest reason to switch providers (*see right*). It's a reminder that both value *and* money are factors in 'value for money'.

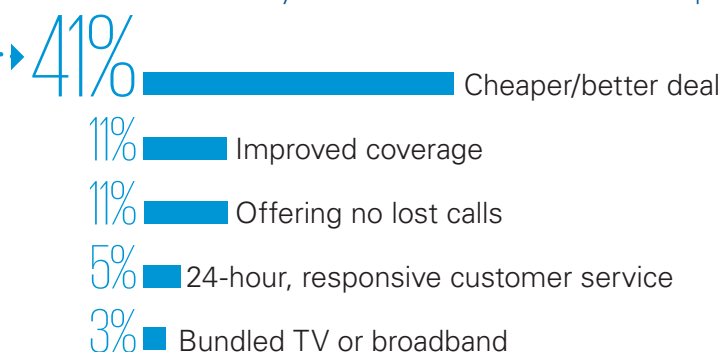
Broadband: prioritise service delivery over empathy

"Which of these do you think should be the priority for broadband providers, in general, to improve?"





Follow the money: Customer experience underpins customer retention. But what's most likely to make someone switch mobile provider?



Trust can turn data into revenue

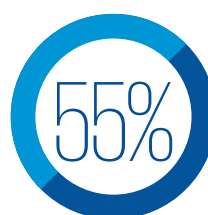
Commercial use of big data must be balanced with security and privacy. Half the respondents told us they don't want to share *any* personal data with their providers at all, even if it might improve the service or make it cheaper (*see table, over*).

Meanwhile a security breach is twice as likely to prompt a consumer to leave as 'rude or unhelpful staff'. Half of consumers would leave a provider immediately if a security breach exposed their personal data.

It's not just downside risk. High-integrity, resilient systems and full compliance with data protection regulations (*see over*) can build consumer trust and provide opportunities for future revenue from big data and analytics.

The connected consumer wants a good deal, reliably delivered, enabling connectivity to become part of the furniture. They might consider extra services on top. But that limited upside is more than balanced out by the huge downside if their trust is abused.

"The connected consumer wants a good deal, reliably delivered – connectivity as part of the furniture"



Half of consumers would leave their telco straight away, regardless of financial penalties, if it had a data breach. This rises to 55% if bank details and/or passwords were made public

Dialling up compliance

Trust and reliability are the gateways to richer connections with consumers. New regulations on data are the stick to that carrot.

Are you ready for the GDPR?

In May 2018, the EU General Data Protection Regulation (GDPR) will replace the 1995 Data Protection Directive. It aims to protect EU citizens' personal data while harmonising the legislation on processing that data across the EU.

It will also apply to companies outside the EU with EU customers. So even post-Brexit, most UK firms will need to be compliant, even if UK law doesn't adopt identical measures. There are many new obligations, and most of the existing areas have changed significantly compared to the directive of 1995:

Consent. Requirements have been tightened significantly. Requests for consent from a consumer to process their personal data should be 'unambiguous'.

New responsibilities. Organisational and technical measures to protect personal data are now the responsibility of both the data controller and the data processor.

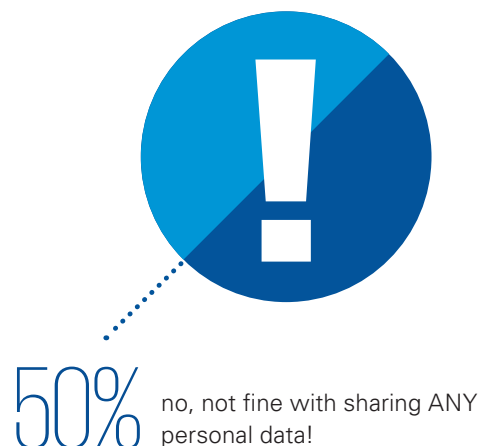
Breach reporting. Breaches should be reported to the supervisory authority within 72 hours. This may have a significant impact on internal processes, as well as managing communications with affected customers.

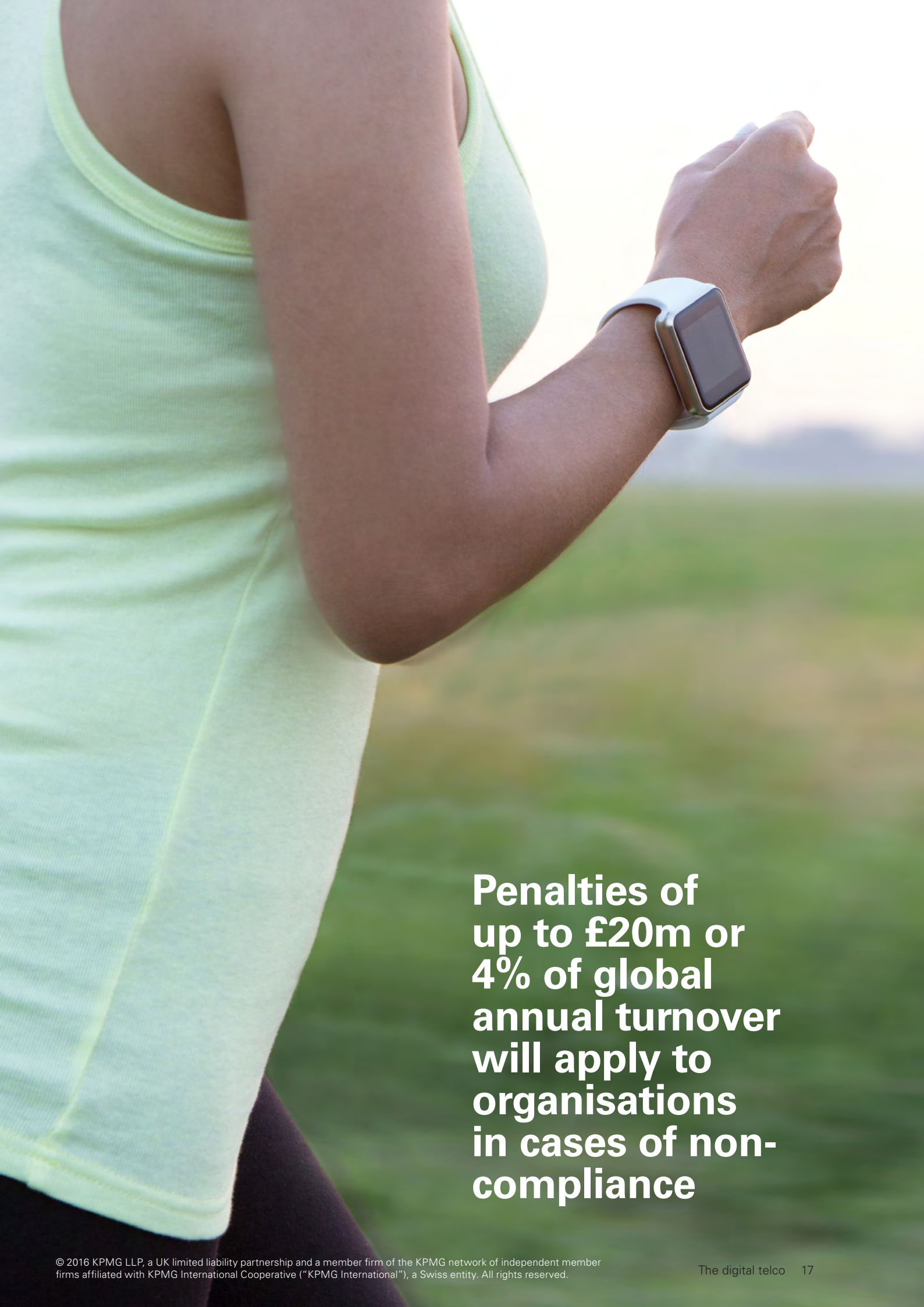
Mandatory Data Protection Officer. Each data controller or processor managing personal data 'at large scale', regardless of whether it is 'sensitive data', needs to appoint a dedicated Data Protection Officer (DPO).

Penalties. Fines of up to €20m, or 4% of global annual turnover, in cases of non-compliance. Focus on becoming compliant first. Second, make sure the organisation can *prove* compliance (through, for example, Privacy Impact Assessments, data breach records, consent and so on).

The new rules reflect consumer concerns

"Yeah, I'm fine with you collecting my data if you..."





**Penalties of
up to £20m or
4% of global
annual turnover
will apply to
organisations
in cases of non-
compliance**

The communications company of tomorrow

Telecoms businesses face a race against time to stay relevant. They need to provide basic connectivity to an exceptional standard, becoming impossible to leave; or added-value services that help connected consumers define their digital ecosystem. Or both, of course. Either way, they need to deliver on all the different facets of customer experience to a high(er) standard in order to win loyalty – and increase revenues.

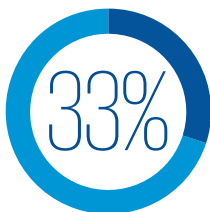
Options to grow

Telecoms operators are perfectly placed to use fibre, hybrid and 4G/5G networks to meet the needs of converged digital services such as media, entertainment, commerce and healthcare.

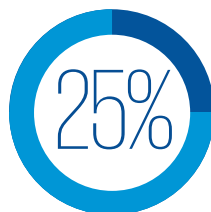
But if they are slow to innovate in services (such as billing and remediation) and infrastructure, they will face competition from new entrants. Operators have already ceded parts of the market to mobile virtual network operators (MVNOs) and to wholesale deals with device makers.

Meanwhile other parts of the telecoms ecosystem – from device-makers to OTT service providers and app publishers – have captured more value from an increasingly connected world.

Yet there remains huge potential for bundles: a third of consumers would definitely consider quad-play, according to our survey. Seizing this opportunity – to be the single point of connectivity for the digital consumer – means adapting fast and delivering true innovation.



of consumers told us they would definitely consider quad-play deals from their telco



of consumers told us 'fair pricing' is the number one factor determining trust in their telco



**“Existing
relationships
with consumers
and trust in
their brands
gives telecoms
providers a
platform to
grow”**

Alex Holt, Head of TMT

Bets, bills and bundles

Consumers who trust their telco to deliver as promised are a firm foundation. The upside? Build on that trust to bundle new services.

Building on firm foundations

When KPMG Nunwood ranked sectors' customer experience in 2015, only the public sector and utilities performed worse than telecoms. In 2016, there has been an overall improvement of 3% on the six pillars – but only two companies, giffgaff and Tesco Mobile, feature in the top 100 brands.

A typical telco has firm foundations to build upon, however: a strong brand, deep relationships with consumers, and experience providing reliable services at scale. In the short term, as we've seen, greater reliability and value for money are winning tactics. The long game is delighting consumers to stay at the centre of their digital lives.

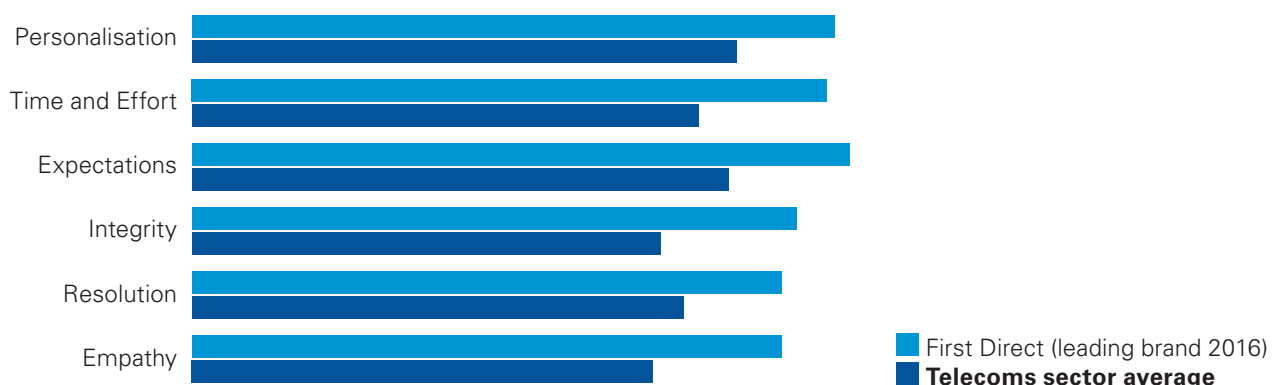
This requires significant investment – in hardware, people and skills. Advanced analytics, too, is helping telecoms providers exploit some of the data they gather to identify and eliminate causes of customer dissatisfaction. This remains a priority.

Telecoms firms also need to give their managers scope to explore and place bets on new ideas and markets to deliver on that long-term opportunity.

Tomorrow's successful telco will adopt a portfolio approach, running business units in different ways according to their margins, profits and prospects – but all using efficient, at-scale billing and other infrastructure to remain competitive.

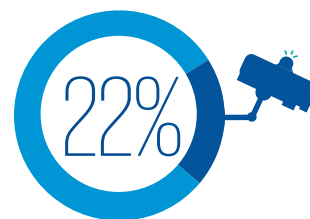
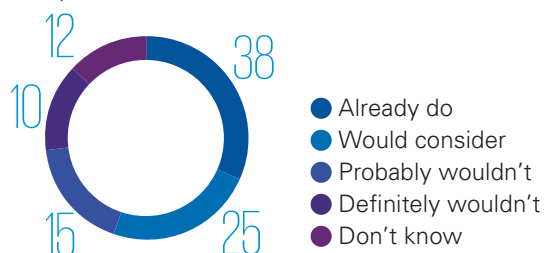
Telecoms is playing catch-up on customer experience

First Direct is KPMG Nunwood's top-ranked brand for the six measures of customer experience in 2016. It shows how far the telecoms sector has to go to delight consumers



The quad-play opportunity

TV, phone, mobile and broadband in one?



would consider buying home security from their telco in the next six months

Work with what you have

Telcoms companies' billing relationships are a big advantage. Only banks have a closer financial link with their customers, according to our findings.

An established billing relationship provides a painless way for consumers to add services. Our survey shows premium media content remains the option consumers are most willing to bundle. But other 'recurrent billing' items such as insurance or energy could exploit the same vector.

Newly networked services such as home security will boost interest, as will health monitoring. Privacy and security are often part of the offer

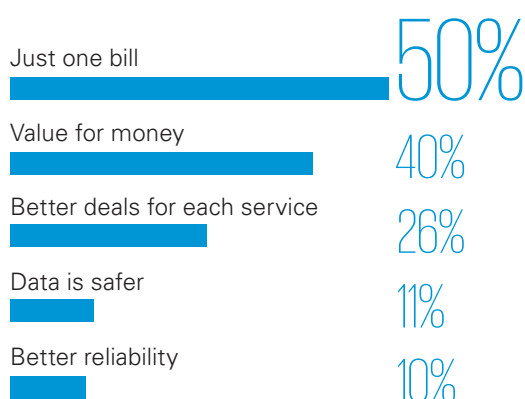
already – but must move beyond an engineering-led approach to a customer-driven one. This might include not just anti-malware, but privacy screening, ad-blocking and identity theft.

What's the catch?

Our research identified areas of resistance to telco service bundling (*see below*). Consumers also require a fairly hefty discount to convince them to sign up for additional services. The business strategy, then, is diversify the offering, open new markets and forge partnerships with third parties to deliver an approach tailored to each connected consumer – not, in the first instance, to the commercial needs of the provider.

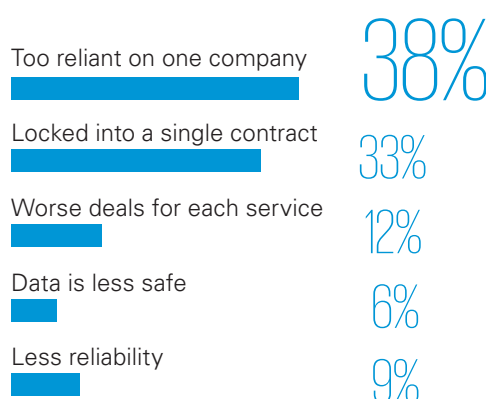
"Bundled services are great!"

The advantages consumers see from quad-play...



"All my eggs in one basket?!"

The disadvantages consumers see from quad-play...



Customer experience is the key to revenues in the connected world

The infrastructure is in place for confident telecoms providers to create a platform capable of delivering increasingly trusted and reliable services. These should satisfy growing customer appetite for innovation in a connected world. Reliability is just the start.

Conclusions

The telco is the natural hub for the connected consumer; the building-block for the smart home, smart office and smart city; a conduit for a wealth of new services in entertainment, security, health and utilities.

Against this, telecoms providers face increasing competition from firms outside their industry – and the need to fight for their share of revenue in new and emerging services.

Our latest survey shows that although telecoms brands are generally trusted, as businesses they are not always liked. Improving customer service will go a long way to shoring up a telco brand. But this will need to be coupled with investment to

strengthen quality of service and reliability of both mobile and fixed networks. Deliver unimpeachable 'utility' connectivity, suggest our respondents, and you win the right to provide enhanced offerings.

Our research shows that, in aggregate, mobile and broadband consumers will pay as much as £1.45bn a year extra for 'faultless' service – revenue that can help fund the transformation of the telco of today into the digital gateway of tomorrow.

This journey is just beginning. The digital consumer of tomorrow will demand a trustworthy and dependable platform to manage some fundamental aspects of their lives. The telco which delivers that today will be perfectly placed to win.

Getting it right

Customers are, in aggregate, willing to pay an extra...

£900m

per year for faultless
mobile experience

£1.45bn

£550m

per year for perfect
broadband experience

“The question is whether telecoms providers will seize the opportunity to be at the centre of their customers’ journey to the connected world”

Alex Holt, Head of TMT





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