The mobile ménage à trois

One customer, chased by three industries
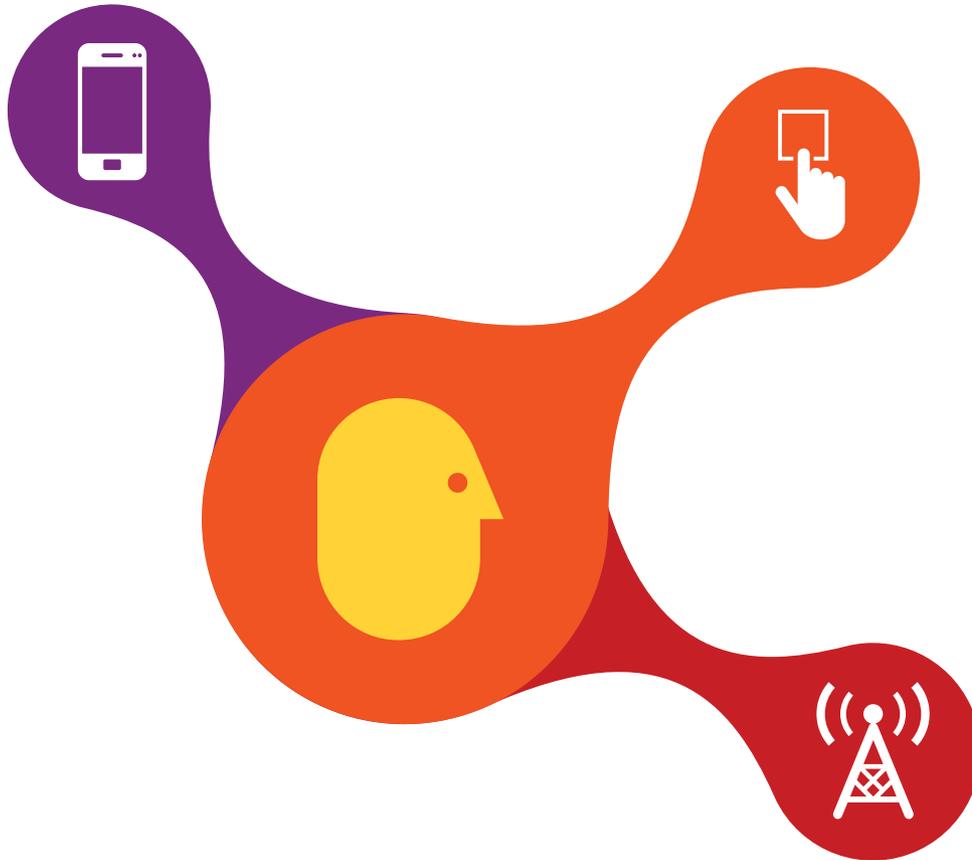
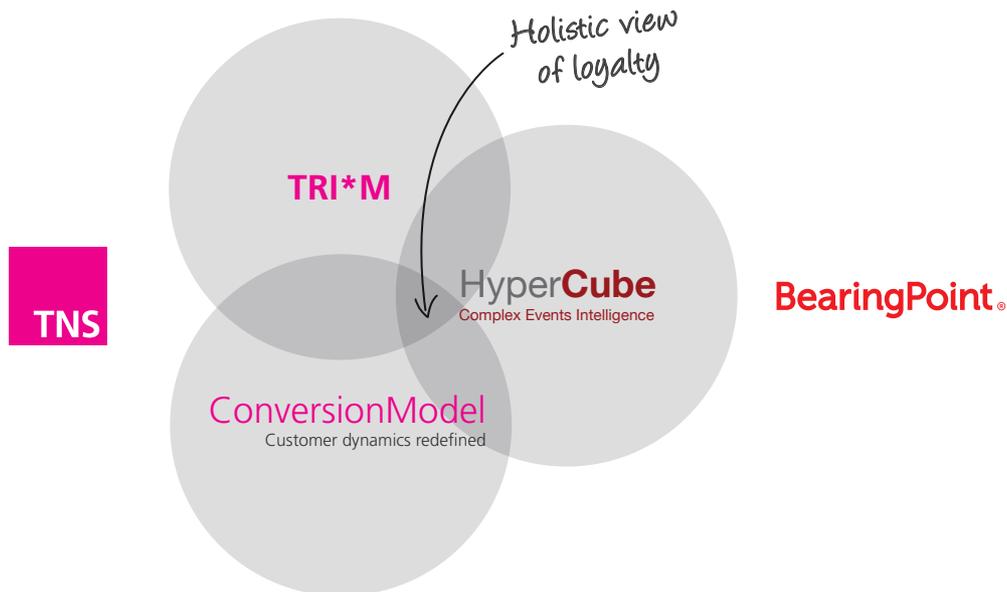# A holistic view of loyalty in today's mobile ecosystem

Mobile is a complex market with different business models, marketing approaches and product offerings. Finding the right handset, the right network, and the right package has always been difficult for the consumer. Recently, with the rapid growth of smartphones, that complexity has increased further.

Operating Systems (OS) have emerged as a third potential consideration for consumers. So, as the market continues to evolve, there are now three industries vying for the loyalty of customers – Networks, Handsets and OS.

To understand who 'owns' the consumer (if anybody), and what each of the three industries can do to drive loyalty for their brands, TNS, in partnership with management consultancy BearingPoint, has carried out a research study involving 4071 smartphone users. Following exploratory qualitative research, we employed TNS's market leading solutions – TRI*M and ConversionModel – and allied them with BearingPoint's innovative HyperCube™ tool. Together, this partnership has allowed us to examine how consumers view each industry, the brands within each industry, and most importantly, the complex interplay between these elements which drive consumer choice and loyalty.

Holistic view
of loyalty

TRI*M

TNS

Hyper**Cube**
Complex Events Intelligence

BearingPoint ®

ConversionModel
Customer dynamics redefined

For further information on our approach and details of the methodology for this study, please see page 30.

# The emerging power of the OS
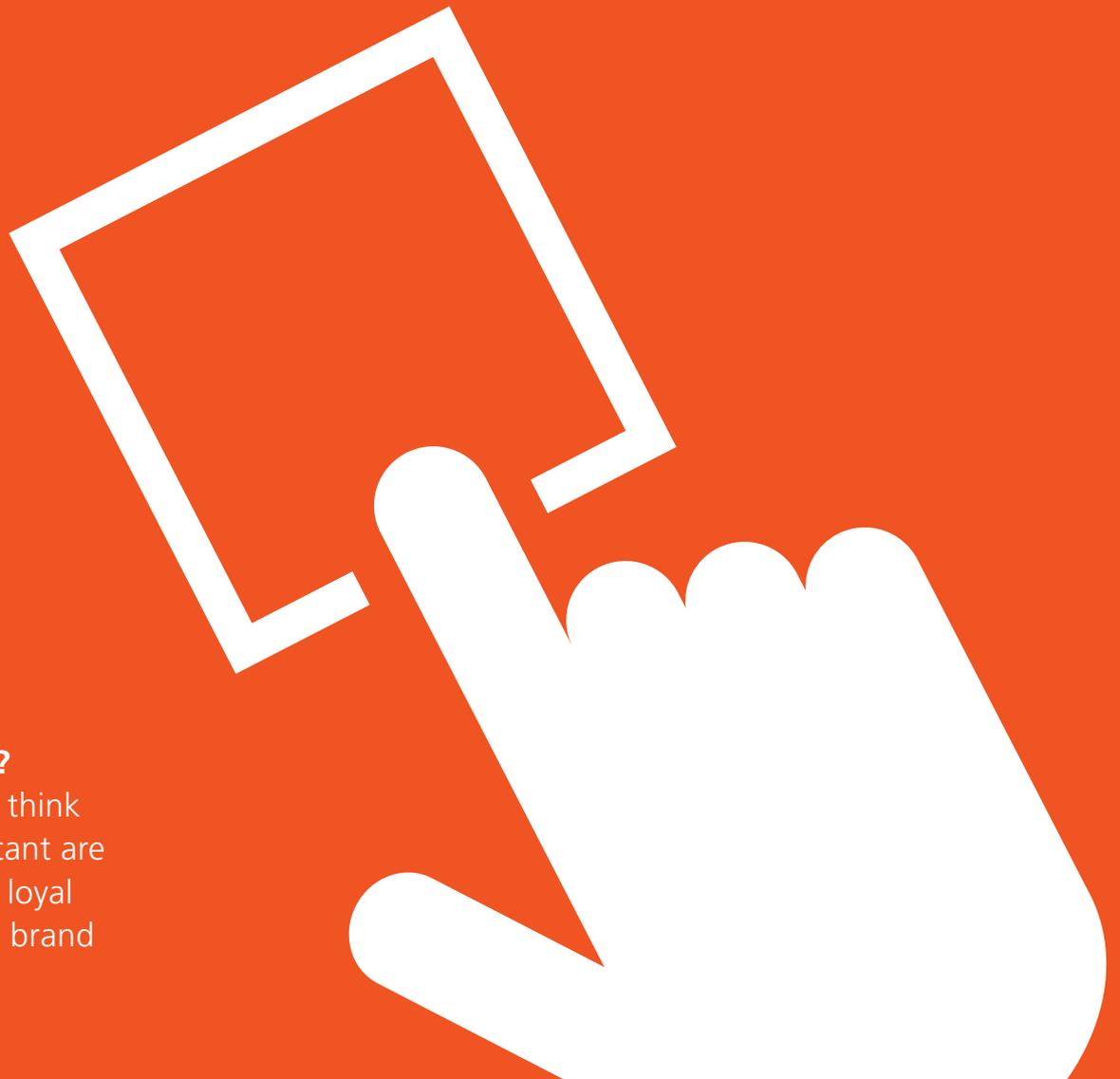
Did you know?
Customers who think the OS is important are **1.9 times** more loyal to their handset brand

Networks seem to be the most important consideration

When asked to state their biggest consideration when buying a mobile package nearly half of all customers (49%) say it is the network – more than any other consideration. This is not surprising considering that most customers make their commitments with networks and most service issues are dealt with through the network.

However, our qualitative research had suggested that real consideration might be more complicated than could be unveiled by traditional research questions. Consequently, in designing the questionnaire, we employed 'gamification' techniques, whereby respondents were making decisions closer to those they would make in real life.

What is your first consideration when buying a mobile package? %

OS

21

Network

49

30

Handset
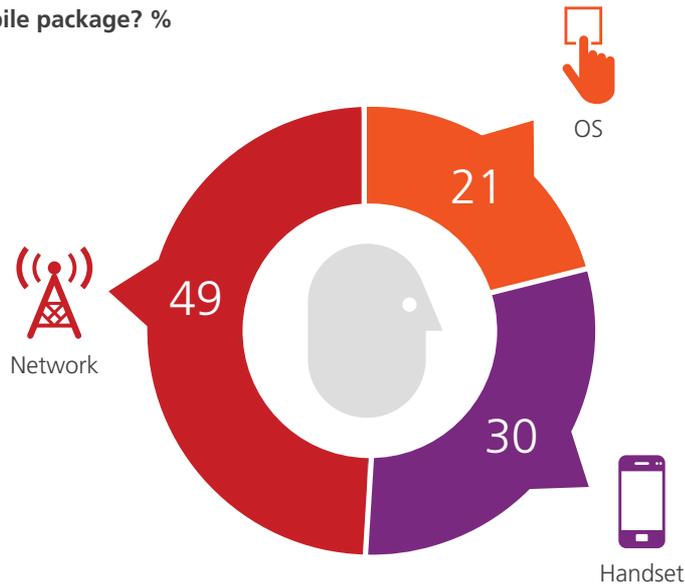
Source: TNS Mobile Loyalty Study, June 2013
Base: 4071

Consumers' real considerations are more OS related

Gamification techniques help uncover the real priorities consumers have when purchasing.

Respondents were asked the following question which covered networks, handsets, apps and operating systems:

Question

You are offered a box which contains a new phone deal – network and handset. You know nothing, except that:

a) the cost is the same as you currently pay

b) the apps you can use may be limited.

You can have this in exchange for your current phone and network deal.

Before you decide whether or not to take it, you are allowed to ask up to five questions about what's in the box.
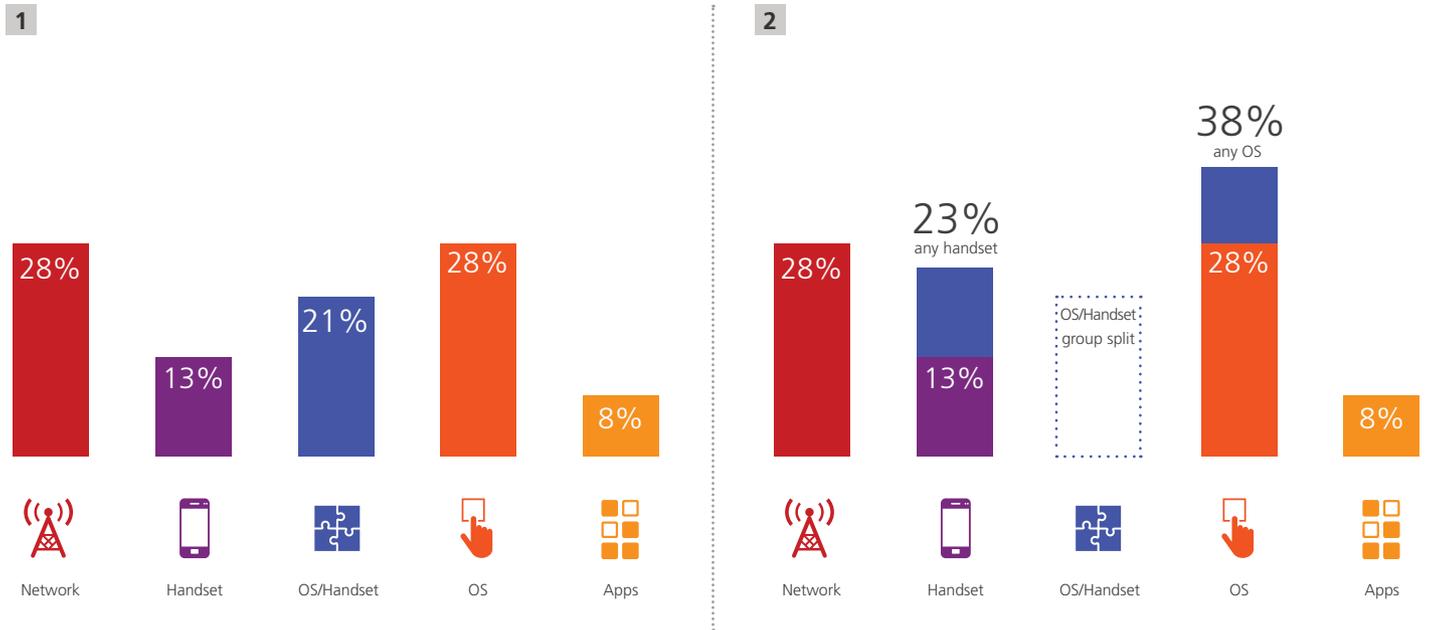
What's in the box? Is it..

Network	Handset	Apps	OS

When asked in this form we see the importance of networks (and handsets) decline, while the importance of OS is revealed. The first question is now just as likely to be what OS as much as what network?
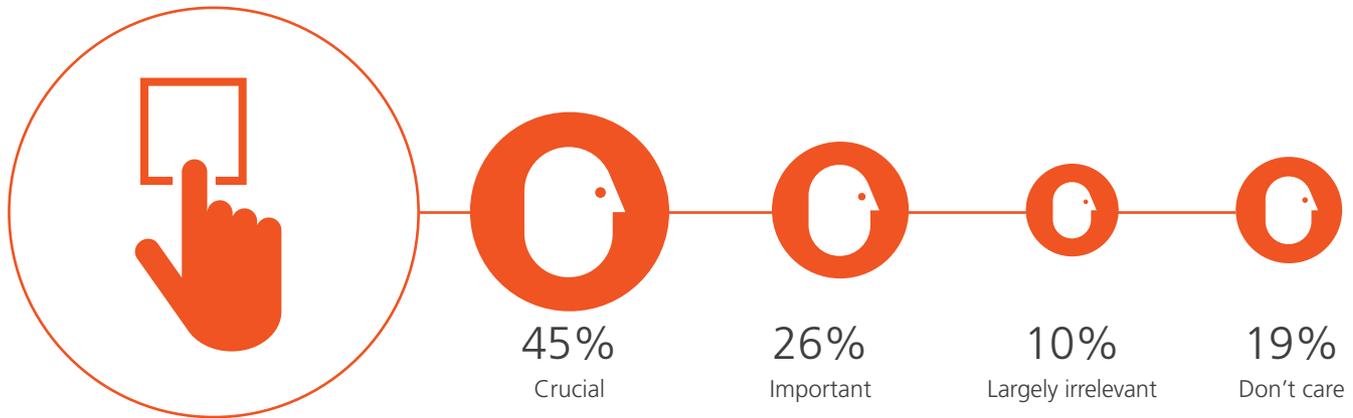
Brands such as BlackBerry and Apple users are somewhat unusual in that their choice of handset defines the OS – and vice versa. Consequently, we can either put these customers into OS choosers or Handset choosers.

Chart one depicts Blackberry and Apple in a combined OS/Handset group. In chart two we have split them equally into handset and OS choosers. When these respondents are added in, we see OS is clearly the first choice people make, with network coming in second, someway behind.

In reality the OS is even more important

1

28% Network
13% Handset
21% OS/Handset
28% OS
8% Apps

2

28% Network
23% any handset (13% Handset)
OS/Handset group split
38% any OS (28% OS)
8% Apps

Choice of OS is no longer a secondary consideration

45%
Crucial

26%
Important

10%
Largely irrelevant

19%
Don't care

It is no surprise that for most, the consideration of which OS to go with is the first decision they make. Nearly a half of all users consider it to be crucial, with three in four customers saying it is crucial or important.

Additionally, we know that when people are considering switching, only a very few are actively looking to switch OS, suggesting that once customers have been recruited to a particular OS, it may be difficult to encourage them to switch.

Nevertheless, despite the fact that there may be costs involved in switching OS (i.e. re-buying/reloading loved apps), there is room for OS to grow or shrink. Android and iOS are strongest in the market, but others have potential to grow, in particular Windows Phone – a finding confirmed by data from Kantar Worldpanel* ComTech.

*Kantar Worldpanel ComTech is a continuous consumer panel providing detailed insights into the field of telecommunications. Operational in 12 countries it is the reference guide for manufacturers, carriers, content providers and industry experts. www.kantarworldpanel.com

Increasing data needs drive OS importance

Many smartphone customers now consider the OS to be the crucial factor in their decision making, and it is the growth in data services that is driving this fundamental market change.

When users are asked which activities they are doing increasingly frequently on their phones, the top three are:

- Email
- Web browsing
- Social networking

We also know from our colleagues in Kantar Worldpanel, that video usage will drive data usage even higher. Instant messaging, texting, and making calls were all lower down the list, demonstrating that the way that people use mobiles has changed fundamentally in recent years.
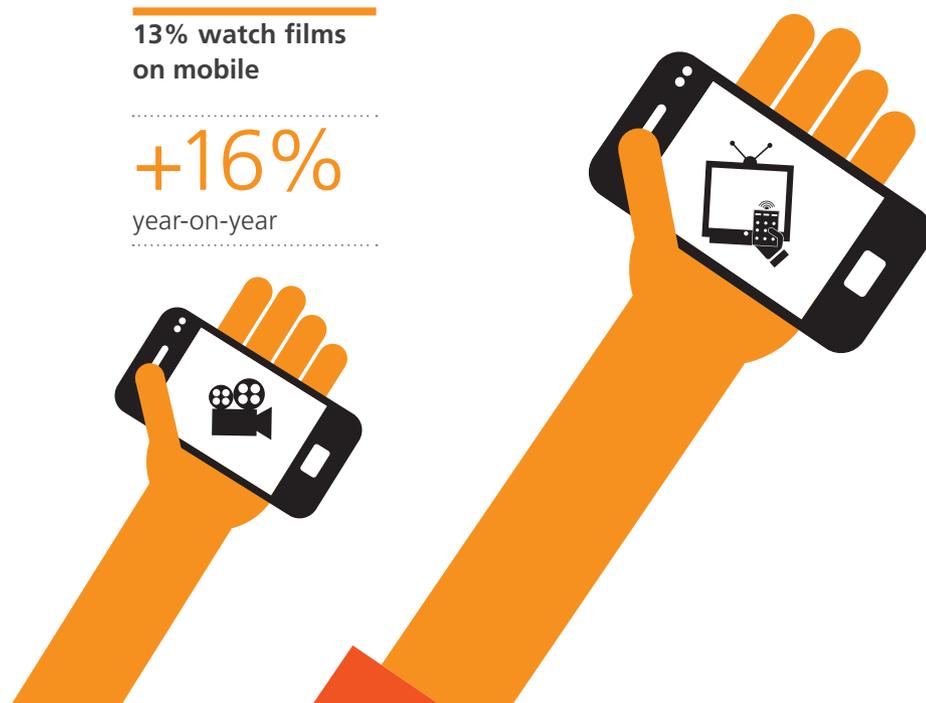
20% watch TV on mobile

+62%
year-on-year

13% watch films on mobile

+16%
year-on-year

Source: Kantar Worldpanel

The OS is the backbone of an individual's digital ecosystem

Appreciation of the handset OS drives loyalty. However, the increased desire to consume content via various hardware platforms makes it attractive for people to use a single operating system across devices, conferring the benefits of familiarity and ease of use. These benefits appear to be responsible for even higher loyalty.
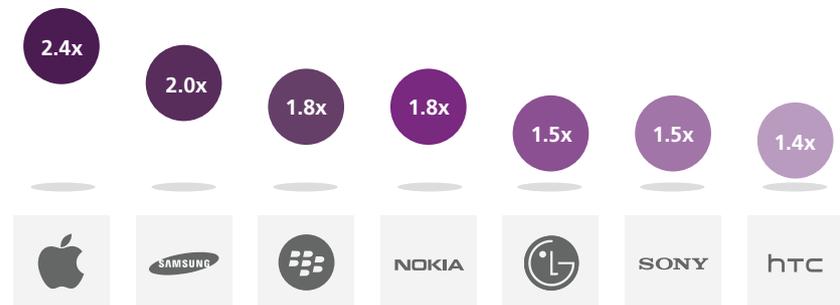
In the case of Apple where the OS and the handset are indivisible, customers are 1.8 times more likely than the average handset customer to stay with the brand the next time they buy an iPhone. If a customer has an Apple handset and an iPad, they are 1.9 times more likely to stay. But it is Apple customers looking for an integrated experience at home and when on the move (i.e. those who have an iMac or Mac Air as well as an iPhone) – who are most loyal. They are 2.4 times more likely to stay with the iPhone franchise!

It also explains why Apple benefits most from customers who value the OS. This ability to help people to navigate the wider digital sphere, and connection with cloud services (such as provided by Google, Apple and Microsoft) is also enhancing the power and importance of the OS.

Increase in handset loyalty as a result of the wider ecosystem

1.8x

+ 1.9x

+ 2.4x
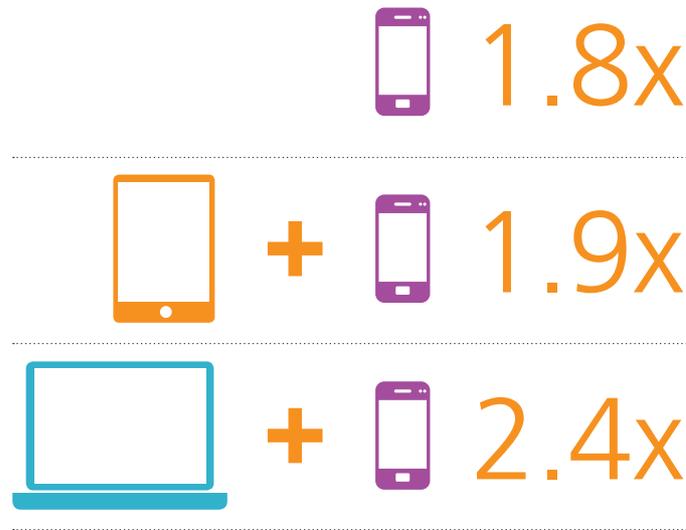
Increase in handset loyalty as a result of OS appreciation

2.4x — Apple
2.0x — Samsung
1.8x — Blackberry
1.8x — Nokia
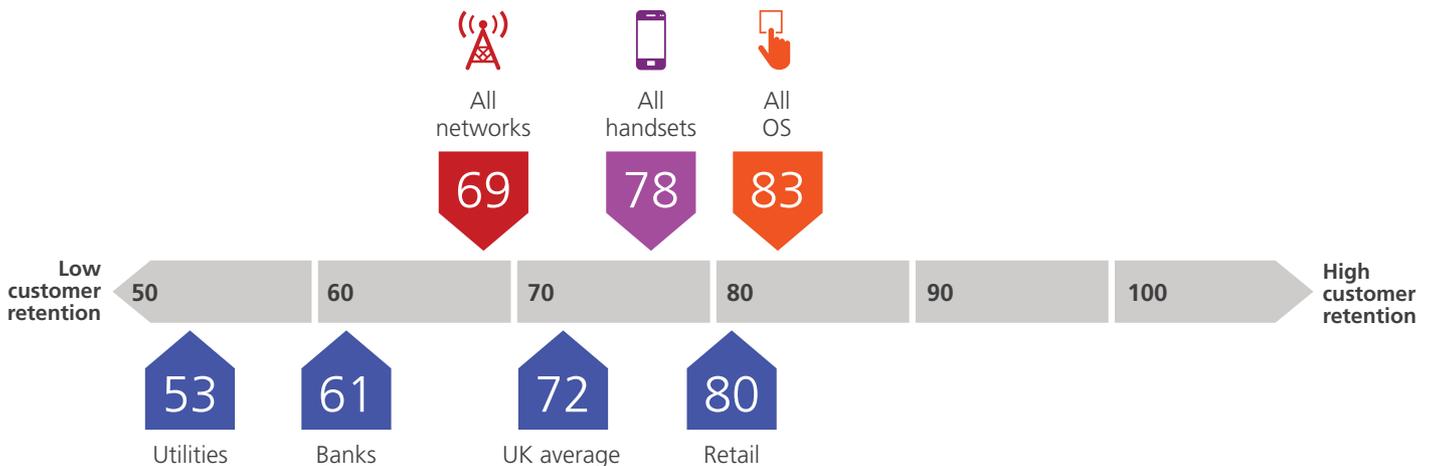1.5x — LG
1.5x — Sony
1.4x — HTC

Satisfaction with OS outstrips handsets and networks

To find out whether the importance of OS choice translates into loyalty as regards likelihood of repeat purchase, TNS applied its TRI*M* methodology. This measures respondents' satisfaction with the offering, and likelihood of retention. Highlighting again just how well loved they are, Operating Systems significantly outperform both Handsets and Networks.

Additionally, we can put it in the context of other categories and industries – including Handsets and Networks. Indeed, the OS outperforms the average for all UK categories, including the more successful ones such as Retail. Handsets also perform well in a UK context, but Networks are below average performers – albeit nowhere as badly viewed as Banks or

Utilities. However, if they are not careful, Networks are in danger of becoming dumb pipes, with profound implications for margin.

All networks **69**

All handsets **78**

All OS **83**

Low customer retention 50   60   70   80   90   100   **High customer retention**

53 Utilities

61 Banks

72 UK average

80 Retail

* For further information on TRI*M see page 30
Base: 4071 (TNS mobile loyalty study, June 2013)

Handsets and networks – a loyalty brotherhood

Did You Know?
Consumers who are unhappy with their handsets are **2.7 times** more likely to defect from their mobile network – even if the handset was free

Consumers judge the package

The traditional package for consumers in the days of feature phones, was the network and the handset. And that relationship is still largely in place.

Irrespective of OS, when things go well, both take the credit. People who are happy with their network are twice as likely to be happy with their handset – and vice versa. But if one part of the package fails, both get the blame.

2x
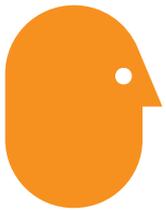
Users loyal to
their networks
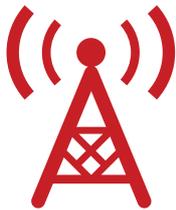
Users loyal to
their handsets

Networks – competency is not enough

Did you know?
Consumers who engage with their
network provider – either in-store
or via online conversation
are **30% more** loyal than average

High satisfaction does not equal network loyalty

Looking in more detail at the TRI*M data, we can further break down the nature of the relationship consumers have with the networks. Overall, nearly three in four customers are satisfied with their network, with over half of these network customers being 'Apostles' (39% of all customers)– meaning they have a high level of loyalty to, as well as high satisfaction with, the network they use. For comparison, Handsets have 46% of their base as Apostles, and the OS has 53% – both significantly higher.

Unfortunately, too many of these satisfied network customers are what we term Mercenaries . These are people who are satisfied, but not loyal. They have come to view networks as a commodity, seeing little difference between networks, and are likely to switch for a better deal,.

A further 24% are 'Rebels' – who are neither satisfied nor loyal. Consequently 57% of network customers are highly vulnerable to switching.

Networks

	High		
Satisfaction	Mercenaries **33%**	Apostles **39%**
	24%	**3%**
Low	Rebels	Captives

Low · **Loyalty** · High
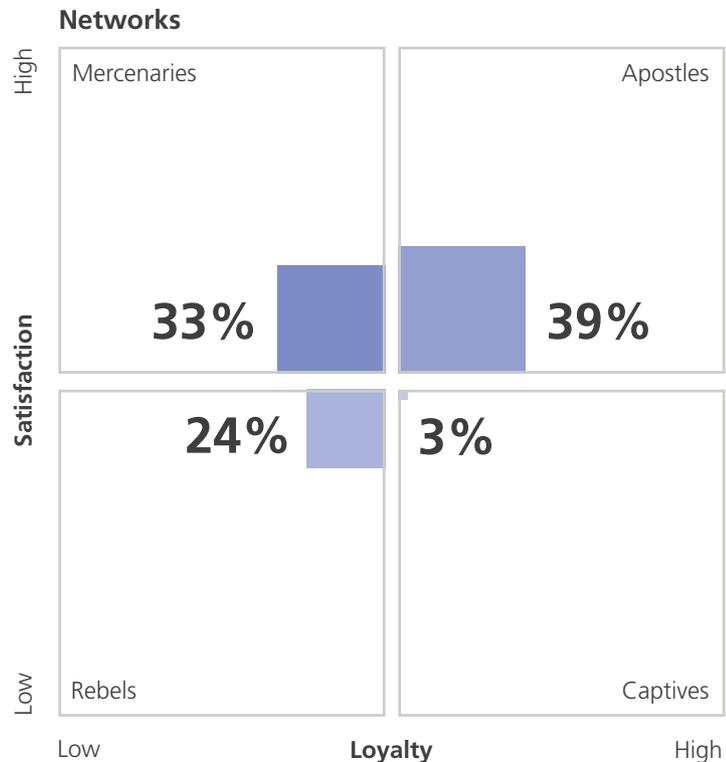
Base: 4071 (TNS mobile loyalty study, June 2013)
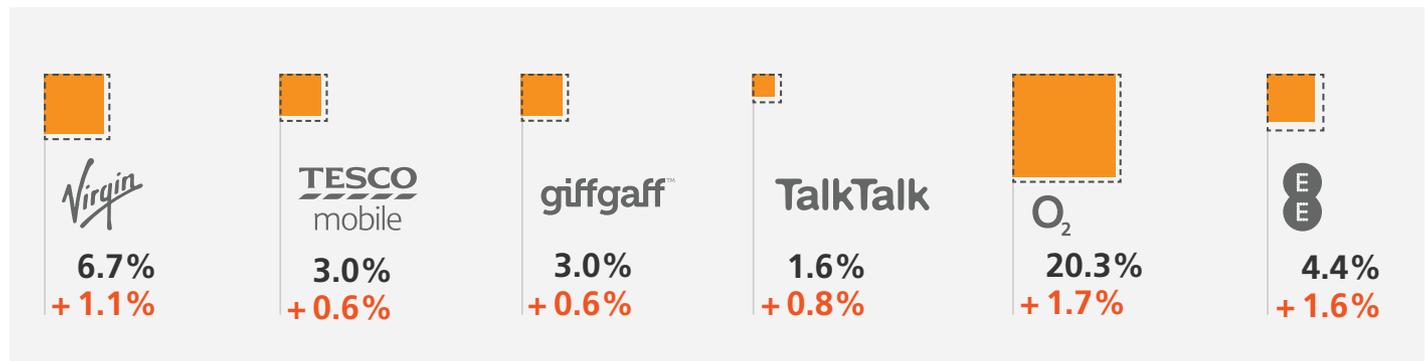
Loyalty and potential growth comes from differentiation

We also applied TNS ConversionModel methodology to the network operators and looked at their growth prospects. ConversionModel* evaluates and compares a brand's 'power in the mind' (how people feel about a brand) and 'power in the market' (i.e. its availability, price etc) – identifying where the brand has opportunities to grow and where there are threats of decline.

In the analysis, network brands fall into two groups. Traditional Network Operators (MNOs) and Mobile Virtual Network Operators (MVNOs). The virtual network operators are generally more positively perceived by consumers, and the traditional networks are generally under threat from new entrants.

Although the MVNOs have less power in the market, the power in the mind of brands like Virgin, Tesco, TalkTalk

and giffgaff equates to a potential 20% growth, which would take the MVNOs' collective market share from 14.3% to 17.4%. Of the major networks, only O2 and EE show growth potential: O2 because of its customer service, and EE because of increasing demand for data speed. (Note, however, that these potential gains for the EE brand are outweighed by possible declines for T Mobile and Orange.)

Networks growth potential

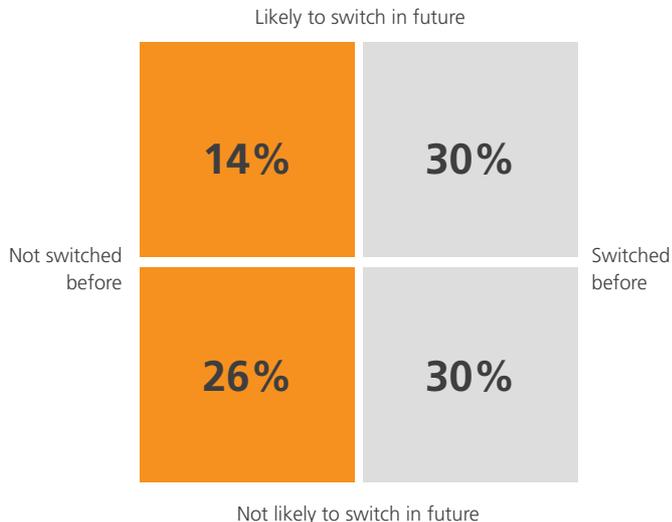|	Virgin	Tesco mobile	giffgaff	TalkTalk	O2	EE
Share	6.7%	3.0%	3.0%	1.6%	20.3%	4.4%
Growth	+ 1.1%	+ 0.6%	+ 0.6%	+ 0.8%	+ 1.7%	+ 1.6%

■ Likely to grow   ⬚ Projected market share

Base: 4071 (TNS mobile loyalty study, June 2013) ConversionModel
* For further information on ConversionModel see page 30

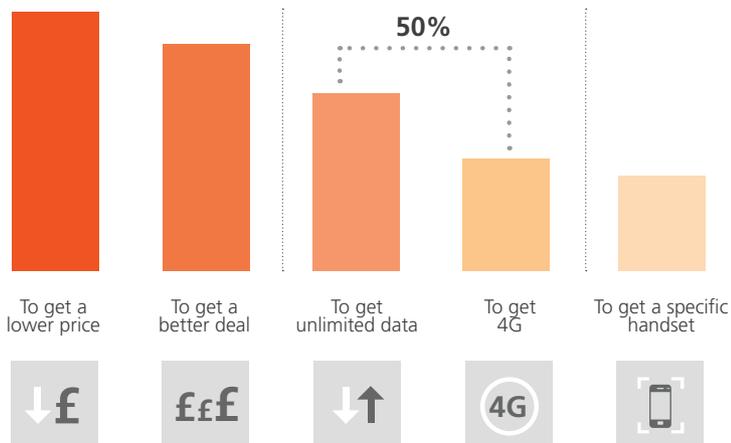# Data is an opportunity area for networks to differentiate

Around a quarter of customers have never switched Network Operator, and claim to be unlikely to do so in future. The reverse of this, however, is that three quarters have either switched before, or are open to doing so.

Most of those who say they are likely to switch say they are, as one would expect, looking for a lower price or a better deal overall. But there are some specific benefits that are likely to encourage switching – and in particular, data. 7% of all mobile customers who have not previously switched (around 3.5 million people) say they are interested in getting a better data package – predominately those that offer unlimited data or 4G speeds.

Unlimited data appeals across all age groups, as concerns around 'bill shock' are very real. Speed and connectivity are undoubtedly valuable to everyone, but it is the younger market that is more important in driving the demand for 4G.

Likely to switch in future

14%	**30%**

Not switched before | | Switched before

26%	**30%**

Not likely to switch in future

Motivation to become a switcher

50%

To get a lower price	To get a better deal	To get unlimited data	To get 4G	To get a specific handset
↓£	££	↓↑	4G	📱

Handsets – a constant struggle for loyalty

Did you know?
The average smartphone
customer has experience
of **3 different** handset brands

Brands have power because of their scale or heritage

Among handset manufacturers, Apple has strong brand loyalty and levels of retention. Even so, TNS ConversionModel analysis suggests there is room for it to grow. Other brands with growth potential are Samsung, and among the smaller brands, Nokia and Motorola.

Given their aggressive innovation and brand positioning strategy it is perhaps easier to see where Apple's and Samsung's growth will come from; however why does the future look potentially positive for Motorola and Nokia?

Their growth potential partly arises from strategic alliances with big OS brand owners like Google and Microsoft. The other factor is their previous performance as feature phone providers, which makes them appealing to older customers.
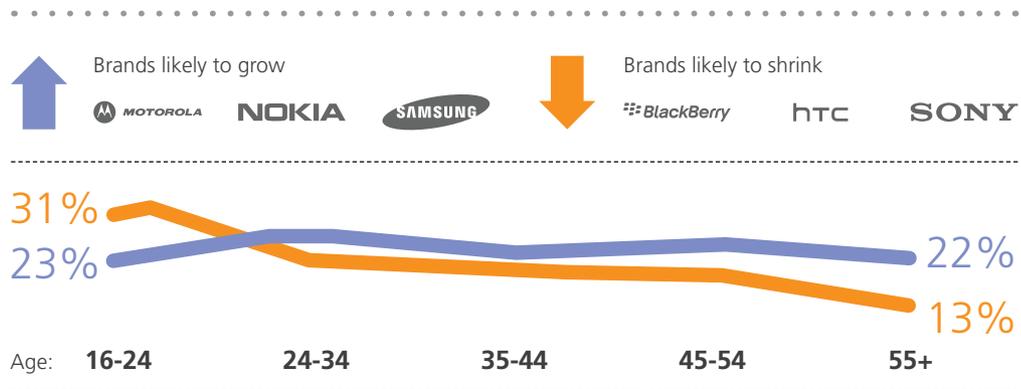
Brands likely to grow

21.7%	**23.2%**	**11.4%**	**1.0%**
+ 5.6%	**+ 2.7%**	**+ 1.2%**	**+ 1.3%**
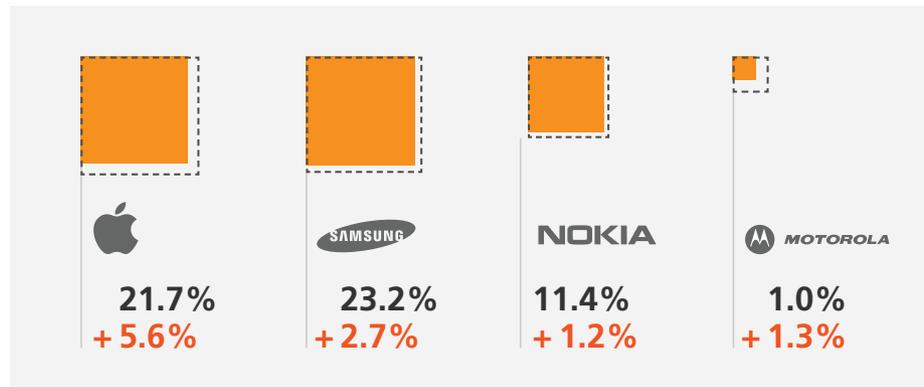
■ Likely to grow   ⌐ Projected market share

Looking at awareness of these brands, there is consistency among the various age groups: consumers aged 16-24 are just as likely to be aware of these brands as those aged over 55. On the other hand, brands that are showing likelihood to shrink (BlackBerry, HTC, Sony) are much less familiar to the older bracket (13% of 55+) than the younger market (31% are aware of these brands).

Handset brands that are vulnerable to losing share include not only BlackBerry, but also ambitious brands such as Huawei and ZTE, which appear to be relying more on business alliances and partnerships than on consumer desire to generate market share.

Brands likely to grow

MOTOROLA   NOKIA   SAMSUNG

Brands likely to shrink

BlackBerry   HTC   SONY

31%
23%

22%
13%

Age: 16-24   24-34   35-44   45-54   55+

Consumers are fickle – even if they love you

As we have seen satisfaction with handsets is generally good. Consequently, most people are likely to consider choosing the same brand next time when they switch handsets (particularly if they are Apple users, where handset and OS are inextricably linked).

However, such loyalty cannot be taken for granted.

Most customers have had experience of multiple brands over their lifetime, and they are willing to consider a range of brands. Experience has taught them that

loyalty to a brand may bring benefits such as consistency of experience. However, they have also learned that things change. Consequently even the most loyal brand users (Apple) will be tempted to switch if a better product comes along.

Consumers are very open to changing brand %

● First choice   ● Only choice
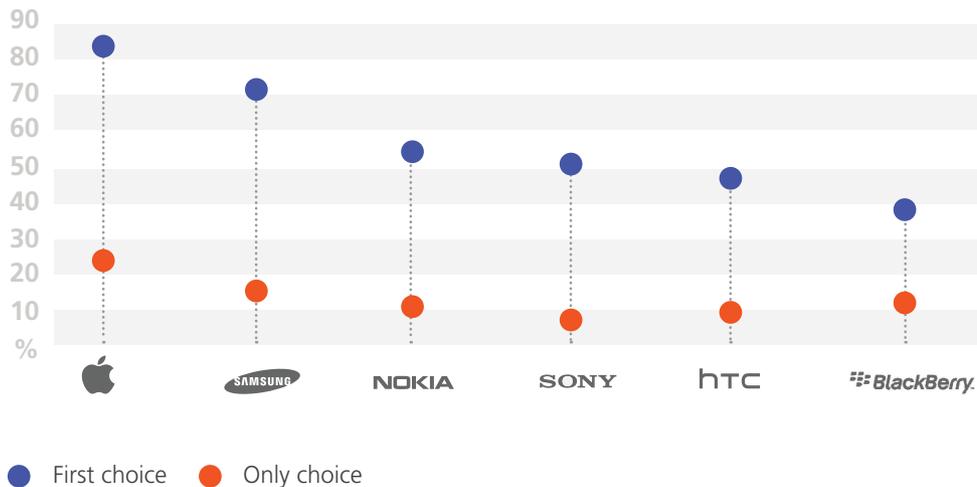
Selling the right handset model is crucial

One way handset brands are trying to increase market share is by incentivising retailers to drive uptake of their models for them. Results from this survey suggest that although this may drive short-term sales, it is doing very little to increase brand loyalty, and is ultimately potentially damaging.

BearingPoint's HyperCube™ analysis shows that some channels of endorsement can drive loyalty for handsets, but simply pushing out handsets via sales staff is counterproductive. Consumers who read a good review online or get a recommendation from friends are 10% more likely to stay with the same handset brand the next time they look to buy. But

those who are recommended a handset by sales staff are 30% more likely than average to leave that brand.

It is not only the handset brands that are vulnerable when the wrong handsets are incentivised onto consumers – either through sales targets or offering them as 'free'. The networks are also in the firing line.

Worryingly, those who are unhappy with their handset (even if it was free) are 2.7 times more likely to leave their network at renewal time. This is one of the strongest indications of the link that consumers make between handsets and networks.

Impact of recommendations on handset loyalty

+10%
Good reviews on Internet

+10%
Recommended by friends

-30%
Recommended by sales staff

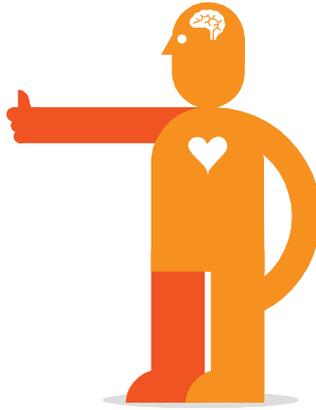Base: 4071 (TNS mobile loyalty study, June 2013)

Five more tips for thriving in the ménage à trois

1. Providing good service is more than a hygiene factor

Everyone is well aware of the importance of good customer service, and this study provides further proof of that fact. It also confirms that whilst good customer service builds loyalty, poor service will have a much more dramatic and negative effect, with churn rates four times higher than average.

Getting customer service right is important; not getting it wrong is even more important

Goes well
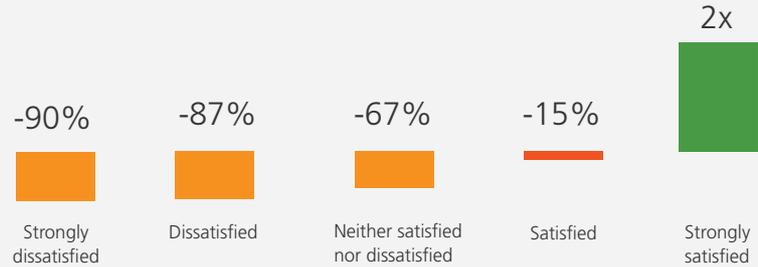
2x

more likely to stay

Goes badly

4x

more likely to leave

2. Simple solutions, delivered well, build loyalty

Being easy to do business with is a key element of good customer service, but to really profit, it needs to be best in class. Good is not good enough, and whether it is a handset manufacturer or a network operator, only excellence will deliver increases in brand loyalty.

Impact on network loyalty of 'ease of doing business'

-90%	-87%	-67%	-15%	2x
Strongly dissatisfied	Dissatisfied	Neither satisfied nor dissatisfied	Satisfied	Strongly satisfied

Source: TNS Mobile Loyalty Study, June 2013. Bearing Point Hypercube analysis.
Base sizes: Very satisfied 977 satisfied 2065 , neither 676, dissatisfied 163 strongly dissatisfied 72

Loyalty to the network if you are on... (%)
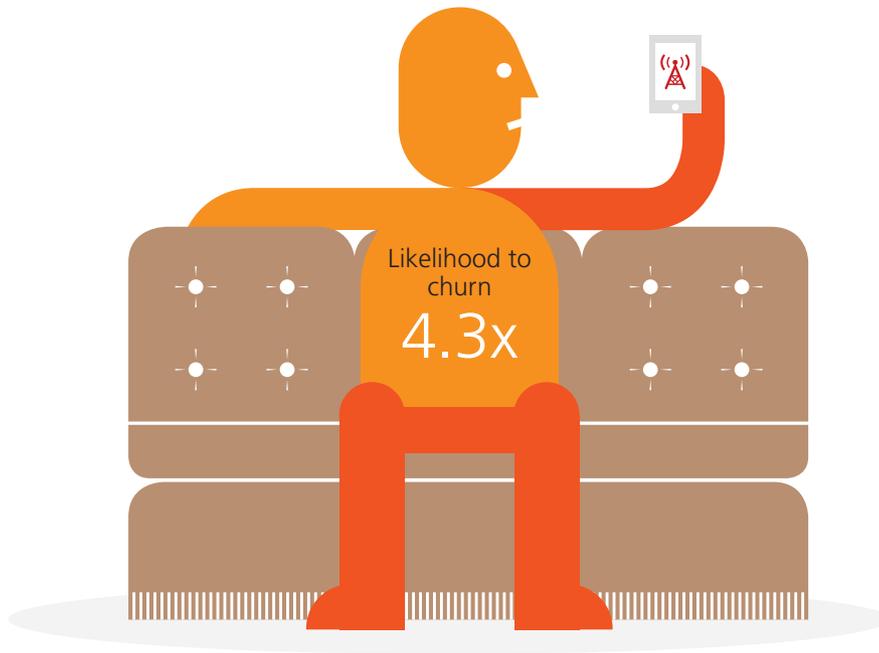
Contract	SIM only	PAYG
-7	+18	+20

3. Reach out to the PAYG customer

Customers on a contract provide a steady and guaranteed income. However, perhaps surprisingly, the PAYG customers are more loyal to your brand, and without any handset subsidy in their fees, they represent a significant margin opportunity.

Likelihood to churn

4.3x

4. Optimise the 'at home' offering

It is easy to forget that one of the most important aspects of network coverage is the quality of service people get from their mobile when they are at home.

Anything that can be done to ensure good reception will reduce the likelihood of churn.

App utilty drives loyalty to handset

5. Help people find the right apps

The more utility people get from their smartphone, the more loyal they are. Creatively encouraging take up and usage of relevant apps can cement loyalty to the handset brand.

Loyalty index

50	90	100	140
0-1	2-4	5-9	10+

Number of Apps used

Conclusion

Today's 'ménage à trois' needs to evolve, and change. Consumers are looking for a solution which is integrated (actual or virtual) and personalised.

Tomorrow's ménage à trois, may not be about owning customers, but about sharing them. Collaborating with business partners to build a strong relationship and help customers access and enjoy the information and entertainment that makes smartphone usage so different to the telephone.

The future is not about one customer chased by three industries, but about a team effort to provide a customised ecosystem that is the gateway to valued content.

Personal networks

The cloud

Information

Entertainment

Exploring strategies for growth

Working in partnership with management consultancy BearingPoint, TNS seamlessly integrated insights from its own unrivalled research methodologies – including brand strategy tool ConversionModel and customer satisfaction model TRI*M – with BearingPoint's HyperCube™ technology to identify the strongest potential opportunities for retaining and acquiring customers.

Looking across the entire mobile landscape including operating systems, networks and handset manufacturers, TNS and BearingPoint have identified:

- Key dynamics in the marketplace

- An understanding of how to increase loyalty and where the risks are

- Attributes driving consumers towards or away from your brand, with the ability to deep dive down to individual brand level

Seamless integration of three key solutions

TNS ConversionModel thoroughly evaluates the two critical factors affecting brand choice: power in the mind (how people feel about a brand) and power in the market (the situational factors such as price and availability which also influence decisions) to provide detailed insights into category dynamics and spending patterns, pinpointing opportunities to attract new consumers, re-win existing ones and to optimise their spending.

TNS TRI*M Customer Experience precisely directs our clients' customer-centric strategies by pinpointing the changes that will have the most direct impact on customer retention, value, advocacy and growth.

HyperCube™ is a deep analytics solution, capable of processing huge amounts of data to reveal unique and easy to understand insights. Its proprietary algorithm uses non-statistical methods to automatically generate and analyse every potential hypothesis to identify all possible insights.

TNS / BearingPoint would welcome the opportunity to come in and present our findings – to you as an individual or to your wider team, either at a category or brand level. For more information or to schedule a briefing session, please contact:
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Ashish Sidhra: **ashish.sidhra@bearingpoint.com +44 (0)203 206 9769**

About TNS UK

TNS UK is part of TNS Global, the world's biggest research company. TNS delivers precise plans to help our clients grow.

Whatever your challenge TNS UK can help:

- Innovation & Product Development
- Brand & Communications
- Retail & Shopper
- Customer, Employee & Reputation
- Qualitative
- Automotive

About BearingPoint

BearingPoint consultants understand that the world of business changes constantly and that the resulting complexities demand intelligent and adaptive solutions. Our clients, whether in commercial or financial industries or in government, experience real results when they work with us. We combine industry, operational and technology skills with relevant proprietary and other assets in order to tailor solutions for each client's individual challenges.