Perspective

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The New Normal *Changes in U.K. Consumer Buying Habits for Telecom and Media*

The coming months will be painful for telecommunications providers, as consumers continue to cut back on their communications and media spend. But amid the gloom, a larger picture is emerging of shifting consumption patterns that will have both immediate and long-term consequences for the industry. Operators must not only update their offerings in the short run but also adapt to a new environment in which customers are savvier in the ways they consume and pay for services.

CHANGING CONSUMER BUYING PATTERNS

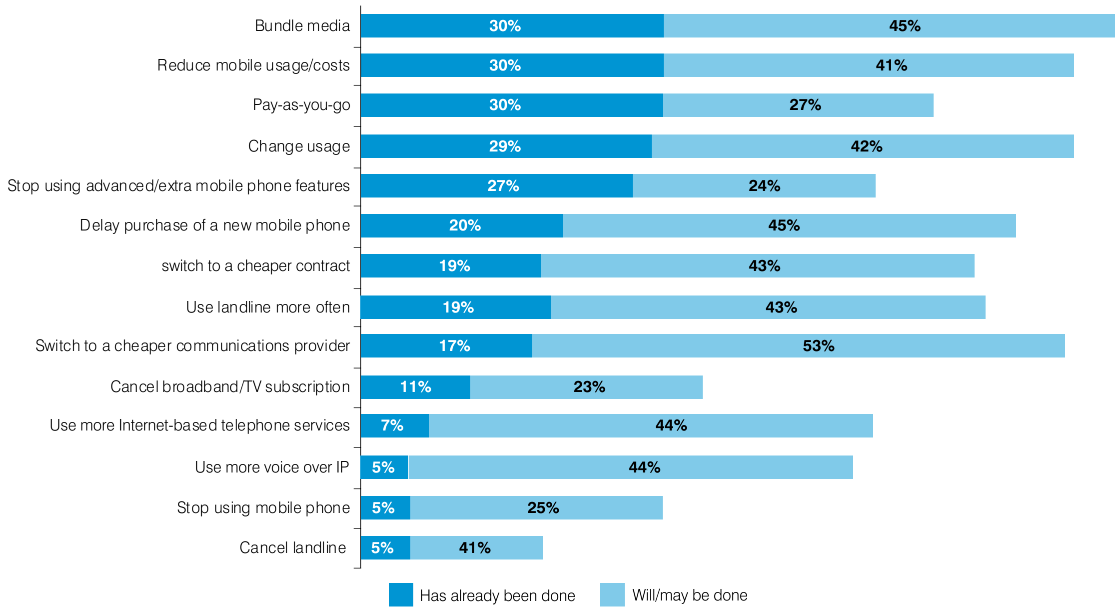
A recent survey by Booz & Company into how U.K. consumers are responding to the downturn presents a mixed outlook for the telecom industry. Communications and media is considered by most consumers to be a nondiscretionary spend; only 10 percent chose it as one of their top three savings areas. Yet the immediate outlook remains gloomy for operators, with 26 percent of consumers having cut back on overall communications and media spend from September 2008 through February 2009 and the same proportion planning similar cutbacks through August 2009.

Behind the headline figures, the changing patterns of behaviour tell a richer story.

For most consumers, mobile phones, broadband Internet, and subscription television services have become essential parts of their daily lives. Since the downturn, rather than canceling services altogether, consumers have focused on reducing their overall spend, without incurring significant switching costs or service charges. They initially targeted easy and obvious savings: switching to pay-as-you-go (PAYG) phones (30 percent) or cutting down on their use of extra mobile functions such as mobile data (27 percent). Over the next six years, consumers will intensify their search for greater value by switching providers (53 percent) or buying bundled communications services (45 percent).

Distinct patterns of behaviour also emerge across different age groups. Younger consumers are more willing than older ones to switch providers: 73 percent of 25- to 34-year-olds have switched or are considering switching, compared with 58 percent of 55- to 64-year-olds. Meanwhile, younger consumers are less willing to use or consider using PAYG (56 percent of 25- to 34-year-olds versus 67 percent of 55- to 64-year-olds). Wealthy consumers are much less likely than

Exhibit 1
Communications and Media Cost-Cutting Measures



Source: Booz & Company Consumer Survey, February 2009 less affluent ones to use PAYG, while willingness to buy bundled services is roughly constant among consumers across all age groups and income brackets.

Other changes in consumer spend patterns are also indirectly affecting operators. Twenty percent of customers have already delayed purchasing a new handset, which has implications for revenue streams from services such as mobile TV that require advanced handsets. Meanwhile, consumers remain reluctant to give up their land-line telecom service, likely because of their reliance on broadband; only 5 percent have dropped landline service, while another 13 percent are considering it. Only 5 percent of respondents indicated they are using Internet telephony, which is somewhat surprising given the widespread attention it receives.

NAVIGATING THROUGH THE RECESSION AND BEYOND

This much is clear: The recession is causing consumers to change their buying and usage behaviours. To be successful, telecom operators must develop strategies and offerings that distinguish between consumers' behaviours during the recession and their expected behaviours as the economy recovers.

In the short term, operators must adapt their offerings in light of current consumer sentiment and consumers' willingness to invest more time and effort finding either the best price or the greatest value. Two distinct opportunities emerge: Focus on low-cost offerings reflecting customers' increased price sensitivity or offer more value by bundling services. In either case, providers must still develop marketing and business plans that reflect the demographic nuances of various consumer segments.

Having overcome the psychological barrier against switching providers or buying bundled services, consumers are unlikely to revert back to their old ways once the economy rebounds. Providers should be prepared for a long-term consumer shift by offering more innovative ways to purchase both communications and media. Clearly, operators also have more work to do to entice consumers to try Internet telephony.

The cliché that every challenge presents an opportunity holds true only for those who understand the nature of the challenge. This recession reveals characteristics about consumers that operators can capitalise on, not only to survive the recession but to emerge stronger in the recovery.

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Printed in Germany