

CASE 3.1: British Telecommunications (BT) – creating new customer value propositions

The company

BT Group plc (British Telecommunications) is one of the world's leading telecommunications providers and one of the largest private sector companies in Europe. BT has four customer-facing lines of business: BT Retail (serving business and residential customers); BT Global Services (global managed services and solutions serving multi-site organisations worldwide); BT Wholesale (BT's networks and network services and solutions to other communication companies) and Openreach (the UK access network and roll-out of superfast broadband). These are supported by two internal service units, BT Innovate & Design and BT Operate.

Based in London, with offices throughout the UK and ventures in many countries, BT services customers in more than 170 countries. BT is the UK's main telecommunications provider. Its core activities include local, long distance and international telecommunications services, Internet and broadband services and IT solutions. It also provides network services to other licensed operators. In 2012, the company employed over 90,000 people and had an annual turnover of £20 billion.

BT Retail has 5.7 million broadband customers, 1 million SME (small and medium enterprise) customers and nearly £8 billion annual revenue. BT Retail serves UK and Republic of Ireland consumers and SMEs through four customer-facing divisions: BT Consumer, BT Business, BT Enterprises and BT Ireland. BT Enterprises also serves global customers. BT Retail delivers tailored information technology solutions for small and medium enterprises and larger organisations in the public and private sectors. BT Retail strives to enable its business and residential customers to communicate easily with the world around them, using an extensive product and service portfolio covering voice, data, Internet and multi-media, as well as managed and packaged communications solutions.

The challenge

From the start of the first decade of the 2000s, competition in the telecommunications market has accelerated. Under these conditions of increased competition it has become increasingly important for BT to develop a greater focus on delivering value to its customers. BT Retail has for many years been concerned with delivering value to its business and residential customers. It has done this by focusing on helping its customers communicate easily with the world around them, using an extensive product and service portfolio covering voice, data, Internet and multi-media, as well as managed and packaged communications solutions. However, what is needed is a more formal approach to ensure that customers are receiving tailored offers of direct relevance that deliver real and sustained value to them.

The solution

BT Retail took up this challenge by implementing a customer-centric strategy with the intention of becoming recognised as the telecommunication industry's customer service champion. BT Retail is integrating traditional products and services with new wave technologies to provide carefully developed customer value propositions.

To address this challenge, a project on proposition development was initiated. This initially focused on the major corporate customers. The former Managing Director of this area of the business stated the objective as follows: 'I want Corporate Clients to be judged by the value we bring to the customer, not just as a supplier of telecoms. What we have to offer is a value proposition. We have to use our understanding of the customer to create a compelling value proposition.'

BT regards a customer proposition as the combination of products and services offered to a customer based on an accurately identified set of customer needs. It recognises that becoming totally customer focused depends on first defining customer needs and then allowing them to drive the development of winning value propositions and world-class communications and e-business solutions which fulfil the proposition and deliver the value promise. BT shares the view that business today revolves around the needs being served, not the products being offered.

Through this concentration on proposition development, BT focused on improving the quality of its service delivery and enhancing customer satisfaction while, at the same time, reducing costs by cementing efficiencies and driving greater productivity. This commitment to customer value marked a change in BT's business approach from one which is product and technology-led to one which focuses on understanding customer needs and building value-based revenue streams.

BT's propositions project works at unifying the value system, integrating three core elements of the organisation: the Customer (*Sell-side*); the Enterprise itself (*In-side*) and Suppliers and Partners (*Buy-side*). BT sees the following activities as key to providing this integration and delivering an excellent value proposition:

- having an excellent understanding of the customer's industry
- having an excellent understanding of BT's own industry
- building excellent relationships with clients
- being excellent at what BT does with its industry and global partners.

These aims are reflected in six proposition areas developed by BT Retail:

1. *Customer relationship management*

CRM solutions are those that provide BT's clients with the ability intelligently to handle their customer contacts, resulting in more efficient management of resource and enhanced customer relationships. Example: a system to improve call handling (e.g., call centre).

2. *Supply chain management*

Allows seamless interaction between suppliers, internal functions and customers to promote efficiency and flexibility. Example: electronic procurement/catalogues.

3. *Knowledge management*

Gaining commercial advantage through the active management of Intellectual Capital: the way we develop, share and exploit our knowledge. Example: website which allows knowledge sharing across departments. Example: an intranet used internally within BT.

4. *Organisational effectiveness*

Improves work processes and styles. Example: remote working, HR outsourcing.

5. *Flexible working*

Work anytime and anywhere solutions, from mobility to conferencing and including ancillary support devices and services which maximise the benefits of moving customers towards the vision of a virtual organisation.

6. e-Business

e-Business is fundamental to each theme area, both at a strategic level and in terms of proposition development, solutions delivery and how BT communicates its capability.

Creating value

BT's approach to customer value creation comprised two main components: the *value statement* and the *value proposition*.

The *value statement* describes the impact that BT can have on the market or on an industry segment. It is a general statement of intent that is applicable to the customer's business sector. The value statement is used to position BT and generate interest and takes the following form:

(Name of customer) will be able to (improve what) through the ability to (do what) as a result of (BT enabler, technology and/or service).

The *value proposition* is a customer-specific proposal, usually using a value statement as a starting point, that is quantifiable in both value returned to the customer and revenue to BT. It is a clear statement of the value BT brings to a particular client and answers the questions:

- How much value (financial benefit to the customer)?
- How soon can the value be realised (timing)?
- How sure is the value (risk)?
- How will the value be measured (value return)?

The value proposition builds on the value statement and takes the following form:

(Name of customer) will be able to (improve what) by (how much and/or what percentage) through the ability to (do what) as a result of (what BT enabler, technology, and/or service) for (what total cost – tangible and intangible). By (time factor) BT will be able to demonstrate the delivery of value by (a specific, quantifiable measure).

The strongest value propositions should therefore have at their core a financial linkage from an initiative to a measurable improvement in the business, especially around critical issues.

BT Retail understood that it could no longer rely on perceived value to win contracts. If BT Retail could quantify the value they offered, they would be better positioned to command premium margins based on the value offered, rather than being based on their cost or the competitors' prices.

BT Retail management emphasised that throughout the sales cycle the value of the business issue and the offering must be continually quantified so that the customer believes in and owns the value proposition: 'It is important to get the customer to understand the financial impact of their problem. The customer is more likely to quantify pain early in the sales cycle. If we can keep our customers focused on a clear statement of BT's net value, the higher our success rate and revenue will be.'

BT Retail ensured that the company's propositions, products and services were supported by economic value equations which provided examples of the value that BT Retail could add to its major business customers. These sources of value include quality levels, customer satisfaction levels, productivity of assets, people and capital, employee satisfaction – turnover; headcount reduction, financial measures – ROI (return on investment), new revenue streams, expense reduction, market share, reducing risk, timeliness of getting products to market and variety and quality of products. These

value formulas need to be based on sources of value relevant to individual customers, as defined by detailed analyses and customer profiling.

The results

BT's proposition approach was enthusiastically supported by their marketing community. The value proposition themes meant that the focus of both the marketing and the sales function was on the customer need, which resulted in a better understanding of customer requirements and their reasons to purchase. In addition, product development was now driven by this understanding of customer need, moving BT Retail towards a market-led rather than product driven approach. Propositions can now be developed against a specific set of customers and therefore messages are not only more relevant, but only customers who have the need are communicated with, resulting in better customer satisfaction and less confusion. The learning from the programme led to more customer-focused value proposition themes – for instance 'interacting with customers' – rather than the more technology orientated emphasis often associated with the term customer relationship management.

BT's emphasis on creating customer value is strongly echoed in BT Group's current strategy. A cornerstone of their strategy is customer service and customer experience and BT aims to be highly customer-focused in the markets in which it operates. In discussing BT's business strategy, the 2011 BT Annual Report states: 'Our strategy starts with customer service and we continually work to improve the level of customer experience. In practice this means keeping our promises, being easy to contact and straightforward to deal with; it means keeping our customers informed and taking prompt action to put things right if they have cause to complain; above all it means trying to do things right first time.' Total shareholder return, reflecting share price movement and dividends, for the financial year period to March 2011 was 57 per cent compared with the European Telco Index of 16 per cent and the FTSE100 Index of 7 per cent.

This strategy of focusing on customer service and customer experience responds to the growing challenge of maintaining competitive advantage in an ever-changing marketplace. With traditional business models of 'buy and sell' being replaced by value-based negotiations, companies such as BT are looking to new and innovative ways of convincing customers to choose their products over those of competitors. The development and use of carefully constructed value propositions, such as those outlined above, will enable companies both to deliver superior value to their customers and to achieve competitive advantage.

CASE 3.2: Zurich Financial Services – building value propositions

The company

The Zurich Financial Services Group (Zurich) is a leading provider of financial protection and wealth accumulation products and solutions. Zurich is one of the world's largest insurance groups, and one of the few to operate on a truly global basis. Their mission is to help their customers understand and protect themselves from risk. Zurich has over 60,000 employees serving customers in more than 170