

휴대전화서비스의 마케팅 전략: 싱귤러와이어리스의 사례연구

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Strategic Marketing for Wireless Communication Services: A Case Study of
Cingular Wireless

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Abstract

The telecommunication industry is entering the maturity stage, resulting in vast shifts in its competitive landscape. Cingular, the top telecommunication company in the United States, for example, has suffered from decreasing net income, increasing consumer dissatisfaction, and a threat in its market leader position. Many of the symptoms that Cingular suffers are ubiquitous concerns throughout the wireless communication industry, and will only become worse as the industry is set for intensified competition. This paper conducts a case study of Cingular that may be used as a model through which other telecommunication companies can better address the challenges that are expected in the increasingly saturated market.

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I. Introduction

The American mobile communication industry is entering the mature stage of its product life cycle. With over 220 million subscribers in the United States, household penetration has hit the plateau, alerting firms to mobilize resources to steal customers from other carriers. Increasing competition has had a direct impact on Cingular, which, despite growing revenues, has recently suffered from dramatically decreasing net profit margins.

Here is the dilemma: firms in this industry essentially have monopoly power over their customers during the subscription period, which compel them to squeeze every dollar from their customers[1]. This translates to highly dissatisfied group of customers, who display "little true loyalty, once no longer bound by contracts"[2]. On the other hand, the constant need to improve network quality forces the industry to revert back to its penny-pinching pricing schemes, aimed at covering their enormous fixed costs.

In order to maintain this delicate balance between customer satisfaction and the need for high revenues, the wireless industry has evolved into an oligopolistic market structure, where firms tacitly assent to offer similar plans and services. This is natural, given that any one firm cheating the system (i.e. lowering the service costs) could be detrimental for the entire industry. Unfortunately, the accelerating competition in the market leaves no space for a firm that is unable to satisfy its customers. In order to survive in this market, Cingular needs to develop marketing plans that will build customer loyalty without provoking retaliation from its competitors.

II. Company Analysis

1. Company & Collaborator

Cingular Wireless, founded in 2000, is a joint venture between AT&T and Bellsouth. In October of 2004, SBC acquired AT&T wireless, making Cingular the largest wireless carrier in the United States in terms of revenue (\$34.4 billion) and

subscribers (54.1 million) [3]. Immediately following the acquisition of AT&T Wireless, Cingular repositioned the brand with RAISING THE BARSM. Their efforts to create a strong brand identity is an attempt to promote its main business of providing wireless voice communication services. In recent years, Cingular has also focused on promoting data services (i.e. entertainment features, business data services, text-messaging), which, combined with voice services, account for more than 90% of its revenue.

Cingular is the largest telecommunications operator in the United States with over 54 million subscribers, allowing for economies of scale, high brand recognition, and high capital leverage. The strength in its balance sheet gives the company a unique ability to buy out threatening competitors and undertake large capital expenditures. Finally, Cingular actively seeks out business and marketing alliances to enhance service to its customers.

Weaknesses of Cingular include low brand trust, high churn rate, and low net profit margin. Despite its high brand recognition, for example, Cingular earned a score of "C-" in brand trust in a survey conducted by Forrester. Not surprisingly, Cingular's churn rate of 2.2% is much higher than Verizon, which received a higher brand trust score and has a churn rate of 1.3%. Secondly, due to large capital expenditures, Cingular earns the lowest net profit margin among its competitors, with less than 1% of revenue contributing to profits[4]. In fact, Cingular's net income has steadily declined since 2003, despite observing growth in revenue.

2. Customer

A survey conducted by Forrester indicates that customers have a very low brand trust for all major wireless carriers (an average score of C-)[5]. In order to identify why, we analyzed the past three years of "Top Wireless Telecommunication Customer Complaints" filed to the Federal Communication Commission (FCC). Surprisingly, it is billing & rates - not the quality of service - that consistently places at the top of the list of complaints. Billing and rate charges, which account for over 53% of all complaints are, "regarding charges to subscriber for actual time spent talking on a wireless phone." This is a direct result from the wireless

industry's obsession with the use of confusing pricing models, which allow them to charge an extravagant fee to its subscribers for going over allotted minutes in a given period. Because wireless service providers have an inherent incentive to not provide minute management capabilities to its users, low brand trust is ubiquitous throughout the industry, where customers complain that they are often charged without warning for using extra features available on the phone.

3. Competitors

The wireless communication industry is regulated by the FCC, who limits the number of players by requiring permission to enter the market. The enormous fixed cost involved in the industry also serves as a barrier to entry. Cingular competes with other big names in the industry – Verizon, Sprint-Nextel, T-Mobile – for customers based principally on reputation, network quality, customer service, price, and service offerings[6]. These competitors collectively control 80% of the U.S. market, making each carrier very sensitive to each other's strategies.

Service Provider	Market Share	Network Coverage (People)	Offers Business Data Services	Offers Entertainment Features	Per Minute Price	Churn Rate	Brand Trust Grade
Cingular	26.1%	294 million	Yes	Yes	\$.0667	2.2%	C-
Verizon	24.7%	255 million	Yes	Yes	\$.0667	1.3%	C
Sprint-Nextel	20.3%	250 million	Yes	Yes	\$.0667	2.3%	C-
T-Mobile	10.5%	233 million	Yes	Yes	\$.0667	2.9%	D-

Table 1: Competitor Analysis

As illustrated in the above table, lower grades in brand trust are directly correlated with higher monthly churn rates. This is especially the case, since there is very little differentiation – both perceptual and actual – in the services that the carriers offer. Building brand trust, therefore, could play a major role in reducing

churn rate. While demand for wireless communication is inelastic, the demand for a *particular* wireless provider is very elastic. This is especially the case because wireless carriers have failed to build brand loyalty. A breakthrough opportunity can be located by developing a unique marketing mix that will communicate unique advantage from using Cingular.

Cingular is under large threats. Being so large puts Cingular in direct competition with the other large networks. Household penetration has decreased across the board over past years; in order to gain market share, competitors will have to take customers from other carriers. In addition, WTO agreement assures that foreign service suppliers are given access to public telecommunication networks without discrimination. In response, SK Telecom, among others, has made great inroads into the U.S. market [7].

III. Environmental Analysis (PEST)

Cingular needs to be closely attuned to the following external environment by building customer loyalty and developing an alternate revenue sources:

<p>Political/Legal The FCC regulations act as a barrier to entry into the wireless telecommunications market. FCC rule in late 2003 allow consumers to maintain their current phone number when switching carriers. This rule has increased competition across the industry.</p>	<p>Economic Inflation, interest rate, unemployment rate, and real GDP growth is directly correlated to consumers' purchasing power. Wise investments can be made by identifying an optimal time period within the ebb and flow of the economy to launch a project.</p>
<p>Social Country is becoming more wireless, and users spend increasing amounts of time talking on their cell phones. Increasing demands for extra features on cell phones (i.e. internet access, mobile business services) spawn a new source of revenue.</p>	<p>Technological With the proliferation of new advertisement mediums in the internet, Cingular can reach a broader, but more specified target of customers. The development of VOIP (voice over internet protocol) as a low cost alternative to cellular phones poses a threat.</p>

Table 2: PEST Analysis

IV. Segmentation

As the wireless communication market saturates, the competition will intensify. It is critical, therefore, that Cingular build its customer loyalty and focus on customer retention. We first segmented the wireless communication market as Cingular customers and non-Cingular customers. Non-Cingular customers will not be *directly* targeted because retaining its existing customers would be the best for Cingular. We then segmented Cingular customers into six groups, based on lifestyle and benefits sought. We specify the estimated segment size in parenthesis.

Technology Enthusiasts (25-30%): Wireless communication is a "way of life" for this group, who tends to be young, technologically-adept, and group-oriented. Since they spend a large amount of time on the phone, this group value entertainment features available in cell phones (e.g. gaming, text messaging).

Movers and Shakers (15-20%): Movers and Shakers are career-oriented individuals, typically between the ages of 35 and 55 with a relatively large disposable income. Due to their high usage of wireless communication, they are more likely to be critical of their cell phone experience.

Family Plan Users (30%): Family plan users are cell phone users who share a wireless plan under one name.

Mobile Newbies (5%): Mobile Newbies tend to be older users who are late adopters of cellular phones. Typically, consumers in this segment are retired and do not find the need to use cell phones on a day-to-day basis.

Businesses (12%): This segment is treated as its own group because the service is paid for by their employers.

Pre-paid (6%): This group tends to be young, urban, and have low-disposable income. They value non-commitment based plans that are cost-efficient.

V. Targeting

After analyzing the segments with consideration to segment size, growth potential, and benefits sought, we recommend Cingular to use a multi-targeting strategy to pursue Technology Enthusiasts and Movers and Shakers, who collectively make up half of Cingular's customer base. Family plan users and businesses are not going to be targeted simply because their complex decision-making processes make them highly unresponsive to any promotions. Mobile Newbies and Pre-paid are not going to be targeted because targeting such small segments would require narrow marketing mixes that could alienate Cingular's core customers.

Technology Enthusiasts are an attractive group to target for several reasons. First, given their high use of minutes, high price sensitivity, and a high need for minute management assistance, they will be most responsive to any additional value (in the form of minutes) offered by Cingular. Cingular's low cost service structure allows Cingular to provide such additional services at negligible costs. The high churn rate that characterizes Tech Enthusiasts also indicates that there is an opportunity previously unexplored by industry competitors. Since this group values entertainment features, targeting this group also aligns closely with Cingular's strength in its 3G technology-based network.

Movers and shakers are an attractive group to target because the fact that they seek brand trust, despite their relatively high churn rate, indicates that there is room for opportunity. Building a strong trust also allows Movers and Shakers to facilitate the use of business data service features such as wireless banking and email. Finally, Movers and Shakers will also be responsive to minute management promotions, given their high usage of voice services.

VI. Positioning

Cingular currently wants to position itself as a brand that serves value to its customers. The ALLOVER Card will allow Cingular to position itself as what it wants, by allowing customers to choose the benefits – minutes, business data services, entertainment features, hardware – that provide the most value to them. Differentiation in this market translates into brand loyalty, which is the keystone to increasing profit.

For Tech Enthusiast, The ALLOVER Card provides the most value for using wireless communication services because it offers minute management capabilities and entertainment features at no additional cost.

For Movers and Shakers, The ALLOVER Card improves brand confidence and business productivity because it offers minute management capabilities and facilitates the use of business data services at no additional cost.

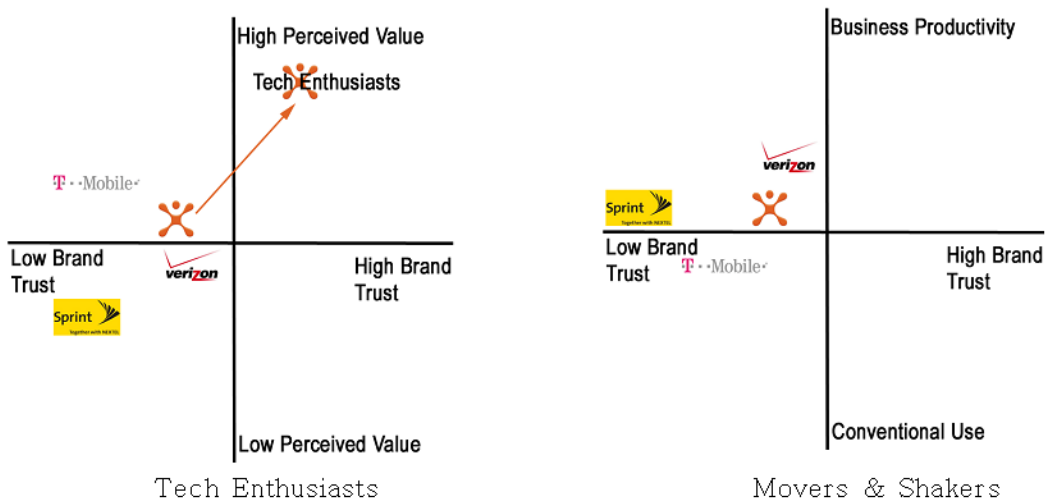


Figure 1: Perceptual Map

VII. Strategic Marketing - The ALLOVER Card

In order to ameliorate the current problem, we suggest Cingular to develop and launch the ALLOVER CARDsm, with the slogan RAISING THE BAR ON YOUR LIFEsm, designed to give existing customers tangible benefits from using Cingular's wireless services. Cingular will enter into exclusive deals with nation-wide chain stores, dubbed, "Dual Promoters Groups," where Cingular subscribers, for example, can swipe their ALLOVER Card to earn points while they shop. Subscribers can then redeem the points for additional minutes, free data/entertainment services, phones, or accessories from Cingular. The concept is completely innovative in the U.S. market; competition does not offer a product that is closely priced or even close in function.

The ALLOVER Card will be a card that can be swiped at the point of purchase. Online shoppers will enter in their card number to earn points when they shop online. At the point of distribution, the card will be designed so that it can be used at Core Dual Promotion groups, such as Starbucks, Mobil, or McDonald's, that both targeted segments value. Every time a consumer purchases a good from the dual promoter groups, a free text message will be sent out by Cingular, alerting them of points earned and minutes on hand. This feature, which perfectly complements Cingular's ROLLOVER minute plan, gives customers the ability to better manage their minutes. Earning extra minutes and managing minutes - both of which Cingular's competitors are reluctant to offer - are features that both of our segments highly value. In effect, this card will be branded as a "value" card.

The pricing scheme in the wireless market consists of a dual pricing system made up of a monthly access fee and a per-minute usage charge, with little variation across the industry. Any change in this pricing method could result in a huge backlash from price sensitive customers or a price-war from competitors. The ingenuity of the ALLOVER Card stems from the fact there is no direct price cut. Since there is no change in the *nominal* price of services, it prevents competitors' retaliation, and does not suggest diminished service quality to customers. Through the point system, it is able to deliver tangible value to the customer at no

additional cost. Customers can convert their points for all additional services offered by Cingular, which may include free minutes, free entertainment features, and discounts on hardware.

Our target segments will convert their points based on their needs. Tech Enthusiasts are predicted to convert their points for more minutes and entertainment features, while Movers and Shakers are predicted to convert their points for minutes, business data services, and hardware. Both of our segments will perceive the cost of wireless service to decrease. Although Cingular's short-term revenue will likely decrease due to free services, Cingular will be able to cover part of the cost from compelling dual promotion groups to cough up "royalty fees" for attract 54 million Cingular customers to their stores. This decline in revenue will also be more than covered by lowered churn rate[8]. It must be noted that Cingular's cost of these services is but a minor portion of its existing infrastructure, and that even the slightest reduction in churn rate accelerates growth in net income. Finally, by promoting the use of mobile data services, the ALLOVER card will bring the use of 3G technology applications into the mainstream, allowing Cingular to capture the fastest growing revenue-source in the industry.

VIII. Conclusion

The ALLOVER Card utilizes Cingular's strengths – high capital base, strong relationships with existing collaborators, high market share – to communicate a unique advantage of being a Cingular customer. The card can fulfill many of the unmet customers needs, creating brand loyalty and brand trust. This will dramatically reduce churn rate, which, in a low-variable cost industry, accelerates the growth of net income. Studies prove that such methods of retaining customers are much more cost-efficient than attempting to attract new customers.

While this marketing proposal is aimed at increasing customer retention, the unique value served by the card will also attract other customers, and will promote the use of mobile data services, assuring long term survival. We can expect such

outcome, given that our campaign is extremely difficult to emulate. We note, however, that such tool is only one strategic move to deal with the increasingly dynamic industry. Developing a marketing strategy should be undertaken only after being attuned to each company's main assets and catering to the customers' needs. Also, while this case study was done specific to the U.S. market, we foresee that many of the concepts covered in this study is applicable to countries like Korea that face a similarly saturated market environment.

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