

**Bouygues Telecom
Customer Loyalty Program
Case Study
November 1999**

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Table of Contents		Page
1.	Background	3
1.1	About the author	Error! Bookmark not defined.
1.2	Bouygues Telecom.....	3
1.3	Confidential Information	Error! Bookmark not defined.
2.	A proactive Customer Retention Strategy	3
3.	The Bouygues Telecom experience - Phase I “Advantages”	3
3.1	Overview	3
3.2	Objective of the “Advantages” Customer Loyalty Program.....	4
3.3	Aim of the Loyalty Program	4
3.4	Program Design	4
3.5	Membership	4
3.6	Drivers of points accumulation	4
3.7	Communications.....	4
3.8	Rewards and Privileges	5
3.9	Channels and Redemption.....	5
3.10	System Support.....	5
4.	The Bouygues Telecom experience - Phase II “Idyllo”	6
4.1	Market and organizational changes	6
4.2	Loyalty also becomes an acquisition tool.....	6
4.3	Objective of the “Idyllo” Customer Loyalty Program	6
4.4	Aim of the Loyalty Program	6
4.5	Program Design	6
4.6	Membership	6
4.7	Drivers of points accumulation	6
4.8	Communications.....	7
4.9	Rewards and Privileges	7
4.10	Channels and Redemption.....	7
4.11	System Support.....	7
5.	Conclusions	7
5.1	Handsets remain a key driver of churn.....	8
5.2	A Loyalty Program is ideal to formalise a proactive handset upgrade program	8
5.3	Loyalty is not cheap...but churn costs more	8
5.4	Don’t reinvent the wheel.....	8

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1. Background

1.1 Bouygues Telecom

Bouygues Telecom launched the first DCS-1800 mobile telephone network in France in May 1996, competing against the two established GSM operators France Telecom and SFR.

By Dec 1998, Bouygues Telecom had over 1 million mobile customers, making it the fastest growing mobile network in Europe. By December 1999 the customer base had reached over 2.5 million customers.

Bouygues Telecom's shareholders include Bouygues (a privately French diversified conglomerate operating businesses in construction, television (TF1), movie production, and telecommunications), Vebacom (Germany) and Telecom Italia (Italy).

2. A proactive Customer Retention Strategy

Churn (customer defection) is a well known problem in the telecommunications industry.

Handset subsidies, increased competition, and a proliferation of acquisition related promotions are all factors that contributed to this growing problem of churn in the telecommunications industry, and the French market was no exception.

Having experienced monthly churn rates of between 3% and 4% in "previous lives", the management team at Bouygues Telecom were committed to addressing this problem head-on.

Even before launch, the organisation was set up to focus resources on the definition and implementation of a proactive customer retention strategy.

Whilst there were several successful elements to this strategy, this case study will focus on the experience of the Bouygues Telecom's Customer Loyalty Program "Advantages".

3. The Bouygues Telecom experience - Phase I "Advantages"

3.1 Overview

The Bouygues Telecom Customer Loyalty Program "Advantages" was launched in May 1997 to high value customers.

Program members accumulate "points" based on usage and tenure. These points can be redeemed against handsets, accessories and other rewards.

In September 1999 the Program was extended to 100% of the post-paid customer base (see “Phase II - Idyllo” below)

3.2 Objective of the “Advantages” Customer Loyalty Program

To safeguard a large proportion of the revenue and contribution of the company by introducing a proactive Customer Loyalty Program for high value customers to reduce churn and build long-term customer retention.

3.3 Aim of the Loyalty Program

All customers in the Program would receive a free handset after 2 years in the program (mid-range handset). This became a yardstick for the “attractiveness” of the program.

3.4 Program Design

Whilst the process for defining the program may be considered confidential to Bouygues Telecom, suffice to say that the design was based on customer requirements.

3.5 Membership

Entry to the program is automatic and free for customers fulfill the following criteria:

- Have been with Bouygues Telecom for 6 months
- Have an average spend of greater than a certain threshold
- Are not bad debt customers

3.6 Drivers of points accumulation

Points were accumulated as follows

- Entry to the program 600 Welcome Points
- Loyalty (tenure) 100 Points per month
- Spend 10 F = 1 point (Roughly US\$2 = 1point)

Occasional bonus points were also possible, e.g.

- Double points for international calls to certain destinations
- Additional points for taking new services
- Christmas bonuses, etc

3.7 Communications

All communications were below the line via Direct Marketing

Upon automatic entry to the program customers received a Welcome Pack containing:

- A Welcome Letter to the Program (A4, personalised)
- A Program Guide (A5 booklet) including catalogue of rewards
- A Points Statement (A4), including the Welcome Points

- A first order form (A4, personalised) to be used for the first redemption (including acceptance of Terms and Conditions of program)

Every 3 months after entry to the program, each member received a regular points statement including:

- The quarterly points statement (A4)
- An update to the reward catalogue (double A5), including promotions and specials
- Bill inserts and other direct mail was occasionally used to communicate with Program members

3.8 Rewards and Privileges

Points could be redeemed for the following Rewards:

- Handsets (limited to the Bouygues Telecom badged handsets)
- Accessories (including battery, charger, car kit, personal hands-free kit,
- Discounts, Free minutes
- Value added services
- Weekends away

In addition, "Advantage" customers also received privileged treatment:

- Longer opening hours and priority in calling queues
- After sales service "plus" (immediate phone swap-out, etc)

3.9 Channels and Redemption

Redemption was via Bouygues Telecom customer service.

Channels were excluded from the program and all communications and fulfilment were conducted direct to the customer.

3.10 System Support

The Advantage Loyalty Program is managed by a standalone Loyalty System called "CREST" Customer Retention System. "CREST" was purpose built for the management of the program.

"CREST" manages all aspects of the Loyalty program - Membership, Points accumulation, all Mailing and Communications with Members, Logistics and Fulfilment of Rewards, Customer Care and Reporting and Administration.

Emagine holds the exclusive worldwide distribution and development rights for the "CREST" Customer Retention System, which has since been fully integrated to Emagine's Closed-Loop Marketing Suite (CLM).

4. The Bouygues Telecom experience - Phase II "Idyllo"

4.1 Market and organizational changes

In the period from May 1997 to September 1999 the French market remained increasingly competitive. Market penetration rose from around 8% to 20%, with Bouygues Telecom customer numbers growing from 500,000 to 2.5 million in the same time.

The focus during this period was heavily weighted towards acquisition of new customers. During the same period handset prices at point of sale fell to 1 France as increasing competition drove up handset subsidies and acquisition related promotions.

4.2 Loyalty also becomes an acquisition tool

In September 1999 Bouygues Telecom, always the innovator, took the bold step of introducing a new bundled package - the "Forfait Ultimo" (Ultimate Package).

For a fixed price per month, this package included not only the universal "free" minutes, but also the promise "Bouygues Telecom provides you with a new handset every 2 years".

Bouygues had transformed "Advantages" into "Idyllo" - and re-launched their Loyalty Program to all 1.5 million existing (and new) post-pay customers.

4.3 Objective of the "Idyllo" Customer Loyalty Program

To safeguard the revenue and contribution of the company by introducing a proactive Customer Loyalty Program for all post pay customers to reduce churn and build long-term customer retention.

To use Customer Loyalty as a key competitive differentiator in the market and increase the market share of new acquisitions.

4.4 Aim of the Loyalty Program

All customers in the Program receive a free handset after 2 years in the program. This remains the yardstick for the "attractiveness" of the program.

4.5 Program Design

It is assumed that the design of the program was based on the experience of the previous 2 years with Advantages.

4.6 Membership

Entry to the program is automatic and free for customers fulfill the following criteria:

- All new and existing post-pay customers
- Are not bad debt customers

4.7 Drivers of points accumulation

Exact points and accumulation rules are not known at the time of writing.

Points are accumulated based on:

- Entry to the program x Welcome Points
- Loyalty (tenure) y Points per month
- Spend z F = 1 point (Roughly US\$a = 1point)

4.8 Communications

The return from summer holidays in France is traditionally a time when sales are high (September/October period).

Bouygues Telecom led the Sept/Oct period with a mass marketing above the line campaign focussing on the new “Forfait Ultimo” (Ultimate Package).

The key message from the campaign - “...now Bouygues Telecom gives you a free phone every two years”.

This was coupled with a massive below the line campaign that retrospectively provided benefits to all 1.5 million existing customers.

4.9 Rewards and Privileges

Bouygues Telecom reduced the rewards proposition to be entirely focused on a selected range of Bouygues Telecom badged handsets.

All other rewards, such as holidays and restaurant meals were excluded.

Interestingly, all accessories, products and services, and free minutes were also removed from the program.

(Authors note: The removal of holidays and restaurant meals seems reasonable as the link with these rewards and churn seems tenuous).

However, some operators have noted substantial increases in average revenue per customer related to the ownership of additional accessories and provision of additional free minutes.

It is surmised that the “Idyllo” Program is focused entirely on handsets for the purpose of clarity and simplicity at launch, however, this may prove somewhat limited over time.]

4.10 Channels and Redemption

Redemption and fulfilment is via Bouygues Telecom customer service and now extended to certain channels.

4.11 System Support

The “Idyllo” Loyalty Program continues to be managed the “CREST” Customer Retention System.

5. Conclusions

It is clearly not possible in a case study of this nature to provide actual results of the program but the following conclusions can be drawn from this case study and from the author’s own experience.

5.1 Handsets remain a key driver of churn

For mobile phone companies, handsets remain a key driver of customer churn

This is particularly the case in markets with handset subsidies and aggressive acquisition offers

In ISP markets, some ISPs are introducing subsidised PCs with a 2 year contract with the ISP. If this model takes off, the PC could well become the “handset of the ISP market”.

5.2 A Loyalty Program is ideal to formalise a proactive handset upgrade program

The Bouygues Telecom “Advantages” Program was extended from high value customers to cover all existing and new post-paid customers – presumably the results were positive enough to warrant such a strategy.

5.3 Loyalty is not cheap...but losing your customers costs more

If we assume that an average handset costs US\$200, then the cost of this program for Bouygues Telecom over the next 2 years (assuming 100% redemption rate) will be US\$300 million (1.5 million customers by US\$200).

If we further assume average revenue per customer of US\$50 per month as a benchmark (\$1200 over 2 years), this means that the reinvestment in customer retention is average 16% of revenue (\$200/\$1200).

Operators need to invest money to “reacquire” their own customers before a competitor does it for them.

5.4 Don't reinvent the wheel

Emagine mission is to provide consulting and IT solutions that enable telecommunications and utility companies to reduce churn, increase average revenue per customer and build long term customer profitability.

Emagine is an Australian based consulting and IT company that sells and supports the “CREST” Customer Retention System via a worldwide network of distributors.

Emagine' experience means dramatically reduced the time to market.

For more information see www.emagine-int.com