

## 1. High End Customer Loyalty through Premium Brand Development

### 1.1 Introduction

The current case study looks at how Hong Kong CSL has developed its premium “1010” service brand in the Hong Kong market. We illustrate how the company initially achieved significant success by deploying innovative services and superior network quality as key brand differentiators. We also show how it has recently sought to supplement this through improved, better integrated CRM processes. The primary example of this latter development, the introduction of its ClubBest mLoyalty solution, is explored in detail. We show how this initiative has replaced a wide range of uncoordinated customer loyalty initiatives while at the same time providing a new impetus for increased customer contact through more efficient eCRM channels. We also highlight how an innovative ‘auction’ feature of the new program has proved particularly popular among customers who have welcomed the opportunity to bid (using award points) for high value auction items.

### 1.2 Background

With 6 cellular operators, and 9 networks, Hong Kong is widely regarded as the most competitive market in the world for mobile services. Intense competition has contributed to historically high churn levels of approximately 5% per month.

With a population of 6 million contained within a small coverage area, the country is ideal for mobile coverage. The vast majority (95%) of customers are postpay contract customers. Prepay has not achieved the same level of success here as in Europe and elsewhere in Asia. This is mainly due to the fact that penetration was already high before prepay services were introduced into this market. Additionally, the cost of contract plans Hong Kong are relatively low by international standards and this also has limited the opportunity for prepay make an impact in this market.

Hong Kong was one of the first markets in the world to introduce full Mobile Number Portability (MNP) in March 1999. The process in Hong Kong involves a relatively short turnaround of 48 hours. The impact on customer churn has been significant. Churn was slightly lower than normal in the few months before MNP arrived, as customers waited for operators to promote network switching deals. Churn then increased by over 50% for 12 to 18 months before settling down at approximately 5.5% per month.

- Churn levels for some operators got above 8% for a time but now the industry average is 5.5%. This is high by international standards but just 10% above the level which applied before its introduction.

An additional churn driver in the Hong Kong market is the early adoption characteristic of the local population. Mobile users typically replace their handsets every 12 months in Hong Kong. This encourages regular reassessment of customer’s preferred network.

Hong Kong CSL (formerly Hong Kong Telecom Mobile) holds a 20% market share with a customer base of over 1,000,000 customers. Its share of market value is substantially higher at around 34%, illustrating its success in attracting and retaining higher value customers.

CSL has consistently positioned itself as a leader in the introduction of new services and this has helped the company to achieve a higher penetration among high value early adopter segments.

- The Company became the world's first operator to introduce a High Speed Circuit Switched Data (HSCSD) service in May 2000, and, in November 2000, it launched the first commercial General Packet Radio Service (GPRS) in Hong Kong.
- The Company also introduced Asia's first, fully commercial Multimedia Messaging Service (MMS) in March 2002.

CSL's dominance in the business market has also been a key factor in its ability to keep churn at levels well below average in the Hong Kong market. Business customers are less price sensitive than consumers and are less vulnerable to churn if served well.

## **2. Problem Identification**

### **2.1 Churn**

Given the competitive nature of the Hong Kong market, it comes as no surprise to learn that customer churn rates are amongst the highest in the world. Churn levels average 5.5% across all carriers with some experiencing churn levels of 8%.

HK CSL churn rates are considerably better than the market average at around 3.4% in the consumer segment and 2.3% in the premium high value segment. However, the company believes there is still an opportunity to improve on this performance and recently set about addressing this challenge.

### **2.2 Maintaining a price premium**

CSL was the first company in Hong Kong to employ a distinctive market segmentation strategy by marketing its services through three mobile brands: 1010, One2Free, and "1+1" Communications. Common brand values across all three include quality, innovation and value.

The One2Free brand addresses the young technology aspiring mobile user, including benefits such as bundled Internet access. The 1+1 brand is positioned as a 'streetfighter' brand bringing mobile affordability to all. The premier 1010 brand is positioned as a premium service, delivering the highest quality service available in the Hong Kong market.

The 1010 'premium' brand emphasis is illustrated by the fact that CSL re-engineered the service offered to 1010 customers so that they could benefit from the world's first frequency hopping dualband network with dropped call rates so low that the company could offer a quality guarantee - an automatic free minute for any dropped call.

1010 customers are typically business or high end consumer users. A wide range of value added services have been developed exclusively for 1010 customers. The services made available to 1010 Consumer customers (see Figure 1) are different to those offered to 1010 Business customers. (see Figure 2). Approximately 20% of the HK CSL customer base (200,000) are 1010 customers.

With its 1010 brand, CSL established a premium position in the Hong Kong market based on the promise of a superior network and innovative services. Since CSL first established its 3 separate brands over 3 years ago, it has successfully attracted and retained high end customers who have valued the service guarantee and the range of services they have been offered. The success of this strategy is evident from CSL's high share (34%) of total market value, delivered from its 20% market share.

The impact of the 1010 'premium' service has been substantial but recently it has been under threat from the fast follower strategies of the competition. New products are copied by other Operators within weeks or even days of their launch and the company has found it increasingly difficult to achieve 'sustainable' competitive advantage in product differentiation. CSL has concluded that a sustainable advantage at the high end of the market will only be achieved by providing fast to market innovation coupled with a recognizably superior level of service, for premium customers.

**Figure 1 1010 Consumer VAS**

Solution	Description
@1010	<p>SMS access to real time infotainment services including news and leisure information, the latest ring tones and graphics. An unusual feature includes access to magazine articles before the reach newstands:</p> <p><b>Mail</b> – Email alerts from up to 3 accounts.</p> <p><b>Post</b> – Local/International Magazines</p> <p><b>Money</b> – Real time stock quotes/My Investment Portfolio/ Equity price alerts/Expert Financial commentary</p> <p><b>Bet/Info</b> – Finance/News&amp;Weather/Entertainment News/Sports/Mark 6 Betting and Results service/Horse Racing Tips.</p> <p><b>Mobile Classifieds</b> – Job Vacancies/Restaurant Guide/Entertainment, shopping and travel tips.</p> <p><b>Shop</b> – Automobiles/Property/Mobile Phones.</p>
IDD 1718	All 1010 customers can benefit from special IDD 1718 promotional rates to the most frequently called destinations.
1010 Mobile Banking	Service available with 6 different banks. All offer account balance, funds transfer and securities payment applications. Some offer additional services such as credit card bill payment etc.
@1010WAP	Offers similar services to @1010 but through WAP
1010 Mobile CQ	This provides customers with the opportunity to meet new people. Customers submit their own personal profile and are matched up with others with similar interests. Individuals can compose and send text messages. There is also a blacklist feature to ensure that unwanted contact can be avoided.
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1010 Voice Greeting Card	Customers have the opportunity to send a special greeting that incorporates a recording in their own words combined with a selected theme song.

**Figure 2 1010 Business VAS and Applications**

<b>Solution</b>	<b>Description</b>
1010 Message	<p>This is a PC bases SMS &amp; MMS solution positioned to address the following business applications:</p> <p><b>Corporate communications</b> - Secretaries can contact twenty or a hundred sales people with a single message. Or reschedule a meeting or inform everyone of a new client or a big contract.</p> <p><b>Retail applications</b> - Retail shops can promote upcoming sales to preferential customers and, later, send reminders. Service companies can announce special offers and bonus privileges.</p> <p><b>Travel and tourism</b> - Airlines can inform passengers of delayed flights. Travel agencies can announce special offers to holiday destinations.</p> <p><b>Financial companies</b> - Brokers can transmit updated stock quotes and purchase recommendations. Banks can make tax loan offers and transmit foreign currency information.</p> <p><b>Educational institutions</b> - Schools and vocational institutions can send messages to parents about their children's attendance or to students about class schedule changes.</p>
1010 Monitor	<p>Monitor is a remote SMS based stock monitoring system targeting businesses who benefit from improved inventory control and planning, including</p> <p><b>Retailers and Wholesalers</b></p> <p><b>Public Utility Companies</b></p> <p><b>Vending Machine Operators</b></p> <p><b>Security Alarm Companies</b></p> <p><b>Manufacturers</b></p>
1010 Office	<p>CSL is one of the first operators to deploy the Microsoft Mobile Information Server (MMIS) to enable secure remote access to business customers wishing to access e-mail, contacts, calendars, tasks or other Intranet line of business applications while on the move, through a range of PDAs and mobile phones.</p>
1010 Salesforce	<p>This provides company salesforces to access their salesforce application server, including order management, contact management, product catalogue and sales databases as required.</p>
1010 Workforce	<p>This provides operations employees with access to a workforce application server, to access operational data as required.</p>
1010 Online Assist	<p>1010 Online Assist lets customers view their bill summary, check their used minutes and download a copy of their bill. 101 customers can also use this channel to apply for services such as IDD and change their rate plan.</p>

Having established a reputation for innovative services, CSL has more recently focused on differentiating the level of service it offers its premium 1010 customers. Two services in particular, both positioned as 1010 'service privileges', highlight CSL's determination to succeed in this regard.

- The 1010 concierge service, provides 24 hour access to a 'personal assistant'. The 1010 concierge service is promoted as a "24-hour Privileged personal service that helps you take care of your living arrangements like hotels or flights reservations; golf course booking; gift ordering & delivery; information on worldwide entertainment or festivals, and even local household emergency support services. You can also reserve the 1010 VIP seasonal box at the Hong Kong Jockey Club Shatin race course."
- Club Best 1010 – a unique loyalty scheme which the company recently introduced and made available exclusively to 1010 customers.

The Club Best 1010 program was launched in early April 2002 and represents CSL's main effort to date, to distance itself from the competition, on the basis of 'service privileges'. This unique program provides the focal point for the current case study.

### **2.3 Cost Reduction and Improved Marketing Effectiveness**

One of the key objectives of the marketing team was to consolidate existing marketing retention spend, into a single coordinated "umbrella" program, that would be flexible enough to cater for the varied needs of CSL's highly segmented, highly demanding customer base.

- Various 'surprise and delight', upgrade offers and other incentives were offered through a variety of dealer channels. CSL was not achieving the full brand benefit that it should have been from these initiatives and it was not always credited as being responsible for these campaigns.
- If successful with the 1010 base, Hong Kong CSL hopes to extend the availability of its mLoyalty program to its wider customer base. If the service is expanded, it will be well differentiated, with 1010 customers experiencing a higher value benefit from the program.

Previously, some HK CSL Mobile high value customers also participated in the Hong Kong Telecom fixed-line Loyalty Program called the "No. 1 partners club". This program had relatively low mobile specific retention value, however, it had previously been supported due to the importance of the program to the fixed line business. Approximately 20-30% of 1010 customers had been registered with this program

Recent changes in the corporate structure de-coupled the fixed and mobile businesses, giving HK CSL (Mobile) the opportunity to determine if this approach could be improved.

### 3. Solution Adopted

HK CSL commissioned eImagine International ([www.emagine-int.com](http://www.emagine-int.com)), an Australian based company specialising in telecommunications churn management, to conduct a global benchmark diagnostic study and recommend priorities for improved customer retention. The study identified areas of best practice in other highly competitive markets, and recommended a priority roadmap for HK CSL to achieve best practice across a number of areas.

A key recommendation was for CSL to focus on creating an innovative, proactive Customer Relationship Management (CRM) framework which would act as a key driver and trigger in transforming the business. The objective was to transform CSL's reactive relationship management approach to a more proactive, intimate approach, developing the customer relationship throughout the customer lifecycle with CSL 1010.

A key element of this CRM strategy was to rapidly launch a CSL specific m-Loyalty Program to replace the relatively ineffective "Number 1 partners club". Certain unique requirements had to be addressed in the delivery of this capability.

The mLoyalty Solution was to be an essential tool in creating value for customers. The customers interaction with this program needed to deliver more than might be achieved by simply offering customers a simple discount on their bill.

Since it might later be extended to other segments of the customer base, it needed to be designed in such a way that it would be capable of delivering different levels of service to different customer segments.

- While it was decided to restrict the launch of the initial ClubBest mLoyalty program to the premium 1010 brand, it was also important that an equivalent service could later be rolled out to the wider base. To ensure brand differentiation going forward, the service needs to be flexible enough reflect the value of the segment being addressed. If for example the program was to be rolled out to lower value customers, then the reward structure and they type of rewards would be altered.

In addition the the requirement that this service should help to justify and re-inforce the service premium, additionally it needed to drive customer loyalty and potentially stimulate revenue growth in new service areas through flexible promotional offers of bonus reward points. The solution also had to be capable of being fully integrated with future complimentary products and services.

It was important to ensure that the technology and surrounding processes had a much broader scope than a "simple Loyalty program". If positioned and promoted well it could excite and educate customers about the online interactive nature of mobile telecommunications services. This in turn would help to persuade many high value customers that by going 'on-line' they could benefit from an improved level of service management generally. If for example a customer could be persuaded to go on-line for the first time (by Web or WAP) to check his reward status, it would take only a small additional step to persuade him to access the 'On-line assist' account management service. Clearly this would also reduce the costs of managing the customer, going forward.

### 3.1 Service Launch and Key Features

The ClubBest program was launched on April 7<sup>th</sup> 2002. 1010 customers were encouraged to register through a variety of initiatives:

- Personalised invitations to register with ClubBest were mailed out to all 200,000 plus 1010 customers.
- SMS was used to explain eligibility to register free for the program. Individuals could respond immediately/briefly via SMS or via Web or WAP.
- In return for the completion of a more detailed profile over the web, customers received 50 bonus points
- Those who had previously registered with the “No 1 partners club” were invited to move their loyalty points over while registering for ClubBest.
- Initial reward points offered at registration ensured that all customers could immediately benefit from lower value rewards such as a free SMS allocation.

For every Hong Kong Dollar of service expenditure appearing on the customer’s monthly bill, the customer is awarded one ClubBest point. Extra bonus points can be offered as part of particular promotions. A current promotion (May 2002) allows customers to benefit from 20% extra ClubBest points when roaming in mainland China.

- This initial offer represents a strategic attempt to overcome the trend for customers in the Hong Kong market who regularly roam to mainland China, to hold two SIMs, one with HKCSL and a second Prepay SIM with a local carrier on the mainland. This trend has hurt the Hong Kong carriers, including CSL. Margins on local calling in the Hong Kong market are relatively low due to the high levels of competition and a significant proportion of CSL’s profit margin depends on customer roaming revenues, particularly those generated by visitors to mainland China.

Anniversary points are also offered for every year spent with 1010. These points increase dramatically over time, as illustrated by figure Figure 3. Points expire if unused within 2 years.

**Figure 3 ClubBest Anniversary Reward Points**

<b>Years of Service</b>	<b>Anniversary Points</b>
1	500
2	800
3	1500
4 or above	2200

A unique feature of the ClubBest program is the ability for 1010 customers to use their points to participate in a bidding auction for a range of new handsets. At the time of writing customers were invited to bid for a Sony Ericsson T68i with a minimum bid required of 3,888 points. A Nokia 6510 was also being auctioned with a minimum bid required of 1,888 points. Currently individual items, such as handsets are auctioned at the rate of one per week. This feature has been particularly popular in the early weeks after the program launch. Consequently, we may see more handsets being auctioned on a more regular basis, in the future.

1010 customers are invited to redeem their points by exchanging them for a wide range of products and services.

- A Sony Ericsson T68i handset can be secured with 100,000 points. To secure this handset a customer would need to have spent HK\$100,000 or €14,000.
- Points can also be exchanged for service charge rebates. For example a customer can obtain a rebate of HK\$100 for 14,000 points.
- Handset rebates are also available which vary according to the value of the handset.

Other rewards include mobile phone accessories, modem cards, Roaming and Prepay SIM cards and other more general gift items.

The level of expenditure required to obtain a free high value handset is high when compared with equivalent schemes in Europe, where customers who spend in the region of €5,000 normally qualify for a free executive standard handset. While airtime margins are tight in the Hong Kong market, CSL may find it difficult to optimise program interaction if rewards are regarded as “inaccessible”. Consequently, over time Prodata would expect to see these rewards become more accessible.

When interacting with the loyalty platform, customers can quickly identify which rewards they can avail of and how long it is likely to take before they will qualify for more expensive rewards. A selection of screenshots presenting these capabilities are shown below:

Figure 4 CSL Mloyalty Platform Welcome Page



Figure 5 CSL Mloyalty Rewards Auction Page

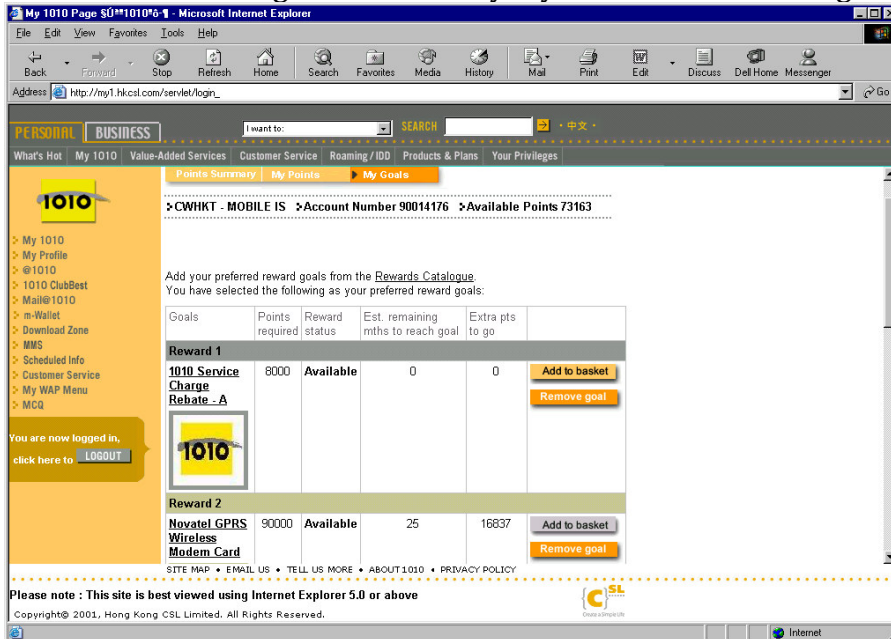


Figure 6 CSL mLoyalty Rewards Forecast Page

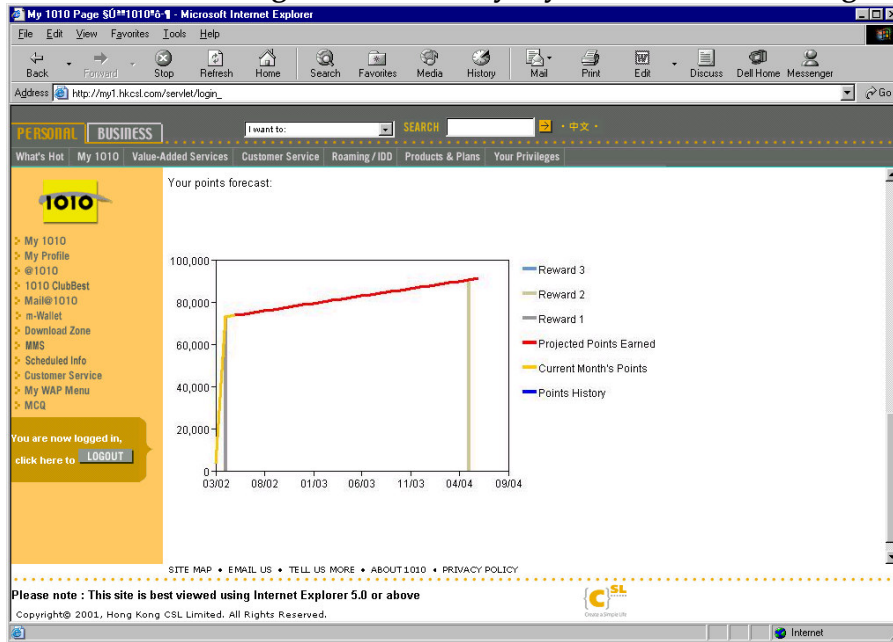
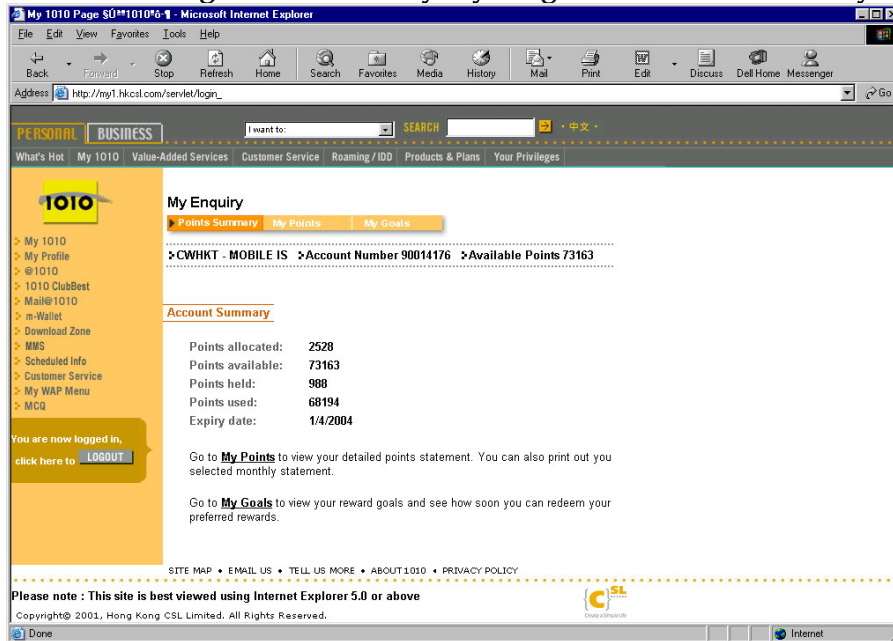


Figure 7 CSL mLoyalty Program Account Summary Page



#### 4. Business Transformation Process

The mLoyalty Project was viewed internally as a significant strategic initiative, one in a series of initiatives focusing on the objective of improved customer loyalty. It is hoped that this initiative will transform the business from a price/handset subsidy retention model, to one which rewards loyalty. The transformation process was led by senior management and promoted downwards to the enabling staff. Parallel, complementary initiatives included:

- The creation of a completely new retail experience for the personal mobile shopper in Hong Kong with the opening of two premium CSL 1010 care shops which offer 7am-11pm service to an advanced level, together with sales and advanced business communication assistance
- a superior eCRM set of software tools enabling a shift away from a focus on traditional channels to new e-channels via the web, wap and IVR systems. In addition to the mLoyalty Platform, which develops these channels, CSL has used a local CRM vendor to develop a comprehensive CRM call centre solution for its sales and call centre channels.

The mLoyalty solution which underpins the new '1010 ClubBest' loyalty program is unique to CSL 1010. CSL believes this together with other recent e-CRM initiatives has helped to transform the business into one that delivers tangibly better customer value.

CSL 1010 processes have been enhanced to offer a far greater level of care, communication and value to the customer at all points of the customer lifecycle. This has already seen membership of the 1010 Club regarded as a prestigious status indicator and a club that people desire to be part of. This allows CSL 1010 and its customers to further differentiate themselves from other brands.

#### 5. Project Summary

The CSL 1010 mLoyalty project utilizes the latest release of Emagine's iCrest Booster technology and leverages a variety of CSL's wireless platforms (WAP, USSD, IVR etc) to create a "total loyalty platform" to coordinate tactical programs to maximize customer awareness and response, and at the same time provide CSL 1010 with CRM capabilities and tools.

The strategic deliverables of the project were;

- To Create an aspirational effect to build genuine loyalty
- To build customer relationships and reward customers on a fair basis according to their value and tenure.
- To enable more economic deployment of the customer retention budget to groom customers' patronage.
- To drive towards dynamic personalized communications.
- To deploy CRM capabilities to support the business drivers.

The loyalty platform supports interaction with customers through a variety of channels (Web, WAP, IVR and Hotline support) and delivers benefits to customers through value added rewards and personalized communication. CSL is confident that it will gain from the improved customer relationship management capability offered by this solution.

The customer can interact with CSL 1010 via his preferred channel anytime, anywhere. The customer can access the platform 24 hours a day 7 days a week and can earn points from a variety of actions captured across multiple legacy systems. Point awards can be shaped to stimulate revenue through targeted campaigns, capture customer data through online survey's or to simply reward customers for loyalty or other events.

The platform also supports Business-to-Customer transactions and Business-to-Business functions through reward partners, suppliers and other third parties. Key features of the eMagine platform are listed in the figure below

**Figure 8 Key Features of CSL Mloyalty Solution**

Key Features
Calculate points entitlement, dispatch points, deduct points & points adjustments
Real time update and keep points & transaction records
Reward catalog via all channels - CSR Front end, Web, Wqap, IVRS, USSD
Facilitate instant redemption requests via all accesses & link up with fulfillment channels
Re-set points balance & give points expiry notice
Auctioning and Bidding features
Posting of graphics & songs for download
Special message pop-up (push message)
Flexible Reporting
Loyalty points campaign management – web, email, sms, paper based
Online and Mobile bill statement presentation

A key benefit of this solution is a flexible rules based application, that enables CSL to rapidly launch promotions such as "double points for international calls on Chinese New Year", "10,000 bonus points when you take mobile data services", "double points for all calls made whilst roaming in China this month"... all of these are easily implemented, and executed via the internal campaign management function

The project was delivered in less than 6 months. In early April 2002 it was launched to all high value customers (on an opt-in basis) and currently supports the bulk of the high value customers in the base i.e. the top 20%. Early levels of registration have been encouraging.

The project scope is to expand this capability, making it available across all three CSL brands.

Total project cost was under US\$1.2M, this includes license fees, design and implementation and 24/7 support. License fees cover 1M customers, and include future software releases and enhancements as long as maintenance and support continues.

## 6. Result

Since this mLoyalty solution was launched commercially quite recently (April 2002), it is difficult to provide a comprehensive assessment of its impact. However, one of the key objectives of the ClubBest mLoyalty Program was to consolidate existing marketing retention spend, into a single coordinated “umbrella” program, that would be flexible enough to cater for the varied needs of CSL’s highly segmented, highly demanding customer base.

- Upon introduction of the program, HK CSL secured savings in its retention program by consolidating activities within the framework of this integrated loyalty program.
- The program has already proved to be self-funding simply through improved efficiency and cost savings via more effective customer retention spend.

CSL does also expect increased customer revenues and a reduction in churn to result. However, it has not needed to factor in an improved return in these areas to justify its new mloyalty solution. Any result in these areas above and beyond the immediate efficiency and cost saving benefits, will be considered a bonus.

- CSL hopes to achieve a 1.5% increase in ARPU, attributable to the program.
- CSL also expects to achieve a reduction in churn as a consequence of this program. The exact impact remains to be seen but even a modest impact can have a significant impact on company profitability, given the concentration of high value customers within the 1010 base.

The program has also been instrumental in encouraging customers to move towards online communication with CSL. The online nature of the program, with interaction encouraged via Web, Wap and IVR, has been effective in encouraging business customers, who often demand a high ‘touch’ personal service, to become familiar with the advantages of mobile-specific channels in their daily contact with CSL.

To facilitate this development, at launch, customers were provided with bonus points for completing online surveys, to encourage interaction via the web.

Further encouragement has also been provided by inviting customers to auction their points via web and wap, stimulating interaction with the program. Immediately upon launch, the innovative auctioning function proved popular with customers, with customers bidding within hours of the system being launched to use their points to “bid” for high value promotional items such as GPRS handsets). When customers are outbid, an SMS or email is sent to inform them, again reinforcing the interaction with CSL via the online medium.

An additional advantage to this multi-channel approach, rests in the fact that it encourages the most important CSK customers to move up the technological staircase, educating and encouraging them towards increased future mobile data usage.