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CUSTOMERS' EXPERIENCE IN TELECOM

Challenges in Keeping Pace
with Change

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June 25, 2007

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**Challenges in Keeping Pace
with Change**

Deregulation, new competitors, and new technology offerings require new strategies for handling relationships with customers.

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Executive Summary

Deregulation, new competitors, and new technology offerings require new strategies for handling relationships with customers.

Key Finding

Today's communications consumers have more choice, and products have become increasingly complex. Moreover, any single interaction represents sales and losses across multiple products for telecoms. With broadband Internet service provider (ISP) satisfaction showing a decline of 11 percent during the past two years, telecoms should take note of this attitudinal shift, acknowledging the stakes of managing customers' relationships have never been higher.

Background

The local exchange market opened to competition more than one decade ago, but the effects of deregulation have only recently become evident to consumers. With choice of voice service having proliferated, choice of video, data, and wireless services has followed suit.

Report Findings

Telecom Competition Intensifies

Today, telecoms compete with other telecoms for some products, but competition has also emerged from cable multiple service operators (MSOs), pure-play voice over Internet protocol (VoIP) providers, and other product providers shaping the digital home. (JupiterResearch defines a digital home as one that employs one or more home networking technologies to facilitate moving content [e.g., video, audio, photos, or other digital data] among devices that serve as both digital hubs [i.e., repositories of content] and digital spokes [i.e., receivers of content for synchronization and/or streaming].) Telecommunications service providers are seizing burgeoning opportunities to broaden their product portfolios, jumping enthusiastically on the bandwagon of the triple-play bundle of voice, video, and data—or even the quadruple-play bundle, adding mobile telephony to the mix. The movement toward bundling is motivated in part by opportunities to deepen customers' loyalty, minimize churn, and increase average revenue per user (ARPU). It also results from ever-increasing competition in the market, which threatens to leave those not embracing multiservice bundles at a competitive disadvantage.

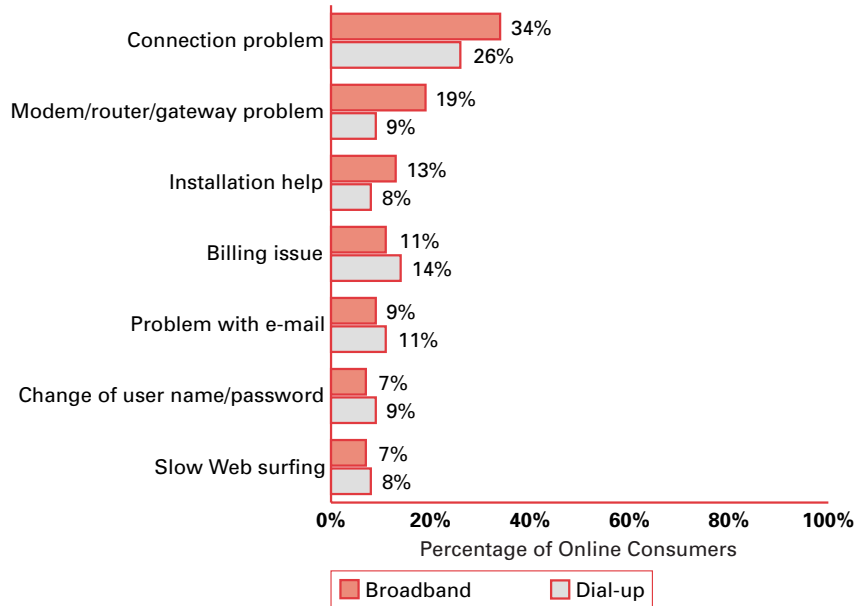
New Platforms, Increasing Complexity Challenge Consumers' Service Expectations

For years, consumers have been accustomed to phone service and TV service that generally worked. Many new services being introduced by telecoms, such as VoIP and Internet protocol TV (IPTV), will serve as substitutes for existing services with extremely high customer familiarity and expectations. Providers of these new technologies are therefore likely to find consumers have little tolerance for service interruptions. Many of these new products and services introduce new layers of complexity that consumers and providers have not faced before.

Based on past trends, JupiterResearch forecasts customer relationship management (CRM) challenges will increase as product complexity continues to grow. The ability of consumers to master relatively steeper and higher learning curves will constitute a key factor in the continued adoption and success of these new services, and will represent a key challenge for telecom support infrastructures in the short term. Telecom consumer education and adequate support resources must be tuned to support consumers as their product portfolios grow in both breadth and complexity.

As Early Adopters Give Way to Mainstream, Service Expectations Rise

Fig. 1 Reasons for Online Users Contacting ISPs' Customer Support



Note: Top seven broadband responses are shown.

Question: For which of the following reasons did you most recently use your ISP's customer support? (Select all that apply.)

Source: JupiterResearch/Ipsos Insight Household Technology Consumer Survey (12/05), n = 2,214 (US only)

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In the early days of broadband and VoIP adoption, consumers were generally willing to overlook minor nuisances of products with which they had little familiarity. After the novelty of new technology wears off in general, however, consumers' expectations start to rise. Broadband provides a great historical example. To date, broadband service has generated generally high satisfaction levels, but recent trends indicate a significant attitudinal shift.

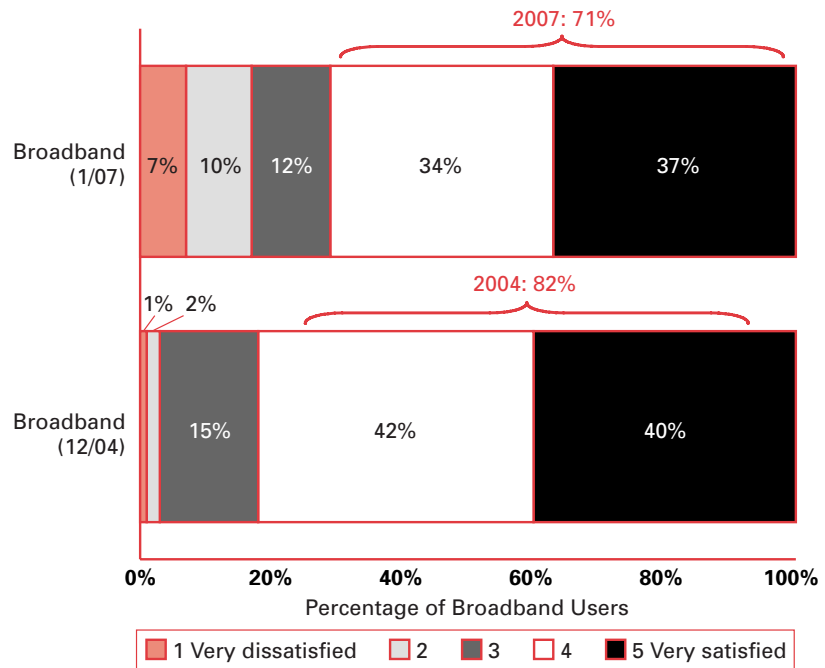
Broadband Satisfaction High, but Decreasing over Time

Fig. 2 Broadband Users' Satisfaction with ISP

Question: How satisfied are you with your current ISP overall? If you currently have more than one ISP at home, please think about the ISP you use most often. (Select one.)

Source: JupiterResearch/Ipsos Insight Consumer Survey (1/07), n = 1,199; (12/04), n = 676 (broadband subscribers, US only)

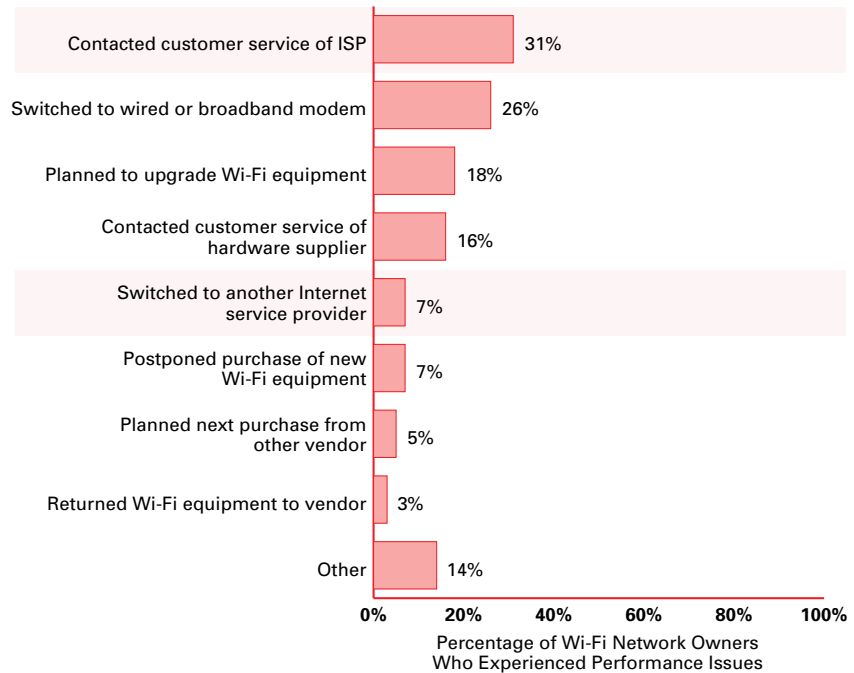
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JupiterResearch consumer surveys show an 11 percent drop in consumers' satisfaction with their broadband service providers (BSPs), comparing results from December 2004 and January 2007. As broadband becomes increasingly integrated into consumers' lives, customers' satisfaction depends less on high speeds and more on customers' overall experience. Efficient and effective servicing are mandatory requirements for maintaining telecom customers' satisfaction.

New Product Complexity Drives Need for Efficient and Effective Interactions with Customers

Fig. 3 Wi-Fi Network Owners' Actions After Facing Performance Issues with Wi-Fi Networks



Question: What have you done as a result of performance issues with your Wi-Fi network (e.g., losing network connection, slow network connection)? (Select all that apply.)

Source: JupiterResearch/Ipsos Insight Consumer Survey (5/06), n = 187 (Wi-Fi network owners who experienced performance issues, US only)

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New product offerings bring new service requirements and expectations. Helping consumers resolve service issues is one key component that increases the complexity of managing customers' relationships across multiple products—and the effect is multiplied per product supported.

Wi-Fi provides a good example of understanding the manner in which a new complex digital home product offering drives new interactions with customers. With a network router serving as the hub for an increasing number of products within the home, connectivity issues risk compromising the value of all connected devices and services. A recent survey shows one-half of all Wi-Fi access point owners have experienced issues with their Wi-Fi network. However, the origin of the connection problem, the party responsible for the problem, and the party to go to for assistance are not always clear to consumers. Consumers largely look to their BSPs for resolution of such issues: About one-third of Wi-Fi network owners experiencing network performance issues said they contacted their BSP for assistance.

These contacts will likely occur even if BSPs do not supply the networking equipment. Service providers are frequently the first points of contact for consumers experiencing problems with an element they believe represents the Internet, even though their problems potentially lie in local area networks or elsewhere. This challenge forces BSPs

to strengthen customer care, enabling support of equipment BSPs supply and sometimes even equipment consumers independently acquire.

Service Bundles Present Risks and Opportunities

Bundles provide telecoms with the opportunity to increase revenue, but they also represent risk of significant revenue loss. In an increasingly bundled world, customer churn no longer affects just one service: Multiple revenue streams as well as the future ability to sell additional products and services could be at risk.

The data relating to resolution of consumer Wi-Fi performance issues demonstrate this point: Seven percent of Wi-Fi network owners experiencing performance issues said they switched ISPs. Although this percentage may seem low, the impact of losing customers multiplies if providers want to sell broad portfolios of bundled products to their customers. Moreover, yearlong promotional deals or service contracts offered by competitors could also limit opportunities to win back customers.

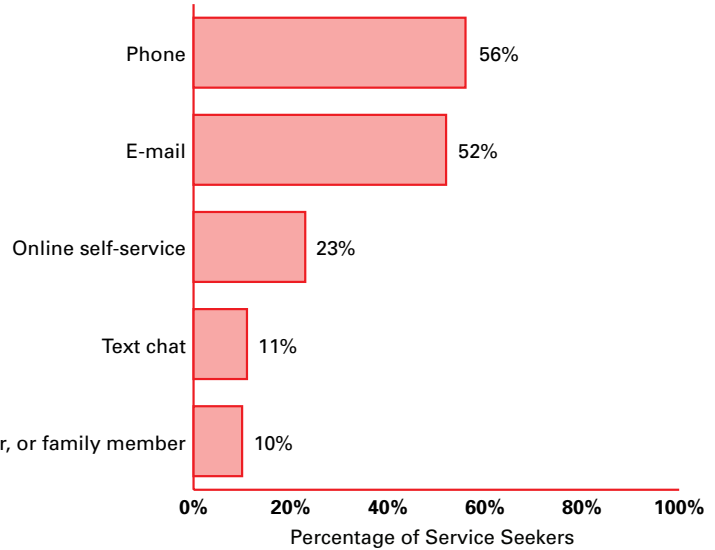
The Stakes of Customer Service Have Never Been Higher

Outside of actual churn numbers, the impact of poor experiences of customers can be difficult to quantify. However, attitudes and behavior of consumers for whom telecom is a top-three product category regarding importance of customer service shed light on potential cost drivers and the relative importance associated with each. Poor customer service experiences have the following impact on both current and future relationships:

- **Less likely to buy again.** More than one-half of consumers (51 percent) who highly value telecom customer service said they would be relatively less likely to buy from merchants off-line based on poor customer service experiences. Even more damaging is the effect on online sales, with 84 percent saying they would be relatively less likely to buy from merchants online.
- **Recontact after resolution failure.** Consumers who recontact after resolution failure raise the overall cost of providing customer service, while the lack of unified interaction management platforms exacerbate customers' already-fragmented experience. Sixteen percent of them said they would recontact by phone, while 11 percent of them said they would recontact by e-mail.
- **Engage in negative viral behavior.** More than one-half (56 percent) of consumers who highly value telecom customer service said they would tell friends, family, or coworkers about the experience. This behavior has implications regarding potential relationships with other customers and could accelerate in the future as social networking sites proliferate.
- **Churn.** Forty percent of consumers who highly value telecom customer service said they would purchase from another merchant based on a poor customer service experience. The data outlined above relating to resolution of consumers' Wi-Fi performance issues support this point (i.e., seven percent of network owners with network performance issues having switched ISPs). As discussed, the effects of this relatively low percentage multiply if providers want to sell portfolios of products to their customers.

Siloed Organizations Are Challenged to Meet Consumers' Service Expectations

Fig. 4 Resources Service Seekers Consulted to Resolve Customer Service Issues

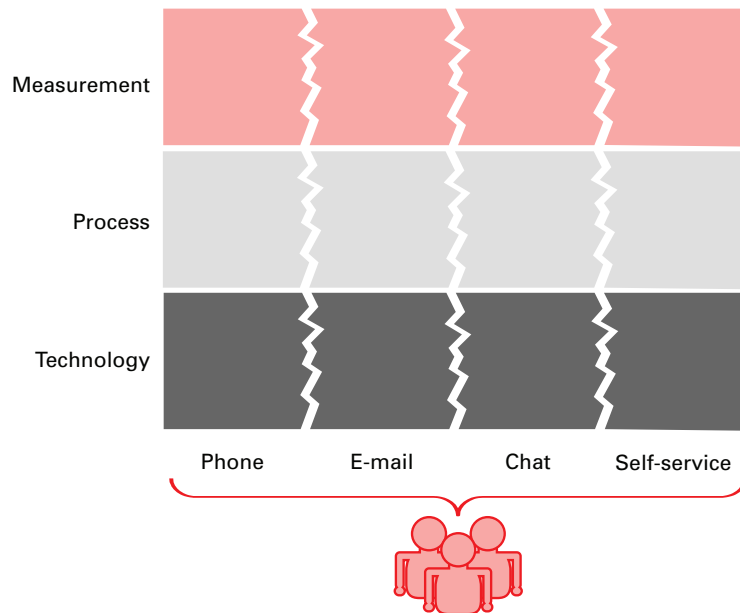


Note: Top five responses are shown.
 Question: Which of the following resources did you consult while resolving your most recent customer service issue? (Select all that apply.)
 Source: JupiterResearch/Ipsos Insight Consumer Survey (11/06), n = 573 (service seekers, US only)
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Consumers' expectations of choice and flexibility regarding their interactions with businesses have never been higher. These expectations manifest in the diversity of their adoption of service touch points to resolve issues. However, companies continue to struggle with satisfying consumers across multiple channels and myriad services. This difficulty is largely due to companies' silo approach (e.g., lacking unified knowledge bases, interaction histories, reporting, analytics) in managing customers' interactions. Consumers' propensity to recontact after inquiry resolution failure cannot be ignored or handled in a reactive manner.

Holistic View of Customer and Approach to Service Are Key

Fig. 5 Silo Approach as Obstacle to Holistic Customer Service Experience



Source: JupiterResearch (6/07)
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Good-enough CRM will no longer suffice as both expectations and complexity rise. To maintain and expand the view of customers' relationships, service providers should incorporate a unified technology platform on which unified processes and measurement can be executed. Service providers should adhere to the following key principles:

- **Offer preferred contact method.** Provide service and support that align with consumers' contact preferences (e.g., phone, e-mail, online self-service, text chat).
- **Unify view of customers.** Enable sales and support organizations to have a single view of the customer to drive contextually informed interactions (i.e., interactions aided by strategically selected data in real time).
- **Recognize and react.** Proactive service through e-mail, short message service, voice, and text chat can significantly decrease inbound inquiry volume and increase customers' satisfaction.
- **Unify operations.** Consistently unify measurement, technology, and process across all touch points to accommodate the inexorable trend of consumers demanding anywhere/anytime flexibility of contact.
- **Encourage feedback.** Solicit feedback to drive continuous improvement, engaging with customers and building relationships.

Building and maintaining relationships with consumers means telecoms must realize every interaction counts in this new competitive landscape. Allowing customers to choose methods of interaction and working toward holistic management of relationships with them will represent the first steps in capitalizing on the new opportunities at hand.



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