

Episode 45
Ferry Grijpink, McKinsey & Company
Released July 12, 2022

DR: I'm Danielle Royston, and this is Telco in 20.

One of the most elusive questions being asked in the telco industry today is, how are we going to monetize our 5G investment? There can't be that much robotic remote surgery needed in the world. And so, telcos are searching for some awesome advice from big brains [00:00:30] on how to solve this problem. Smart leaders pick up the phone and call one of the world's top strategic consulting companies, McKinsey, to get access to the best think tank in the industry.

Recently, they've been putting out thought papers on using personalization in telco. Like me, the team at McKinsey thinks it's a way for telcos to get more revenue and drive higher ARPU. Today on the podcast I've invited McKinsey partner, Ferry Grijpink, the founder of McKinsey's Center for Advanced Connectivity, to talk about how to monetize [00:01:00] your 5G network investment by using analytical insights to personalize the subscriber experience. So, let's take 20.

Ferry Grijpink is a partner at McKinsey and company. Ferry, welcome to Telco in 20.

Ferry: DR, thank you for having me. Been following you for a long time, and it's amazing to finally meet you. I start noticing where you [inaudible 00:01:22] MWC, 2021. So, thank you for having me today.

DR: Well, I'm excited to talk to you. We're Twitter friends, we're linked on LinkedIn, [00:01:30] I was looking at your profile. You have 17,000 followers, so that's super impressive. I think we're going to have a great conversation today. And McKinsey is so respected, especially in telco. So, just to back up and introduce you to everyone, you're a partner in McKinsey in the telco space. And so, I think you're the head of this McKinsey Center for Advanced Connectivity. How did that come about, and you become the owner of this area within McKinsey?

Ferry: It's quite funny, we were actually at MWC in 2019, I believe. And I was walking around with our then CEO, Kevin Sneader, and the CFO, [00:02:00] Eric Kutcher. And Kevin is not a telco guy, and he said, "Ferry, I've seen all these people talk about 5G, but the only use case I hear is remote operation." And he says, "It cannot be all these people putting [inaudible 00:02:17] in the tower and equipment to do remote surgery." And then he said, "We need to have a perspective," so we agreed to build a better perspective. So, we get at least 15 partners around the globe, we do nothing else than see what can you actually do with 5G?

So, [00:02:30] not remote surgery, but a lot of real things from smart infrastructure, to smart factories, to drones. And it's been super exciting, because I used to be a telco guy, but now I work also with industry that wants to use 5G, and working with tech companies that want to sell to telcos. So, it's been a really interesting journey for the last

Episode 45
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Released July 12, 2022

couple of years. And of course, now we know what 5G is, now the question is, how are you going to make money out of 5G? And I think that's the big topic.

DR: Yeah, it's a big question in the industry. What's the killer use case? And I think it all stems from, it's big money, [00:03:00] big CapEx, how are you going to recoup this investment? But what gave me this idea to connect with you and do this podcast was a post you put out on LinkedIn about B2C monetization. You asked, broadly, to all of your followers, was it time for a new 5G pricing approach? I commented on it, and we had a little bit of a discussion. But what ideas are you guys thinking of at McKinsey as a way to monetize that 5G investment?

Ferry: DR, that's a fantastic topic. Because, of course, when 5G happened, to your point, [00:03:30] we did a survey on the CTOs. And we asked CTOs, where are you with 5G? And the management teams all said, "We know how the technology works, but we have no idea how to make money." So, [inaudible 00:03:39] 40-50% said the biggest problem in 5G is the business case. Everybody seems to believe in B2B, but in the end that will take another three to five years. So, we need to do something with B2C. And that has turned out to be quite complicated. But if we back up, as you know, as an industry we've been incredible in rolling out infrastructure. And we also have this amazingly addictive product. Everybody [00:04:00] wants to sit on their phone all the time. I just checked, I did five and a half hours today.

And every time we talk with customers, they're willing to pay more, 30% more, 40% more. And then, interestingly, is our telcos are not making any money. We did this return on invested capital minus cost of capital, it's a bit of a complicated thing, but it basically means that returns are less than 1%. So, what's going on here? Then you're basically in a market with two or three players. What is the best way to make more money? And that is not to commoditize, [00:04:30] and I cannot pronounce it, so don't make fun of me. But if you're an oligopoly, you need to differentiate. And I think what telcos have not done over the last couple of years is be good marketers. Actually, they lost the art of marketing, because we have seven versions of unlimited, we commoditized a very valuable product.

And what our solution is for the industry, and I think this is the debate you and I had, is to say, "Hey, we need to create differentiation," and real differentiation. And I think where you are is, it needs to be so differentiated, [00:05:00] it needs to be personalized. I think that is one version of it. Our version is maybe you need to take 10, 20 different groups, create experiences, like this is a great Zoom package. This is a great Fortnite package. So, you are much more in that type of thinking. But go away from this simplicity, I want one product, it needs to be a simple approach, because that doesn't maximize the [inaudible 00:05:21].

DR: Yeah, maybe I have a messaging problem that McKinsey can help me with, and a strategy problem. But I think it's a range, I agree with you, I think you could have [00:05:30] more

Episode 45
Ferry Grijpink, McKinsey & Company
Released July 12, 2022

interesting segments of offers that appeal to groups. But I still believe with plan design, which is the main reason that we monetize for B2C, I agree with you that it's commoditized, but I also don't think you should be allowing your subscribers to design their own plan. It's impossible to manage millions of plans. But maybe if I think of it in a different way, which is starting to use predictive artificial intelligence, using machine learning to better [00:06:00] design next-best offers that are automated, using all of this unused data, which is petabytes and exabytes of data, that the telcos can't use today because it's just insane. The data's dirty, there's so much of it. You can't get real time insights from it.

But if you move it up into the public cloud, now you can process it, and now use all these tools to put together much more personalized offers. And once you get to see their usage, and their usage of the product, which is the network, [00:06:30] you can start to tailor that experience and start to put out offers that make sense. So, you just dropped a call, and we know that you dropped a call, you, in the car. And again, not from a creepy stalker way, but in a way that it's like, "Yeah, I did just have a bad experience," and you knew it, and you saw it, and you did something about it. Again, switching from commoditized to building a loyalty, I think that will change the behavior of people in terms of the way that they think about telecom. So, what do you think about... am I crazy? [00:07:00] Will this work?

Ferry: No, and by the way, fresh thinking in the industry is incredibly important. So, happy that you shake things up. The way we look at it is the following, what you were talking a lot about is how you sell. And I'm a hundred percent with you. We need to use more data, more analytics to how to sell. The problem is, at this point of time, we have nothing to sell. Because if you have unlimited data, what more can you get? So, when I look at the industry, and this is when I talk with clients, there are two problems to tackle. One is, what are you going to sell? And the second is how you sell it. [00:07:30] Now, if you make a much more complex product portfolio, you cannot put it on a traditional website [inaudible 00:07:35] offers, or in a store where people go nuts.

In the end, once you create that more complex portfolio, you need that type of analytics. And the example I gave is, I was with my son and my two daughters, we were skiing, and my wife. And the network was shit, so my son went to do Roblox and it didn't work. I can tell you, if you would've sent up an SMS, he would've given you all his pocket money to be able to connect with friends. And that type of analytics [00:08:00] to say, "Hey, this guy always plays Roblox. He's in the mountains now, let's make an offer for him for \$5 or \$7," it's a kid, "for the next week while he's on holiday, you get fantastic quality for Roblox." It doesn't have to be high speed, but relatively low latency works well.

But we have to do two things. One is create a rich set of offers, and that can be snacks, that can be monthly plans, it can be quick upsells for a couple of hours, which we can sell the moment you want it. That's the offers. And then, the second part is how to sell it, and I think, DR, what you are bringing is [00:08:30] that needs to be completely

Episode 45
Ferry Grijpink, McKinsey & Company
Released July 12, 2022

different. Because I don't want to design my own plan, because my son didn't know he was going on skiing where there was no network. So, it needs to pop up and say, "Hey, you're here. Do you want this?" "Hey, Ferry, you have this important podcast recording, we are going to guarantee the latency and it's going to be fantastic." And if I get that, I think we can make much more money.

DR: And this is exactly what I'm talking about. We've seen this trend in your usage, I think it would be a wonderful thing, and this is a crazy idea, for telcos to start to literally offer [00:09:00] to save people money. Take them off of the unlimited, you don't need unlimited. In the United States, you spend about \$55 a month on unlimited, I'm going to move you down. Which is a little bit of a positive win for the consumer, "Wow, my telco's saving me money," and they take me down from 55 to 45. But they're like, "Hey, you travel a lot, all the time. Pay \$20 a month," go to 65, they took me backwards to take me up, and I feel better about it because you're personalizing that experience.

And [00:09:30] my kid also is a gamer at the edge, and gets frustrated with the service. The telco knows everything, where we go, what apps we're using, the sites we're browsing, the routes we travel on in the car. And you could sit there and use this data to tweak the original plan. You come into the store, you buy the basic plan, but then as you use it, everyone is unique. The way I use my plan is vastly different than my children or my husband. And so, tailoring that, you would be able to get [00:10:00] more ARPU out of your customers. But you would have to be willing to use your data, and start to intelligently present it to subscribers. And getting subscribers very used to accepting offers that are delivered as SMSs instantly. And we don't have that experience today.

Ferry: I think you're spot on. Basically, when we did the survey, getting more offers and more richer set of offers, we believe, and we did market survey in 15 markets, there's about 15-20% ARPU uplift, which is possible. Which is real money. [00:10:30] And, DR, if you went back 15 years ago, you would have people with 15-odd dollar of ARPU because you would be calling the whole day, be international, and you would [inaudible 00:10:38] five. Now we squeeze the whole world in a band between \$70 and \$10. If we can increase that a bit by adding things to it, there's 15-20% more ARPU to be gained. And then to your point, if you sell better, there's another 5-7% to be gained.

Now, I don't think you can add them up because there's a bit of a multiplication effect, and this begins with sticklers for getting the numbers right. But there is at least 15-20% [00:11:00] at play, but it requires new offers which people understand. Because that's the other problem, and you're a great communicator, DR, I've seen dragons and all this stuff. But a lot of telcos are terrible communicators, because of a wideband latency package, nobody understands. But if you tell my son, "You are faster at Fortnite than anybody else," or my wife, "Hey, you need to this call while you're watching my daughter have hockey, and the quality will be great," she will be peel to be 5 Euro, 10 Euro, 20 Euro. So, I think it's also the communication about what we offer.

Episode 45
Ferry Grijpink, McKinsey & Company
Released July 12, 2022

DR: Well, I totally agree. All of [00:11:30] the language that you see from the telco is in their speak, in their jargon, 5G. You talk to someone on the street, "Do you have a 5G phone?" No idea. "How much data do you use per day or per month?" No idea. People don't know. People are scarred from the experiences of the overages from the nineties where, when you went over on your minutes, you had to pay extra and it was very punitive. And so, people have gravitated towards these unlimited. But it's capped the ARPU. And I think maybe it's a time to return [00:12:00] back to rightsizing the plans, maybe taking a little hit on the ARPU to get it all right, because telcos' fear is that consumers figure out, "Hey, I'm on a plan that's too big for what I really need," or moving from postpaid to prepaid, that's the shock and horror. You see it in their eyes when you talk to them. They're like, "Oh my God, that'll be my worst nightmare," for people to move from postpaid to prepaid.

But if consumers were educated, they would do that. And so, you're like, okay, now I got to come up with new ways to communicate in [00:12:30] user's eyes. "Hey, do you watch a lot of movies? Two or three movies a week at the edge? This is what you need to do." So, I think the language is confusing. It's one of the biggest, like you said, wallet share products that almost everyone in the world has, and people don't understand it. It's like asking people to buy energy in terms of kilowatts, you're like, "I have no idea how many I need."

Ferry: And telcos who were shifting this paradigm, which we're discussing, instead of data bundles, [00:13:00] which to your point, nobody understands. And I'm a telco expert, and literally don't ask me how much I use. Because is this Zoom call high quality, low quality, is this YouTube video high quality? I don't get it. But there's a Finnish telco that basically went to speed-based, there's a low speed, medium speed, high speed. They increased the ARPU by 10% because there's some people, to your point, who want the lower plan because they're only using it to SMS. And there's some people who are ballers, they always want to have the highest plan, also fine, and they're willing to pay. So, creating a differentiation creates more opportunity to monetize. [00:13:30] And the funny part was, the more people pay, the happier they get. Because, finally, they get stuff they want.

So, the MPS went up with the higher speed, and then so people pay more, they get very high speed, sometimes they don't even need. But they're more happy because they have control over what they get. So therefore, they're having the products to sell, having more differentiated product. And what you were saying, DR, finding a much more easy, less committed but more on the timing type offers are amazing. Because again, my kids run out of data, [00:14:00] the amount of things I need to do to upgrade it for one month should be one button. If you want another be on another 3-gig, bang. You want to have it faster, another 3? Oh, this month you're the whole day in school, I downgrade. But I think that's the way to actually get the more monetization.

Episode 45
Ferry Grijpink, McKinsey & Company
Released July 12, 2022

DR: No, that just happened to me. I was in London, roaming, and they're charging me \$10 a day, which is expensive. But I'm like, yes, I want to live like I do in the United States when I'm in London, emailing, Facebooking, doing all my normal stuff. And I got capped, [00:14:30] and there's literally no way for me to give them more money to uncapp me. I'm like, "Take my money, here."

Ferry: It's amazing.

DR: [inaudible 00:14:37]. You were like, "What's the product? What are they going to sell?" I'm like, "Sell the shit you already have." You already have a great product, it's addictive like you said, I want to use as much data as you'll give me, here's more money, and there's no way to do it. They're like, "You gotta wait till your 24 hour pass expires and then we'll redo it." I'm like, "Are you insane? Why are you throttling me on your addictive drug? [00:15:00] I want more."

Ferry: But, DR, this is exactly the point. It's interesting, there's one plan which is designed for anywhere from busy executive CEOs like you, and my wife which might check her Twitter twice. There needs to be five plans to say, "You normally use 1 gigabyte a day, here's a \$20 offer, 1-gig." And this is what I mean with you also need to have something to sell, because they just have one thing you can buy. And even if you want to give them a thousand bucks, you can't actually get more in a day, which is insane because you have the money, it's important to you. I was in Montreal this week, my data [00:15:30] bundle run out. And I couldn't upgrade it and I had an important Zoom call. So instead of doing it on my phone in a nice place, I had to go close to a McDonald's for wifi, how insane is that?

DR: No, it's insane. And then meanwhile, we have people in the industry, like, "What's the use case? Where can we monetize?" I'm like, "There's so many people who don't want to be throttled." I'm like, "Guys, loosen that up. Think of the customer, just give them a little offer and they will top up. They'll buy more. They'll add on." And I think this is where [00:16:00] I come to on personalization, of using these events and these experiences like, "Hey, I see, Ferry, you're trying to log onto Zoom. You're out of data, you need more. 20 bucks to top up now," and you would be like, "Approved, here's my credit card."

Ferry: Yes, now.

DR: And so, tying back to my mantra, it is so much data. And today telcos have these systems that are generating all of this network data, and usage information, customer call center records, it's all stored on-premise. [00:16:30] And it's really hard for them to use it. We've seen telcos that are prioritizing analytical reports and analysis, and it takes hours or days. And by the time they have the insight that Ferry needs more data for his Zoom call, the moment's over, you drove to a McDonald's and solved the problem. That \$20 extra uplift is gone.

Episode 45
Ferry Grijpink, McKinsey & Company
Released July 12, 2022

So, this is where I think the public cloud really is important. You need to get your data up there, because of the processing, and capacity, [00:17:00] the compute, and then obviously some of the software that they offer makes this possible, and you can't do it on the ground. That's why, again, I'm just such a proponent for the public cloud, that in order to get, maybe it's not real real-time, but much nearer than it is now. "Hey Ferry, here's that offer, do you want to top up?" I think you need the public cloud to do that. So, at McKinsey, do you guys talk about the public cloud, and how that's going to bring such an advantage for the telcos to be able to do some [00:17:30] of these ideas?

Ferry: No, I think we're extremely excited. We also even bought McKinsey a couple of cloud consulting companies to basically give even more capability. Because, to your point, the public cloud is transformational for many industries. And I think for telcos it's especially on what we call the platform as a service layer. They have a bunch of infrastructure on-prem, they own a bunch of data centers, but what they don't have is this powerful ML, machine learning, AI analytics tools-

DR: Yeah, the software.

Ferry: ... which you get with it. I also realize, and this is of course coming from Europe, coming from [00:18:00] a place where there's a lot of regulation, there's a lot of complexity in this move, it takes time for them to get there. There's [inaudible 00:18:07], there's all kind of data privacy, location problems they have to solve. And you were talking with Amol too a couple of months back, he talked about how difficult it has been for Vodafone. It's a couple of years of a program to get there. And I think it's just hard work to get there, but you need these capabilities. And you cannot build the AIDML which the four large hyperscalers have. So, you have to start using those tools, you have to start bringing [00:18:30] it to those type of environments. But I sympathize with some of my clients on all the regulatory complexity you need to get through, because those are much more complex in Europe.

DR: Yeah, it's country by country. And we ran into that problem as to Totogi for deploying our software. But I think what people don't realize is that, while these are American companies, primarily Amazon, Microsoft, and Google, that when they put a region in a particular country, you have absolute control of where your data [00:19:00] resides. If you're in Germany, Amazon has two regions there. It will never go to the United States, you're in full control, they're in compliance with GDPR. But I think over the long arc of time, as AWS has eight more regions planned, I saw a tweet from an AWS guy that said it's the biggest reason that they grow, and they're growing like crazy. And so, like you said, it takes years to transform your technical applications, your workforce for the public cloud. Vodafone, we think started in '19, [00:19:30] and here we are in 2022 and they're on their journey. So, I'd tell telcos the best day to start your move to the public cloud was yesterday, and the second best day is today. Get going, for sure.

Episode 45
Ferry Grijpink, McKinsey & Company
Released July 12, 2022

- Ferry: That's fully fair. And I think the destination is clear, and I think we both agree very much on the destination. I think the journey is a hard journey. It's just selling what you have in a differentiated way, in a better way. And therefore, being a bit daring, taking some risks, and really start using the power of some of these analytical tools which you have in the public cloud, it's fantastic.
- DR: Yeah. My MWC '21 talk, the one [00:20:00] that you referenced about dragons, was called The Two Sides of the Public Cloud. There are some downsides and risks, but I think the upside outweighs the risk, and I think the risk of not moving to it and taking advantage of the capability might be the biggest issue, that if your competitors start to adopt it and move faster, and start to do some of the... I call it personalization. Maybe I don't use the right word, but I love this example, I'm going to use it forever. Ferry, in the [00:20:30] parking lot, needing just a little topper, you're going to need the public cloud to get that insight, get it to Ferry right when the moment matters, and monetize it. And I think we're seeing people use the network in such new ways. They want to watch Ted Lasso while they're watching their kid play tennis. With the work from home, people are everywhere now, they're not in an office. And so, it's changing so many things.
- Ferry: And I'm hundred percent with you. For me, I'm even more bold than you are. Basically, it will be public cloud, the question is the speed in where we get there. Especially [00:21:00] the front-facing applications will all be in public cloud [inaudible 00:21:02] the next five to seven years. But I think it could also be in three years, and maybe you should actually say it needs to be there next year. But I think the end point is clear, but I think we need to accelerate the speed to the end point.
- DR: I totally agree. I think it's inevitable, it's going to happen, the question is when, you got to just start. So, this is an awesome conversation, but before we wrap up, and I mentioned at the top when we first started talking, that I really wanted to see your talk at MWC, but our talks not only got scheduled on the same day, at the same time, but they [00:21:30] were literally in the same area. And as you mentioned, I always like to go a little bit big with my stuff. I brought drums, and they were so loud that they interfered with your audio and your talk, and they held your talk for a little bit to get through the drums. And so, I'm super sorry. The drums were amazing, and so the next time we're together, I owe you dinner, wherever you want, let's go do it.
- Ferry: I'd love to have dinner. It was an amazing experience. We started to talk, and then we heard this drum, and I walked off stage to see what it is, and [00:22:00] then I see this Japanese looking lady-
- DR: Mm-hmm, Isabelle.
- Ferry: ... banging a massive drum. I said to the organizer, "I think we need to delay this by five, because nobody will hear what I have to say." So-

Episode 45
Ferry Grijpink, McKinsey & Company
Released July 12, 2022

DR: I really apologize. I didn't think it would be that disruptive. But my goal with the drums was, I really wanted the executives in that audience to feel the cloud, like it's coming. I wanted this visceral experience. And we tied the drum to the heartbeat, this is the heartbeat of your telco, this is the [00:22:30] calling of the armies, it's time to get going. And I love the taiko drum because you just feel it in your heart so deeply. So, I apologize, I owe you dinner.

So, Ferry, this is a great conversation. I think it's free advice from McKinsey and DR of what you should do to monetize your network. So, thank you so much for coming onto the podcast, and look forward to enjoying a great dinner with you soon.

Ferry: Thank you for having me, and looking forward to the dinner.

DR: Yay. Stick around, because we're ending each podcast with a Telco in 20 [00:23:00] takeaway. I have 20 seconds to tell you something you need to know.

I want to double click on something Ferry just said. McKinsey, a global research heavyweight, recently did a survey that showed that creating punctual, need-based offers, or experience-based value propositions can deliver an almost 20% uplift in ARPU. Ferry also said that if you get better at selling the offers you create, there's another 5-7% waiting in the wings. [00:23:30] No offense to McKinsey, but I think it's a lot more than that. The key is to realize that in order to do this level of personalization and customization, you're going to have to use the public cloud. Why? Because your private cloud, big cloud data center doesn't have enough compute and storage to process all the data you need to get the insights that matter. And your systems don't have the capability to deliver the offer to the subscriber in near real-time. You have to use the world class software and capabilities of the public cloud, and [00:24:00] you need the software of companies like Totogi to get them in front of the subscriber instantly.

The telcos that figure this out will be the ones that uncover boatloads of new revenue. I can't wait to see it happen. If you want to see it happen for your telco, then connect to me on LinkedIn, DM on Twitter, @telcodr. Or give me a call or WhatsApp me at 9-2-5-telcodr. Have you checked out our killer TelcoDR YouTube channel yet? If not, go take a look. [00:24:30] While you're there, don't forget to subscribe. And be sure to sign up for our totally awesome email newsletter at telcodr.com. Finally, if you love this award-winning podcast... Did we mention we won the Gold Hermes Award? Subscribe on Apple Podcast, follow us on Spotify, and share it with your colleagues. Later, nerds.