Differentiating the Wireless Market
Verizon’s Plan for the Future

By:
Brian Kearns
Bryan Hires
Paxon Frady
Michael Underhill
Yusef Attia
1. Introduction

1.1 Communications Industry and Competitors

As it stands now the communication industry is very diverse with many competing firms. Verizon offers both wireless and landline phone services and landline broadband internet service as well as limited wireless broadband access. They are a Tier 1 internet service provider. They compete in the wireless phone industry with many other companies, the biggest are: Cingular, Sprint-Nextel, T-Mobile, Alltel, and US Cellular. Competitors in the landline phone industry are AT&T, BellSouth, Sprint-Nextel, and Qwest. Wireline internet competitors include: AT&T, Charter [1].

Verizon’s broadband wireless infrastructure already encompasses major cities, and is used on newer model phones with a program called “V Cast”. They offer a wireless internet connection to a laptop, via a cell phone [2]. Verizon has limited coverage as of now, but has the capability of expanding their services to cover most of the country. This expansion could be the solution for broadband internet access demand in rural areas, and for the needs of several target consumers. These kinds of 3G services could land Verizon in a potentially lucrative market. However, this market will have several major competitors, many options for substitutes, and may never take off in American culture.

Their main competitor in providing broad-band wireless service is Sprint-Nextel. Sprint-Nextel already has a larger EV-DO system in place, is also a Tier 1 internet service provider, and already serves a large portion of the potential consumers [3]. Competition in the basic cell phone service also comes from other companies, the biggest of which is Cingular. In the global market, T-mobile has a strong advantage.

Competition does not just end with the direct substitute companies, but also involves other companies in the communications and multi-media business. Due to the bundle fad in the communications industry, rivals from other markets are affected and will react to Verizon’s actions. The bundle usually consists of landline telephone service, cable TV service and cable internet – or the digital version of telephone, satellite TV and DSL internet. The bundle poses a unique and interesting problem to Verizon. By uniting several media/communication businesses through this bundle, competition with one branch will bring forth competition with the others. Verizon will now face landline phone companies, wireless phone companies, dial-up and broadband internet providers, and cable and satellite television distributors [4].

The vast amount of competition in the communications industry poses a serious threat to Verizon. With their unique position in the market, Verizon possesses a large advantage as the industry matures. Verizon’s first essential step is to target the right audience, and differentiate from the rest of the firms in order to make its broad-band phone service more profitable.

1.2 Japan: A model for future America

Verizon should look to other world markets for ideas of how to integrate technology with wireless service in order to differentiate its product. In Japan “the cell phone is now a way of life.” [5]. Technologies that are considered experimental in the US markets are already main-stream in Japan. The Japanese use their phones to watch TV, navigate city streets, download music, take and transmit home movies, scan bar-coded
information, get e-coupons for discounts on food and entertainment, pay bills, and play video games. Analysts believe many of these applications are expected to be commonplace in the US, but for Verizon to succeed it needs to find the services that will fit into American culture.

Many suggest that the huge difference of cell phone use in Japan is from the simple distinctions in cultures. After all, the Japanese appreciate the cute and the trendy, while Americans tend to make everything bigger, whether it is TVs or cars. However, as Takeshi Natsuno, considered the father of DoCoMo’s landmark service – I-mode, puts it, “It's not about being Japanese. It's about knowing what people want and how to sell it the right way” [5].

Verizon has the potential and position to “sell it the right way,” at least to a certain population of consumers. The strategy implemented by DoCoMo, relevant to the American market, should be mirrored by Verizon in future situations. There are two scenarios that describe how the American market may play out. The first is a stagnant response to Verizon and Sprint’s expansion of their broad-band services, and a general uninterest in the capabilities presented by this new technology. The second is the market evolves into a cell-phone culture similar to the current state of Japan and possibly further. Verizon’s second essential step into making the most of its broadband service is to provide the right incentives to drive the American market into a state similar to the Japanese market. This move will allow them to use their current position to reap the benefits of the developing industry.

2. Strategy I: Targeting the right consumer

2.1 Consumer Types

There are several types of consumers in the wireless phone service market. The first type of consumer is the basic, price-sensitive, value-oriented customer. These users utilize their phone mostly for emergencies such as a broken down car or to locate a missing child, and they have no interest in the technologically advanced features other phones may offer. These customers are purely interested in using their phones for simple communication; they don’t want to pay extra for features that they probably will not use. Several types of people could be basic consumers, from small children to large families to senior citizens. With worries such as terrorism and other dangers invading our everyday lives these days, parents are increasingly apt to get these basic phones for their young children. Most cell-phone customers start their lives as basic users, making this type of consumer a large portion of the cell-phone customer base [6].

Another type of consumer in the wireless phone service market is the advanced user. This consumer values additional features besides the ability to talk. They are willing to pay extra for text/picture messaging, phones with more capabilities, and are likely to purchase phones in family plans. This is an experienced cell-phone user who has the desire and ability to utilize extra features such as multimedia capabilities and broadband service. Advanced users are less price-sensitive than the basic user, but they are still interested in deals such as family plans or discounts on phones through contracts or upgrades [6].
In addition to the basic and advanced users, there is the business executive/world traveler. This customer may have their phone provided by their business, and they are partial to features that allow them to work while traveling. Some of these valued features may be good contact management (large address book and sync capabilities), a speakerphone to allow conference calling or hands-free communication, and the capability to use their phone world-wide. This type of customer is probably less price-sensitive than many other types of customers; they know what they want from their phone and are willing to pay a premium for their desired features. They may also be less price-sensitive because their phones may be justified as business expenses [6].

The remaining consumer type is the gearhead/fashion user. This customer has very specific desires in their wireless service, and is willing to pay significantly to satisfy their desires. Some users in this category, the gearheads, often desire the very latest technology or service features such as high-resolution cameras, good multimedia capability, or high-speed broadband with good coverage. Other users desire less functional features, such as the latest fashion trends. They may perceive their phones as status symbols and desire slim, trendy phones. The gearhead/fashion user is very feature-oriented and is most likely the least price-sensitive of the wireless consumers [6].

### 2.2 Verizon’s position and the best fit

Currently, Verizon leads the domestic wireless carriers in terms of profitability, as measured by operating income, and is the second largest in terms of customer base size and total revenue [7]. In addition to Verizon’s financial position, there are several strengths about Verizon’s current position in the market. Verizon has one of the most widespread coverage areas of the domestic carriers, and the best data service coverage with its EV-DO offering [6]. Another strength of Verizon’s operation is its customer service network. Verizon is often rated best for customer service, offering both extensive support over the phone and face-to-face through its extensive network of retail stores. Verizon could leverage its network of over 2,100 retail stores to demonstrate the value of new technologies to potential or existing customers [8].

Although Verizon’s current position has several strengths, there are still some weaknesses. Verizon utilizes CDMA for its wireless service, as opposed to the more globally accepted GSM. Most of the phones Verizon offers only work on CDMA networks, and are therefore limited in global roaming capability [2]. Another weakness in Verizon’s current operation is its marketing. Verizon’s marketing is not effective at generating interest in technological advances. To revolutionize the market, Verizon needs to transform their marketing to raise consumer interest in integrated technology.

Currently, the wireless service market is not very differentiated, and as a result, service providers unnecessarily battle on prices. Verizon needs to identify which customer types it can most naturally target, and differentiate its service offering to commit itself to these customer types. Verizon should differentiate itself by using broadband technology in

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**Fig. 1** – Percentage of Sales through Verizon stores (Direct) versus third party stores (Indirect). [8]
novel applications to increase the value of their service. Verizon needs to leverage its existing customer base to shift the market towards accepting technological advances. By differentiating itself from its competitors, Verizon will battle less on prices and more on features, and as a result, create the potential to increase profits.

Verizon’s strengths and weaknesses determine which consumer types it is more optimally able to target. Our vision of Verizon as the industry leading provider of wireless service, utilizing broadband technology to differentiate, lends itself naturally to certain types of customers. The advanced user is the primary consumer Verizon should target with its differentiated service. These customers make up a large portion of the wireless service market. Additionally, advanced consumers would be receptive to the features Verizon is using to differentiate. Verizon could utilize its retail stores and customer support network to convince these advanced users of the value added by broadband integration. The advanced user is interested in features besides simply talk capability, so they would be interested in the potential value that extensive broadband integration with wireless service offers.

Several types of users are not natural fits for the proposed strategy. Obviously, the basic user would not be a good target for the strategy. While a large portion of the wireless service market is made up of basic users, these users are price-sensitive and would not be interested in the features Verizon is offering to differentiate its service. The business/global traveler would also not be that great of a target, at least initially. The business user is primarily interested in features to help productivity while traveling, and the differentiation we are proposing for Verizon is not strictly aimed at increasing productivity. Verizon should also not struggle to capture the gearhead/fashion consumer. This consumer is naturally very fickle and is not likely to be a good candidate for long-term profits. These customers are primarily interested in the features of their phone, and would not be as interested in the service enhancements proposed for Verizon.

2.3 Future Wireless Market

If Verizon implements this strategy of targeting more of the advanced users it is important to look towards the future, ideally 5-10 years from now, and predict how other competing firms, as well as customers, will react and evolve. While it is impossible to know for sure how the market will progress, examining the Japanese market and the present US market dynamics allows us to make a reasonable guess as to where the market is headed. Ten years from now we can expect the urban areas in the US to develop very much like Japan is presently with diverse features and integrated technology packed into the phones. For example, people will watch TV, download music, receive restaurant specials, buy movie tickets, and get directions on their phone. Rural areas, on the other hand, should react very differently. This is not to say rural areas will not see a need for these features; they will just have different wants and needs than the urban population. For example, the rural population may be more interested in GPS functionality and the broadband internet capabilities. As long as
Verizon takes this into account and offers these new features tailored to people’s needs and wants they should be very successful.

Sprint/Nextel is in a position similar to Verizon’s current position and thus will probably follow in targeting the advanced users. However, Verizon has a bit of an advantage with the teenage and family users while Sprint/Nextel is more geared towards the small business and young professionals. Both of these customer groups is comprised of advanced users, but over the course of 10 years Verizon and Sprint/Nextel will probably gravitate more towards their respective groups on opposite sides of the advanced user spectrum and thus away from each other. Verizon will probably not have to worry much about competition from the other firms such as Cingular, T-Mobile, and Alltel because they are expected to target other areas. For example, Cingular doesn’t place much emphasis on 3G and will most likely be content with locking up the huge basic user population. T-Mobile is geared more towards the global/business market with its GSM phones and also probably more towards gear heads. Finally, Verizon should keep an eye on other firms like Alltel, who presently do not have relatively large market shares yet have the potential to gain ground.

In addition to firm differentiation, the customers will also evolve over the next 10 years. We would expect the advanced and business user populations to increase significantly while the basic and gear head users to remain somewhat constant. To start with the advanced user base should grow mainly by converting basic users, families, and even some gear heads to advanced users, reeling them in with all the new technology and features. Business users should increase as well as more businesses will require their employees to remain connected and in touch thus needing more of these features. As for the basic users, while they will lose customers to the advanced group, they will also continue to grow through the gaining of younger and younger children and through higher penetration in the market. Finally, the gear head users may actually decrease as more advanced features become more mainstream. Thus if Verizon targets the advanced user population, then they should be in a great opportunity for growth and for profit.

3. Strategy II: Creating value by providing incentives

3.1 Providing Incentives: Phones

To be competitive in the market, Verizon must create more incentives for cell phone manufactures to make more technologically advanced cell phones and then for consumers to use these phones. According to a research poll, 10% of Verizon customers said they would change networks for a better phone [10]. In order to take complete
advantage of the evolving high-speed data network, new hardware and software must be developed.

To target the advanced user class of consumers, it is essential to offer a new, universal device that has features utilizing the full capability of the EV-DO network. Cell phone manufacturers need to be informed of the array of features that Verizon wants to offer to consumers, and they must be added to newer models of phones. Since Verizon is the second largest service provider in the US, suppliers have a strong motivation to incorporate these new innovations into their products. Since the cell phone manufacturing industry is very rivalrous, if one company chooses not to innovate to Verizon’s demands, another company surely will. One option for Verizon is to make a partnership or contract with a company like Sony-Ericsson to exclusively manufacture a phone. This would give Verizon head start in capturing the market before any other companies could offer an equivalent device.

This new device needs to incorporate the latest technologies that would appeal to our ideal user. It needs to be small enough so that it is portable much like a PDA, but more user-friendly and trendy. Today’s PDA’s are a viable option for the businessman, but it is not very practical for many of the primary consumers. This device needs to appeal not only to the youth, but also the parents. In order to do so, Verizon must offer features that will interest them both. Text messaging is one of the major crazes sweeping the cell phone market with almost half of cell phone users sending and receiving messages [11]. It would only be logical for Verizon to create a new model of phone with more messaging capabilities. Many new features that are offered in Japan could be introduced into the US market. One of the available options would be an interactive GPS system much like that incorporated in newer cars. From a recent poll, it was determined that “47% of mobile users would like to have a mobile map feature on their phone” [11]. With the available bandwidth, the maps can be stored in a central database and all calculations and directions would be computed by an external computer so that the user would receive only the relevant information in as little time as possible. This would eliminate the need for a lot of processing power and in turn would keep the device size relatively small. Another important feature would be the ability to play music. From the same poll as earlier, about a quarter of the users have the desire to play music on their phones. There should be an available network to purchase music from that can be downloaded directly to your phone. The device must be able to connect to and browse the internet, check email, etc. T-Mobile introduced Sidekick as a potential all-in-on. It had a degree of success, but it was limited in its capabilities and did not catch hold of a very strong customer base.

Not only must Verizon come up with new phones, but they must convince their current users and new users to upgrade. One way to accomplish this is to provide good incentives to buy or upgrade to the new phones. Verizon already offers free upgrades after 2 year contracts [2], so they could simply offer to upgrade people to new technology in an attempt to lock them in. Also, they have a significant number of retail stores which they can use to showcase this new synergistic technology to skeptical buyers [2]. One marketing strategy for this device is to sell it to the customers at a discount, or a small loss, because the continual service agreements that the customers sign will more than make up for this loss. One main reason that PDA’s are not more common is that they are expensive and more people do not see the need for them. With a lower cost, more
consumers will be willing to try the product and will see the great convenience of having such a great device.

3.2 Providing Incentives: Content

Providing more advanced phones is only half the battle for Verizon. A nice piece of hardware may have the capabilities of surfing the web, localizing its position using GPS, scanning barcodes and fingerprints, but without external companies providing websites, maps, other GPS features, and ‘e-coupons’, the new phone will hold little value. In order for Verizon’s network to take off in a similar fashion to DoCoMo’s, Verizon must provide the right incentives to these companies to make these features that would make their high-speed data network valuable.

Luckily for Verizon, the market in Japan can be emulated here in America. The development of DoCoMo in the Japanese market and the forthcoming success of the company almost perfectly mirrors Verizon Wireless’s current situation. In 1997, DoCoMo emerged as Japan’s market leader in wireless communications service. However, they realized that there was high competition and little differentiation in the market and sought to gain a competitive advantage through the use of new technology. I-Mode, DoCoMo’s 3G wireless service, became an instant success. The implementation of I-Mode resulted in phenomenal growth in DoCoMo’s subscriber base and on average resulted in 30% higher revenues per subscriber as compared to DoCoMo’s phones that provided only voice services [12].

Analysts say the success of DoCoMo was based on its simple and efficient network access, middleware software, business model and positioning. Aside from innovating revolutionary software, much of DoCoMo’s strategy can be applied to Verizon’s situation. First, DoCoMo adopted an untraditional billing model from America Online. This model based their billing on the volumes of data received and sent, instead of the amount of time spent on the internet. DoCoMo modified this model to include incentives for content providers to encourage them to develop new applications and services. The service acted as a “Win-Win-Win platform”, benefiting DoCoMo, content providers and customers. DoCoMo collected information charges from customers on behalf of the content providers and charged a 9% commission. This allowed content providers to focus on developing content without having to indulge in the hassles of billing and collection and provided a large incentive to current and potential content providers to make web-sites and other features accessible through DoCoMo’s network [12].
Verizon must provide incentives not only to content providers but also to consumers. Another simple, yet vital part of DoCoMo’s billing strategy is lodged in the billing of purchases bought on DoCoMo’s network - they are not paid for like traditional internet transactions. Rather, to ease the consumer’s caution about buying things online, DoCoMo charges consumers for their purchases in the monthly cell-phone bill instead of the customary credit card method. This was much more convenient to the consumers, and also gave them a sense of security. As a result, there was a substantial increase in e-commerce purchases through DoCoMo’s I-Mode [12].

Verizon must provide these kinds of incentives, especially early on, in order to take this market and add value to their network. By returning such a high amount of the data-transfer profits back to the content providers, American companies will reap the benefits by providing user-friendly content and features. This will in turn attract more consumers to the market, and further interest more and more content providers. A key concept in this market, as in DoCoMo’s, is that new users have “incremental benefits for all users in the network” [12]. Once Verizon starts this transition in the market, its expansion will be exponential.

Probably the most important general lesson that Verizon can take from DoCoMo’s success is that it must focus on “identifying the changing needs of customers and providing for them well in advance” [12] of the competitors. What allows Verizon to do this better than any other wireless provider, like DoCoMo, is its huge consumer base and its large network of distribution centers. Verizon must utilize this network of stores not only to distribute cell phones, but to provide service and take in feedback. DoCoMo had customer representatives in all of its branch offices and shops across Japan, allowing the company to stay close to its customers. Verizon must follow this in order to understand consumer needs and thus to allow them to develop new strategies and solutions for the future.

3.3 Keeping the customers

Once Verizon has its networks, the right incentives lined up, and the best hardware and software, the company must finally protect its consumer base and prevent other companies from chasing their market. Currently, long-term contracts for good deals on service and phones are already used throughout the cell-phone industry in order to lock-in consumers. Verizon should maintain this strategy, but also needs to develop strategies that would further cost the consumer too much to switch networks and those that would cost other companies too much to attack Verizon’s market share.

Building, again, off the general lessons to be learned from Verizon’s Japanese counterpart, listening to the consumers and keeping them happy usually allows you to keep your consumers. But as DoCoMo also knows, you can never satisfy the needs of everybody. So DoCoMo developed a “sticky business model” in which the customers found that “the cost of switching to other service providers higher than the value gained by switching” [12]. This can mostly come from forcing the customers to pay for the phone if they cancel their contract. After some development, the network could also provide other possible costs of customers to leave Verizon: by the customer’s investments in learning the software, familiarizing themselves, and customizing their phones. DoCoMo experienced a tremendous drop in the abandonment rate after the implementation of I-Mode [12].
Verizon must also implement a strategy in order to deter competition from other companies. Each service provider has its own advantage in each area of the market, but as the market evolves we predict Verizon will gain a larger and larger share. Several of Verizon’s current advantages must be utilized and expanded to ensure its security in the future market. First, it must establish and maintain a technological advantage. As of right now, its network capabilities and Tier 1 status already prevents the basic-consumer-aimed Cingular Wireless from competing for the advanced user as well as many of the other companies. However, Sprint-Nextel is a different story. Verizon’s large consumer base, reputation with its consumers, and the development of several partnerships with content providers should yield a competitive advantage over Sprint-Nextel. Also, Sprint-Nextel may lose some of its business customers if it tries to add the more ‘frilly’ features Verizon offers, as this would seem unprofessional and costly by its consumers.

4. Sending the right signals

4.1 Current Marketing Strategy

The Cingular and AT&T merger has given Cingular the opportunity to advertise their superior network through catchy phrases, such as “raising the bar,” [14] and the display of phones with advanced features. Dutch owned T-mobile employs the well-known actress Catherine Zeta Jones [16] to do most of its spin on competitive rate plans for both individuals and families while stressing the latest cell phone technology. The merger of Sprint-Nextel, has similar campaigns to the aforesaid service providers, however, namely promoting rate plans and unique features - walkie-talkie, formerly “direct connect”, nights starting at 7:00pm [15]. As for Verizon, rather than claiming they have the biggest network, since they no longer do, their advertisements focus more on the relic of once having the largest network by insisting on superior coverage via advertisements depicting a man traveling all over the U.S. and being able to use his phone. Their current slogan is “we never stop working for you” [2].

For the most part, people have a valid assumption that when going to a wireless phone provider the phone they purchase will have service all the time. This theory is justified in that most people who purchase a cell phone will be confined to a particular region, and chances are within that region their phone will have service. Thus coverage is not the biggest concern for most people, and more importantly this is not the best tactic for attracting customers. Coverage is too vague of a concept, so people ignore it. A phone is a much more palpable item to advertise.

Consumers are concerned mainly with two things – the price and the cell phone (i.e. technology, features, how cool it looks, etc). Now given that prices are relatively similar amongst the different providers, people turn to the cell phones in determining their choice. Verizon is slightly becoming cognizant of this fact as they are attempting to hype up their V Cast technology by producing advertisements depicting a female dancing to the tune of the latest “Black Eyed Peas” song from their mobile phone [2]. Indeed this method is a step toward attracting a prominent class of potential buyers – young adults, but there is more that can be done.
4.2 Future Marketing Aims

Two things must be exploited to gain a large customer base: the technology of Verizon’s network and the uniqueness and features on their phones. To gain consumers from the phones with the best features, Verizon must make deals with suppliers for exclusive rights to a given cell phone. In this strategy Verizon’s advertisements should appeal to a larger class of cell phone users via advertisements depicting the latest technology combined with the best phones. For instance, by obtaining novel mobile phone technology to the U.S., such as “embedded bar-code readers,” Verizon can strategically position itself for greater market capitalization by making arrangements with restaurants and theatres for exclusive discounts. A possible marketing strategy for acquiring customers would be making deals with film production companies to use Verizon cell phones in films employing some innovative ideas and new uses of their network, such as bar code scanning. Since the mobile phone industry constitutes an extensive array of potential customers, it is essential that Verizon recognizes this fact and begins targeting each customer group exclusively with its marketing. This would not only tell consumers that Verizon has new useful features, but also would tell competitors the type of consumer Verizon is after. The right kinds of advertisements should speed up the differentiation process and get Verizon into a more profitable position faster.

Verizon can take another lesson from DoCoMo in its marketing strategy. When I-Mode was first introduced, the company “consciously chose not to refer to the term Internet or Web in its promotional campaign” [12]. This marketing strategy did not create any unrealistic expectations among the customers. It also allowed DoCoMo to differentiate its service from the Web and WAP services available. Following DoCoMo’s marketing strategy will pay off for Verizon by supporting more differentiation. The more differentiated Verizon can make their service from other web-services, the more new consumers they can attract and the less competition from internet service providers they will face.

5. Conclusion

- Verizon must differentiate itself from its competitors by targeting the advanced user and utilizing its current technological advances, large customer base, and large infrastructure of distribution centers.
- Verizon must provide incentives for handset vendors, platform vendors, and content providers in order to capture the capabilities and create value in its network.
- Verizon needs to adapt and apply DoCoMo’s strategy to the upcoming US market.
- Verizon must send the appropriate signals to its consumers and competitors in order to encourage differentiation.
6. References


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