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9B17A020

KT Corporation: Offering New Insights in Customer Experience

Youngchan Kim, Min-Jeong Ko, and Jiyoung Kim wrote this case solely to provide material for class discussion. The authors do not intend to illustrate either effective or ineffective handling of a managerial situation. The authors may have disguised certain names and other identifying information to protect confidentiality.

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The role of the Customer Value Management Department is to test and improve the quality of products and services that [KT Corporation] offers.

*Korea Economic Daily*, September 15, 2014[[1]](#footnote-1)

In September 2014, Hwang Chang-Gyu, chief executive officer (CEO) of KT Corporation (KT), explained the role of the Customer Value Management Department (CVMD) in a newspaper interview. Around the same time, Hwang restructured the department as a CEO advisory division and appointed Kim Cheol-Su as vice-president. Cheol-Su expanded CVMD and reorganized the cross-functional team, established in May 2014. The department was expected to test and improve the products and services that KT delivered, and represented one of the four core values meant to establish KT as the leader in the global telecommunications (telecom) market.

When Chang-Gyu became CEO of KT, he chose “Customer First” as a core value, and demanded its promotion. In the CEO report for May 2014, he said, “KT needs to hear comments such as ‘KT has changed’ and/or ‘I had an experience I didn’t expect from KT’ from the consumers.” He urged concrete action plans such as customer value management.

The core of sales management was to increase sales and profit by offering products and services in the market. Although companies in the communications industry focused on sales management from the supplier’s perspective, KT pursued customer value management based on the user’s viewpoint. The essence of customer value management was to increase customer value by offering ease, comfort, good memories, satisfaction, and so on. The goal of KT was to implement customer value management to earn a reputation among customers as “a company offering new and pleasant experiences.” By pursuing customer value management based on the user’s viewpoint, would KT be successful in discovering customers’ unmet needs? And would it be an effective way of maximizing customer value and eventually gaining differential advantage in the market?

The Changing Korean Communications Market

Established as Korean Telecommunications Authority in 1981, KT was Korea’s largest comprehensive communications operator. It merged with its subsidiary, KT Freetel, in 2009, and in 2014, was leading the smart era by introducing smartphones in Korea. KT focused on establishing its GiGA wire and wireless network infrastructure[[2]](#footnote-2) and on differentiating the media/Internet of Things platform, in other words, enabling connectivity between devices that connected each other, by utilizing its interfaces, analytics, data visualization, processing/action/device management, data connectivity, and other additional tools. With its advanced infrastructure, the company also established and nurtured convergence of information and communication technology (ICT) in various industrial sectors.[[3]](#footnote-3) KT aimed to be the leading communications company globally based on its ICT capabilities.[[4]](#footnote-4)

KT had started to wholeheartedly promote something that transcended technology or service: customer experience quality. This attribute included elements of quality that customers always experienced when using services and products provided by KT.

Changes in the telecom market played a major role in KT’s emphasis on the innovation of customer experience quality. The experience of the customer, rather than technological advancement, had become the key factor to differentiate the domestic telecom market, which transformed from a supplier-driven market based on technological groundwork to a customer-driven market based on customer experience. The gap in general technology, telecom products, and technological quality in the domestic telecom market was minimal, and the price differentiation benefit had become meaningless after the implementation of the *Mobile Device Distribution Improvement Act*, introduced by the government in 2014. From the customer’s perspective, the communication charges and benefits had become almost identical so long as customers used the same mobile device with a similar fee system. This phenomenon was a common characteristic of a monopolistic market in the mature stage of the product life cycle, and a sign of a highly competitive market.

Furthermore, growth in the domestic smartphone market had stagnated since 2012, and the number of smartphone subscribers was no longer increasing dramatically.[[5]](#footnote-5) The number of sales of smartphones had dropped, first climbing from 800 in 2010 to 1,900 in 2011, then 3,100 in 2012, then beginning to decrease as of 2013, when 2,750 smartphones were sold. Consequently, competition in the already saturated smartphone market had become even fiercer among telecom companies. Because of this fierce competition, telecom companies began to provide subsidies to attract new customers in the limited market. The implementation of the *Mobile Device Distribution Improvement Act* limited the subsidies operators could offer, thus cooling down the subsidy battle. However, telecom companies were still providing indirect subsidies to advance in the fierce competition going on behind the scene.

Competition in the telecom market was much more intense than in the smartphone market. KT and its main competitors, SK Telecom Co. Ltd. and LG U+, faced intense competition, including frequency auctions. Nevertheless, an assessment of phone call quality by the Ministry of Science, ICT, and Future Planning revealed that the rate of successful calls had remained over 99.9 per cent since 2014, with no significant differences among telecom companies. In addition, once a new product, price schedule, or service was introduced, competitors followed with matching offers within a short period (see Exhibit 1). The same logic applied to the Internet protocol television market. KT, SK Telecom, and LG U+ offered similar monthly base rates and numbers of channels. Each of them faced escalating competition following the introduction of GiGA at about the same time.

Technology or service differentiation within the telecom market was becoming increasingly vague, and provided little competitive advantage. Earlier studies indicated that growth required shifting focus from products and services toward customer experience.[[6]](#footnote-6)Customer experience was defined as the service process of forming a cognitive, emotional, and behavioural reaction.[[7]](#footnote-7)

Motivated by the academic interest in customer experience, the top three domestic telecom companies, including KT, made their best efforts to enhance customer loyalty and benefit from repurchase decisions. SK Telecom administered external customer experience management through an independent customer centre management office, and LG U+ implemented a pre- and post-verification system for products and services, delivered through a customer experience unit. Likewise, KT set up a product inspection unit. Customer value management became a means of competing for the customer’s attention and pursuing growth beyond survival through differentiation.

Background and Concerns

Beginning in 2000, KT attempted various quality management techniques from the customer’s viewpoint. It established management quality and customer-value-added systems in 2000 and a “voice of the customer” (VOC) total management system in 2001. KT introduced Six Sigma in 2003, emerging as a market-oriented company, and established customer satisfaction management in 2006. KT also introduced a customer complaint management system in 2007 to cope with and prevent customer complaints. Then, the company introduced product lifestyle management in 2011 and a creativity management and workout system in 2013, achieving a 50 per cent decrease in VOC. However, even though KT had put considerable effort into quality management over the previous 15 years, it witnessed hard times in the wireless market, showing a slight decrease of share in the telecom market, especially in customer management (see Exhibit 2).

KT’s sales had been decreasing slightly since 2013 (see Exhibit 3). And with saturation of the communications market, the company’s profit was not commensurate with the cost and efforts it had expended. This was partly because innovation at KT focused on internal performance indexes, and customer satisfaction research was superficial and quantitative. Therefore, in May 2014, KT established customer-experienced quality innovation systems to maximize customer satisfaction by investigating how customers really felt. Customer-experienced quality innovation started with in-depth investigation of what customers felt about the products and service quality of KT and its competitors, and why. The investigation would reveal the elements critical to experience quality (CTQ).

KT’s Customer Service Innovation: Maximizing Customer Experience Value

“What should we use to differentiate us from others?” KT needed to address this question carefully to ensure sustained performance; competitiveness had to be secured in something that, unlike products or prices, could not be easily reproduced. The company eventually found the answer to the question in the maximization of customer experience value. In particular, KT decided to utilize its sales resources and distribution networks, as well as its competitive internal capabilities. Accordingly, it established a new administrative unit, the CVMD, under the direct supervision of the CEO. KT made company-wide efforts to promote experience-based quality innovation. Before measuring consumer satisfaction, customer experiences at key customer contact points, such as agencies, plazas, A/S (after-sales service) centres, and customer centres, were categorized into 1,600 different types of experiences. Then practices to improve those experiences were developed to advance customer satisfaction.

The innovation began with identifying problem areas where competitors had an advantage in customer service. Exercises carried out to improve the quality of customer experience revealed problems in four departments (product, network, CS: customer service, and channel managment) and seven key areas (wired service, mobile service, mobile data product, face-to-face channel, non-face-to-face channel, network, and customer service). The practices to improve customer experiences described previously were then applied to pinpoint the problem areas from the customer’s viewpoint so that the relevant conditions could be improved, which was the core of CTQ activities.

Staff of the CVMD developed the CTQ tasks in four stages: (1) To understand customer situations, detailed customer behaviour processes directly related to customers in terms of time, place, and occasion were defined, and process priorities were determined based on an external customer satisfaction index and VOC. (2) To explore customer experience, customers’ pain points and hidden needs were identified for each situation. (3) Competitiveness was compared and analyzed. Areas with both high levels of customer expectation and high levels of competition were selected as “improvement” tasks, and areas with high levels of customer expectation levels but low levels of competition were selected as “differentiation” tasks. (4) Tasks were defined for the improvement of customer experience quality, and the individual elements were improved.

Evaluating more than 1,600 different customer experiences in all business areas was not an easy task. KT needed to actually observe customer experiences and identify improvement tasks. KT’s internal resources facilitated these operations. Who, after all, were the people who observed customer experiences first-hand, from the viewpoint of customers themselves, and compared the results with the competition? It was none other than the new employees, of course.

Maximizing Customer Experience Value

The core members of the CVMD were worried. Commissioned to assess and improve the quality of KT’s products and services, the staff had to conduct quality assessment from the viewpoint of customers. Although the department enjoyed the full support of the organization as a newly established unit under direct supervision of the CEO, understanding the customer’s viewpoint was still a big challenge. Another problem was that the department was called on to improve customer experiences to a point where one would say, “KT has changed,” or “It turned out to be an unexpected experience.”

Members of the department met frequently to find ways to diagnose and solve problems since the existing methods were no longer effective. Department director Hyun Ho-Seop, who had handled marketing at the customer contact points of various business units throughout the country for several years, recalled his experiences with unskilled new employees. His comment was noteworthy: “New employees would be able to see problems from the viewpoint of customers, because they didn’t have any experience with KT services.”

KT established a customer experience evaluation task force, composed of new employees. Members of the task force were called “rainbow chasers.” This name, which was evocative of what was considered to be the most beautiful among meteorological phenomena, suggested KT’s desire to provide the ultimate in customer experience value. It also indicated KT’s focus on seven key areas, corresponding to the seven colours of the rainbow. “I felt that the new employees’ passion was really great. At least 18 of them worked so hard that they were getting [intravenous therapy] while continuously working,” said the department manager, Cheol-Su.

The greatest difference between new employees who just joined the company and the existing experienced employees was that new employees could review KT quality and compare it with the competition purely from the viewpoint of customers. In addition, the task force had the advantages of being composed only of internal staff members, which reduced costs and made it easier to maintain strict security. Furthermore, since new employees were eager to make it a better company, they evaluated conditions strictly and proposed innovative ideas to solve the identified problems. With their understanding of the strengths and weaknesses of KT and its competitors, the task force completed stints with fieldwork departments, then over time, through their own efforts, they established a culture of customer-centred problem and solution identification. Another result was that KT recruited more employees than its competitors, SK Telecom and LG U+, because the scale of KT’s wire and wireless businesses was larger than that of its competitors.

An EXAMPLE OF CTQ APPLICATION: OVERSEAS ROAMING SERVICE

Roaming, which was necessary during out of country travel, was a service that allowed customers to use their phones overseas without replacing the Universal Subscriber Identity Modules (USIMs)—a small component that connected the carrier with the phone, but also contained a great deal of essential information for the user, such as numbers and addresses for contacts. Roaming services were mainly used by high-average revenue per user telecom customers. Therefore, roaming was selected as a major CTQ project. Because overseas responses were important for roaming, three rainbow chasers actually went abroad to evaluate roaming services. They visited Incheon International Airport on 10 occasions, and went to Japan and Taiwan as well. They were once mistaken for mobile phone smugglers when they were found leaving the country carrying more than 20 phones from three companies to be used for various tasks!

A total of 14 situations were evaluated; for example, those that would involve customers subscribed to an unlimited data-roaming service, receiving data-roaming blocking service[[8]](#footnote-8) at the Incheon Airport roaming centre, or using a fixed-amount data-roaming service. Forty CTQs were identified. In 14 of the 40 CTQs, KT ranked lower than competitors, causing dissatisfaction among customers. None of the three companies measured up to customers’ expectation in two of the CTQs.

For instance, customers visited the airport roaming centre to inquire about roaming or to subscribe to a blocking service. The rainbow chasers considered how customers would feel if they had to wait in a long line. Waiting time caused immense dissatisfaction, especially when customers had to wait as their flight time approached. In centres run by other companies, floor managers were assigned when a line formed for simple tasks such as setting automatic roaming and subscribing to a data-blocking service. However, KT did not adequately respond to lineups, let alone depute floor managers, even when more than 10 customers waited. Waiting customers became restless and anxious. This moment was defined as a CTQ, termed “fast subscription service,” with video clips and photos provided to reveal the problem. Thereafter, the problem of waiting customers was solved by employing additional floor managers during peak hours.

In another scenario, the rainbow chasers discovered that all three telecom service providers compensated for high data-roaming charges with unlimited data service charge systems, but they did not address voice-roaming service charges. Therefore, KT developed and launched measures to improve voice-roaming services and ensure “reliability of charges for voice calls during roaming.”

CHALLENGES AND NEXT STEP

At least 1,600 CTQs in 44 projects were identified in 2014, forming the basis of efforts to identify critical pain points. This led to several insights for all task force members. However, these efforts were just the starting point to maximizing customer experience value. This meant that KT had barely identified the problems to be resolved. Its situation was likened to a clinical case in which a patient has undergone various tests and finally been told what his or her problem was and diagnosed with a specific disease. But even with an accurate diagnosis made, the more critical factor for the patient was how the disease was going to be treated. Similarly, KT faced a bigger task of resolving and improving customers’ pain points.

The company still had problems to overcome to meet this next goal. First, it was not clear how incumbent employees would react to CTQs prepared by CVMD to improve customer experience management. Would they co-operate by nodding their heads? Would they agree with the CTQs and take actions to improve them? Or would they reject the CTQs because they thought they knew their own responsibilities better than the team? Of course, the CVMD could emphasize that the issues were not their own ideas, but were identified and diagnosed from a customer’s viewpoint. Nonetheless, the responsible employees might be reluctant to co-operate, responding with negative views such as, “It was not a new idea to me,” “Those problems could not be helped because they were chronic under the current circumstances,” or “I already wanted to resolve these problems but I could not do it on my own.” How would KT respond to these situations?

Second, taking actions for improvement might be more difficult than obtaining internal agreement. Even if all responsible employees agreed to resolve the problems, the company still needed to establish *how* customers’ experiences would be resolved. There were already problems that were unresolved despite tens of thousands of employees making their best efforts every day. Could the company expeditiously generate brilliant ideas that could solve all the problems? Just how was the company going to create the strategies needed to meet customer needs, especially their unmet and hidden needs, and improve customers’ experience?

Exhibit 1: Video specialized payment systems Provided by domestic telecommunication companies (optional service)

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| --- | --- | --- | --- |
|  | **KT Corporation** | **SK Telecom Co. Ltd.** | **LG U+** |
| Name | Y24 | Band Play Package | Unlimited Package |
| Type | Fee | Additional Service | Additional Service |
| Characteristics | Everyday access to unlimited data  for 3 consecutive hours  (2 GB Basic +  3 Mbps afterward) | Everyday access to 2G of  mobile media data using the Oksusu platform | Everyday access to additional 3G of data at 3 Mbps |
| Release Date | March 3, 2015 | February 26, 2015 | April 14, 2015 |
| Fee | KRW 29,900 to ~59,900 | Base Rate +  KRW 5,000 to ~8,000 | Base Rate +  KRW 8,000 |

Note: “Everyday” means access to data was available every day of the week at any time, compared to data access limited to weekends or evenings; GB = gigabyte and MB = megabyte, both a measure of the volume of computer data; Mbps = megabits per second, the speed at which data could be downloaded over an Internet connection; ₩ = KRW = South Korean Won; ₩1,500 = US$1.

Source: “About KT,” KT Corporation, accessed January 31, 2017, www.kt.com/eng/main.jsp; “Band Data Global Pack,” SK Telecom Co. Ltd., accessed January 31, 2017, www.tworld.co.kr/poc/eng/html/EN.html; and “Company Information,” LG U+, accessed January 31, 2017, www.uplus.co.kr/com/main/pemain/PeMain.hpi.

Exhibit 2: telecommunication market Shares, calculated by number of subscribers

Note: SKT = SK Telecom Co. Ltd.; KT = KT Corporation; and MVNO = mobile virtual network operators, companies that were resellers of rebranded mobile products and services from another company.

Source: “No Dominant Company in the Telecommunication Market,” Paxnet Daily, December 9 2014, accessed August 18, 2016, http://news.moneta.co.kr/Service/stock/ShellView.asp?ArticleID=2014120922383104348&LinkID=150&NewsSetID

=2127&ModuleID=713&iTitle=SK%C5%DA%B7%B9%C4%DE.

Exhibit 3: KT Corporation’s Sales, in KRW billions

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| --- | --- | --- | --- |
|  | **2013** | **2014** | **2015** |
| Sales from Service/Goods |  |  |  |
| Provision of Service | 19,663.0 | 19,059.4 | 19,455.6 |
| Sales of Goods | 4,147.6 | 3,252.2 | 2,825.5 |
| **Total** | **23,810.6** | **22,311.6** | **22,281.1** |
| Sales by Businesses |  |  |  |
| Wireless | 6,976.5 | 7,316.1 | 7,370.7 |
| Wire | 5,965.5 | 5,540.0 | 5,158.7 |
| Media Contents | 1,354.5 | 1,508.4 | 1,662.3 |
| Financial Rental | 3,859.9 | 3,221.4 | 3,411.0 |
| Products | 3,966.5 | 3,250.5 | 2,767.4 |
| Others | 1,687.7 | 1,475.3 | 1,911.0 |
| **Total** | **23,810.6** | **22,311.7** | **22,281.1** |

Source: KT Corporation, *GiGAtopia: KT Integrated Report 2016*, accessed January 31, 2017, http://file.kt.com/kthome/eng/sustainability

/IR2016\_eng.pdf.

1. Ahn Jae-Seok, “KT Establishes Customer First Management Team under Control of CEO,” *Korea Economic Daily,* September 14, 2014, accessed January 30, 2017, www.hankyung.com/news/app/newsview.php?aid=2014091462781&intype=1 [in Korean]. [↑](#footnote-ref-1)
2. GiGA, or gigabit Ethernet, was a new technology that allowed fast Internet access (up to 1 gigabit per second) over existing twisted copper cable instead of fibre optic technology. [↑](#footnote-ref-2)
3. ICT convergence involved removing boundaries between different ICT services, networks, and business practices; e.g., cable television networks offering phone service. [↑](#footnote-ref-3)
4. KT Corporation, *GiGAtopia: KT Integrated Report 2015,* accessed August 26, 2016, http://file.kt.com/kthome/eng/social/csrReport/csr03/ENG\_kt%20Integrated%20Report%202015\_151221.pdf. [↑](#footnote-ref-4)
5. INI Research & Consulting, “Smartwatch Industry and Market Landscape,” INI Column, October 28, 2014, accessed January 31, 2017, www.inirnc.com:40126/prop/bbs/board.php?bo\_table=ini\_column\_eng&wr\_id=21. [↑](#footnote-ref-5)
6. Coimbatore K. Prahalad and Venkatram Ramasway, “The New Frontier of Experience Innovation,” *MIT Sloan Management Review* 44, no. 4 (2003): 12–18. [↑](#footnote-ref-6)
7. Bo Edvardsson, Bo Enquist, and Robert Johnston, “Cocreating Customer Value through Hyperreality in the Prepurchase Service Experience,” *Journal of Service Research* 8, no. 2 (2005): 149–161. [↑](#footnote-ref-7)
8. An automatic service blocking upon users’ request, which all telecommunication companies in Korea provide. [↑](#footnote-ref-8)