O2 - The best way to win new customers? Talk to the ones you already have: the story of O2, Chapter 2

Sophie Maunder, Louise Cook, Nadine Young, Bob Udale, Nick Hough and Andrew Cox

Institute of Practitioners in Advertising

Gold, IPA Effectiveness Awards, 2006

Agency: Vallance Carruthers Coleman Priest/Zenith Optimedia/Archibald Ingall Stretton/Lambie-Nairn   **Authors:** Sophie Maunder, Louise Cook, Nadine Young, Bob Udale, Nick Hough and Andrew Cox

O2 – The best way to win new customers? Talk to the ones you already have: the story of O2, Chapter 2

INTRODUCTION

This is the story of how O2 took a bold step that changed the rules of the UK mobile airtime market. As all brands were becoming entangled in an increasingly destructive spiral of directing their marketing efforts to attracting each other's customers, O2 and its agencies realised that the customers themselves were experiencing this as neglect, and so becoming disaffected with all the brands.

The solution for O2 was to put the customer firmly at the centre of everything the brand did: customer service, rewards programmes, and not least, communications. This was not without the risk of losing out, at least in the short term, in the scramble for acquisitions. But O2 bet on the probability that the first brand to develop a better relationship with its customers would immediately offer something very appealing to all frustrated mobile users.

And so it proved. Talking to existing customers, with the right messages and in the right tone of voice, turned out to be a more effective acquisition strategy than the previous 'acquisition-driven' approach. After all, 'acquisition' and 'retention' are not really different things – the common imperative is *making the brand more attractive*. And to succeed in one without the other is no formula for business success.

BACKGROUND

O2 is one of nine mobile operator brands providing mobile airtime services in the UK.

O2 was born in 2002, a relaunch of the former BT Cellnet. Despite initial stock market scepticism, the brand flourished, as detailed in an earlier IPA Paper[1]. We take up the story again from the beginning of 2005.

O2's customers divide into four categories; we are chiefly interested here in the first two.

- **Prepay customers**[2]. These buy airtime as 'top-ups' when needed. This appeals to people who like to feel in control, and dislike or cannot commit to regular payments. They account for two-thirds of personal mobile users in the UK, but are

generally lighter users so only about one third of the market by value[3]. (Though there is an important group of high-value pre-pay users.) Without minimum contracts, pre-pay customers can switch between operators at will.

- **Contract customers**. These have a minimum contract over a period where they pay a regular monthly amount for an airtime package. Retailers often provide handsets free or at reduced cost as part of the contract: these in turn are usually funded by operators' payments to the retailers. This can induce contract customers to switch when their contract expires.

- **SME** (Small and Medium-sized Enterprises). Small businesses have their own forms of contract, as do...

  Corporate (larger businesses)

The business model for O2 can be summarised as follows: **profit = user base,** *times* **average revenue per user,** *minus* **costs**

- **User base** fluctuates according to net gain or loss of connections, hence the importance of acquisition *and* retention. A key measure is 'churn', which is disconnections expressed as a proportion of the user base.

- **Average revenue per user (ARPU)** is created by levels of usage, and price paid. The trend is for usage to go up while costs of calls and texts fall. ARPU can be stimulated by new, higher price services. It also reflects success in attracting and retaining higher value users.

- Most **costs** of operating a network are fixed. The main variable costs are marketing: advertising, retailer payments, and incentives offered to acquire or retain customers.

These are the key metrics determining bottom line growth: churn, net acquisitions, user base, ARPU, and marketing costs.

MARKET SITUATION

By the end of 2004 the UK mobile telephony market was changing.

- With penetration levelling around 74% (Europe's highest)[4], it was no longer possible to grow by attracting new category users.

- The number of brands in the market had increased. As well as five network operators – O2, 3, Orange, T-Mobile, and Vodafone – there were now four Mobile Virtual Network Operators (MVNOs)[5]: Virgin, easyMobile, Tescomobile, and fresh[6].

- Functional variations between most networks, such as geographical coverage, once important, were now less significant. Competitive parameters had become price, service, and brand affinity.

- One major factor for buyers was the appeal of a new handset. Both handset manufacturers and retailers were effectively rupturing the network-customer relationship by actively advertising handsets and repackaging airtime deals. This increased buyer power and forced operators to increase payments to retailers[7].

Operators were driven into a spiral of advertising and promotional deals to acquire new customers, even though increasingly this was merely replacing those lost to competitors.

IPA

Mobile users found themselves rewarded, often significantly, for changing network, but not for loyalty. Unintentionally, the market was creating a system for eroding brand loyalty (see Figure 1).

This was not good for the operators, and not even much liked by customers. While they could obtain discounts, this was at the cost and inconvenience of frequently reviewing complex offers and changing operator. Brand affinity research in 2004 showed that operators were seen as interchangeable, and none inspired very positive feelings in the customer. Customer satisfaction was sliding for all networks (see Figure 2).

Meanwhile the operators were eroding their own margins, paying money to retailers that could have been invested in their own service.

All this led to increased churn and higher acquisition costs. During 2004, O2's churn rose from 30 to 35%[8], a signal that the conventional market strategy was broken (see Figure 3).

The same factors affected all operators, not just O2. But the market looked over-supplied, and some analysts regarded O2 as the most vulnerable. Just before the new campaign broke, one opinioned:

> 'If there is to be a casualty, I think it's very likely that it would be O2. Even hiring 2000 new customer service staff and recognising the need for retention and superlative service in a supersaturated market is not going to be enough to save it if the market decides it doesn't need a fifth player'.[9]

Nine months later, as we shall see, the 'fifth player' would be the biggest and strongest brand in the UK market!

THE NEW STRATEGY

But what was to be done? The pressure to attract new customers, even (or especially) if largely refilling a leaking bucket, was a difficult treadmill to step off. By simply cutting acquisition programmes and substituting 'loyalty' deals, a brand would risk losing share as other operators continued to offer 'jam today' rather than 'jam tomorrow'. To avoid this, it was necessary to address the issues that allowed the market to become so deal driven in the first place.

Consumer research showed that the promotional wars were exacerbating one fundamental problem: people saw mobile operators as all the same, without positive emotional attachment to any. People believed operators were poor on service, and neglected their existing customers, only offering deals to new ones. They felt ignored, and were often happy to 'punish' operators by switching.

> '*I use the phone, they send me a bill*'

> '*You shouldn't have to threaten them before they offer you something*'

> '*Let me know they know I'm out there!*'

The one positive insight, however, was that mobile users genuinely wanted a brand that they really could trust and stay with. If one existed.

> '*I want to be treated as a person not a number*'

> '*If I knew I was getting value for money I would just leave well alone.*'

O2 had made a good start in creating a relationship with its customers[10], but the focus on acquisitions threatened to erode this. Failing to reward existing customers was important not just practically, but at a deeply symbolic level: it said 'we don't really care about you.' It was this underlying message that needed to be changed.

And if O2 could be seen as the brand that really put its own customers first, should this not also be effective in attracting the alienated users of other operators?

The marketing programme for 2005 therefore started from a deep commitment by O2 to its own customers, to be backed up by deeds as well as words. So there were three aspects to the strategy:

- **Operational** improvements in service. These included hiring an extra 2000 customer service staff, new training programmes, improved systems, and realigning costs to areas customers would value. This decisively implemented programme made a noticeable difference in customers' experience during 2005, and internal surveys showed big improvements in staff attitudes and competences.[11]

- A shift in **rewards** so that 'loyalty', not defection, was rewarded: breaking market convention by offering the same deals to existing customers as to new customers. Pre-pay customers were offered '10% of top ups back every three months'. Contract customers were offered '50% extra airtime on your bundle for life' when renewing a contract exclusively through O2. (Later in the year another promotion, 'Treats', offered various extras such as free text bundles.) These were 'great value, no catch offers' to the customer, but as long as they encouraged incremental usage represented no cost to O2.

- **Communicating** the new customer strategy and the rewards programmes. O2 could not afford to wait for the marketplace to make sense of its new behaviour – O2 needed to communicate its new commitment to the customer quickly and openly, in a way that would earn results.

THE COMMUNICATIONS CAMPAIGN

Since launch, O2 had created a consistent and distinctive visual identity, a stylised universe based around blue and a stream of bubbles (O_2 is the chemical symbol for oxygen). This evokes freedom, clarity, and fresh air; O2 advertising feels calm and serene, the antithesis to clutter and chaos, a contrast to the often frenetic world around mobile phones (it never shows hassled people talking on mobiles).

Emotional attachment to a brand is strongly enhanced by such non-rational, non verbal communication (Heath, 2002). Orange had used a powerful visual identity in its launch years, but later lost this clarity and consistency. O2 would not make this mistake. But it was necessary to refresh the identity, and make it different enough to carry a set of messages about the new rewards and positioning, now for the first time speaking directly to existing customers.

The creative solution from VCCP was 'O2: A World That Revolves Around You': visualising the customer both as the centre of their own, personal communications network, and as the centre of O2's concern and attention.

The idea of 'world' led to an image of planets in the evening sky, echoing the existing palette of bubbles and blueness, as created by Lambie-Nairn. Peaceful, otherworldly music emphasised that O2 had created a new kind of mobile phone world, one removed from the brash, deal-driven perceptions of the public.

Past O2 advertising, while visually consistent, had always been planned as discrete one to two month campaigns. Now, Zenith proposed a unified campaign which would run for six months on the same theme, while carrying specific promotional messages aimed at different target audiences: 10% of Top Ups for Pay & Go customers, 50% extra for life for Contract, and with a service message (One Call Ownership) for SMEs (see Figure 4).

The message was presented with strong creative consistency, and broadcast media were designed to work together with individually targeted 'touchpoints' through archibald ingall stretton, such as text messaging. MMS messages contained visuals from the TV campaign, offering the rewards as a 'present' to the customer rather than a 'sale'. To accept, they simply had to text a number back, thus establishing a reciprocal relationship. So O2 spoke to its customers using its own devices as the media, and straight into their hands (see Figure 5).

At the same time, broadcast media were a highly cost-effective way of addressing 16 million existing O2 customers. O2's new positioning had to become public, an open statement of commitment to all its customers, not just a few – and, not just incidentally, for customers of other networks to hear about too. 40″ TV commercials on the 'loyalty' theme were 'topped and tailed' with reward messages, while heavy transport advertising, indexed highly against O2 customers, created ubiquity[12] (see Figure 6).

Through 2005, O2's share of voice continued as in previous years to be less than its share of market. The success of the campaign did not depend on outspending the competition (see Figure 7).

RESULTS

By December 2005, O2, far from losing out on acquisitions, had the largest UK user base of any network – without any loss in average revenue. A range of brand measures also show it had become the strongest brand.

Short-Term Metrics – Business Results

- **Immediate uptake**: Responses through SMS were unprecedented: more than 4 million prepay customers, over 50%. SMS response began even before the outgoing SMS campaign started, but SMS and TV together multiplied the levels of response, which increased as TV coverage and frequency were built over the period of the campaign. More than two hundred thousand contract customers have already taken-up 50% extra[13].

- **Churn**: O2's churn fell, while increasing for all major competitors. By the end of 2005 O2's churn was the second lowest (see Figure 8).

Churn was modelled separately for prepay and contract groups. The models show that by December 2005, prepay churn had reduced by 15 percentage points (more than a third) with contract churn falling 4 percentage points[14] (see Figure 9). In both groups, churn responded to prepay *and* contract messages equally (see Figure 10). High adstock carryover[15] suggests these effects should be long lasting.

Figure 11 shows the results of using the models to simulate overall O2 churn **without** the new strategy.

- **Net acquisitions**: Despite switching the focus of communication away from acquisitions, O2's net acquisitions increased faster than competitors' (see Figure 12).

IPA

By December 2005, O2 had the largest UK user base by a considerable margin (see Figure 13).

Gross connections: Whilst improved retention was a factor in determining **net** acquisitions[16], acquisitions themselves performed very strongly. Acquisitions (gross connections) were modelled separately for prepay and contract groups (see Figures 14 and 15). Although addressing existing customers, the campaign had as strong an effect on new prepay connections as most previous, acquisition-led advertising[17]. In the case of contract customers, the new campaign generated *twice* as many new connections per TVR as any previous O2 advertising, an outstanding result.

- **ARPU**. While all other operators' ARPU fell, O2's held up well, despite giving more value to the customer (see Figure 16). This suggests that the customer base retains a similar or enhanced proportion of high value users, and shows (as we also know from other data) that free airtime promotions led to incremental usage of the network, not reduced revenue.

Summary: In less than a year, O2 has become the leading brand in the UK in terms of business results.

Longer Term Indicators – Brand Affinity

• Consideration

By autumn 2005, O2 was the operator most cited as the "only brand" or "one of a few brands" consumers would consider (see Figure 17).

• Awareness and image

Millward Brown tracking shows O2 as clearly the strongest brand in the market, taking a spread of ratings into account.

8 summarises a mass of data. The four leading brands are rated by their own customers and by non-customers on five attributes. Prior to O2's campaign, Orange dominated the "score board", but post-campaign O2 shows fastest growth on all scales and highest absolute figure on most. Orange, the biggest spender and historically strong, has lost its leading position (see Figure 18).

Millward Brown also analyse brand perceptions using their BrandZ affinity pyramids. O2 is on a positive trend and now has the strongest 'bonding' in the market. Conversion from 'presence' to 'bonding' is especially strong compared with Vodafone and Orange, brands with longer histories and larger spenders; consider also the gap between O2 and T Mobile, launched at the same time (see Figure 19).

An exceptional performance in the context of any market:

> "*Increasing consumers' true loyalty to a brand (as the bonding metric shows) is no easy task, and in doing so, O2 should be commended for its work*"

> Peter Walshe, Global Brands Director. Millward Brown

• Customer satisfaction

Other surveys of O2's own customers show increased levels of satisfaction and expectation of remaining with O2, especially the more volatile prepay sector (see Figures 20 and 21).

IPA

Qualitative research by Patrick Corr in January 2006 concluded that:

O2 appears to be reaping the benefits of recent brand activity. In particular, *existing customers* appear more satisfied and more conscious of the company's efforts to look after them via proactive communication and good deals.

Potential customers also appear more aware of O2's competitiveness and in their words, 'generosity'.

> *'You get loads with O2'*

People have a sense that the *momentum* is with O2 compared with competitors.

> *'Loads of people I know are going over to O2'*

> *'O2 is clearly the one in the ascendancy'*

• Recommendation

Reichheld (2003) says recommendation is the best predictor of brand affinity, and research suggests recommendation has become more important in this category recently.[18] It is therefore very positive that O2 is the only brand to show a year-on-year increase in recommendation among both prepay and contract customers, and in prepay now has the highest brand score at 80% (see Figure 22).

Summary: Brand affinity tends to move slowly, but in less than a year O2 has moved clearly into the lead on a whole range of brand measures – against competitors with longer histories and bigger budgets.

HOW DID IT WORK? WHAT WAS THE ROLE OF COMMUNICATIONS?

During the period of this campaign O2 became the UK's leading brand on both business and brand measures. But what were the decisive factors behind this?

The 2005 strategy had three components:

- operational improvements to service

- changed reward structures

- communications

We believe all three elements were essential. We also believe it is pointless to try to factor out in any way the relative importance of any individual component: all were necessary, and were mutually supportive.

Brand affinity is created as people develop associations and feelings about a brand, based on all the signals they receive about it. In this sense, all the brand's actions are forms of communication.

People make sense of a brand taking into account (largely unconsciously) such signals as:

- the brand's **behaviours** – e.g. service, efficiency, rewards, etc

- the brand's **verbal or cognitive messages** – e.g. claims, messages about rewards

- the brand's **non-verbal or emotional messages** – e.g. tone of voice (in ads or on the phone), images, music...

If these signals are all consistent, they develop a particular relationship at both a cognitive and emotional level.

Research at the start of 2005 showed most people's relationships with their operators was distant. This was caused by a host of signals that said 'we don't care about you' – e.g. emphasis on deals, failure to reward existing customers, perceived lack of touchpoints other than the bill. Failure to communicate is in itself a powerful form of communication, like ignoring a friend in the street. Operators were in effect blanking out their own customers.

O2's strategy in 2005 changed this by making the customer the centre. They needed to do this through actions, through symbolic patterns of interaction and reward, but they also needed to *talk* to the customer, and to do so in the right tone of voice. Without this overall framing of the new relationship the actions and rewards could easily have been ignored or misunderstood.

O2's rewards in themselves were not the most motivating in the market. Their power came from being framed within an overall campaign that gave them symbolic value, as evidence that O2 cared for its customers (see Figure 23).

The cognitive messages – 'O2: A World That Revolves Around You', '50% extra for life' – were mutually supportive, but were further supported by the *way* they were communicated. People appreciated the clear and informative nature of O2's advertising in a confusing market, and believed it gave a better impression of the network (see Figure 24).

The peaceful and consistent visual images and music also sent distinctive emotional signals[19]. Millward Brown research on perceptions of the TV ads shows very high scores above norm on the 'passive positive' quadrant - 'Pleasant', 'Soothing', and 'Gentle'. In the frenetic mobile market these were exactly what O2 wanted (see Figure 25).

For the first time, customers felt a mobile operator was talking directly to them, not somebody else. But as well as being heard by customers, this conversation was also *overheard* by non-customers! Evidence of how O2 customers were treated proved a more attractive inducement to join than any direct sales pitch.

We also know from econometrics that prepay customers responded to messages that were aimed at contract customers and *vice versa*: all messages were consistent signals about O2's caring approach.

O2's communications made the rewards simple, accessible, and credible. In contrast, a week after the launch of '10% Top Ups Back', Orange responded with a superficially stronger offer – 50% of top ups back! However, it was hedged round with conditions, and was interpreted as yet another deal, not quite to be trusted. In isolation, this seems not to have changed perceptions of Orange.

Finally, more satisfied customers created more positive word of mouth for O2 – an increasingly important factor in choosing a network.

In all these ways, building a better relationship with O2's existing customers not only improved retention, but also proved, beyond expectations, to be the most effective and efficient way of attracting new customers from other brands (see Figure 26).

EFFECTS ON THE BUSINESS

By strengthening brand affinity and successfully exiting the battle for acquisitions, O2 could pay less to retailers relative to competitors, investing instead in service and rewards that benefit its own brand (see Figure 27).

All this has immediately shown up in the bottom line. EBIDTA outperformed the market through 2005 (see Figure 28).

PAYBACK ON THE MEDIA BUDGET

One million disconnections were prevented by this campaign between April and December 2005[20]. The additional margin resulting just to December 2005 covered 95% of the £36m media expenditure (NMR)[21]. If those retained customers stay for *just one* further year they will contribute sufficient additional margin to repay the media budget 3.8 times.

But this is the tip of the iceberg. The models suggest fairly slow adstock decay, meaning future disconnections should also be prevented. Over the next 3–4 years, reduced disconnections should repay the media budget 17 times.

But the acquisition effects are the most important. Those new customers joining O2 from April to December 2005 as a result of the campaign will, over their expected lifetime[22], generate sufficient additional margin to repay the media budget 18 times[23]. But, as with disconnections, adstock decay rates are slow, so that over the next 3–4 years the total additional margin is expected to repay the media budget 63 times.

Bringing together retention and acquisition effects produces a payback of 80:1.

Even greater than the 62:1 reported in the 2004 Grand Prix paper!

EFFECTS ON THE VALUE OF THE BUSINESS

The future benefits of this campaign are shown in the gradual improvement in the brand's affinity relative to competitors.

As a business, O2 now looks highly rated. Share price grew throughout 2005 and in November, after several other approaches, O2's board accepted Telefonica's offer to buy the company for £18 billion (see Figure 29).

> "*The brand O2 reflects the whole aspirations of the sector, they have the name which is recognised as a symbol of quality, of innovation, of service and a future*" César Alierta – CEO, Telefonica

> "*O2 came out of the blocks from BT four years ago, with nobody giving it a chance of survival. I think this is the end of chapter one and the beginning of chapter two. I think under Telefonica now and with their scale, we can make the next journey even more exciting and I think we may well look back in four years time and say in 2005 we'd only just begun.*" (Peter Erskine, CEO, O2 Group)

If there is to be a 'casualty' in this market, it seems unlikely to be O2!

REFERENCES

Reichheld, Frederick F (2003), *'The One Number You Need to Grow'*, Harvard Business Review, Dec, Vol. 81, Issue 12
Heath, Robert (2002), *The Hidden Power of Advertising*, WARC

Research Sources

brandaffinity

IPA

Millward Brown

TNS Prognostics

Ofcom

Reflect – O2 internal staff survey

NMR

Holmes and Cook

Internal O2 connections data and competitive estimates

Special Thanks

To Millward Brown International for their help and patience.

ENDNOTES

1. It only works when it all works, IPA Effectiveness Awards Grand Prix Winner 2004 – Advertising Works 13

2. O2's pre-pay scheme is called Pay & Go™

3. Source: O2, Ofcom

4. Source: O2 internal and external market research estimates

5. MVNO's pay to use the 5 network operators' networks e.g. Virgin uses the T-Mobile network, Tesco uses the O2 network. (N.B. all figures in this paper are for O2 only and do not include Tesco's use of the O2 network.)

6. From Carphone Warehouse

7. For example, a package at Carphone Warehouse might offer a Nokia handset and a Vodafone contract, with other operators excluded.

8. This is 12 month blended rolling churn – the standard industry reporting measure. It is a 12 month rolling average over all consumer types

9. Sara Harris of Strategy Analytics, quoted in *Marketing Week*, March 31, 2005.

10. See previous IPA entry from 2004

11. Staff feel more confident about explaining O2's aims (4 point movement from 67 in Oct 2004 to 71 in Oct 2005) and see O2 as more successfully adapting to market changes and delivering customer's needs and expectations (10 point move from 60% in Oct 2004 to 70% in Oct 2005). Source: Internal staff survey. Base: 7800. 1 point move required for statistical significance.

IPA

12. Econometric analysis carried out by Ninah Consulting in summer 2005 showed that the April–June outdoor activity delivered 16% more spontaneous brand awareness per £ than any previous outdoor activity

13. For existing customers this normally occurs at contract renewal stage

14. All else remaining equal

15. Adstock carryover rates were generally 95% month to month. Source: Holmes & Cook

16. Net acquisitions equate to gross connections – disconnections

17. Pay & Go Wild, the most successful acquisition campaign to date had particularly marked effects in 2002

18. Source: holden pearmain – research into reasons for consumer churn. Sept 2004, March 2005, July 2005

19. See Robert Heath's Monograph *The Hidden Power of Advertising*, for a fuller explanation of the mental processes involved.

20. Source : Holmes & Cook econometric models

21. We do not wish to reveal actual spend media and by implication buying costs, but this figure is sufficient to include both actual spend and production costs.

22. This average lifetime has been assumed to be as at April 2005 i.e. at peak churn levels. (Average lifetime is calculated as 1/% churn rate i.e. a churn rate of 30% would give an average lifetime of 3.33 years.) This will almost certainly lead to an understatement of final payback as churn rates are now much lower.

23. By December 2005 new customers had already generated sufficient additional margin to repay the media budget 1.6 times.

NOTES & EXHIBITS

FIGURE 1

FIGURE 2: OVERALL CUSTOMER SATISFACTION SCORES BY MOBILE NETWORK OPERATOR

Source : TNS Prognostics

FIGURE 3: O2 CHURN
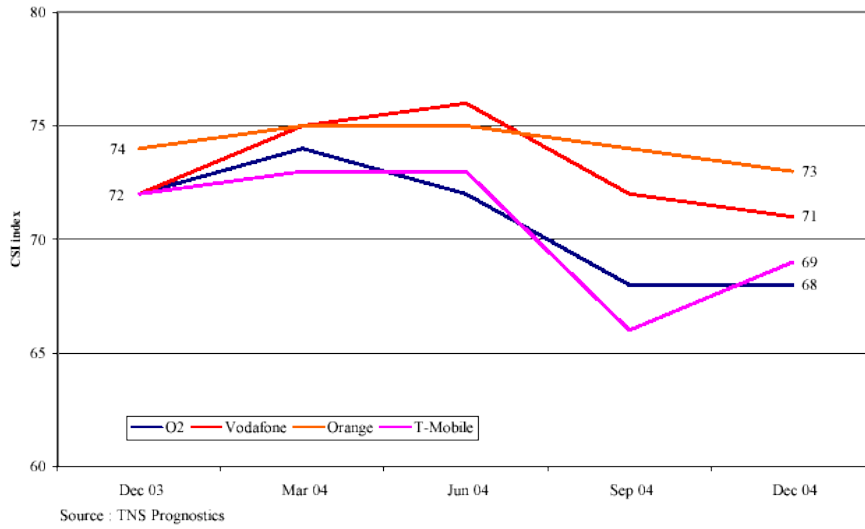
Source : O2
12 Month Blended Rolling Churn
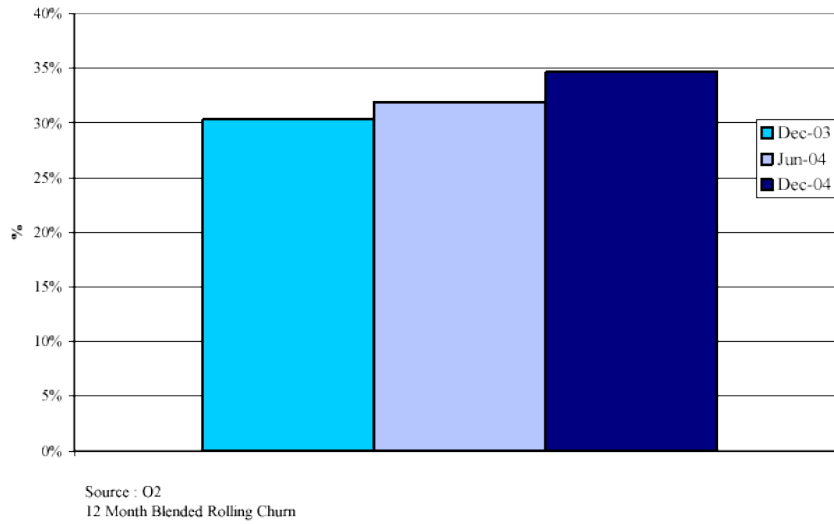
FIGURE 4

Campaign phasing 04 (main campaigns)

April	May	June	July	Aug	Sept	Oct	Nov	Dec

DMP / Business Zones / Happy Hour (London) / Happy Hour (National) / Upgrades (London) / Friends / X-Range

Campaign phasing 05 (main campaigns)

April	May	June	July	Aug	Sept	Oct	Nov	Dec

Loyalty: Prepay 10% / Postpay 50% / One Call (Business) / Pre/Postpay reprieve / Treats
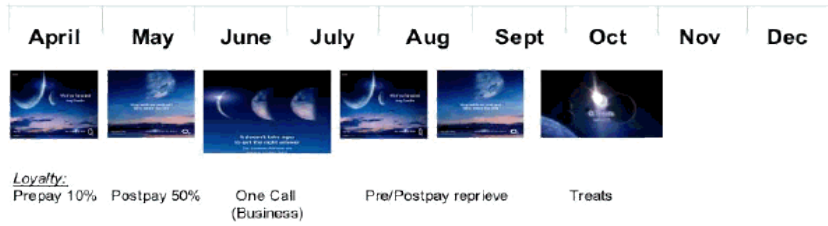
FIGURE 5: AN EXAMPLE OF THE INTEGRATED TOUCHPOINTS USED FOR O2'S 10% BACK CAMPAIGN
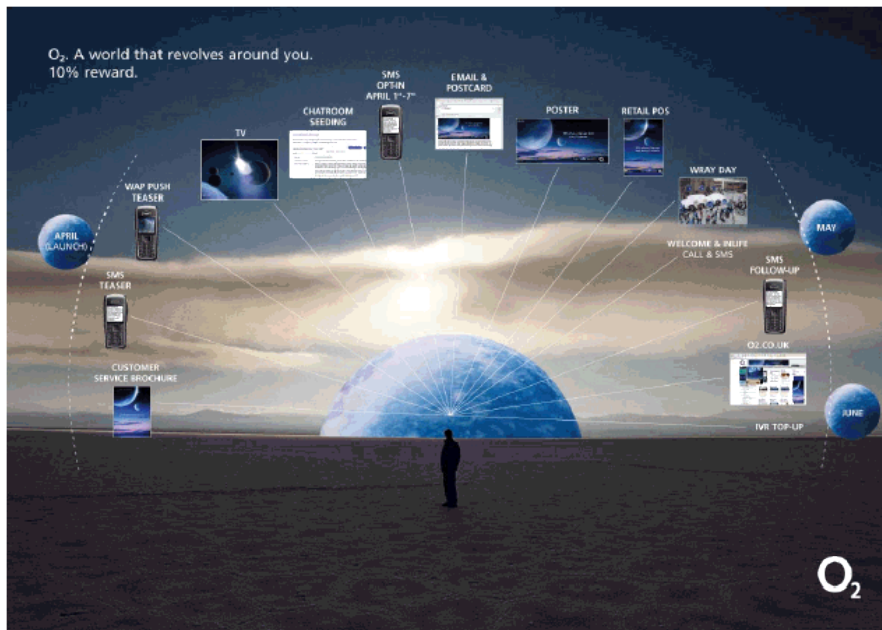
FIGURE 6

TV
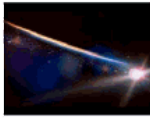
Imagine a world where loyalty is rewarded

Where it's not just the new customer who gets the latest deal

Where it's you, the existing customer, who feels new and wanted

It's about time your loyalty was rewarded
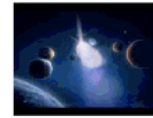
O2. A world that revolves around you. See what you can do.

Launch 96 Sheet

A world that revolves around you

Loyalty rewarded. O₂

Launch Escalator Panels

Promotional Day

Pre Pay 48 Sheet

10% of your Top-ups back every 3 months

Pay & Go™

Text 'reward' to 50202 O₂
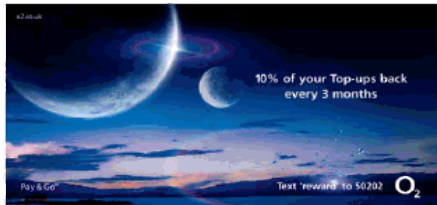
FIGURE 7: SHARE OF VOICE BY COMPETITOR

Source : NMR
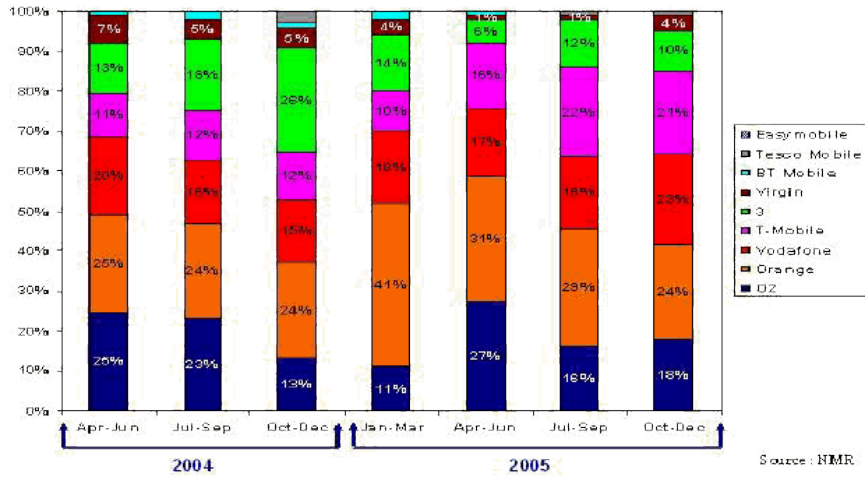
FIGURE 8: O2 AND COMPETITIOR CHURN
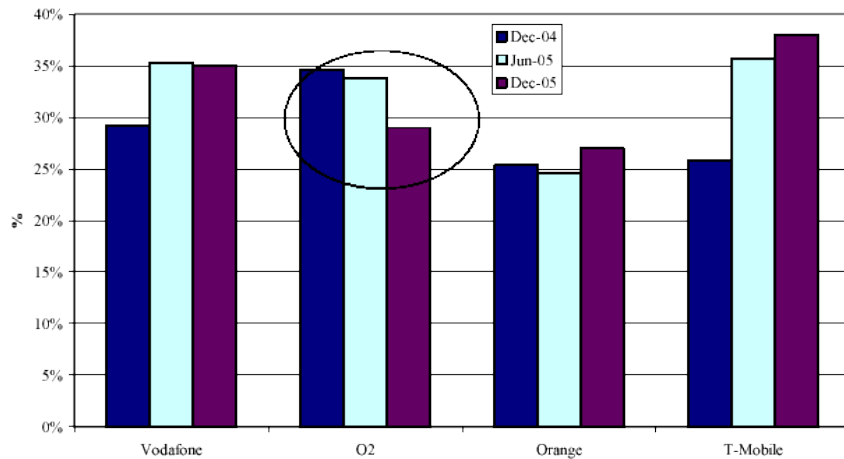
Source : Company releases and O2 estimates
12 Month Blended Rolling Churn

FIGURE 9: O2 PREPAY CHURN – ACTUAL CHURN VS PROJECTED CHURN WITHOUT WORLD REVOLVES AROUND YOU
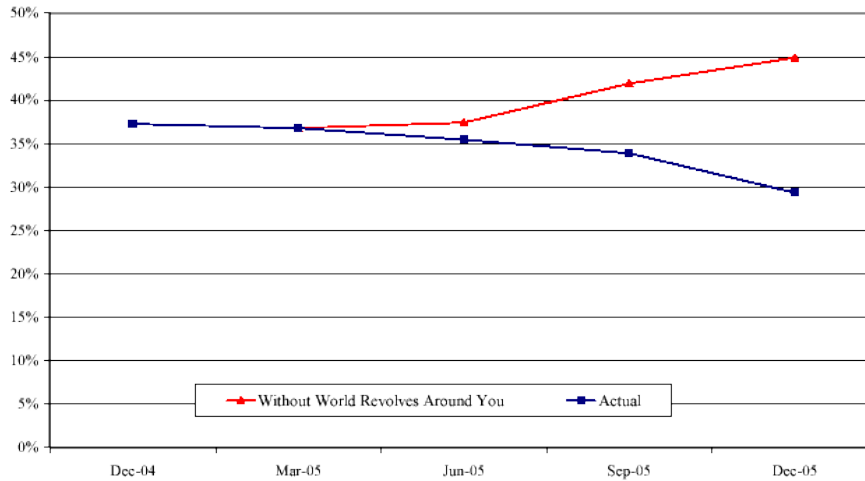
16

Source : Holmes & Cook econometrics (original models based on monthly data but only quarterly data is published)

FIGURE 10[1]: O2 CONSUMER POSTPAY CHURN – ACTUAL CHURN VS. PROJECTED CHURN WITHOUT WORLD REVOLVES AROUND YOU
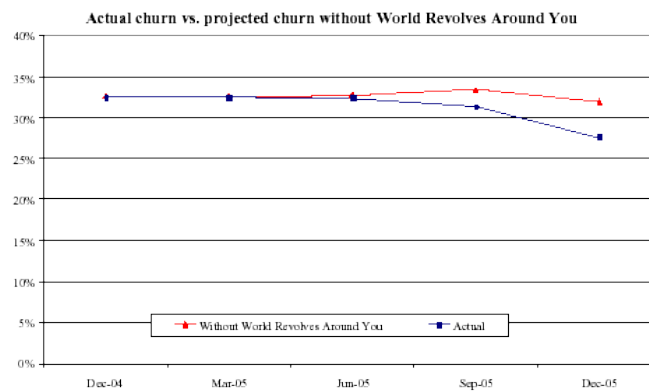
Actual churn vs. projected churn without World Revolves Around You

Source : Holmes & Cook econometrics (original models based on monthly data but only quarterly data is published)

[1] We see underlying churn (i.e. churn without communication) decreasing on this chart as a result of the operational improvements implemented by O2

FIGURE 11: WHERE O2 WOULD CHURN HAVE BEEN WITHOUT THE CAMPAIGN MODEL SIMULATION
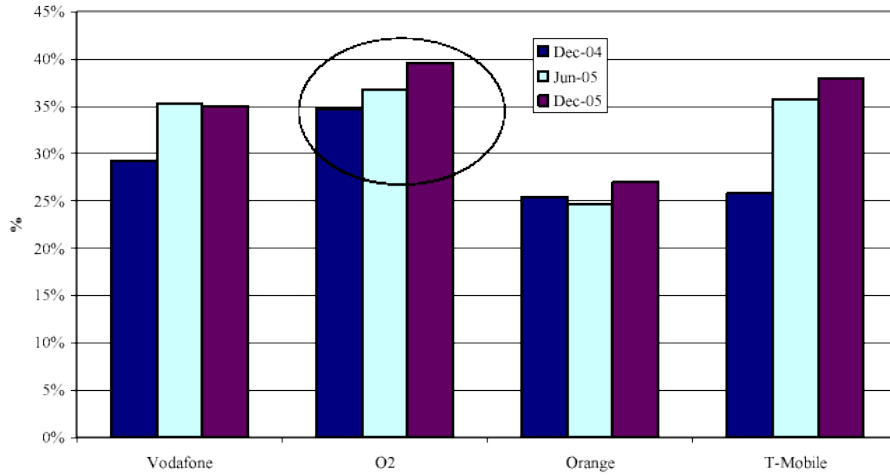
Source : O2 internal estimates and company releases, Holmes & Cook econometric analysis
12 Month Blended Rolling Churn

FIGURE 12[2]: TOTAL NET ADDITIONS (000'S CUSTOMERS)
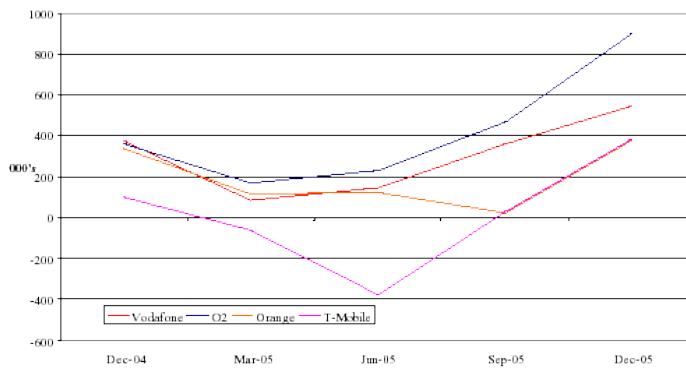
Source : O2 and company releases

[2] Although market penetration was only increasing minimally, there is still some market growth as a result of multiple phone ownership (e.g. some consumers have a business mobile phone and a personal one). This has however generally diluted ARPU, as consumers split their calls between two phones.

FIGURE 13: TOTAL UK ACTIVE CUSTOMER BASE
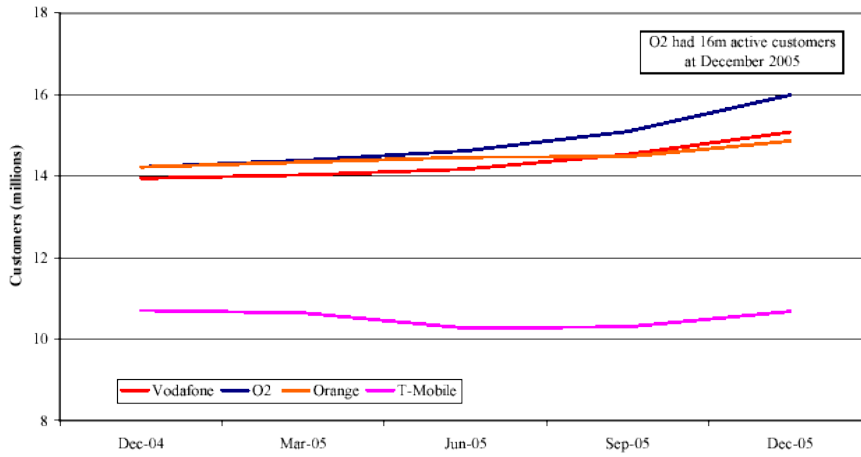
Source : O2 and company releases

FIGURE 14: EFFECT OF WORLD REVOLVES AROUND YOU ON O2 <u>PREPAY</u> ACQUISITIONS GROSS CONNECTIONS (INDEXED)
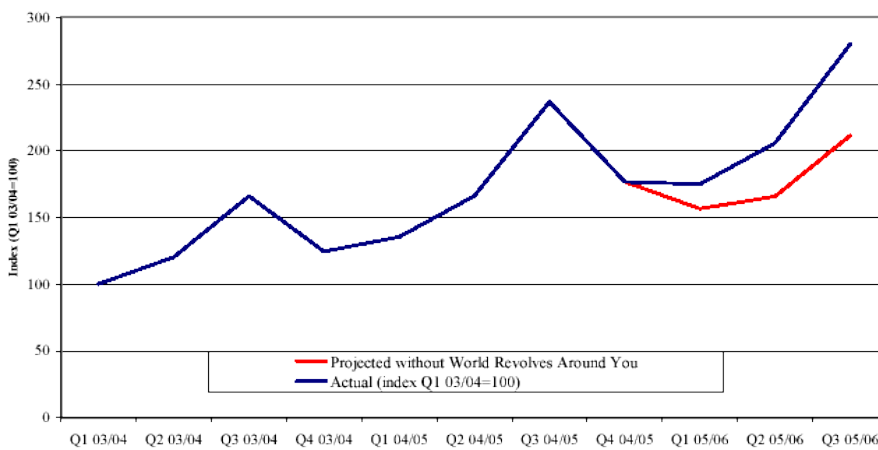
Source : Holmes & Cook econometrics (original models based on monthly data but only quarterly data is published)

FIGURE 15: THE EFFECT OF WORLD REVOLVES AROUND YOU ON O2 <u>CONTRACT</u> ACQUISITIONS GROSS CONNECTIONS (INDEXED)

19

Source : Holmes & Cook econometrics (original models based on monthly data but only quarterly data is published)
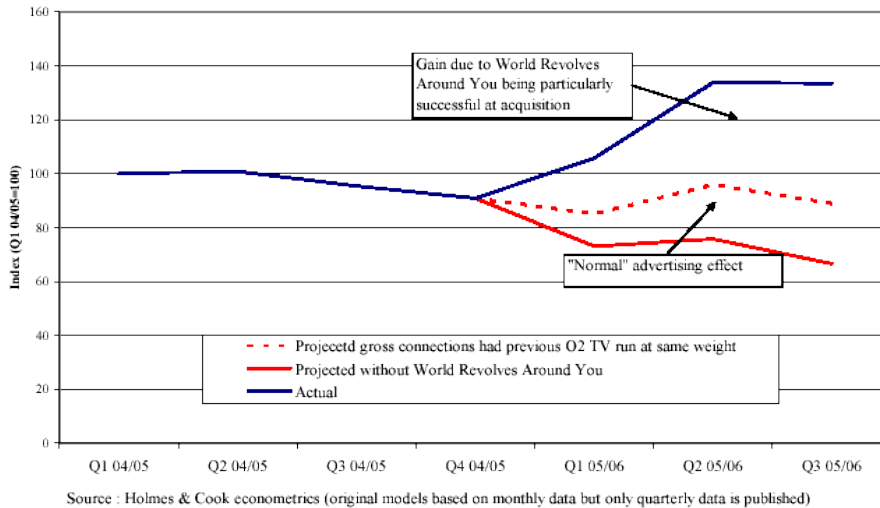
FIGURE 16: AVERAGE REVENUE PER USER (£ PER CUSTOMER)

Source : O2 and company releases
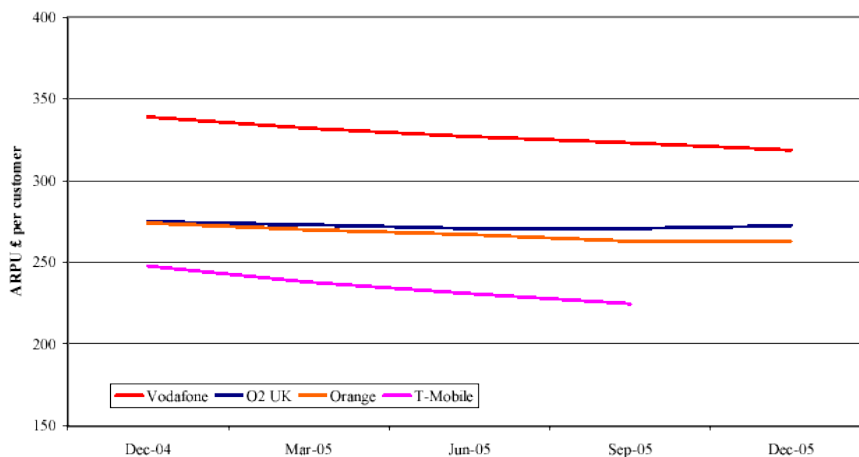
FIGURE 17: CONSIDERATION OF LEADING MOBILE PHONE BRANDS – TOP 2 BOX

Source : Millward Brown - Consumers for which O2 is the "only" brand or "one of a few" they would consider
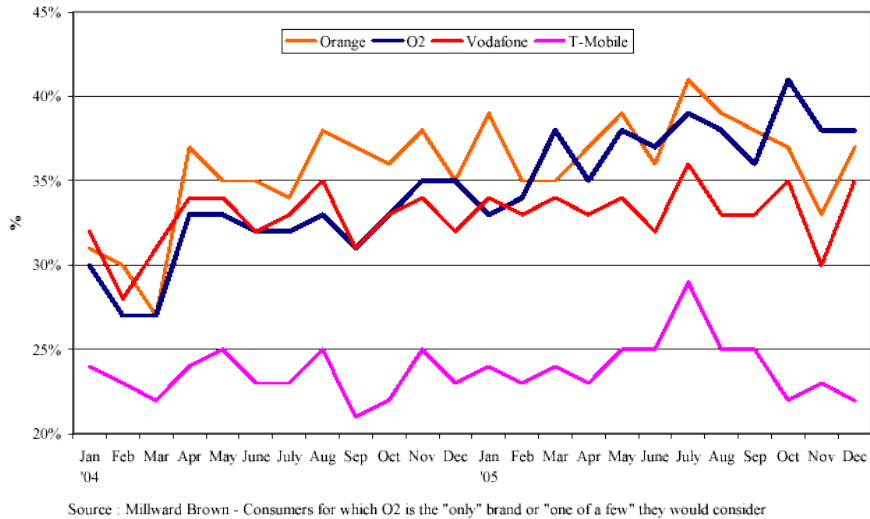
FIGURE 18

	<u>Pre</u> Highest absolute rating 8wks to 3/4/05	<u>Post</u> Highest absolute rating 8wks to 22/1/06	<u>Pre → post and points gained</u> Fastest growing[3] 3/4/05 to 22/1/06		
Ratings amongst own customers (% or % agreeing)					
Spontaneous brand awareness	Orange	O2	O2	84 → 92	+8
Recommendation	O2	O2	O2	78 → 82	+4
Have a higher opinion of	O2	O2	O2	73 → 78	+5
Brand you want to be seen with	Orange	O2	O2	63 → 70	+7
Setting standards for the future	Vodafone	O2	O2	48 → 56	+8
Ratings amongst non-customers (% or % agreeing)					
Spontaneous brand awareness	Orange	Orange	O2	53 → 60	+7
Recommendation	Orange	O2	O2	16 → 20	+4
Have a higher opinion of than	Orange	Orange	O2	15 → 20	+5
Brand you want to be seen with	O2	O2	O2	21 → 23	+2
Setting standards for the future	Orange	Orange	O2	16 → 20	+4

Source: Millward Brown. 8 week rolling data based on approx 200 customers and 700 non-customers for each brand. Periods of comparison are 8 wks to 3/4/05 (pre-campaign) vs. 8 wks to 22/1/06 (post campaign)

[3] These are large image movements to occur in a short period of time. Many of these measures had shown little in the way of trend movement in the previous year

FIGURE 19

Brand Pyramids - Q4 04 (Jan-Mar 2005)
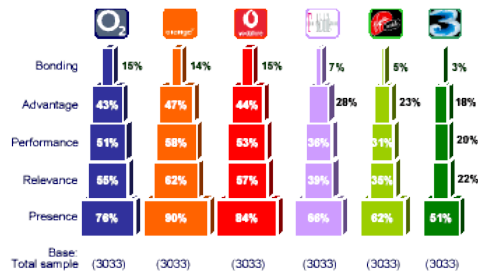
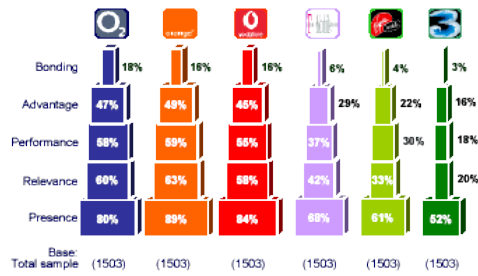

Brand Pyramids – Q3 05 (Oct-Dec 2005)

FIGURE 20: OVERALL CUSTOMER SATISFACTION SCORES BY MOBILE NETWORK OPERATOR

Source : TNS Prognostics (1 point movement required for statistical significance at the 90% level)
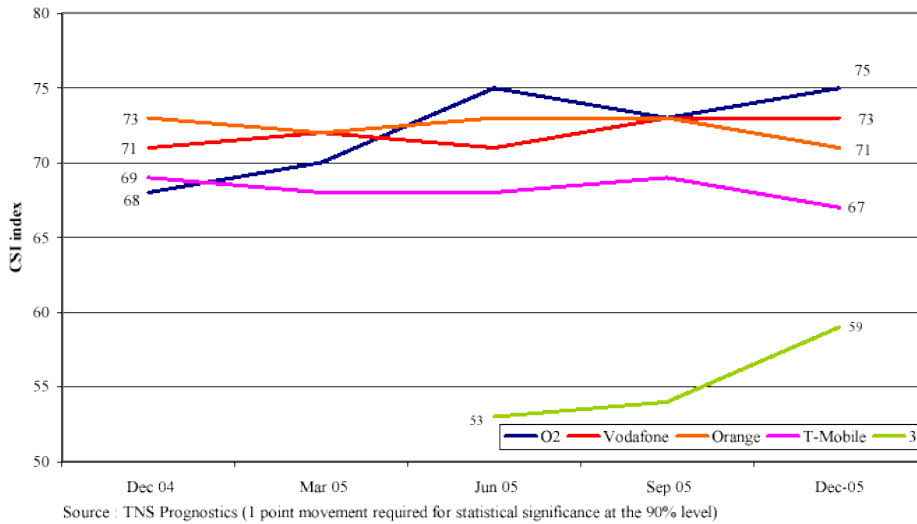
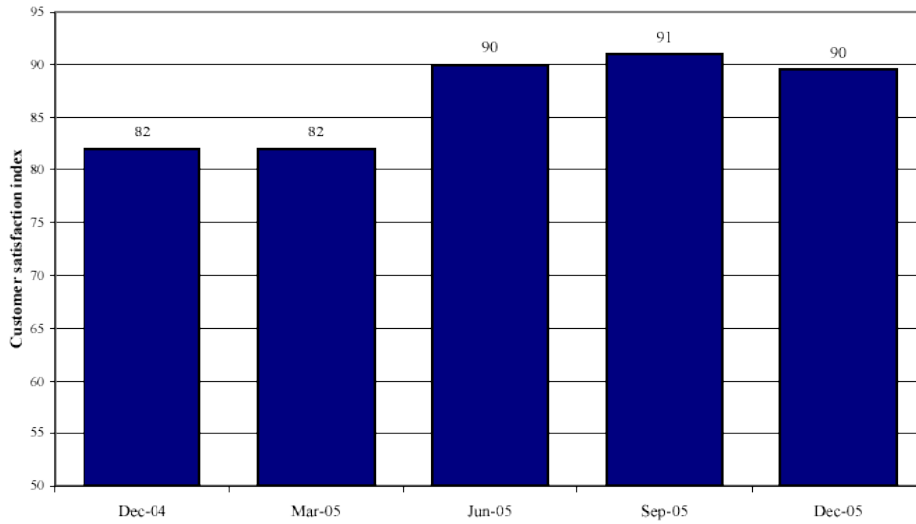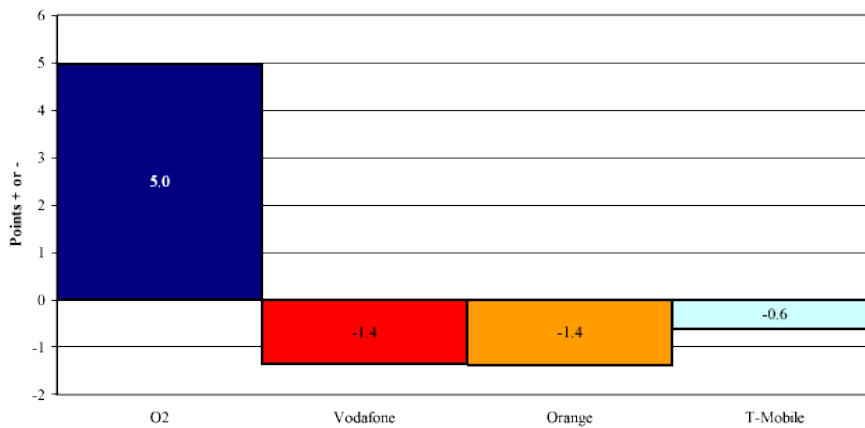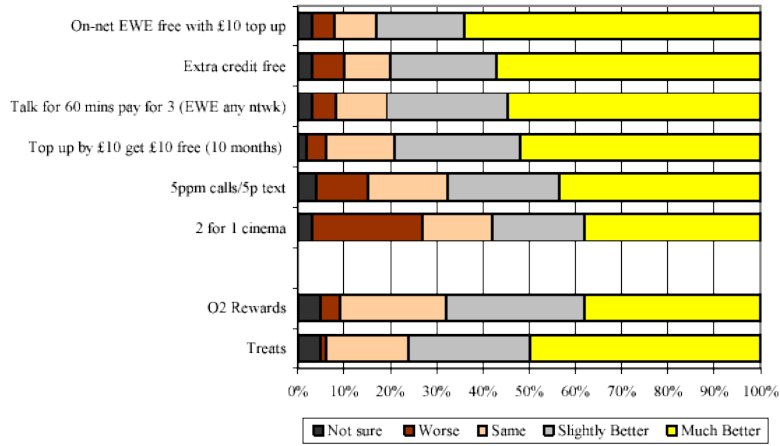**FIGURE 21: O2 – PREPAY CUSTOMERS – HOW LIKELY IS IT THAT YOU WILL BE A CUSTOMER IN 1 YEAR?**

FIGURE 22: LIKELIHOOD TO RECOMMEND – POINTS GAINED OR LOST Q3 2005 (OCT–DEC) VS Q3 2004 (OCT–DEC)

Source : TNS Prognostics (prepay and contract customers)
1 point move required for statistical significance at 90% level

FIGURE 23: OVERALL VIEW OF PROMOTIONS VS. OTHERS YOU HAVE HEARD/SEEN

Source : Sweeney Pinedo. Base: 300 O2 customers not taking up rewards
EWE = evening/weekend. On-net = own network

FIGURE 24: O2 CUSTOMERS' IMPRESSIONS OF O2'S ABOVE THE LINE ADVERTISING
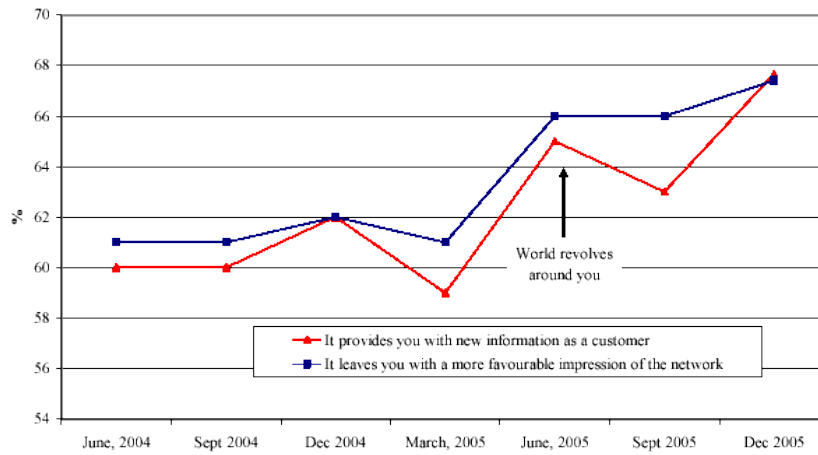
Source : TNS Prognostics (1 point move required for statistical significance at the 90% level)

FIGURE 25: MILLWARD BROWN PASSIVE POSITIVE ENGAGEMENT SCORES – O2 EXECUTIONS VS. STUDY NORM

% agreeing	Orbit	10% Back	50% Extra	Treats	Study norm	Average by which O2 exceeds norm
Pleasant	48	43	50	48	35	+12
Soothing	43	35	45	41	12	+29
Gentle	59	54	66	52	32	+26
Base: Total sample	813	308	247	187	37 ads	

FIGURE 26

| Net increase in user base to largest in the market | x | ARPU (which holds up well) | - | Costs (Payments to retailers stabilise) | = | Highest growth in EBITDA in category |
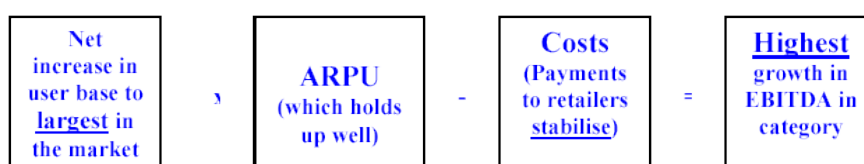
FIGURE 27: RANK OUT OF TOP 4 NETWORK OPERATORS IN TERMS OF THIRD PARTY RETAIL COMMISSION PAYMENTS. RANK 1 SPENDS MOST

| Rank	Dec 2004	Dec 2005
O2 prepay	2	3
O2 contract	2	3

Source: O2 best estimate

FIGURE 28: AVERAGE OF QUARTERLY EBITDA GROWTH RATES VS. PREVIOUS YEAR[4] Q1 FY05/06 (APR–JUN) TO Q3 FY05/06 (OCT–DEC)

	O2	Vodafone (Q1 and Q2 only)	T-Mobile	Market avg (Q1 and Q2 only)
Year on year growth (average of growth rates in first 3 quarters of FY05/06)	+5	-4	-6	-3

[4] Orange's profits not reported

FIGURE 29: O2 PLC SHARE PRICE PERFORMANCE VERSUS VODAFONE, BT, FTSE 100
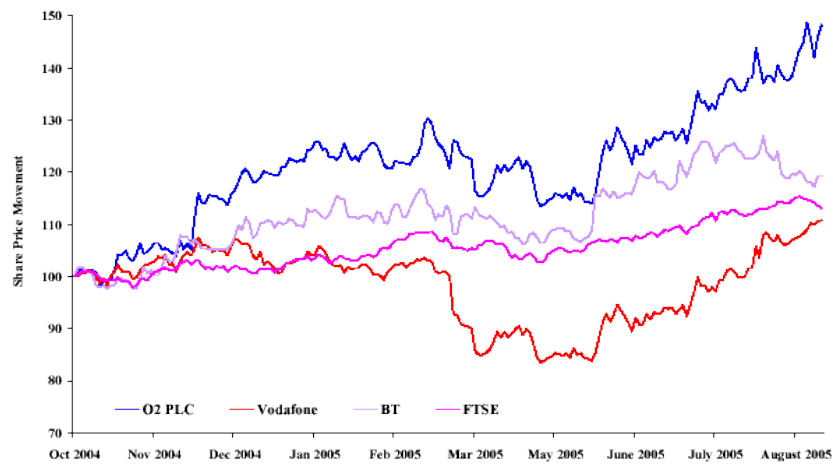
Note: Share prices base lined 1st October 2004 to 100