TELECOM COMPANIES AND THE DIGITAL CONSUMER

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Abstract

Telecom companies face unique challenges in today's dynamic market where connectivity is commoditized and disruptions are commonplace. Smart organizations must adopt a 'renew-new' strategy that simultaneously renews existing systems, processes, and tools, and adds new complementary ones to become future-ready. In this paper, we discuss this 'dual strategy' that can be applied to customer experience, business processes and systems, staff and supply chain, and business models.

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Telecommunication companies today face a confluence of five challenges – commoditization of core connectivity services, demand for differentiated and personalized offerings by the digital consumer, new external competitors, significant advances in software and technology, and new disruptive business models.

Today, there are more wireless connections than there are human beings on the planet, though half the population still does not own a mobile phone. The connected smart device market is expanding beyond smartphones, tablets, and PCs, to include home appliances, wearable devices, automobiles, and more. The traditional viewpoint of telecommunication as an infrastructure business is no longer tenable. Although the race to connect the world is hardly over, the commoditization of core connectivity services and the consequent pressure on revenue is challenging the relevance of the industry's conventional inside-out strategy for growth and profitability. What's more, the pressure to transform is compounded by a series of strategic shifts in the marketplace set off by the convergence of digital technologies and major changes in consumer behavior.

Challenges and opportunities

For a new generation of 'digital first' consumers, connectivity is more a prerogative than a preference. The usage of mobile devices itself has expanded well beyond communications to influence almost every aspect of the consumer's digital lifestyle, be it entertainment, health & fitness, productivity, personal finance, or travel. As connectivity becomes the norm of this lifestyle, customers are demanding more from their network providers. They are now looking for differentiated and personalized service offerings that help them live their digital lives with a marked emphasis on a unified experience.

At the same time, external competition is threatening to disrupt the telecom business model across multiple nodes. For instance, Google's limited but focused entry into broadband services has led to a shake-up in the market as traditional service providers scramble to match the quality of their service offerings. Over-the-top (OTT) messaging services such as WhatsApp, Skype, and Snapchat have already disrupted voice, video, and text message revenues respectively for telecoms. And media services such as Netflix, Hulu, Sling, Amazon Prime, Chromecast, and Roku have disrupted the entertainment and streaming industry.

A range of next-generation OTT players have established globally scalable

business models in various domains, from unified communications to healthcare, to document management. As these services grow in popularity not only will they add to the pressure on telecom operators' revenues but they might also augment network costs.

Amid these transformations, constant advances in software and technology and the way they are delivered are forcing telecom companies to continually invest in upgrading and modernizing their infrastructure. But without a strategy to leverage these capital investments for additional revenue streams and profits, they risk becoming passive purveyors of commoditized infrastructure.

As a result of this confluence of challenges, telecom companies are being forced to redefine their identity in the digital marketplace. To succeed in the digital paradigm, next-generation telecom companies are evolving into multi-service providers that connect directly with consumers by developing new service offerings that are relevant, fast, and deliver the expected engagement and experience. We see telecom companies already becoming an amalgam of the following:

- An end-to-end 'Digital Life Partner' who enables a seamless, unified, and personalized digital lifestyle experience for consumers

- An 'ICT / Applications Provider' delivering comprehensive modern technology solutions for enterprise customers

- An 'Information Provider' who mines proprietary consumer data assets to serve the data-hungry consumer industry

- A 'Bank' by partnering with financial institutions to offer a range of digital payments and other banking services

- A 'Media Company' that not only serves third-party content but also creates content which can be monetized

We see new business models emerging where telecom companies will partner with other industries to develop completely new end-to-end digital value chains. An example: A telecom company is building relevant partnership to digitize the entire farming industry. We think such interesting partnerships will emerge in areas such as mass education, hospitality, and services.

Given the enormity of the challenge, a single, linear transformation may not be enough to create such an organization. Rather, telecom companies must adopt a two-pronged 'renew-new' strategy that centers on customer experience, business processes and systems, staff and supply chain, and disruptive business models.

Customer experience

'Renew' areas

To successfully transition to a role of a 'Digital Life Partner', telcos must focus on delivering a personalized digital lifestyle experience for consumers and therefore invest in an infrastructure that enables this. Additionally, personalized self-care should become an embedded feature across the channel architecture. Consumers should be empowered with intelligent, intuitive, and cross-channel, self-care solutions that help them personalize their own service offerings as well as experience. It is essential to ensure that the omni-channel experience is optimized for both first-time users as well as existing customers. Telecom companies already have access to large volumes of usage and customer behavior data. They need to invest in real-time, predictive, analytical capabilities that will help them parse this data into meaningful, contextual, and personalized service offerings and monetize them.

What's new?

According to a European survey released earlier this year, across the board, telecom consumers were open to paying a 20 percent premium for an enhanced digital experience. But the more digitally discerning customers were ready to pay twice as much for access to a comprehensive ecosystem of services that enabled their digital lifestyles across:

- Leisure: entertainment, movies, travel & tourism

- Health: fitness, hospital

- Security: home, school, auto

- Utilities: banks, bills, shopping

- Community: interests, clubs, memberships, services

For the industry, this is a clear sign of opportunity to create a premium value proposition that benefits both telecom companies and consumers.

Processes

'Renew' areas

As telecom companies focus on creating a more differentiated and experiential service offering, they have to ensure that their operational processes are aligned with enterprise business strategy. For instance, at a large service provider, it takes nearly three months to fulfill the order, from when it is placed. Most legacy systems and processes are not capable of coping with either the increasing complexity of telecom service offerings or the real-time, turnaround expectations of customers. In this context, a highly automated approach to provisioning and activation will become a key differentiator of service and experience.

What's new?

Apart from automating and accelerating the fulfillment process, telecom companies also need to invest in non-traditional channels of customer service delivery such as cloud, social, and mobile CRM. Some leading telecom companies are using Internet social mediums throughout their value chain. For example, products and services are co-created with their customers in the social mediums – Twitter is being used for customer orders and the social posts are being harvested extensively to understand customer sentiment and to resolve complaints.

Software advancement has also created an opportunity to engineer the economics across the value chain. By reducing delays in matching supply and demand and by service creation at the point of consumption, telecom companies are able to quote without having to charge for inefficiencies inherent in their systems.

But more importantly, these operational processes must be designed outside-in with the customer experience and channel delivery modeled even before the product or service is designed and developed.

Systems and networks

'Renew' areas

Systems modernization and simplification will be one of the key levers of renewal for telecom providers. Most providers are still grappling with legacy systems and processes, disparate and loosely integrated technology ecosystems, and product silos. Apart from cost and complexity, the inability of these systems to create a unified view of customer usage patterns and behaviors can undermine any effort at delivering personalization and experience. Meanwhile, developments on the network side such as Software-Defined Networking (SDN) and Network Function Virtualization (NFV) are disrupting traditional approaches to network management. By virtualizing the network, typically a complex multi-vendor environment, telcos are able to shift to a managed services model for their network infrastructure. This is not only cost-effective but also helps companies launch and provision new services quickly and efficiently. They also need to embrace the API economy to simplify and accelerate the process of delivering innovation. A cloud-based approach to APIs opens up access to a range of innovations that typically happen beyond the boundaries of core legacy environments. More importantly, it allows telecom companies to leverage proprietary data assets in association with external partners to continuously develop and deliver new service offerings that are most relevant to their customers.

What's new?

As telecommunication systems become more open and interoperable, the industry will have to transition from a cloud-based approach, to APIs, and thereon to public APIs. This will be critical to realizing an 'anytime-anywhere' approach to innovation as well as enabling Machine to Machine (M2M) and IoT services. Going forward, public APIs will also be a key capability for telecom companies to deliver an expanded and differentiated service offering. Concurrently, the SDN / NFV revolution will create next-generation intelligent networks that are not only self-detecting and self-healing but also create opportunities for rapid innovation through new applications built on these networks. The advent of more flexible, agile, and intelligent networks will also help the industry create new sector-focused enterprise service offerings that enable businesses to innovate more quickly and cost-efficiently.

Staff

'Renew' areas

As telecoms bet on leveraging customer experience as a unique and differentiated competency, the focus must be on incorporating cross-industry learning and best practices into their business model. For instance, the retail industry's long and successful experiments with creating a seamless and contextual omni-channel consumer experience can help telecoms speed up their efforts in that area. Gamification strategies will also have to play a central role in engaging employees and incentivizing their performance to streamline upselling and cross-selling initiatives.

What's new?

There are multiple transformational challenges for the telecommunications industry such as high complexity, device proliferation, constant technological evolution, and changing consumer behavior. Given the scope of the challenge, telecom providers cannot merely bank on cross-industry ideas to drive innovation and performance. The emphasis should also be on harnessing the power of design thinking to ideate new possibilities and solutions that can address challenges that are unique to the telecom space. The role for gamification will also evolve as telecom companies combine real-time data with analytics and automation to proactively manage the customer experience.

Supply chain and sourcing

'Renew' areas

According to a 2013 study, the adoption of DevOps in the telecommunications industry was twice as high as the median adoption rate across five verticals. Hardly surprising, given the increasing pressure on telecom companies from OTT competition to frequently innovate their product and service offerings and shore up revenues. Even as telecoms redefine the fundamental characteristics of the network through technologies such as SDN and NFV, they must supplement this effort by continuing to focus on Agile and DevOps to build an automated, orchestrated, and flexible ecosystem that is primed for continuous and accelerated innovation.

What's new?

A culture of continuous innovation will be a key lever for sustainable growth and profitability. The relentless pressure to innovate will force telecom providers to look beyond organizational boundaries for new ideas that can transform everything from service offerings to delivery models and even business structures. Models such as open innovation and crowdsourcing will help them significantly expand and accelerate the scope of innovation while simultaneously paring down costs. Concurrently, there should be a strategic focus on developing 'best-of-breed' partnerships with innovative service providers to unlock new revenue streams. All this should be backed by infrastructure that enables rapid integration and bundling of tailored services to deliver an updated and relevant offering to customers.
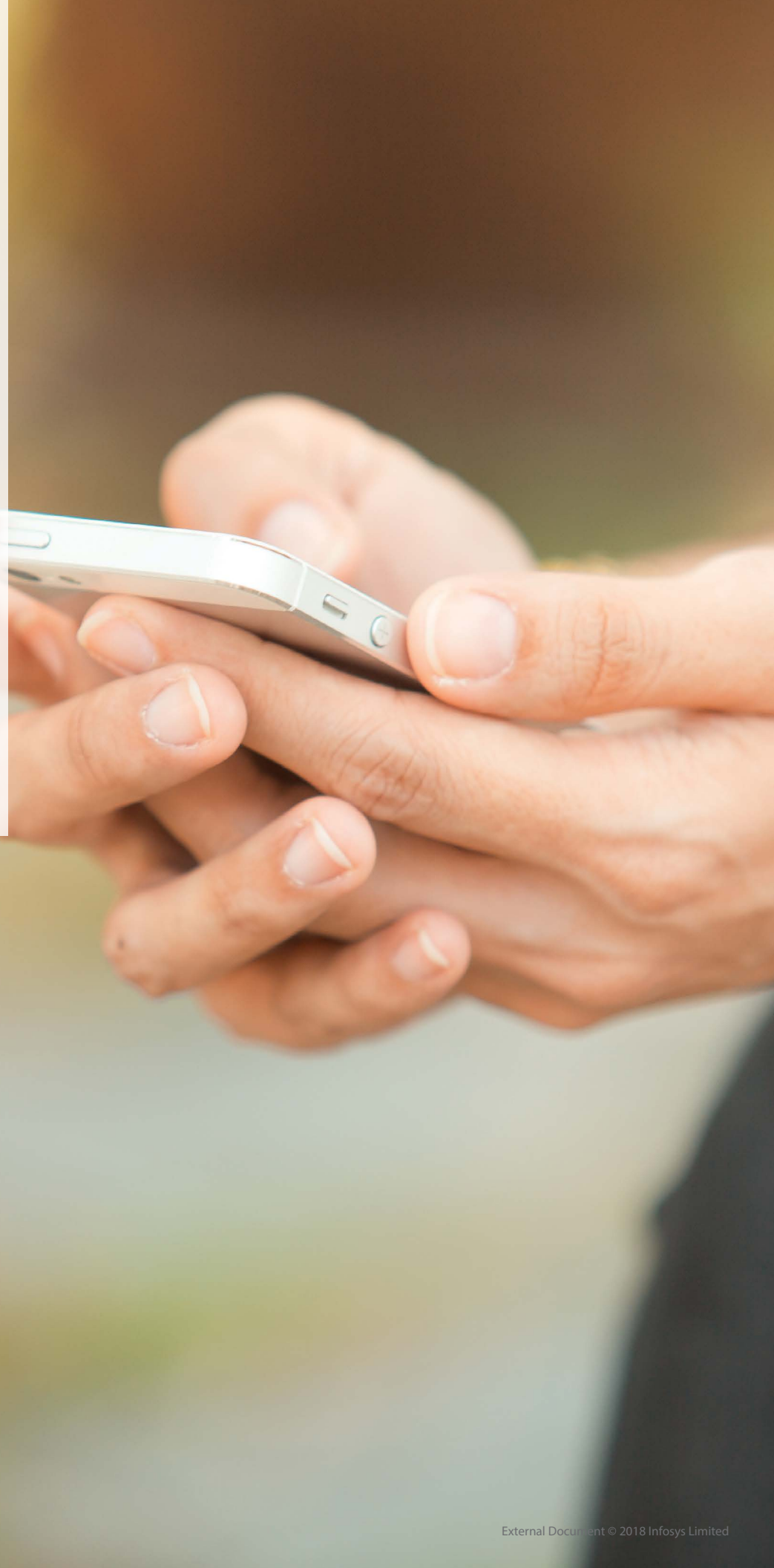
New business models

As identities of telecom companies continue to evolve, new competitors are emerging from unknown areas with new, disruptive business models. To cope with this challenge, telecom companies must be ready to look outside their current, traditional operating models, process, and systems, and be open to creating new organizational groups and partnerships. For instance, Telstra has invested in Ooyala, a leading innovator in video streaming, analytics, and monetization. Philippine Long Distance Telephone Company (PLDT) entered into a global strategic partnership with Rocket Internet, a German tech startup incubator to drive the development of online and mobile payment solutions in emerging markets. Also, several telecom companies are white-labeling enterprise-grade software products to rapidly bring new capabilities to their customers. These new business models enable them to expand into new products, services, customer segments, and geographies.

Conclusion

A combination of evolving technologies, external competition, changing customer behaviors, and profitability pressures, is driving the pace of transformation in the telecommunications industry. To succeed in this radically new environment, next-generation telecom companies will adopt a two-pronged strategy of 'Renew and New'. They will continually renew their systems, processes, and capabilities to fully exploit, extend, and enrich their core. In parallel, there will be heightened focus on disruptive business models to rapidly create and deliver new products, differentiated service offerings, and superior customer experiences, relevant to the digital customers in both retail and enterprise segments. Partnerships and open innovation models will become the cornerstone of this transformational new strategy.

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