

WHAT'S DRIVING COMMUNICATION SERVICE PROVIDERS TO CLOUD?

A decorative graphic consisting of two overlapping triangles pointing to the right. The top triangle is green and the bottom triangle is blue.

Cloud adoption among communication service providers (CSPs) has been relatively brisk, but cautious. However, to compete resiliently with cloud-born startups, industry stalwarts are discovering the distinct advantages cloud offers. At the same time, they understand that embracing cloud is not a trivial decision; it requires strong top management commitment and attention, as well as clear operational strategy.

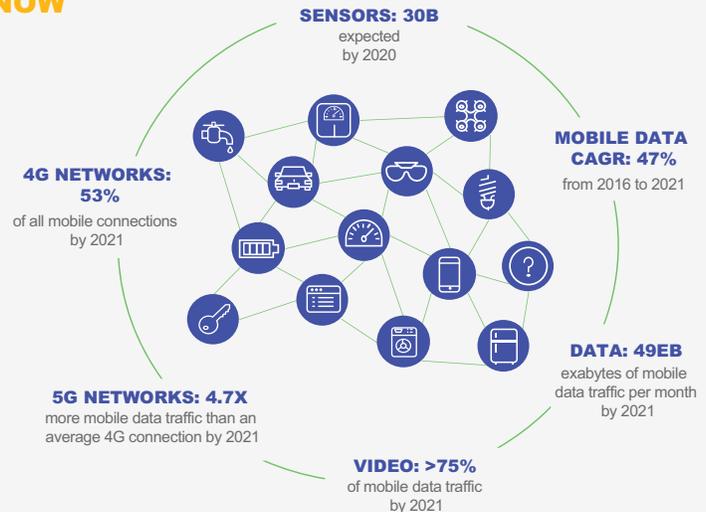
There is still room for operators to grow their core businesses, under different rules and assumptions with significantly more agility within their operations model, powered by digital and cloud. There is an important opportunity to rotate to a new business model—a chance for CSPs to re-establish a critical role in the value chain through digital and cloud technologies. A key element is putting the customer at the center of the experience—connecting users' homes in ways only thought possible just a few years ago and deeply engaging consumers by providing a spectrum of services far beyond traditional CSP offerings.

THE PHYSICAL WORLD GETS CONNECTED TO THE INTERNET 2.0¹

THEN



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Sources: World Economic Forum: Digital Transformation of Industries Program, Cisco Visual Networking Index: Global Mobile Data Traffic Forecast Update, 2016–2021

The marketplace today

In addition to stagnating revenues, CSPs today face fundamental challenges. First, the commoditized core is no longer profitable; low-cost and digital alternatives proliferate; and the pressure to meet shareholder needs is as relentless as ever. Second, the barriers to entry and market boundaries are collapsing while traditional approaches to growth, existing asset value and historic positions of strength are eroding. Third, the dawn of the “liquid customer” is on the rise as consumers lose stickiness and loyalty, because traditional CSPs are no longer an essential part of their daily digital routine. And finally, the world is becoming increasingly connected; today’s devices have essentially become physical and virtual “trust anchors” while proximity increases convenience and reliability.

To compete in this environment, we see telecom providers taking a tiered approach in an effort to transform their very business model. It entails a fundamental transformation of a CSP’s core, growing and monetizing assets, acquiring new customers with novel offerings and scaling the business—where cloud plays a critical role. Much of this transformation depends on timing—finding the right market conditions to anticipate, and meet, consumer expectations.

Reinventing communications in the cloud

Traditional telecommunications is already stagnating as the market for digital services grows dramatically. Seizing these opportunities means making significant new investments in networks and digital innovation.

As digital-born disruptors dominate the market by prioritizing scale and reach over profitability, we're seeing opportunities for incumbent players to build on platforms that they can leverage across a number of different markets.

Other important trends are developing in the telecom sector, indicating that the digital marketplace is best navigated from the cloud:

- Customer behavior is committed to liquidity, fundamentally changing from ownership to sharing and moving from silo to social
- Data liquidity raises concerns about digital trust, security, privacy and proximity
- The market is moving away from commoditization toward hyper-personalization
- The next Internet is emerging, in which everything will be connected
- Software-defined networks will enable and manage the future Internet in a completely novel way

- As all things become connected and exchanged online, security, privacy and convenience are moving to the edges, substantially heightening the relevance of devices and proximity

Embedded in users' routines

For today's CSPs, these trends generate the need to look for new growth opportunities by becoming embedded in the digital routine of consumers and providing platforms and vertical services for enterprises.

To meet today's consumer—and business—demand, CSPs should consider taking the following steps:

- Launching a digital transformation program to revisit their competitive position, business models, investments and services
- Enforcing the rotation to a relevant platform play
- Adopting user-centric, community-oriented, data-driven experience design
- Leveraging credibility around trust, security, privacy and proximity
- Engaging software-defined, highly reliable, secure data highways, specialized network clouds and smart, next-generation connectivity (5G)
- Employing multi-sided cloud-based platforms; offering telecommunications providers a presence, proximity and trust advantage

Moving to cloud requires a dash of fearlessness

To wring the most value from cloud platforms, CSPs should look at dismantling their operational silos to allow end-to-end, flow-through processes. This not only will help provide better cost take-out, but it will help enhance productivity and customer-centric metrics, and enable broader integration with the digital ecosystem.

Research shows a wealth of benefits for telecom providers willing to make the move to cloud.² By 2020, we expect:

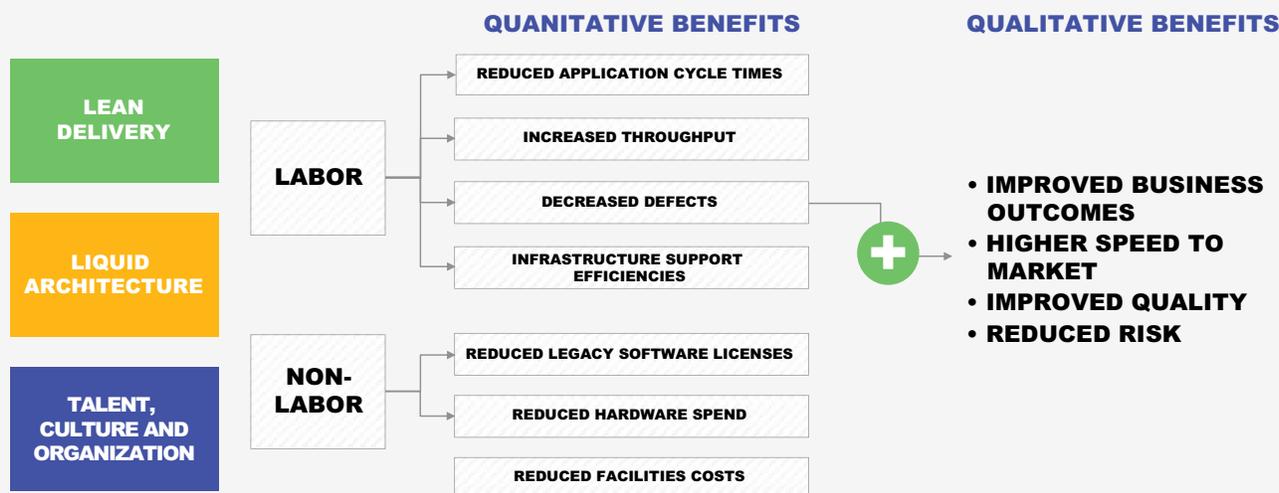
- CSPs that standardize IT and network infrastructure and processes will improve their EBITDA by 10 percent

- Large CSPs worldwide will reduce their on-premises application software spending by 20 percent as a result of public cloud-based solutions
- More than half of CSPs will have begun adopting DevOps for delivering and managing network and IT services, increasing business velocity five times
- Fifty percent of Tier-1, network-based CSPs will have leveraged open-source communities and alliances for hybrid and virtual network management

Building the business case for cloud

It is critical for everyone, from the CIO to the CEO to the board to the IT department, to understand what's at stake by failing to invest in cloud, and what making the move might mean in terms of workloads, benefits and so much more.

DEVELOPING A VALUE CASE NEW IT AND CLOUD TRANSFORMATION



Indeed, transforming to what Accenture has dubbed the “NEW IT”—particularly through cloud adoption—leads to fundamental changes to your IT cost structure, and needs to be planned carefully. But the benefits are rich and rewarding.

Cloud offers significant cost advantages to CSPs, specifically around infrastructure consolidation, application rationalization, and utilization and cash flow. For example, hardware refresh avoidance allows IT to better support strategic business needs and simplifying your app portfolio will help increase the budget for transformational capabilities. What's more, a cloud-first approach will help reduce tech debt and better

support future capability development while a targeted cloud migration strategy will help future-proof business investments. A typical cloud utilization and cash flow model can help protect technology investments, reduce large upfront investments and smooth cash flow, enabling a CSP to pay only for capacity as needed.

While most cloud-based business cases initially focus on cost takeout or avoidance, we believe there is still a strong case associated with better resource utilization, app footprint consolidation and software refresh benefits.

Cloud is instrumental in providing benefits around key business pillars:

- 1. Liquid Architecture**—Software-defined data centers and software-defined networks, and application modernization
- 2. Lean Delivery**—Agile, DevOps, higher quality engineering and improved systems reliability engineering
- 3. Talent, Culture and Organization**—Governance and liquid workforce

The blueprint

A successful cloud launch for CSPs depends on scaling new growth models while transforming the core, and finally pivoting to new models at the right time. Along the continuum between platform- and infrastructure-based cloud plays, several models are emerging for CSPs to rotate to the new IT.

The first is a multi-sided platform model which establishes a cloud platform business enriched by over-the-top and industry collaborators. CSPs may also choose to follow a digital mobile-only attacker model, monetizing the core with digital services and customer interactions. Another option is a vertically integrated service provider, which entails monetizing the core with differentiated services and content bundles. Finally, a pervasive network platform provider, involves managing intelligent, open, self-service digital networks.

The success of each model—and by no means is a CSP limited to just one because models can be combined—depends on a number of variants. However, each model does away with business as usual.

The roadmap

CSPs should begin the journey to cloud toward keeping some key considerations top of mind.

As customer expectations now cross traditional industry boundaries, creating a hyper-connected and extended platform to enable omni-channel customer engagement is key.

CSPs can also enable living services—home 2.0—to create diversified opportunities. Providers can defend their position in the home and find new sources

of growth by evolving their legacy business and accelerating new innovation.

Another key consideration is to ensure analytics, security and innovation are embedded as the cloud becomes more pervasive. Security is no longer solely an IT issue; protecting customer privacy, critical infrastructure and brand value is a daily agenda item. By leveraging analytics with data-enabled platforms across customer touchpoints and network capabilities, CSPs are rewarded with revenue benefits across the business. Finally, to innovate services and support omni-channel customer engagement, adopting multi-speed architectures recognizes the value and identity of each layer of design and manages the tradeoffs each different system requires.

Additionally, a pervasive network to connect end-to-end platform services and products is key.

Finally, and what might be the most important consideration on the journey to cloud, is to shift the culture and talent from engineering to innovation. Digital is rapidly reinventing the experience of people at work—from the work they do to how the work is organized to the very profile of the workforce itself.

Ready to move to cloud?

Cloud has introduced extraordinary opportunities for CSPs to transform how they grow and monetize assets, acquire new customers with novel offerings and scale their business. When used to its fullest advantage, cloud and all its attendant benefits have the potential to completely redefine what it means to even be a CSP.

The opportunities that come with cloud are profound. Cloud technology is at the forefront providing companies with the advanced capabilities they need to potentially lead in the new. Accenture has the experience and capabilities, and is developing industry cloud solutions and services to guide our CSP clients at the pace of innovation on their journey to cloud.

Authors

Steve Paxman

Senior Cloud Advisory Executive
Communication, Media and Technology
stephen.paxman@accenture.com

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Notes

1. Sources: World Economic Forum: Digital Transformation of Industries Program, Cisco Visual Networking Index: Global Mobile Data Traffic Forecast Update, 2016–2021
2. Source: Gartner. Predicts 2017: Operational Technology Transformation Is Key to CSPs’ Digital Future, November 10, 2016

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