



Pathways to profitability for CSPs

INTERVIEW VIDEO TRANSCRIPT

April: Great to be back at Mobile World Congress. I'm April Wirtz Managing Director with Accenture Strategy, part of our Communications Media Technology practice. I am very happy to be here with Andy Walker, our Global Comms and Media Industry Practice Lead. Andy, a lot of exciting opportunities for CSPs going on in the market right now. What are we seeing for some of the key trends?

Andy: So, it's a really exciting time to be in telecom particularly because the amount of data traffic is growing. So, it's growing at 25% a year. The number of IoT devices that are out there, 2.5 trillion, gonna be 5 trillion by 2030. Last point, Metaverse is driving absolute ton of traffic. So every one of those connections requires a high-speed, low-latency connection. And as you look at the growth rate of Metaverse, all of that's going to need coms.

April: So, that sounds like a pretty rosy picture. What are the challenges?

Andy: Well, so first, telco's costs are rising. Of course, they are. They're major employers, they're major users of energy. So, in our inflationary economy, that's a bit of a challenge. So inflation is running at eight, nine percent in the U.S. right? In Europe, same thing. Energy costs are through the roof. Those are all major inputs into a telco's income statement. At the same time, they don't have a lot of pricing power, so revenue growth is stalled. So if your costs are rising and your revenue's not increasing, that essentially means you're in a margin squeeze. So that's a problem. Second big trend is at the same time, they're being asked to build advanced new networks. They have to build 5G, they have to roll out fiber across their footprints. That's expensive. So your margins are being squeezed at the same time you have, you have an outlay of hundreds of billions of dollars to build new networks. It puts telcos in a really tough spot.

April: So, with some of those challenges, there does really seem to be a silver lining. I mean, businesses are seeking new transformation partners, customers have new expectations, and

technology is just increasing and becoming more and more powerful at an exponential rate. Can you talk a little bit about that?

Andy: Absolutely, April. And it's a great question. I think the best place to start with this question is looking at the different segments and where the opportunities are for the telcos. I think you're gonna see a lot of innovation on the consumer front particularly where telcos provide a greater and greater set of products, offer services to their home customers and to their wireless customers. Other segments, small-medium business. Small-medium businesses are in dire need of IT support, which is not to say that telcos are gonna provide absolutely stellar IT support. I think that's a really big thing to bite off. At the same time, telcos can provide more than just connectivity. So when you start to think about things that they're looking at, how do they provide IT services, software, how do they make it easy for the small and medium business, which they're not strong in it, but how do they bring those services to them and build themselves into that ecosystem? We see there's a lot of opportunity for growth for telcos there. The last piece I would focus on is enterprise. So every major company in the world already has telecom services, but what's happening right now is it's pivoting. So whereas 20 years ago, companies all over the world, you had phones on desks and you had network cables to plug into it, right? No more. Now you see cases like Stellantis in Brazil where we did a project there with them to essentially bring in advanced 5G into the manufacturing plants and connect that to IoT. So now the machines and devices can be run much more efficiently, and you can use digital technology to produce cars. And that's a role where telcos can really step forward and do some really cool things to help revolutionize industry.

April: It seems like there's a lot of friend, foe, or frenemy situations going on where it's kind of a complex ecosystem environment for telcos to figure out who they partner with who they do business with, and how that all works and comes together

and what really that value chain is.

Andy: I think that that's exactly right. And then if you're the telco, the name of the game becomes ultimately where can you leverage the hyperscaler and some of those relationships so that you can run your business in a far more efficient manner. So you can't watch an NFL game without having an Amazon ad come on and show you how big data is helping you figure out the how to optimize the game. I think the same holds true for big business. So when you start to migrate your systems and processes to the cloud, you have more analytics, you have better data that enable you to run your supply chain better, to engage with your customers better to put AI into your operations and care and sales motions and pricing motion. So there's an awful lot telcos can do with big data with their Silicon Valley ecosystem partners to help themselves run far more efficiently and frankly kind of serve their customers far more efficiently and develop new products for their customers. So I think there's a huge opportunity here. The question becomes how do you set the right model if you're the telcos, so that you can manage it correctly?

April: Can we talk a little bit about that model of the telcos? Because one of the things that we're starting to see that I find to be a really interesting industry path to profitability is really around some of the separation of certain assets certain infrastructure, et cetera. Because I think telcos are starting to understand that I should focus on certain things that I'm really good at and maybe shed assets or partner for different areas of operations where I'm not as good. So what are you seeing there?

Andy: Well, so there's really an opportunity for telcos to unlock value by starting to rethink their business. So we've seen a rash of companies start to take their tower companies and spin them off. We've seen structural separation where the netco starts to get spun off from the customer service and customer-facing organization. First of all, what's happening is Wall Street loves that. So the sum of the parts often exceeds the whole, right? So it's enabling the telco to pull in more capital, to invest in the networks that they need to, and then to have different parts of the organization focus on either building the most advanced network in the world or having the right configuration of tower assets or having the right stores and product organizations. So starting to separate those functions is unlocking a lot of value.

April: So what is the future of network? And for someone who might not be a telco expert, what does that really mean and what are the opportunities there?

Andy: So the way to think about network is what's the demand out there? And so you're gonna hear a lot of talk here, and actually we hear a lot of talk constantly about things like Metaverse, right? So

then you go into the Ready Player One world where you're interacting with people real-time, whether that's gaming, where you've got friends all over the world playing a game, or whether you are all going to a concert and you want to be in the moment in the concert together or whatever the different applications are. That requires really fast and really low latency networks. That does require a massive fiber investment that requires 5G. That requires, I mean, it requires a whole series of technologies to make sure that it's instantaneous, the back forth between your device and the network and the cloud.

April: So for non telco experts, building out a future network is expensive and complicated, and CSPs need to figure out with these large capital outlays, then how do I make sure to monetize this as well? So then how do I have the offerings on top of it that people will pay for? How do you recognize that I need that low latency and we'll end up paying for it? Is that a little bit of the name of the game?

Andy: I mean, essentially that's it, right? And if your price for your home internet keeps going down and your price for your cell phone keeps going down, essentially that's revenue that's flowing. That's not flowing into the telco anymore, that they need to be able to build the networks. So that becomes the problem. And then ultimately, when I mentioned earlier about developing new products and services, they have to develop new products and services, new revenue streams for them so that they can afford to build and support the networks.

April: Now can we talk about 5G for a second?

Andy: Why not?

April: <laugh>? What are some of the 5G use cases we're actually seeing where it is being monetized in the industry?

Andy: So I'll start with one of my absolute favorite, because if you were to go back two years, this was not something that people predicted, which is fixed wireless access, right? So what's happening now, and it's fantastic, is if you think about homes that were served by DSL, right? So they were during Covid times, the kids couldn't even connect and see what their teacher was doing. The connection was too slow. Now you can go and order a box, it arrives two days later, you plug it in, you put it in your window sill, and you're a hundred megs up and down. It's fantastic. When we think about things like the digital divide, FWA is a way of really solving for that, particularly in rural areas, because it is always going to be expensive to run fiber out to rural areas, low population density areas. So FWA is a game changer and I think it's a game changer, not just for industry, but frankly for society.

We need people if they choose not to live in the suburbs or cities, to be able to connect to the internet with good speed. So FWA is huge. I think

there's a bunch of applications on the business side. I mentioned Stellantis earlier. Phillips 66 took one of their refineries in Louisiana and they ran a wireless network across it. And so now you can monitor all the machines remotely. So if there's a hurricane going on, they can have a guy sitting back and seeing exactly what's happening. If something breaks, you can shut it down. Whereas 10 years ago, they had to send somebody out there with a wrench to crank a valve to close it, they don't have to do that anymore. So they're actually able to deploy technology in a way that's safer, it's more efficient, it's now allowing them to transform their business. And all of this is made possible by 5G.

April: On a little bit of a lighter note, as a consumer and as a sports enthusiast, I mean, I think you remember a few years ago when you were in a stadium and your cell phone basically became a paperweight. Now with some of the new private 5G networks that they're putting up at the stadiums, all of a sudden, you know, can text and video all those photos of the really cool sports sports game that you're watching.

Andy: And a little bit of a commercial for us here. So we actually worked with Telstra in Australia to enable the Marvel Stadium in Melbourne with 5G. And it's kind of this really cool use case about how now sports fans who go to Marvel to watch a rugby match or soccer match or whatever, they now have access to a really robust 5G network with different applications on top of it. So they can get data on what's happening to the game. They can interact, they can order things. It becomes a much richer experience.

April: Yeah, exactly. Well, thank you.

Andy: Thank you.