Accenture: It’s time for operators to trash the rulebook
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The telecoms market is on the slide. Despite providing the building blocks for the digitalisation of industry, the World Economic Forum calculates the telecoms industry is a fading economic force – its share of the available profit pool has tumbled from 58 percent in 2010 to closer to 45 percent today.

Within this global decline, the gradient is steepest in Europe, where the industry’s share of the shrinking pool has slumped to just 11 percent, even as Asia and the US hold steady at 18 percent and 16 percent, respectively. Meanwhile, the internet giants are taking over, ensconced in the old telecoms heartlands, in the hand and in the home. It is a gloomy tale, and yet these dark clouds are silver-lined, reckons Accenture. “It is not that the telecoms business is a dying one,” says Francesco Venturini, the company’s Global Managing Director, Communications and Media. “There remains a window of opportunity for telcos to reinvent themselves as different beasts,” he says.

But first they have to “trash the rulebook,” he says. The market needs a clear agenda for change. Squeezed on every side, telcos are cutting costs to preserve margins and build leaner operations. Competition is getting stiffer, and smarter, all the time.

“The price war – this race to the bottom, this compression – is accelerating. The industry is presented with a conundrum – it is investing to compete, but it is diluting its margins in the process,” Venturini says. “Operators today are focused on cutting costs to reinvest their savings back into dividends to reassure the shareholders, but they must start to invest in their growth strategy.”

If telecoms providers do not adjust their position and broaden their horizons, they face marginalisation, and even extinction. “Telcos have to stop this race to the bottom, and turn it into a race to the top,” says Venturini.

In truth, this downward spiral is less like a rulebook, and more of a default position, arrived in the absence of a clearer path. “There is this big mirage, this dream, that digitalisation will provide an answer. But digitalisation brings new challenges for the telecoms industry to define its new position. In the meantime, its products and services are becoming commoditised – price pressures are higher, customer loyalty is lower, and operators are focused on surviving,” says Venturini.

Navigating the S-Curve

Accenture is pointing the way ahead. “There is an unmissable opportunity to rotate to a new business model – a chance for operators to re-establish a critical role in the value chain,” explains Venturini. But it is a hard road, which will require foresight, fortitude, and bravery on the part of senior management within telecoms providers. “It may be painful in the short term, and impact profitability and growth.”

To ensure long-term survival, telecoms providers must begin the process of building the foundations for transformation immediately. It is the only means to jockey for new position in the developing digital market place, says Venturini. He describes the market’s current position as an S-curve: it is over the hill, and tailing off, he says. “There is still room for operators to grow their core businesses, just under different rules and assumptions with significantly more agility in their operator model. Most are merely fighting opex to generate cashflow. They need to find a new S-curve of growth while continuing to enable and optimise their core business. They have to identify a different end-state, and pivot towards it at the right point.”

But where is this new destination? How do you orchestrate investment and transformation to navigate to the next S-Curve?

Accenture has plotted three parallel courses, with three different destinations, each offering operators a way out of the doldrums. One is a deliberate entrenchment into a vertically integrated model, the second is to drive enterprise capabilities through augmented and industry relevant network capabilities, and the last is the creation of a multi-sided platform business model.

Operators can take their pick, reckons Venturini. He maps each, in turn.

Vertical integration

The initial path retains traditional performance measures, and leads rather on a journey of amplification, which hardly veers from the present course, but nevertheless grows more vertiginous. The idea is to keep on as a “vertically integrated provider” of network services and premium content, Venturini explains. “You become the best bundler in the world and do so with a significantly addressable scaled market.”

The discipline is, for example, to invest heavily in premium content and other
Multi-sided platform

The last, he says, points towards the most dramatic reinvention by altering their core proposition. Instead of straight connectivity, telecoms providers offer a “multi-sided platform” to distribute and enable new products and services. Their networks become the starting gate for the wider digital ecosystem; their insights, gleaned from the crossfire of data on their systems, bring scale and influence, and foster collaboration with the whole market.

They are reinvigorated and, consequent-ly, their relevance in the market is greater and their place assured. But there is a catch. “Similar to a gaming console platform, it means they accept that third-party services will compete on equal terms with their own – because they own the platform,” explains Venturini. “They must accept a degree of self-cannibalisation. It requires a shift in perception.”

To underline this, digital ecosystems which monetise their products on top of telco networks (and perhaps even their billing infrastructure) do so with significant leverage. Telcos receive nothing from them in terms of market insight, says Venturini, anecdotally. “Most telcos will tell you they’re on-boarding Netflix, which is fine, but they’re doing it on Netflix’s terms. Telcos have a fantastic opportunity to be the dominant leader when entering into new partnerships.”

This requires a new way to operate and a more variable way of measuring business performance. “This is not necessarily an ARPU game.” For example, engagement and breadth of transactions will be a better measure for multi-sided platform end state, he suggests, alongside KPIs for quality of experience and share of wallet. “It is not that ARPU becomes redundant, but the reach of the platform and number of transactions on it are more important than ARPU by itself,” he says.

On the one hand, the telecoms market has the scale to be a multi-sided platform already, but it isn’t always taking advantage of the opportunity. “Set-top boxes and routers could act as a central hub to control all digital devices,” says Venturini. “But today, they only provide tactical functionality without building new capabilities around identity, trust, and data collection to support existing omni-channels, or more proactively, new data trading models.” This is a missed opportunity as these devices have innate intelligence with significant market penetration, which telcos could leverage. “The idea is you exchange services for data – having that footprint in the home provides the telco with opportunities for much greater return.”

Owning the platform requires a massive leap to new technologies - API-driven, agile and open platforms with strong identity management capabilities - and a totally different approach to competition than most telcos have had in the past. Telcos would offer business partners application software, professional services, platform provisioning and operations on a cloud-based platform. The ecosystem needs to be customer-centric and open to work. There’s already fierce competition for this space. So far, none of the globally leading platforms of the digital age comes from Europe; those with early-move advantage are American or Asian.

But the future of these ecosystems has not been defined yet. Large incumbent businesses have plenty of competitive advantages from trust, brand, data, and capital to be able to shape the emerging future of ecosystems. They can become crucial partners. It really depends on whether they are fast enough reinventing their business models and realising that they are not just playing in their own industry space any more, but in a very different and much broader universe.

In digitally driven future ecosystems, the orchestrators—the operators who own the data and therefore can be the first touchpoint and define what a customer gets and when and how—they will have disproportionate power over the whole value chain. So we are not just seeing value chains merging faster than ever before, but also the shift of value across these value chains is much faster than what we have seen. This creates
a huge challenge for any company or organisation who is involved in serving clients or distribution, because it requires them to reinvent their strategy at a much faster speed, looking at a much broader horizon than ever before.

It means a new mindset, having the belief that the sum of the parts is going to be greater than the parts themselves.

**Unlocking innovation to make the journey**

Importantly, each of these trails starts from the same base camp, some way elevated from the industry’s current position. Its general programme of simplification and virtualisation, although designed for short-term gains, will help bring it closer to this new departure point. “Those programmes are working very well, and are quite necessary,” explains Venturini. “But operators have to reinvest in new growth as well.”

But the short-hop to base-camp, to start along an S-curve, is not straightforward. As crucial as cost cutting is, operators must invest to bring new dynamism and intelligence to their front-office and network operations. From base camp, there should be a clear agenda for change and a sophisticated network and platform system rooted in highly agile and responsive software capabilities. This allows for the ability to provide optimization and continuous customer relevance to integrated complex functions.

Removing traditional silos in the core business using analytics, even in the event operators choose to retain, nominally, a vertically integrated model, is a first step, and a foundational investment that requires significant capital efficiency. “There are some fundamental rules: telcos are already investing in the omnichannel customer experience, analytics, and product, but they are doing so in organisational silos and not targeted to more agile ways of operating in the core business. While investing in these just to survive, they need to power new operating and business models.”

This is the key foundation of a digital operation, enabling operators to combine greater automation and insight in their operations with a more collaborative approach in their business. “If you believe in this future, you need software and platform engineering skills, rather than, say, vendor management and configuration skills,” says Venturini.

To back up this thinking, Accenture has built a cognitive platform called “The Brain” as a version of a future telecoms set-up at its research centre in Dublin. “This cognitive platform is not something you buy; it is something you build and evolve internally. It becomes your intellectual property and your competitive advantage. It is about how well you build products, which simultaneously increase engagement while you collect data and find correlations, and how well it feeds both automated and assistance decision making to underline a more agile, multi-faceted business. This is something every operator should own. It is the brain of their business that grows their core business while building critical foundations for the new end states.”

The point is to create an environment that fosters innovation and drives significant focus on the customer experience, be they consumer or enterprise. Currently, operators have limited control over monolithic third-party solutions who may support critical business functions but do not act as business engines for either core or emerging models.

The options where CSPs must attract new ecosystems to their business or network platform, as defined in model two and three, need that control, in order to on-board services at speed, whilst preserving a consistent experience, and also to exploit data to hone its broader proposition. “A control point is to have the kind of platform that allows them to dictate terms.”

A fierce and focused modernisation programme is in order. The prescription is to invest in a software-based architecture that knits together existing initiatives between product, omnichannel, and analytics, and reveals data insights that enable a more agile core business. “We call this a no regrets move as it is required regardless of which end-point a telco decides to move towards.” Beyond this, operators should be bold in their commercial proposition, and subsidise traditional connectivity with new digital services. Venturini explains: “Where in the integrated model, you keep selling digital products like video or home products at high ARPU rates, the ecosystem player might consider subsidising these to build a new asset that allows them to make money elsewhere. With platform economies, you can provide services where you get data in exchange, which you use to build new products and services, or to trade with new markets, and all the time making your platform more relevant and “The Brain” of your organisation more effective.”

Base camp is in sight, concludes Venturini, but the next steps are critical. A clear strategy must be formed in tandem with the simplification and investment programmes. “Operators have to ask themselves what their control points on their customer base are – whether it’s the billing relationship, or the SIM card itself, or the set-top box, or connectivity and security around all of that – to be able to build towards an end-game where they are highly differentiated against more traditional and new competitors.”

The biggest challenge is further down the road, he says. The pivot away from the old business model, which has underpinned the telecoms market, takes great nerve. “That’s the challenge – when to make that pivot, and how to re-align governance, incentives, skills. That jump takes a lot of guts, and strong visionary management, and it will have implications on revenues and margins in the short term, meaning that the investment strategy needs to be convincing to shareholders,” says Venturini.

But, what is the alternative? He concludes: “The question is whether you follow down the same path, and manage a commodity business, or choose this new growth curve for long-term viability and sustainability, so you’re still in business in 10 years.”

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