

Francesco Venturini presents “Trash the Rulebook” – Seizing Opportunities for Telecoms in an Era of Disruption - a Keynote at Futurecom - 25 October 2018

Hello and good afternoon. We are going to spend 10, 15 minutes – not more than that and then we kick off the panel. I think the topic is a little around telco transformation or digital transformation. It's not one of my favourite words but I think it's a word we hear all the time. The reality is over the last couple of years, we start to see in telecommunication, some of the benefits of what a digital transformation is. So I'm going to try to give a little bit of context and then we dive into that topic and try to do that as I said in a very short timeframe. So the context is clear to everyone, there is a ... everyone in the room has a personal computer in their pocket. And that personal computer drives their personal lives and their professional life.

And actually that personal computer which is a smartphone has been a great success but has also been probably the biggest challenge for the telecommunication operators. And if we add to that, the fact that very quickly and very soon, IOT will add billion, billions of devices and connections and that will drive exponential traffic. I think the size of the problem is becoming bigger and the problem is how you monetise all this traffic, when actually the underlying investment in network and we are going to talk probably about it in 5G is huge. But you are still sitting as a telecommunications company (and I'm not going to be popular for saying this) in a kind of a commodity business, so that's the first element.

And I think, you know, investing in network is all good but another element that I think we need to realise is the customer and I think you heard that many times but I try to give you a bit of a perspective. The customer is changing quickly and the change of the customer is not driven by the telco but is driven by other industries. And the change of the customer is driven by what we would call the digital disruptors. And what the customers are learning from the digital disruptors is that they can get stuff for free. And that's another side of the problem. And these digital disruptors are changing these expectations and the impact here is the pricing point of the new generation goes lower and lower, especially when you are providing commodity services, that services expectations go higher and higher and actually the experience they want to have also goes higher and higher because you have a good experience on Amazon, you have a great experience on Netflix. You love the Google experience.

And that the speed of innovation, so the speed at which you expect new products and new services just increases. And that's another part of the dilemma. So as a telecommunication company you are faced with huge disruptors and I think you'll know them – the one trillion-dollar companies. The first one is Apple but soon Google, Amazon and Microsoft will follow. And what are they doing, I think one of the element is they are probably not monopolising, but they are polarising the consumer because the scale is good. They are polarising investment, especially mergers and acquisitions. So they are acquiring most of the technology companies in the world. They are polarising research and development because they have huge deep pockets to invest.

And they are polarising talent because they are recruiting the best software developers, the best software engineers, the best digital scientists in the world.

So after this horrible context, let's try to reverse a little bit on the conversation. Telecommunication companies still sit at the heart of our industry, of our economies, of our life. But what I described until now, has basically generated the fact that most of the time, the reaction of a telecommunication company is big, the reaction to cut costs. And I think it's very legitimate to cut costs, it's a good thing to do. But cutting costs can become a catch-22 situation. You cut cost, you generate or increase cashflow and you use that cashflow to pay dividends and keep the shareholders

happy and the stock up. Because that catch-22 sooner or later is a race to the bottom. So what we are going to try to do today, is try to talk about how we can flip and I think that presentation I saw before, I saw glimpses, talks about the death of the telco being exaggerated and certainly it is.

And we try to figure out whether we can flip that race to the bottom to a different type of race. And in my experience, flipping this race requires a number of things. The first one is governance. We probably don't talk enough (about this) but a strong governance and a strong board of shareholders is important because the time horizon of this change is not the next quarter, is not the next two quarters, is not the next fiscal year. You need to expect some pain in the short term to build a sustainable business for the future – so governance is important.

I think self-cannibalisation is important. Something that I've learned and I think we are learning is that one of the things that the digital disruptors do very well is they cannibalise themselves. And they do that before somebody else cannibalises them because it's not very intelligent but it's always best to cannibalise yourself rather than have someone else (do it). I think there is a question of speed and we talk a lot about agile and a new delivery model but speed is fundamental and speed is also in decision making. And decision making goes back to how you manage an organisation.

So we talk about disruption and I'm going to use one last slide. This is research that we do every year at Accenture and just places all the industries into metrics to define how much they've been disrupted up until now and how much they will be disrupted going forward. So if you ask yourself why now, why do I need to digitally transform my company now? The answer is that probably the speed of disruption will not be as low as it has been until now. And if you don't believe that, I think you need to ask your kids and observe your kids on how they behave.

So comms and media (I'm a media guy by trade) but comms and media clearly are being disrupted very quickly and very early and that's very Darwinian. So we are going to see lots of consolidation and we are starting to see that and some big giants and regional players will emerge in this Darwinian evolution. But what happens when digital disruption takes place? Profit pool migrates. Profit goes from one industry to another. The second one is industry boundaries collapse and that is what is happening to telco. Industry boundaries are collapsing. There are new sources of competitive advantages.

I'm a media guy, one of the sources of competitive advantages in media was licenses and frequencies. Regulation – very difficult to continue to live on your regulation, which I'm not saying regulation shouldn't protect fixed capital investment which is for the public but you cannot rely on regulation as a competitive advantage source.

So how does strategy planning work in a disruptive moment? Strategy planning works in a disruptive moment in a kind of four steps. There is an element of continuity to transform the core, which is where most of the telcos are: applying digital technology to continually operate on your opex, on your cost-base and streamline that cost-base. So think about automation, think about robotic process automation, think about streamlining most of your organisation.

You do that and as I said earlier, you try to do that to invest some of the savings in trying to build what I still think is a profitable core business. And you do that, focusing on some elements that are very distinctive for a telco.

Omnichannel becomes a key component. Next-generation self-care. Telcos live with huge call-centre. There are some great examples of digital transformation projects in the US. Verizon is one, where they are automating through chatbots, the whole experience of call centres in a matter of a couple of years. And also the ability of building services and products. We talk a lot about data. Yes data-driven but data-driven products and services mean having the ability of making connections between all the different data that you collect and finding correlations and develop pricing points and products and services that are relevant to a demographic without proliferating which is what the comms have done all their life, their price list and their product list.

And then whilst you do that, while you keep growing that core, you try and identify (and I will provide a couple of examples later) some new business models, scale the new, the third point. Some new business models that you build on the side and you try to grow them. And when you scale, that's when you pivot your company from and that's when you cannibalise yourself. When you pivot from the existing commodity core that you still need to protect, the ARPU based business into a new business.

And that's what the digital disruptors do every time. So what is the new? And I will end probably on this. There are a couple of, consider them suggestions consider them provocations but we talk a lot about 5G and I think it's fair to say that the business case of 5G is questionable or at least uncertain at best. It's one of the great examples of first mover disadvantage. The first one that does the investment, the industry follows because you have to. So I'm trying to provide a couple ideas of what a new business models of a telco is – B2C and B2B. And I'm not saying that they are alternative. Personally, I think in the future it's going to be very difficult. You have companies that excel in both B2C and B2B. Those are very different business models with different skills and talent with very different DNA's and very different capital allocation strategies.

But on B2C, I still think there is an opportunity for Telcos to become a digital platform. You might say, hey, we heard that before. It's true, we heard that before. But if you think about it, there are some control points that a telco has, that can be leveraged today, more than ever. Devices are one and I think the home is a device and an environment that the telco are but they are not investing enough. I would encourage all of you and probably you are familiar to look at Comcast. Now Comcast looks at the home to try to protect that environment before Google and Amazon dominates with Google Home and Amazon Echo.

Other Control points are security and trust. Especially in this moment, I think there is a lot of goodwill and potential goodwill that consumers can have versus the telco when it comes to security and trust because we've had some problems with the Facebooks and Twitters and the Googles of this world. And if you put these things together and if you forget about your own product only, so broadband connectivity and your own video service and you think about the API economy, you can really become a provider of services. Onboarding an ecosystem – I think the ability of onboarding an ecosystem will become fundamental.

You onboard them on your own APIs, so you dictate the rules, and you become relevant in a routine and in a digital routine of the consumer. It's very different from keeping selling broadband connectivity, mobile connectivity, some video services which is what the business is today.

The second element is B2B – how do you invent B2B? Which is also fast commoditised, if you think about cloud storage, enterprise connectivity, and I think there, the opportunity is to look at 5G more with a B2B lens than a B2C lens. We were discussing earlier, do we really need B2C, in B2C do we really need 5G? Probably not that much, now. But in B2B, the industrial internet is a huge investment opportunity. And I think there is an opportunity for telcos to go upstream in the value-chain and provide services to the automotive industry, the health industry, the logistics industry, the freight industry, the government industries around smart grid, smart cities, automation testing. Lot of value-added services to that evolution of the industry.

So a couple of alternatives, going back and closing. Then if those alternatives are a potential idea, how to scale the new, what do I need to build now in my organisation to prepare for that future? Whether it is B2B or B2C or both. But there are some key words that we hear all the time – data-centricity is one. I always say that telcos are the best companies when it comes to business intelligence. I'm not sure if they made the transition from business intelligence to understanding data correlations. Are you guys and the panel we are going to have here later, all these executives sit on one of the most amazing sources of data ever seen. The trick here is not mining but finding the correlation. Find the correlation on the user journeys of your consumer. And to do I think that there are some changes that the industry needs to take on technology. I think a modern technology company is a company that is focussed on decoupling the architecture, front-end back-end; speed and reliability; agility and consistency in the back; different speeds; micro-services (because API will be becoming fundamental) and the ability of onboarding the ecosystem will become fundamental.

I think Operations is kind of evident, I think we spoke a lot about automation and robotic process automation and trying to streamline as much as possible your core, whether its field force, whether its call-centres, whether its F&A.

But the last point is as important and probably as critical, is talent and skills. The telco industry has always been the greatest recruiter of the brightest engineering talent in the world. Now and in the next few years you are going to struggle, the industry will struggle, to attract the right talent. So I think also making that pivot and understanding how to be relevant, how to be attractive, for software engineers, for software specialists, for data scientist is going to become important as those will be the key skills that you need to in-source in your organization.

I think if you do some of these things and if you have in mind a couple of alternatives of the future then I think that rotation to a new telco is still possible. I think the market is expecting (this) and I give you stats which I found interesting:

In Europe the telecommunications industry has lost 4 percent of the revenues. So it's not tanking over the last 5 years. But they lost about 50 percent of market cap, and why is that? They are still profitable, they still drive a lot of cashflow, it's a question of expectations. It's a question of expectations because their rotation to the new is still not clear and the analyst in the market knows that basically their main strategy continues to be a cost-cutting exercise to preserve margin and issue dividends and support the stock.

So I've tried to give a couple of suggestions for the future and I think we are going to have now one of the biggest panels ever, as I see 10 chairs, but also one of the most senior panels of the industry. So I think we will kick it off on the panel. Thank you.