Riding the Perfect Storm
Opportunities for European Communications Providers to Turn the Tide in a Data-centric World

High performance. Delivered.
The financial performance of European communications service providers (CSPs) in the past few years has been uninspiring, to say the least—much to the chagrin of the companies themselves as well as investors. Of course, one could say the same about many other industries that were greatly affected by the global financial crisis and subsequent recession.

What's troubling about the communications industry's situation is that it's not due simply to a general economic downturn. In fact, consumers have never spent more on technology and communication services, and the convergence of services in a data-centric world offers significant new growth opportunities. But key metrics point to a much more fundamental and sustained value erosion in the communications industry that, if allowed to continue, will make it much less attractive to investors over time and could threaten the very existence of some industry players.

Accenture's High Performance Business Research¹ provides ample evidence to support this perspective. As illustrated in Figure 1, the European communications industry lags behind most industries on both current performance and future positioning, as measured by eight key performance indicators. This is especially true of CSPs serving mainly mature markets. Our analysis clearly shows that the few CSPs with a significant presence in both mature and emerging markets outperform their peers on both current performance and future positioning. Emerging markets provide the growth opportunities that drive future value while established mature markets bolster current profitability. However, these companies are the exceptions rather than the rule (Figure 2).

Figure 1: Telecom industry is lagging behind most industries in both current performance and future positioning
Percentage scores based on Accenture High Performance Business research

Current performance
How the company has performed over the past seven years

Future positioning
How the company is positioned for future performance

1. Shareholder performance
Ability to create shareholder value

CSP Avg.
46% 50%

2. Profitability
Ability to generate profits

55% 50%

3. Revenue growth
Ability to grow revenues

37% 50%

4. Consistency
Ability to consistently create value over the last seven years

40% 50%

5. Growth expectations
Ability to grow according to the market expectations

45% 50%

6. Market differentiation
Ability to improve profitability

75% 50%

7. Market position
Ability to grow revenues

38% 50%

8. Fuel for growth
Ability to extract capital to invest in future growth from...

37% 50%

*The score reflects the average performance of CSPs and businesses overall on each metric.

Figure 2: European Telcos Current vs. Future Positioning
Percentage scores based on Accenture High Performance Business research
Four Trends Make Life Difficult for CSPs

Why are CSPs struggling so much? Accenture has identified four main trends that are making life difficult for the vast majority of European providers.

The Shift from All Voice to All Data

The days when the telephone lines delivered only voice calls are long gone. Today, data is the name of the game, as evidenced by the following statistics:

- Cisco predicts that in 2013, voice will make up less than 10 percent of total mobile traffic.²
- Nearly nine out of 10 consumers use their mobile devices to access the Internet at least daily.³

- Forty-one percent of 4G users currently make Internet calls via their smartphones, and an additional 14 percent plan to do so within the next 12 months (Figure 3).⁴
- Total subscription video streaming grew 10,000 percent in 2011.
- Mobile data traffic is expected to grow between 2010 and 2015 by 93 percent, driven by exploding smartphone, tablet and M2M usage.

This data demonstrates that the communications industry is rapidly shifting from 100 percent traditional telecom services to 100 percent over-the-top services provided by other companies. Unfortunately for CSPs, these companies get all the benefits from using telcos’ infrastructure and bear none of the costs. CSPs must pay to build and maintain the vast network that makes these new services possible.

Disruptive Competition

Building on the preceding point is the fact that massive global players (some of which didn’t even exist a few years ago) are using CSPs’ networks as springboards for their services—at CSPs’ expense.

Facebook, for instance, which came to life only as recently as 2006, has launched its own VoIP app in the United States, Canada and the United Kingdom—which will drive further erosion of voice revenues for telcos in those countries. Other major players expanding their over-the-top services include Amazon (which brought its video-on-demand service to the Netherlands in November 2012), Netflix (which entered Scandinavia in October 2012) and Apple (which plans to offer Hulu outside the US via its third-generation Apple TV). Because such companies all operate on a global scale, they have far greater resources than CSPs to invest in new services, which makes it difficult for CSPs to become serious players in the over-the-top arena.

This trend has tangible, serious implications for CSPs. Research shows that every 10 percent increase in smartphone adoption encourages over-the-top usage, costing European CSPs $1.9 billion per year.

A More Knowledgeable and Diverse Customer Base That Wants Everything Now

As mobile Internet usage becomes the norm across all generations, consumers and B2B customers alike have become more impatient and demanding. They want to be connected at all times and demand fast access to a variety of online services. And having been “trained” by such leading players as Amazon and Apple to expect a great online experience, they have little patience for CSPs that don’t measure up. Thus, CSPs are feeling the pressure to continue to improve the quality and coverage of their networks if they want to remain attractive to customers.

² Source: www.cisco.com
However, on the positive side, this trend also presents opportunities for CSPs: According to recent research by Accenture, 80 percent of web users said they are interested in Premium Technical Support and 70 percent would consider Consumer Cloud Services—and both groups see CSPs as viable, if not preferred, providers of such services.

**Connected, Smart and Scalable Technology That Enable New Business and Operating Models**

While the preceding trend could be summarized as “Everyone is connected,” the fourth trend suggests “Everything is connected.”

New technologies, linked by the Internet, are facilitating businesses to transform the ways in which many aspects of their business operate. For instance, most enterprises now use social media for at least some of their sales, marketing and customer care activities. A variety of cloud solutions have dramatically reduced the technology costs to support key business processes. And industrialized IT services, delivered remotely, are fast becoming the norm in many companies. Such applications place further demands on CSPs’ infrastructure and the resources needed to support it.

The preceding four factors are combining to create a perfect storm of declining revenues and rising costs for CSPs (Figure 4). CSPs increasingly generate less revenue from traditional services due to competition from lower-priced over-the-top alternatives, limited growth prospects in mature markets, and further price pressures from new and low-cost entrants. At the same time, they face intensifying cost pressures from the need to incur greater expenses to confirm quality of service: The fast-growing volume of data requires significant infrastructure investments, especially in mobile, and digital customers’ demands for better cross-channel, cross-services and 24x7 support means more investment in customer service.

New technologies certainly can help address the problem, but they are far from sufficient on their own. 4G connectivity and the introduction of one or two new services such as the consumer cloud will not compensate for CSPs’ declining revenue in traditional services, while the virtualization of IT or the optimization of back-office processes can only partially help reduce CSPs’ operating costs. What’s needed is a much bolder approach.

**The Future of the CSP: The Integrated Digital Services Provider**

Given the extent and pace of change driven by the four trends mentioned earlier, CSPs have to do much more than take simple, incremental steps—such as increasing ARPU via better pricing or gaining some market share. To safely navigate through the perfect storm and generate significant added value, CSPs need a new, more powerful growth engine that builds on their strengths in an increasingly data-centric world.

To develop such a growth engine, CSPs could consider two possible moves: expanding their coverage of the overall communications value chain or increasing the breadth of their digital offerings (Figure 5). Both avenues theoretically could create significant new revenue streams for CSPs if they execute well. But therein lies the challenge.

While the prospect of going up the value chain is inherently enticing, it’s the wrong move for CSPs. In most cases, they simply don’t have the scale or execution capabilities to compete in such areas as creating content, developing devices and aggregating platforms—the traditional realms in which global players such as Google, Apple and Amazon excel. Building those capabilities would be prohibitively expensive, and would undermine any new revenue ultimately generated (which presumes CSPs would be successful in unseating the well-entrenched and highly experienced market leaders in these areas, a huge challenge in itself).

The second route, increasing the breadth of digital offerings, is far more practical and eminently achievable. CSPs are well positioned for such horizontal expansion because of their customer ownership and distribution power, which are built on a number of very valuable assets:
• Large retail footprint and sales force for business customers.

• Strong customer relationships, monthly billing interactions and trustworthy brands.

• Countrywide workforces of engineers.

• Rich cache of customer data that, mined correctly, can reveal deep insights into customer behavior.

• Full set of fixed and mobile networks.

• Sophisticated customer contact centers that serve customers in the “home” language when needed.

By thus broadening their offerings, a CSP can become an Integrated Digital Services Provider (IDSP)—the supplier of choice for all things digital for both consumers in the home and small and medium-size businesses in the office (Figure 6). As an IDSP, a CSP could provide the platform for digital services as well as a full range of such services themselves.

Importantly, simply expanding the breadth of one’s digital services is not sufficient. To become a successful IDSP, a CSP also must excel in integration: of the services themselves (for instance, providing a single telephone number for both mobile and fixed voice services, intelligent call routing, multiscreen video or voice mail that’s accessible across platforms), and of the customer service that supports them (such as providing a customer with a single bill for all of his or her services or one self-service site through which a customer can see and manage his or her services portfolio).

Preliminary research has shown that companies that broaden and integrate their services (and service) in this way can realize substantial improvements in business performance. For example, in general, a CSP that offers quad-play services can reduce churn by 20 percent to 50 percent. It also can increase RGUs, as up to 50 percent of a typical customer base purchases quad play services when they are offered.
Six Enabling Capabilities Are Key to Becoming an IDSP

The benefits of becoming an IDSP are compelling. However, getting there demands that a CSP embrace new ways of doing business—which, in turn, requires new capabilities (Figure 7). Based on our work with CSPs around the world, Accenture has found six capabilities that are especially critical to making a successful transition to an IDSP, and each can have a major, positive impact on a CSP’s EBITDA.

Superior Customer Engagements
To be taken seriously by customers as an IDSP, a CSP must put in place the practices that facilitate it to engage with customers in ways that are meaningful and relevant to them. This includes delivering a consistent customer experience, with personalized services and offerings across all channels, and confirming that the company’s fixed and mobile offerings are tightly integrated. It also requires analyzing pricing and consumption data so the company can more effectively align what customers pay with the services they have used—which not only improves profitability for the company but also increases customers’ perception of value and boosts customer loyalty.

Executive-driven Innovation Engine
In the communications industry, the ability to continually bring desirable new offerings to the market spells the difference between market leaders and laggards. Thus, a CSP aspiring to become an IDSP must build an innovation execution engine that can help the company tap new revenue sources by getting new offerings into the market quickly—in months, not years. As part of this engine, a CSP should use social media channels to gain intelligence on what new services customers could find valuable, collaborate with ecosystem allies to drive innovation throughout the entire value chain, and mine unique customer data to identify existing and emerging needs the company is not meeting, but could meet. Importantly, this innovation engine should be driven by the company’s senior leadership, who should spend considerable time meeting with innovation teams on a regular basis to help direct those teams’ efforts and verify that when a new offering is launched, it is accompanied by everything needed for it to be a success.

Alliance Partners and Ecosystem Collaboration
CSPs should resist the urge to “go it alone.” There are thousands, possibly millions, of allies with which CSPs could work to come up with new over-the-top services. A CSP could form joint go-to-market relationships with technology providers to sell infrastructure and cloud-based services, or team up with any number of OTT app developers to enhance the user experience and create a new revenue stream. It could collaborate in a buying consortium—for example, one that is focused on purchasing, leasing and regenerating devices, and other technologies such as mobile handsets or network equipment. Or it could enable third parties to leverage the CSP’s owned infrastructure to increase the utilization of assets (including consumer data).

Integrated Agile Operations
Like any business, CSPs must keep their operating costs as low as possible to maximize profitability. Unfortunately, most CSPs today are awash in duplications of processes and technologies that reduce efficiency and responsiveness and increase complexity and costs. To boost profitability and overall business performance, CSPs need

Figure 7:
New enabling capabilities’ potential impact on EBITDA

<table>
<thead>
<tr>
<th>Capability</th>
<th>EBITDA Impact</th>
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</thead>
<tbody>
<tr>
<td>Superior Customer Engagements</td>
<td>+1–2%</td>
</tr>
<tr>
<td>Executive-driven Innovation Engine</td>
<td>+1–1.5%</td>
</tr>
<tr>
<td>Partner and Ecosystem Collaboration</td>
<td>+0.5–10%</td>
</tr>
<tr>
<td>Integrated Agile Operations</td>
<td>+5–10%</td>
</tr>
<tr>
<td>Digital Transformation</td>
<td>+4–8%</td>
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to dramatically simplify their operations. For instance, today’s technology allows for strong data center consolidation and the virtualization of a CSP’s infrastructure—which can result in a sharply reduced IT spend. By accelerating the integration and offshoring of back-office operations—both IT and processes—CSPs can take advantage of reduced costs from labor arbitrage while gaining access to capabilities that can be quickly scaled up or down depending on market conditions. And by adopting what we call “closed loop strategic sourcing”—whereby a CSP renegotiates the terms and prices of the products and services it buys from an approved list of suppliers, and puts in place the proper processes and tools to drive employee compliance with these new purchasing contracts—a CSP can substantially cut its purchasing costs.

**Digital Services Transformation**

Most business processes in a CSP are good candidates for partial or full digitization. By digitizing a process, a CSP can both increase the speed and reduce the cost of that process, thus making the business more productive, efficient and responsive. Some examples of digitizing processes include moving employee training from the classroom to the web, automating the receipt and processing of purchase orders, having customers schedule technician appointments or report service problems via the web instead of calling the contact center, and conducting most recruiting activities online. And with more of the business digitized, a CSP has access to more and richer operational data to which the company can apply real-time, predictive analytics that can help drive better decision-making and the development of offerings that are more relevant to customers.

**Customer-centric Collaborative Governance**

CSPs historically have been product-focused businesses and have created internal silos to support the development, launch and servicing of those products. However, success as an IDSP requires a CSP to take a much more customer-centric approach to its business, which for most CSPs is a fundamental change in how they work. Some of the elements that are vital to making this transition are a formal governance structure that keeps the organization’s daily operations aligned with the overarching customer-centric vision, customer-focused metrics such as quality and customer satisfaction to complement the financial metrics that typically guide most telcos’ CSP reporting and decision-making today, and a new talent strategy and new employee performance management capabilities that encourage and reward customer-centric behaviors. Furthermore, because the gross margin and investment profile of new digital services are quite different from traditional communications services, CSPs will need to base their financial decision-making on ROI rather than on EBITDA.

As shown in Figure 7, the preceding six capabilities can have a significant, positive impact on a CSP’s EBITDA. Based on Accenture research and experience, this impact can range from an improvement of .5 percent to 2 percent from customer engagement enhancements, stronger innovation and teaming partner collaboration, to 4 percent to 10 percent for implementing more agile operations and digitizing business processes. In short, there’s a tangible, compelling business case for CSPs’ transformation into IDSPs.

**Conclusion**

The situation in which European CSPs find themselves today is challenging indeed. However, in those challenges are also considerable opportunities for CSPs to grow and generate stronger future value. The interest in and use of communications- and data-related services has never been higher. Accompanying that is a growing demand for cloud and technical services that CSPs are strongly positioned to provide. And even in an era where new entrants and established innovators such as Google, Apple and Amazon dominate the headlines, CSPs remain highly relevant to most customers. In other words, rather than shrinking, the pie is growing considerably.

But to grab a bigger slice of that pie, CSPs must change. That change should involve creating a new business model that builds on CSPs’ considerable customer, distribution and network strengths and enables them to be a strong, credible convergence player in the digital services market—an IDSP. As an IDSP, a CSP can leverage its network infrastructure to deliver a wide variety of its own over-the-top services—instead of watching a continual parade of new entrants build compelling and successful new businesses on the backs of that infrastructure while bearing no responsibility for building or maintaining it.

The path to an IDSP is not an easy one. But by concentrating their efforts on the six key capabilities we discussed, CSPs can allocate their resources and attention to the areas that count the most and that will play the greatest role in making the transition a success.
About Accenture

Accenture is a global management consulting, technology services and outsourcing company, with approximately 266,000 people serving clients in more than 120 countries. Combining unparalleled experience, comprehensive capabilities across all industries and business functions, and extensive research on the world’s most successful companies, Accenture collaborates with clients to help them become high-performance businesses and governments. The company generated net revenues of US$27.9 billion for the fiscal year ended Aug. 31, 2012. Its home page is www.accenture.com.

For more information

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