

The future of telco

Adapt to thrive

February 2016



Incumbent telcos must go through their next mutation.

Alex Holt explores how the telecommunications industry has witnessed the rapid rise of new digital players and the decline of digital incumbents at an unprecedented rate in the last ten years. The whole market must keep changing, and for incumbent telcos the time to do that is now.

Today, we spend more time using third-party services such as Twitter, Instagram and WhatsApp than we do on the branded services provided by telcos. However, these multi-billion dollar businesses would not exist were it not for the likes of BT, Vodafone or Telefonica. Their infrastructure sits behind every tweet, photo and internet call. Yet their relevance – in the eyes of the consumer at least – seems to have declined as they focus more on apps and devices, rather than the service provider.

So how can traditional telcos remain relevant? Innovation has lowered barriers to entry, allowing disruptors to destroy old business models. For instance, about a third of all international phone-call traffic is now reported to go through Skype¹, but Skype hasn't taken anywhere near a similar proportion of global revenues. New entrants are shrinking the total pool while still turning a profit.

So incumbent telcos have a fundamental choice to make: either redefine themselves as digital communications companies and take on digital disruptors, or specialise as pure infrastructure providers.

The first option would see incumbent telcos redefining themselves as truly digital telcos – combining their traditional network services while also delivering over-the-top (OTT) services across the internet. Some are trying to do this but without a huge impact thus far.

The challenge is that they typically lack the young, entrepreneurial, fast-paced culture of a Facebook, Twitter or Google. As a result, operators are looking to team up with newer entrants to remain relevant.

Given the threat, it would be easy to forget that the traditional telco is actually more important than ever to our society and economy. The infrastructure they provide underpins more and more of our working and personal lives. So the second route is to become a pure infrastructure provider, concluding that others are better placed to develop OTT services and chase retail consumers. This is the ultimate doomsday scenario – the 'dumb pipe' prophecy coming true.

But the truth is that this is a real possibility: if telcos don't eliminate the engineering-led culture and adopt a customer-led approach, they will struggle to be relevant to a new digital society.

Source: 1) <http://ftalphaville.ft.com/2015/03/17/2121994/>

The much-hyped Internet of Everything (IoE) represents a great opportunity for telcos to get on the front foot and collaborate with manufacturers who don't understand the power of data communications. We are starting to see this in some devices such as a TIMEX watch that has in-built global connectivity provided by a large US carrier. Collaboration with automotive manufacturers promises further opportunities as the development of connected and autonomous cars continues apace.

Embrace change and harness the unstoppable force that is digital

Telcos are already proving that infrastructure no longer has to be the defining characteristic of a successful telco, with many successful telco businesses choosing different routes to market. Regardless of their choice, they will need to find new ways to create value for themselves as digital innovations increasingly circumvent the traditional routes to market.

The digital revolution has unleashed six disruptive forces that are reshaping the telecoms sector: mobile, analytics, cyber security, social, gamification and the Cloud. Telcos with a 'glass half full' mentality will embrace change and harness these unstoppable forces for the benefit of customers. Those who see their glass as half empty because of the digital 'threat' are in danger of allowing the 'dumb pipe' prophecy to come true.

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