

Frost and Sullivan, Deloitte research show telcos are changing

According to research from Frost and Sullivan and Deloitte, the telecommunications industry is changing at an exponential rate. As new challenges emerge, customer expectations rise and the competition, new and old, piles on the pressure. Telco operators are looking to build the capabilities required to position themselves as end-to-end ICT and digital service providers.



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Typical examples are Vodacom's procurement of XLink to expand and strengthen its internet of things (IoT) offerings, and Telkom's acquisition of BCX to bolster its enterprise ICT services portfolio.

"Changing market, customer, and technology dynamics are compelling telco operators to become more agile and customer-centric by investing in new products and services aiming to transform their cost base, and simplifying as well as digitalising complex business models, processes and systems," says Deepti Dhinakaran, digital transformation senior research analyst.

“ Moving forward, telco operators should diversify services, ensure they offer a superior digital customer experience, improve time to market, and form strategic partnerships in order to remain relevant. ”

Digital Transformation of Telecommunications Operators in South Africa, 2016, is part of Frost and Sullivan's Communication Services Growth Partnership Service.

The analysis examines: digital customer engagement, digital entertainment services (like OTT, VOD, and Pay TV), mobile app-based services, converged connectivity, cloud-based services, mobile-driven digital payments, adaptive mobile advertising, and IoT-driven applications.

The study also takes a look at strategic and tactical initiatives and trends that operators should be looking to adopt. Case studies of leading operators, like Vodacom, MTN, and Telkom, contain insights on how digitalisation is driving revenue numbers, and the strategic initiatives that have been adopted by these operators over the years in both the B2B and B2C segments.

Key telco operator investment areas that show significant growth potential in South Africa include IoT/M2M, fibre, e-commerce, and big data and analytics. During the next three years, telco operators will focus on these areas to expedite their digital transformation journey, while offering innovative and diversified services.

Other developments driving digital transformation include:

- A surge in data consumption driving 3G and 4G network coverage, resulting from an increasing demand for new and innovative mobile application-based services
- A boost to fixed broadband, wireless broadband, and mobile data services due to rising demand for data
- Telco operator migration to more advanced networks and IP-based services
- An increase in IT spend of 15.5 percent from 2016-2017
- Telco development of in-store digital experience to boost customer experience, and
- A growing demand for digital entertainment, digital payments, and IoT-based services

“Legacy information technology systems (IT), disjoint IT stacks and a lack of integration between business support and operations support systems, on the other hand, are limiting the flexibility of operators which in turn hinders growth,” notes Dhinakaran.

“As a result, telecommunications operators are investing in customer relationship management (CRM) systems and leveraging social media channels to provide a well-integrated, innovative, omni-channel customer service experience. Additionally, operators can be seen investing in networks transformation technologies such as software defined networks (SDN) and network functions virtualisation (NFV) in order to enhance their scalability and flexibility to offer new services, while also improving their efficiencies.”

Deloitte's possible future scenarios

Deloitte has identified four possible future scenarios for the industry, providing telco players with an invaluable guide as they plan their next moves.

Arun Babu, Africa telecommunications leader at Deloitte says that when clustering the drivers shaping telcos' future, Deloitte found that two clusters have the greatest impact. These are ownership of the network technology layer - which is owned either by telcos, vendors or other tech players - and dominance of the customer relationship - which is held either by telcos, providers such as over-the-top content providers (OTTs) or device manufacturers and technology companies.

“Based on our scenario methodology, we developed four extreme, yet plausible scenarios,” says Babu. The scenarios are detailed in a report titled *To be or not to be: The future of the telco business model*.

1. In scenario one, “The engineer strikes back”, telco companies own the network technology domain and infrastructure as well as the customer relationship.

“This is where telcos come from and where they hope to end up,” Babu explains. “They drive network innovation with

their technological competence and have the ability to maintain and operate their assets. The telco players furthermore master the customer relationship and can thus focus on the whole value chain. They own the revenue control points, having direct access to their B2B and B2C customers.”

2. In scenario two, “The new wholesale truth”, telco companies have finally lost the end-user control points they cherished for so long. To remain relevant, telcos have gone back to taking over full control over the network technology where they still have their core competencies.
3. According to scenario three, “The virtual telco”, telcos remain the primary customer relationship holders but are displaced from the network layer as they transfer tech domain sovereignty fully to vendors and other players who move into the network by becoming new infrastructure players.
4. Scenario four, “A vendor brand”, is the least promising, with telco players having been driven out of both domains, customer relationships and technological mastery. “They focus on their few remaining capabilities, trying to find their sweet spot in the market to maintain their relevance,” says Babu. “Telcos are mere ghosts of their former selves, and serve as the wholesale sales and service teams of their parent tech companies for B2B customers.”

Neville Hounsom, director –TMT strategy and operations, Deloitte, advises that despite all these questions and uncertainty, there are some “no regret” moves telcos can easily execute that will help to favourably position them for changes to come.

These include continuous participation in regulatory discussion by active lobbying, since connectivity will be seen as a low-involvement commodity in future, and developing virtual platforms that are open to external developers and partners as well as implementing new and innovative offerings.

Other steps telcos should consider are adapting the latest artificial intelligence-based technology to automate as many tasks as possible, significantly reducing operating costs in the medium to long-term and strengthening their position as appealing employers, while updating the required skillset of their workforce in an ongoing process to attract and retain the best talent in the market.

For more, access the Frost and Sullivan study [here](#), and the Deloitte study [here](#).