2012 Telecommunications Industry Perspective

This is the time to look back at how the global telecommunications industry fared in 2011, the major trends that will affect it in 2012, and the strategies and capabilities operators will need in order to benefit from these trends.

In 2011, the telecom industry has finally managed to come to terms with two major global shocks that have threatened it lately. The first, of course, was the global economic downturn that continues to adversely affect the performance of operators in markets around the world. Growth naturally slowed, abetted by constrained credit markets, and thus accelerated the commoditization of traditional telecom services, while reducing the valuations of operators large and small. As a result, operators focused on cutting costs and increasing operational efficiency to protect profitability. The increase in caution has also led to a significant slowdown in mergers and acquisitions.

The second shock has been the disruption caused by mass digitization. Customers—both consumers and businesses—are becoming more demanding, expecting always-on service everywhere, and forcing operators to boost network capacity and connectivity. All manner of industries are also becoming increasingly digitized and demanding a variety of new services like mobile payment platforms and cloud computing. The market for mobile applications continues to grow rapidly, creating yet another disruptive force that operators must learn to benefit from.

At the same time, the integrated technology value chains on which operators have long depended, including critical applications and service platforms, are growing increasingly modular and open. As a result, the telecom ecosystem is becoming much more competitive, as new entrants from adjacent industries look to exploit both new customer expectations and technological openness.

Yet despite—or perhaps because of—all these challenges, much of the telecom industry has finally reached a consensus on how to move forward to transform itself. That transformation will take the form of a fundamental shift...
among operators from the integrated business models that dominated the industry for most of the past century to four distinct, though by no means mutually exclusive, open business models designed to take full advantage of the opportunities now opening up: the reliable, cost-efficient network guarantor; the flexible, integrated business enabler; the innovative, customer-facing experience creator; and the wide-ranging, synergistic global multimarketer.¹ The effort to create and perfect these models will also require an ongoing process of cost restructuring to align costs more tightly with business goals.

Nascent versions of each of the four models are already beginning to bring benefits. Early implementers of the network guarantor model are benefiting from the accelerated deployment of broadband networks and better monetizing their network investments. Business enablers are generating revenues by offering services such as virtual networks, machine-to-machine and cloud computing platforms, and platforms for specific verticals, including financial services, healthcare, and retail. In turn, new experience creators are capitalizing on such services to provide attractive user experiences, while generating revenues by selling applications and content. And several large operators are working hard to build the scale and synergies needed by true global multimarketers.

But much work remains to be done. In the coming year, operators must begin making the strategic choices necessary to determine their future direction, deciding which of the four models—or combination of models—works for them. This decision should depend both on whether they can effectively leverage the capabilities they already possess and on careful consideration of their ability to build new ones.

**Network Guarantor**

In this model, operators focus on offering their network infrastructure and related services to other players, differentiating themselves through four key capabilities:

- Cost-efficiency in the operation of their infrastructure
- Scalability in replicating their technology platforms and operating models

¹ For further details on the models, see “The Future of Telecom Operators: Capabilities for Rapid Change,” by Bahjat El-Darwiche, Roman Friedrich, Pierre Péladeau, and Karim Sabbagh (Booz & Company, 2010).
• Reliability in terms of network and IT availability and quality

• Smoothly integrated IT platforms and applications

Developing these capabilities may require operators to make large investments in new fiber and LTE infrastructure, which may limit the field to government-led networking companies and operators willing to share costs with other like-minded players. And the level of investment required to follow this strategy will likely lead to more consolidation among these players than we have seen in the recent past.

A number of operators have already begun building these capabilities. In 2010, T-Mobile UK and Orange UK joined forces to create Everything Everywhere, which now offers their 28 million total customers the ability to switch back and forth seamlessly between the joint venture’s two highly reliable mobile networks, while T-Mobile and Orange remain separate brands. The goal is to manage costs by sharing network maintenance, which is expected to lead to annual savings of US$712 million beginning in 2014, and by jointly rolling out new network technologies and cloud-based applications, leading to cumulative savings in capital expenditures of $989 million between 2010 and 2014 and an annual $160 million thereafter.

Australia’s government is taking a different route, building out a new national broadband network designed to provide open access to all operators and ISPs, and paying Telstra, the national incumbent, to transfer all its customers to the new network. A key capability will be the highly reliable and operationally efficient network and the ability to scale up platforms and services to meet the many partners’ needs.

**Business Enabler**

Business enablers look to monetize their assets by opening up their infrastructures and extending their strategy from providing services directly to businesses and consumers to helping businesses serve their own business and retail customers more effectively. To that end, they provide open and reliable virtual networking and cloud services to host and support an increasing number of specialized service and application providers, and offer them access to targeted customer segments.

Operators entering this space must develop the capabilities needed to create a range of platforms and service offerings for specific verticals, including financial services, healthcare, and retail, among others, by supporting these
business customers in their efforts to attract consumers, and by selling excess capacity to third parties. Those capabilities include the following:

- The ability to broker and manage relationships with many different partners, offering tailored services to each
- The flexibility needed to cater to the needs of different partners with different business models
- A capacity for aggregating platforms and services into attractive packages for business partners

AT&T’s strategic business services unit is already pursuing this model; it is opening up its entire infrastructure and operations to third parties, offering a range of services including billing and collection services, virtual private networks, hosting and cloud computing, and security and business continuity to other carriers, wireless service providers, cable providers, ISPs, and content providers. For AT&T, flexibility has been key. Its partnership with Google to allow mobile customers to pay for Android apps via their monthly wireless bill is a case in point. As AT&T builds its service portfolio, it is also creating the capability to aggregate its various platforms into packages to be sold into different verticals. Revenues from the unit totaled $4.7 billion in 2010, an impressive 16 percent increase over the unit’s 2009 revenues.

A further capability needed by business enablers is the willingness to partner with others to augment their portfolio of offerings. That is what has enabled Telefónica to build up its BlueVia business, a new global program that helps developers take their apps, Web services, and ideas to market. The program, which already boasts more than 4,000 developers, depends on a standardized development platform, and provides the means for other operators to bill their users for apps and then share the revenues with the app’s developer.

**Experience Creator**

Experience creators look to offer customers—or particular customer segments—the best possible combination of targeted applications and content, and a level of user experience that sets the operator apart from competitors. These companies will need to gain deep insights into relevant customer segments and their needs and preferences. This space is particularly dynamic, however, and the competition, from both device makers and new entrants from the digital arena, is moving fast. So it is critical that operators choosing to join the fray make sure they are well prepared, with attractive
offers for the right sets of customers. The capabilities needed to compete in this difficult space include the following:

- The ability to develop innovative new applications and services
- Dedication to creating the best customer experience possible, including the ability to develop world-class user interfaces
- A capacity for excellent customer management and service

NTT Docomo—the Japanese provider of mobile voice, data, and multimedia services to more than 58 million customers—is an early player in this space. It offers a wide variety of innovative services, including an e-wallet, an advanced personalized information app combining data from a variety of sources, and access to music, video clips, and games. And it is gaining expertise in offering equally innovative services to industries as diverse as industrial equipment, automobiles, information appliances, and broadcasting.

Key to NTT Docomo’s success has been its ability to leverage its complete end-to-end control of the value chain into a strong pipeline of new product offerings and service delivery schemes. It now boasts the top ranking in its market for customer satisfaction, a major contributor to the rapid growth of its customer base. This satisfaction is evident in the success of its offerings: For instance, the personalized app “i-concier” has signed up 6.2 million subscribers since its launch in late 2008.

The model isn’t suited only to the most advanced telecom markets, such as Japan, as Türk Telekom, Turkey’s largest telecom operator, is proving. Its TTNET unit provides a variety of Internet offerings—including telemedicine services, voice services for children’s music and fairy tales, and two e-learning portals—through a simple user interface, as well as innovative devices such as a video-calling device for the home. The telemedicine subsidiary alone brought in $18 million in revenue in 2008.

**Global Multimarketer**

The largest telecom operators have a real opportunity to expand their businesses into multiple segments and markets, through a combination of the three models discussed above. The goal: to build value by creating synergies among different segments and markets, by managing portfolios effectively,
and by replicating the necessary capabilities from market to market. Success with this model will require two key capabilities:

- Proficiency in going global—organizing, operating, and marketing across many different geographies, and thus thinking both globally and locally
- The capacity to develop different business models and accompanying capabilities that can be replicated in different markets without increasing overall complexity

UAE-based Etisalat has taken this message to heart. Over the past seven years, it has grown into the world’s 16th-largest mobile operator, with a customer base of more than 135 million. The company’s success in pursuing the same business model in different regions, and in targeting the right service to the right audience in the right market at the right time has led to rapid growth in virtually every market it enters—in Benin, for example, its subscriber base grew 107 percent in just the past year.

For operators that have not done so already, 2012 is the year to determine which model or combination of models will work best for them, and how quickly to begin making the transition. This, of course, will depend on where they currently play, on the capabilities they already possess, and on how successfully they can match those capabilities with the new ones that will be needed. We expect that the network guarantor model will appeal primarily to incumbents that already operate large-scale infrastructures in either mature or developing markets, or both. The most likely candidates for the business enabler model include incumbents that have already begun opening up their networks and assets to third parties, or plan to do so, and new challengers that have already embraced the concept and can now build on their partner management and wholesaling capabilities.

The experience creator model may be the most difficult for telecom operators to follow, given their lack of experience and questionable track record in creating truly innovative new businesses. Moreover, the competition is already fierce. Competition among the global multimarketers will likely be limited to those that already have significant scale and the willingness to reorganize to push that scale even further.
All in all, we expect the year 2012 to be one during which the trends now transforming the telecom industry will come into sharper focus, allowing greater clarity into the future roles of every operator.

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