The central paradox inherent in the business of telecommunications over the past several years was at its most vivid in 2012. Having finally recovered fully from the global economic downturn and come to terms with the challenge of mass broadband and digitization, the industry had to contend with the ongoing issues of how to grow and become more profitable. We define digitization as the mass adoption of connected digital technologies and applications by consumers, enterprises, and governments—a revolutionary movement that is reshaping the sector.

On the one hand, data traffic over both wireless and fixed networks continued to increase at explosive rates. Traffic growth is driven by the massive uptake of smartphones and tablets, the mobile Internet, and digitization technologies such as cloud computing, and to a far lesser extent by rapidly increasing machine-to-machine services. Indeed, data traffic appears to have risen even faster than expected. The result was that many mobile operators struggled to meet demand, and instances of substandard network performance were more frequent. In response, telecom operators continued to invest heavily in their networks. With wireless broadband speeds fast approaching those of fixed-line connections, and with ever more users shifting their online activities to their smartphones, operators will need to rethink their roles within the PC and mobile value chains. In particular, the mobile value chain is becoming increasingly intricate.

On the other hand, many traditional operators continued to struggle to monetize the growth in network traffic and to capitalize on consumers’ increased willingness to spend money online. Some operators in the U.S. are finding success by moving away from unlimited data plans to those tiered either by monthly limits on data or by the speed at which data is delivered, a strategy that every operator should be watching carefully. By and large, however, most telecom players are suffering from an accelerating shift in value away from them and toward device makers and newer, Internet-based “over the top” players (which use others’ networks and the Internet to stream content directly to devices).

Given these challenges, operators must treat 2013 as the year in which they double down on their efforts to resolve this paradox. They must settle on
better ways to monetize the flow of traffic over their networks and capture considerably more of the revenue now going to Internet players. They must then use these new sources of income to keep making the investments in new technologies that are needed to build out truly ubiquitous mobile broadband networks on par with the current state of fixed-line broadband, and speed up their restructuring and innovation efforts. Simply relying on higher demand over networks with limited capacity to boost prices and restore growth will certainly not be acceptable to policymakers and regulators increasingly aware of the importance of fixed and mobile broadband to promote economic growth.

**Restructuring for Growth**

These will not be easy tasks. Every telecom player will have to make numerous critical decisions regarding its strategic focus and its operating model, as well as the capabilities needed to operate coherently in its chosen markets. These decisions will lead to a significant increase in fundamental restructuring efforts on the part of operators, as they prepare to become *Fit for Growth* by making the right choices about streamlining their cost structures in order to be able to fund their expansion and investment plans. We expect these restructuring activities to fall into three categories:

**Defending the core.** All operators must determine exactly what their core business is, and then build it up to the point where it can thrive as an organic growth machine that drives both revenues and profits. At the same time, they must focus on transforming the core into a highly efficient and lean operation. This will require that they learn to tailor offerings to their chosen customer base and segments using sophisticated customer analytics to develop profitable pricing schemes, while offering these targeted customers the best user experience possible.

**Expanding into adjacencies.** Even as they defend their core business from interlopers coming from outside the traditional telecom space, telecom players must themselves seek out opportunities in adjacent sectors. Which areas they decide to venture into, and to what degree, will depend on their chosen business model. Indeed, some may prefer to concentrate on enabling their business customers to make such moves into adjacent sectors, rather than doing so themselves. In every case, entering adjacencies will require the willingness and the ability to develop suitable innovative products and services—not a traditional strength for most telecom operators. They must also be willing to enter into partnerships with companies that may have more experience in these adjacent areas. Most important, if they are to succeed outside their comfort zones, they need to begin soon to narrow their strategic
focus and start making the tough and possibly expensive decisions about where to invest, and which assets—even possibly network assets—to divest.

**Pursuing coherence at scale.** Restructuring is a difficult process, particularly for companies as complex as telecom operators. Nonetheless, their ultimate goal must be to achieve coherence at the correct scale in whatever new form they choose to take on, and they must end up with an optimal portfolio of products and services if they are to thrive. For some, this may be a relatively simple process. For most, however, it is likely to require a wrenching combination of divestment and consolidation in their search for the correct combination of organic growth and synergistic new businesses.

**The Right Models**
How telecom operators will pursue these necessary activities of defending the core, expanding into adjacencies, and pursuing coherence at scale will vary. We believe that four business models can move telecom companies away from the vertically integrated structures of the past and enable them to meet the challenges of a disrupted sector while benefiting from existing opportunities. These business models are the network guarantor, the business enabler, the experience creator, and the global multimarketer—models that are not mutually exclusive.

**The network guarantor.** In this model, operators concentrate on providing their network infrastructure and related services to retail and business customers, promising high quality, reliability, and smoothly integrated platforms and applications, while operating as cost-effectively as possible. Until recently this was perceived as the “dumb pipes” model and was much too conservative for the new digital world. However, more operators are pursuing this model as network traffic grows and businesses look to operators for more and more essential services. Some companies have decided to advance this model by pooling their resources and those of their customers, offering them the ability to choose among different networks and services while saving considerably on operations and network maintenance.

**The business enabler.** This model depends on a strategy that extends traditional telecom network services to include helping businesses in different verticals serve their own business and retail customers. The business enabler assists its business customers in capturing the benefits of digitization through reliable virtual networking, cloud services, and other integrated services and applications. One model might involve extending the operator’s own billing and collection capabilities by developing platforms and selling
them to customers. Another might include providing services that help customers to expand their online retail offerings.

*The experience creator.* Operators pursuing this model seek to provide their customers with an attractive combination of targeted applications and content and the best possible user experience. Services might include e-wallets, personalized information apps, and access to music, video clips, and games. This model requires deep insight into customers and excellent customer management and service. Thus far, few operators have succeeded in fully implementing this model, because of the strong innovation skills needed and the stiff competition they are meeting from established Internet players.

*The global multimarketer.* Large operators have the opportunity to expand beyond their home markets into multiple segments and markets, creating value by combining the other three models, carefully managing the resulting product and service portfolios, and reproducing these models and portfolios in new markets efficiently. This in turn will allow them to provide their many customers with unique digital identities and the broadest possible range of digital services.

Operators would do well in their restructuring efforts to consider carefully which combination of these models will be most conducive to their future success. That decision will depend on how well the distinctive capabilities they already possess match up with the set of capabilities that each of these models requires.

**The Right Capabilities**

The coming year, then, will be one of restructuring. Operators must build the right set of distinctive capabilities for success. This will require the appropriate combination of five key capabilities: *enhanced customer analytics, customer experience management, digital enablement, strategic partner management,* and *yield management.* No operator is likely to be able to build all of these capabilities simultaneously and to perfection. What is important is to select the ones most critical for the chosen business model.

*Enhanced customer analytics.* The success of all four business models depends to a considerable extent on this critical capability. Companies need the ability to gather and analyze data about customers and then use it to create the right mix of price and services for each customer segment and determine profitability over the entire customer life cycle.
Customer experience management. Operators will need the capability to create innovative products and services that are designed to attract and retain customers, and to manage a complete portfolio. Different models will require different types of services: Experience creators may look to provide seamless service across different screens. Global multimarketers will need to be able to replicate this capability in their many markets. By contrast, network guarantors do not need to acquire this capability.

Digital enablement. This capability will enable companies, and especially business enablers, to transform their own internal services and processes—such as billing, authentication and identification, and location-based services—into products they can then offer to business customers, which can in turn resell them to others. Telecom players that succeed in understanding the relationship between online marketing and offline sales, for example, could build platforms for managing so-called multichannel attribution issues for their customers (multichannel attribution includes the relationship between online marketing and its offline effects). Other options might include digital identity services, e-commerce, and cloud computing.

Strategic partner management. Telecom players looking to move into adjacent sectors and new markets will most likely need to partner with others in the broader digital space, because those partners can provide the market footprint, experience, or services portfolio needed to succeed. Managing these deals can be challenging, but those who build a solid capability in this area will be most likely to find and keep the best partners.

Yield management. For every operator, understanding the nature of all their assets and managing them for optimal value are an essential part of creating the appropriate cost structure and freeing up funds for investment in developing the correct model, or models, for the future.

The digital revolution is in full swing, and the telecommunications industry is in the thick of it, providing infrastructure, enabling other players, and waging its own battles. Opportunities exist, but every player in the industry must choose its strategic direction and build the corresponding set of capabilities necessary for success. This choice, and the ability to pursue it, will determine how each player finishes in this critical race: as a leader or an also-ran.

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