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COVID-19: UK industry focus

# Where next for telecoms?



A photograph of a server room. The server racks are arranged in rows, and each rack is illuminated from within, creating a strong blue glow. The perspective is from a low angle, looking down the aisle between the racks. The floor is a light-colored, possibly tiled or gridded surface. The overall atmosphere is futuristic and high-tech.

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In delivering in the immediate term, telecoms have demonstrated impressive levels of resilience.”

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# Where we are today

The telecoms sector holds an elevated position in the UK's political economy; its status as critical infrastructure proving fully justified during the present crisis.



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The previous recession showed access to mobile telecoms was one of the last things consumers would give up and we don't expect things to be different this time.”

Telcos have been keeping us connected as millions work and learn from home. Ensuring emergency networks remain operational. Delivering high-bandwidth content, apps, games, and social media for the entertainment and wellbeing of people stuck indoors. And all this despite historically high – and reshaped – demand.

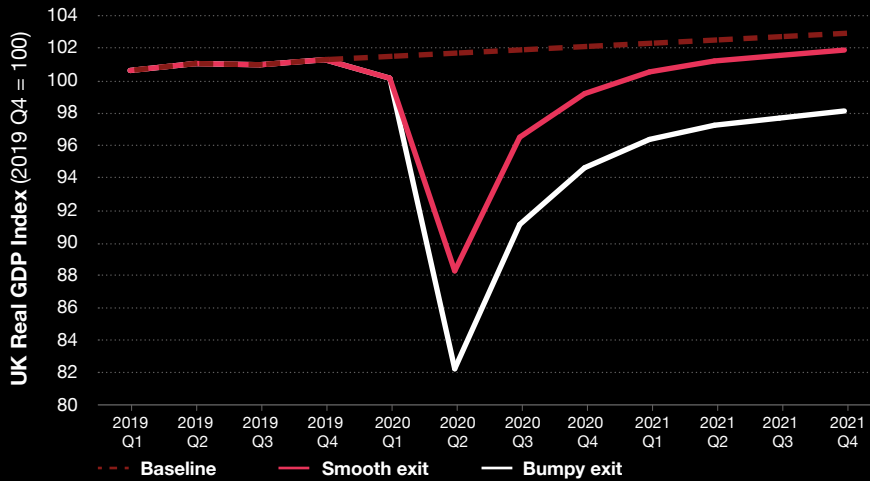
In delivering in the immediate term, telcos have demonstrated impressive levels of resilience. Upheaval is inevitable, however. An industry that serves all parts of the economy and employs 1.2 million people, must be prepared for disruption.

Like other industries, telecoms will feel the impact of a sharp decline in economic activity – near-zero physical retail footfall, operational delays, device and infrastructure supply disruption, and a customer-base and workforce limited by distance.

Our modelling suggests a likely double-digit fall in GDP in the second quarter of 2020. In the 'Smooth exit' and 'Bumpy exit' scenarios, overall UK GDP could contract between 12% to 16% quarter on quarter in Q2 2020 respectively. In comparison, the global financial crisis led to a contraction of around 2.1%.

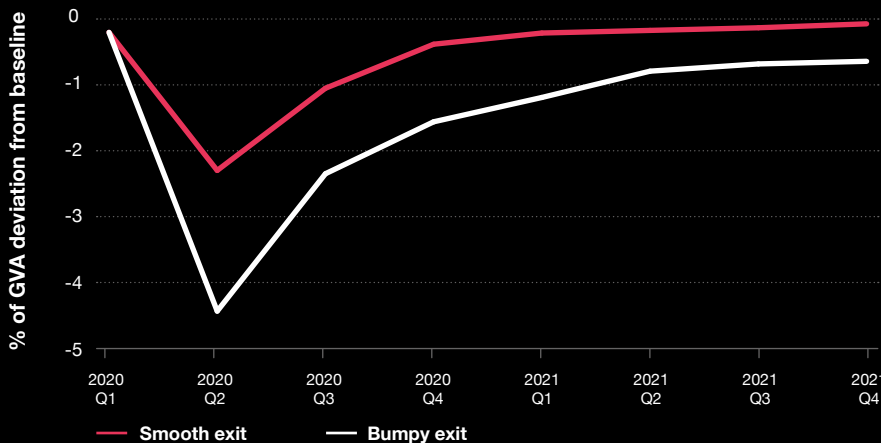
The previous recession showed access to mobile telecoms was one of the last things consumers would give up and we don't expect things to be different this time. However, this may cause an increase in bad debt.

**UK GDP index (Q4 2019 = 100), quarterly levels in each scenario**



Source: Strategy& UK Economic Analysis May 2020

**Impact of COVID-19 on Telecoms GVA by scenario**



Source: Strategy& UK Economic Analysis April 2020

**226,000**

Current no. of sector employees

'Total number of employees' represents the total number of employees in the Telecoms sector. These figures are deduced from ONS, specifically the Business Register and Employment Survey 2018 provisional.

**Medium**

Jobs at risk RAG rating

'Jobs at risk' rating reflects the analysis conducted by the International Labour Organisation. They assessed the global impacts of COVID-19 on different sectors, assessing those most likely to lay off workers due to lower cash flow.

**41%**

of workers normally come into physically close contact with >20 fellow workers

Physically close contact is defined as a distance of 2m. Source: PwC Research QuantiBus April 2020.

**85%**

of workers can work from home

The Work From Home index is based on a survey carried out by PwC Research, and is the equivalent to the % of respondents saying they can work from home.

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# What are we learning?

## **New sales down. Churn on hold – for now. Digital prospects mixed**

With retail stores shut and uncertainty remaining over the length of the lockdown, many operators are reporting minimal new customer acquisitions. At the same time, churn has dropped dramatically. But when the lockdown ends, churn may spike as customers seek cheaper plans.

Behavioural change, particularly from business users, means businesses may demand high-speed fibre for key employees working at home. They may even insist on tariff reductions or payment holidays to reflect a reduction in corporate network usage.

With the lockdown curtailing physical retail, digital channels are taking on greater significance. Retailers have an opportunity to transfer customer contact online and reduce acquisition costs.

# 65%

BT estimates an increase of network traffic of between 30% and 65%

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The roll-out of 5G ultra-fast mobile connectivity is likely to be delayed as a result of the pandemic.”

### Network demand and usage in flux

We are seeing three distinct, interlocking changes in network usage as a result of the UK lockdown.

First, and least surprising, network traffic is up: BT estimates an increase of between 30% and 65%. Telecoms networks are coping impressively as huge swathes of the population have started working from home. Telcos are well-placed to deal with increasing daytime traffic as network capacity is built to cater for evening peaks. So far, those limits remain untouched, but increased use of streaming and gaming in the evening may require additional capacity.

Second, and fuelling much of this increased traffic, is greater use of high-bandwidth applications, such as HD media streaming, online gaming and increased video conferencing throughout the day. This ‘forced experimentation’ is a necessary behavioural change likely to outlast the present crisis.

Finally, home-bound users are driving a move from corporate network demand to domestic demand, and from mobile networks to fixed WiFi. If current consumption patterns continue, telcos may need to repurpose resources.

### Operational delays inevitable

The roll-out of 5G ultra-fast mobile connectivity is likely to be delayed as a result of the pandemic. Lockdown measures in China and social distancing policies in the UK are affecting the introduction of infrastructure, while standards body 3GPP has postponed future releases of the technology.

The need for 5G might seem more urgent than ever, not just for the faster speed of communication but because of the promise of low latency connectivity and ability to enable large numbers of objects to communicate simultaneously. Though neither are available yet, these capabilities can enhance productivity in industry, healthcare and transportation, and may aid the recovery from the pandemic and any subsequent financial downturn. But a significant delay appears inevitable.

Network operators are facing up to other operational obstacles. The focus of most transformation programs has been shifted to business continuity activities. Meanwhile, network field operations have been restricted to essential repairs only – the limitations of social distancing coupled with self-isolation and the risk of infection are putting enormous pressure on engineering workforces.



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# How do we respond?

## Time to rethink customer acquisition and service

We surveyed UK consumers to identify their most pressing needs and expectations from telcos in the crisis (see Exhibit A). Their main concerns were the guaranteed supply of broadband, dedicated emergency lines for those experiencing financial challenges and access to advice on the right service/product that matches their needs and usage.

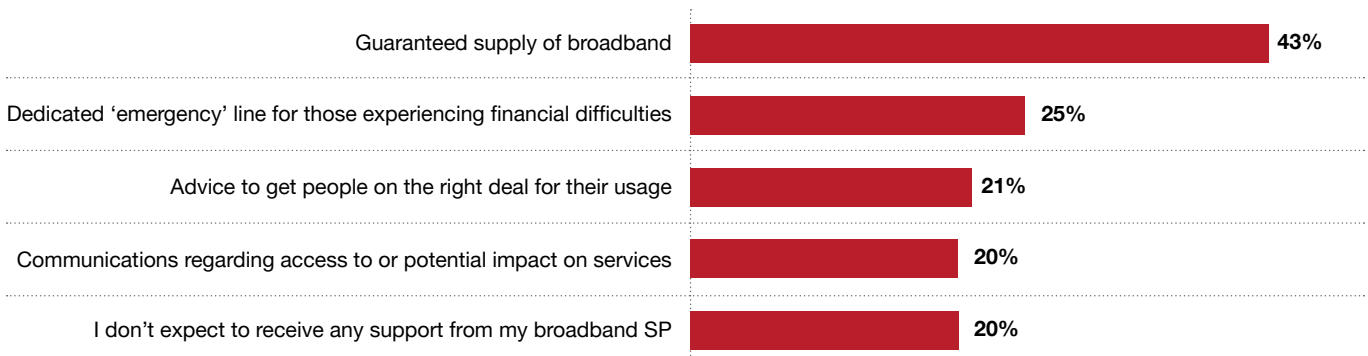
In the short-term, operators should pre-empt slowing sales by offering retail customers free or discounted upgrades to higher speed plans, and by tailoring products to those working from home. Migrating users to ultra-fast broadband is a 'no regrets' move, enhancing long-term loyalty and furthering Government ambitions to deliver fibre broadband for all by 2025.

Right now, telcos should make products and services affordable, take a humane approach to late bill payment route, routine customer service enquiries to AI-assisted chatbots to free up customer support staff for more urgent calls, and provide vulnerable and elderly customers with video support and help accessing essential services online such as medical assistance.

# 43%

of UK consumers said guaranteed supply of broadband was their main concern

### Exhibit A: Survey of 1000 UK consumers: What additional support do you feel your Broadband and/or Pay TV supplier should be providing at this time?



Source: PwC Research QuantiBus

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Network capacity will need to reflect the increased proportion of residential consumers using data services for work and entertainment.”

### **Revise network capability and pricing plans for the working from home era**

Enforced working from home (WFH) has dramatically tipped the balance away from corporate networks to those serving the domestic market. The line between work and home has blurred – and while many will return to conventional office work post-crisis, home working will likely continue long beyond COVID-19 at far higher levels than before.

Telcos will need to reflect this trend in two ways. First, where corporate network usage declines, they should create tariffs that cater to an emerging mixed business/residential economy, with perhaps businesses funding – or part-funding – home network access for employees. Imaginative tariffs that appeal to both markets might include home broadband packages that feature cybersecurity, personal cloud, office collaboration tools, and content packages.

Second, network capacity will need to reflect the increased proportion of residential consumers using data services for work and entertainment. This will bring greater intensity to residential infrastructure. As traffic to and from corporate office locations decline, so might revenues from corporate networks. Operators must prepare for both eventualities.

### **Adapt content strategies to meet changes in viewing behaviour**

We've seen consumers continuing to move away from linear TV and premium sports subscriptions and engaging with a more personalised viewing experience on streaming platforms. Operators should think about the importance of these streaming platforms in driving mobile device usage and adjust customer value propositions and plans accordingly.

### **Look for acquisitions to accelerate strategy**

Increased home working is driving demand for broadband infrastructure. Pure play infrastructure businesses have seen high valuation multiples and should continue to attract interest. However, there may be other types of early-stage businesses that could further develop operators' solutions and platform strategies, for example, healthtech, fintech or businesses focused on smart cities. For some the pandemic will have arrived at the worst possible time in their funding cycle and they may not benefit from the strong balance sheets and distribution channels many telcos have.

## Repurpose capital investment to solutions and platforms

If the further roll-out of 5G is postponed until the latter half of 2021 the telecoms industry will need to make some tough, pragmatic decisions. Operators may need to consider reallocating some of the money earmarked for 5G to other areas in the interim.

First, that money could be redirected to vertical solutions such as health and security, with the case for both now heightened. Managing general population health through contact-tracing infected people or creating digital health passports to prove immunity are important elements for controlling the pandemic and any spread of the virus in the longer term. Meanwhile, as online activity, for work, for leisure and for essential services, increases, so too does the fear of cyber criminality. Telcos should ensure they are ready to meet the greater demand for cybersecurity tools and solutions, for example, pairing unified communications services with a cybersecurity suite for the home worker.

Second, spend could be similarly redirected to horizontal platforms such as data solutions and digital identity to help the government and society mitigate the impact of the pandemic. The case for remote monitoring and digital passports could be a powerful catalyst for the adoption of digital identity technologies as the ability to aggregate data on the movement of people becomes a health security imperative.

Some initiatives are already in play. For example, Telia's Division X has developed crowd insights to provide Nordic cities and transport authorities with aggregated smartphone data. It is using the tool to track people's movements during the quarantine. UK mobile operators such as O2 have had discussions with the UK Government about how their network data insights can help during and after the lockdown period.

These initiatives may require consumer consent, and partnership with the government and technology firms. However, to ensure they have a chance of success, operators must take the lead.

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### **New opportunities abound in a changing industry**

As the industry continues to provide critical infrastructure in the immediate term, it needs to look forward and understand how to meet the changing needs of consumers, businesses and wider society post-COVID-19. In healthcare and the management of cities and areas where people gather in high numbers, such as entertainment venues, communications technology has huge potential to benefit society, as discussed above. This pandemic is a pivotal moment for the telecoms industry, and is likely to increase public awareness and policymakers’ acceptance of the ways in which communications technology can not only keep us entertained, informed and in touch, but help us stay safe. There has never been a better moment for telecoms operators to boldly pursue these widespread and significant opportunities.

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### **Who to talk to**

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