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# TO FUEL GROWTH, TELCOS NEED A DIGITAL MAKEOVER

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**A**S DEMAND FOR FIXED voice services has waned, telcos' B2B market share has dropped accordingly. But that decline has now accelerated by 5% (or more) annually, in some markets, as more nimble information and communication technology (ICT) players step in to offer what B2B customers want: more digital interactions and improved pricing and packaging options, along with better customer service and problem resolution.

All is not lost, however. Thanks to advantages telcos already possess—long-term customer relationships, network ownership, and reliability—these companies can still adopt new technologies and tap into substantial B2B spending to improve internal cost structures, enhance customer service, and grow revenues. But to win they will need to digitally transform their offerings, their go-to-market strategies, and their company mindsets. Most must also make tough choices about which customer segments to target, and they will need to do a better job differentiating their offerings in a customer-centric way across those segments.

None of this is easy, but it can be done. Telstra, for example, has built a \$3 billion (and growing) network and application services business. And Comcast has consistently grown B2B revenue by double digits annually for more than a decade, hauling in more than \$5 billion in that space by focusing primarily on small and midsize enterprises. Telcos that hope to follow suit must perform a delicate balancing act: expanding into the growing ICT market by committing to end-to-end digital transformation, while at the same time managing the traditional connectivity market, which remains sizable.

We have identified eight levers critical for telcos' ability to thrive now and in the future, ranging from developing digital and next-generation ICT to opening up new market opportunities such as cloud, security, and IoT—as well as cultivating collaborations with B2B clients to craft quality partner “ecosystems” that enable new technologies. Before we explore those and other key moves telcos must make, let's examine the reasons telcos are declining so alarmingly in the B2B space.

#### FOUR FUNDAMENTAL CHALLENGES

To more deeply understand B2B customers' needs and preferences, BCG recently conducted a comprehensive survey of more than 600 companies in the B2B space and interviewed telco executives across multiple regions. We identified four underlying reasons why many telcos are declining in B2B while other ICT providers are growing.

**A New Kind of Customer.** Businesses are becoming savvier, more demanding customers. They are asking for everything from transparency on pricing to tailored technology solutions, as well as smaller, shorter contracts and fully digital customer service. Because telcos haven't adapted their business models to meet those demands, B2B customers—especially new ones—are turning to ICT competitors.

**Technology Shifts.** Telcos need to rebalance and evolve their offerings to reflect current customer preferences—and customer spending—from legacy voice and data services to newer areas such as the cloud. (See Exhibit 1). But because they often fear the new technologies will cannibalize old, high-priced services, telcos have leaned toward a more tentative, risk-averse approach while nontelcos pursue new businesses such as IP-based technologies, SD-WAN (software-defined

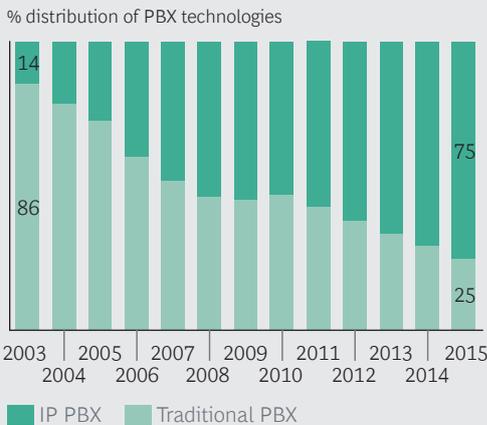
wide-area network), and cloud-based solutions. Although the risk of cannibalization is sometimes real, the greater risk is holding back and creating an opportunity for competitors to step in. After all, many telcos still primarily provide connectivity—a narrow position indeed in the current market.

**Strengthened Competition.** As legacy connectivity revenues decline and other ICT segments grow—in areas including storage, security, systems integration, and the cloud—threats from nontelco adversaries increase. For example, technology giants Cisco, IBM, and Microsoft are building on their extensive experience working with business customers by bundling various ICT services. At the same time, digitally oriented players such as Google and Amazon offer easy-to-use, flexible services that telcos cannot match. Increasingly, those players—not telcos—are winning.

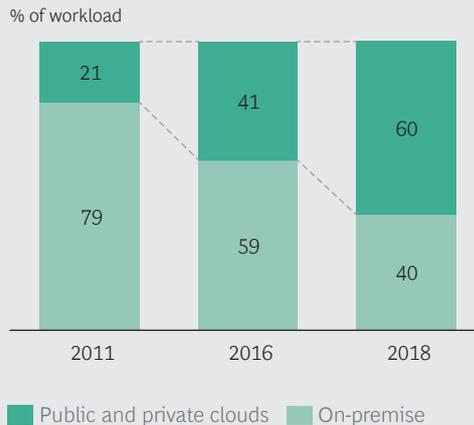
**Lack of Internal Transformation.** Despite changing market realities, many B2B telco units continue following their old ways of doing business and interacting with customers. They focus too much on connectivity; they lack board support; they often lose out to the B2C side of the business for resources; they face cost pressures; and

### EXHIBIT 1 | Technology Shifts Are Transforming the Telecom Industry

#### SHIFT TO IP HAS ALREADY HAPPENED



#### WORKLOAD IS SHIFTING RAPIDLY TO THE CLOUD



**Sources:** 451 Research, Dell'Oro Enterprise Telephony Market Forecast 2011–15; TelecomReseller The Technology Report June 2015, Morgan Stanley; BCG analysis.

**Note:** PBX=private branch exchange

they continue using complex, inflexible legacy systems. For example, because telcos long enjoyed actual or near monopolies, they never focused sharply enough on customer acquisition or experimented with innovative digital sales and support models. And the fact that most telcos lack the digital skills they need to evolve makes any internal transformation even more challenging. To improve their competitive viability, telcos need to retrain and reorganize the workforce to upgrade skills. But most companies avoid this politically and emotionally sensitive process.

### HOW TELCOS CAN SURVIVE—AND THRIVE

Despite the challenges we’ve just described, many telcos remain in a strong position thanks to their innate advantages such as long-term customer relationships, network ownership, and reliability. Now they must expand into the growing ICT market by committing to end-to-end digital transformation. Yet at the same time, these companies need to wisely manage the traditional connectivity market that, while deteriorating, remains sizable.

Telcos can and must pull off that balancing act. By developing the right capabilities, processes, and mindset, they could lead their customers into the digital future. In fact, our survey indicates that telcos are

well-positioned to win in many emerging digital areas, but they must act decisively or someone else will surely step up. (See Exhibit 2.) With all this in mind, we have identified eight levers critical for telcos’ ability to thrive now and in the future.

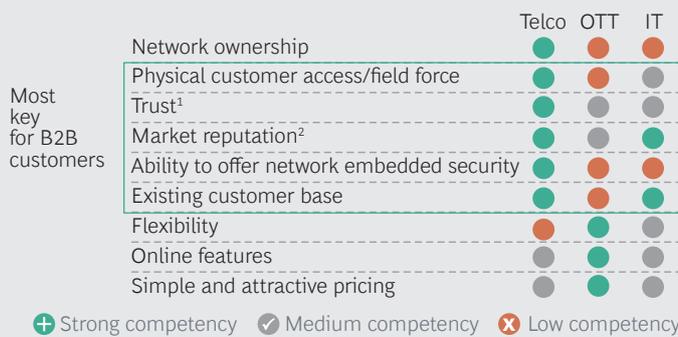
**Be Savvy About Product Innovation.** With revenues declining for legacy voice and data services, but rising for services that help customers digitize their business and move to the cloud, it’s a no-brainer: telcos must develop digital and next generation ICT—cloud services as well as SD-WAN, security, and IP-based unified communications services, including linking mobile and fixed.

But since many ICT rivals already have well-established products in this space, telcos need to be savvy about how they develop their own offerings. Instead of taking on ICT competitors directly, telcos should play to their strengths by supplementing or improving other providers’ services, perhaps even partnering with more nimble cloud players.

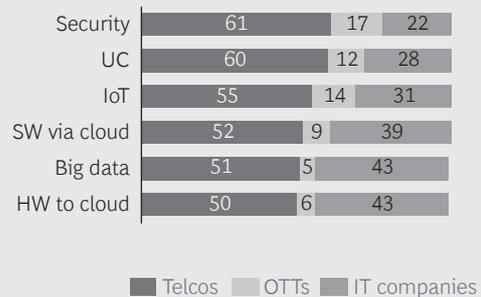
Connectivity is a natural place to start. B2B customers will need fast, reliable, secure access to cloud-based services—and telcos know how to provide that better than anyone else. BT, for example, has partnered with Oracle to create BT Cloud Connect—a service that provides a private VPN

## EXHIBIT 2 | Telcos Are Well-Positioned in Emerging Digital Arenas

### TELCOs SCORE WELL ACROSS MANY DECISION CRITERIA



### CUSTOMERS PREFER TELCOs IN MULTIPLE CRITICAL DIGITAL PRODUCT AREAS<sup>3</sup>



Sources: BCG B2B survey 2017; expert interviews; Gartner; BCG analysis.

Note: OTT=over the top; UC=unified communications; SW=software; HW=hardware

<sup>1</sup>Depending on country, defined as reliability, data security, trust in product quality.

<sup>2</sup>Market standing compared to competition, range of product offering and perceived competencies.

<sup>3</sup>Assuming an average 40% TC and 5% ICT market share of average incumbent telco, calculation based on global TC/ICT 2017 market size.

link between customers' on-premise environments and the Oracle Cloud.

**Digitize and Improve the Customer Journey.** Digitization isn't just about creating innovative new products. It's also about improving how telcos interact with customers. Telcos lag far behind other sectors when it comes to selling to and supporting customers in a digital environment. That's not tenable. Most customers don't want to drive to stores or call help desks; they prefer using portals and mobile apps to pay their bills, research offerings, add features, change plans, analyze usage, and troubleshoot problems. Our survey found that the use of online and messaging channels for customer support is growing 10% to 20% annually, while other channels are essentially flat or declining.

To better understand and satisfy such customer desires, telcos need to develop capabilities to support a cohesive customer experience across all channels. Channels have to "talk" to one another. For a true omnichannel approach, telcos need to radically simplify and digitize their internal process and IT landscape.

**Transform Go-to-Market Sales.** Telcos need to encourage, train, and reward salespeople to look beyond the initial sale and offer long-lasting, continuous support. They also need to meet the customer in the channel of the customer's choice. Our survey indicates that about 85% of customers start their purchasing process online—and online customer purchases are increasing 10% to 20% annually, leaving other channels flat or declining.

For small and midsize customers in particular, telcos might consider the "try-land-expand" strategy. The idea is to get the B2B customer onboard, often through trials or small offerings, and then assign a dedicated customer-success manager to work with the customer to maximize what it can get out of the telco's offering, gradually expanding the customer's buy-in to the platform.

For larger accounts, telcos need a go-to-market strategy that acknowledges these customers' varied and complex needs.

Leading firms are mobilizing face-to-face, online, and indirect channels coordinated by a specific "customer champion." This person is also tasked with identifying the right customer contacts to whom to sell new product lines.

**Become a Data-Driven Organization.** Telcos need to use their vast amount of data to gain insights into customer needs, behaviors, and preferences, and then mine these insights to drive product development, pricing, marketing, and upselling efforts. Telcos haven't traditionally used data that way, but advances in big data and analytics now make this possible and necessary. Indeed, telcos' wealth of data on usage activity, products and services purchased, and customer support interactions provides a decided advantage over many smaller, younger ICT companies.

**Develop the Right Digital Skills.** Given changes within the telco market—new technologies, more efficient ways of working, and evolving customer needs—telcos need new skill sets and fewer people. For example, our survey found that 82% of B2B customers viewed five or more pieces of content online before making their purchasing decision. Telcos need to meet that level of digital engagement with top-notch digital skills: managing software, configuring and running big data analysis, defending against cybersecurity attacks, and orchestrating solutions using components from different providers. Whether hiring new talent, retraining current employees, or downsizing the legacy workforce, shifting toward these new digital capabilities will inevitably increase employees' anxiety. Management will have to work hard to keep spirits up, but done correctly this process can boost morale and even transform the culture.

**Tap into New Digital Growth.** Telcos stand as dependable, proven operators in a landscape full of new, often small, players lacking long track records. That makes telcos a natural provider of mission-critical functions (whether they develop the solutions themselves or link to vetted partners); they should seize the chance to

open up new market opportunities such as cloud, security, and IoT. Indeed, 50% of B2B customers surveyed said they would like to work with telcos in these areas. Such customer trust should also encourage telcos to assume the role of cloud “orchestrator”—offering a one-stop shop that provides and manages an array of vetted third-party cloud services. As the variety and complexity of cloud solutions grow, telcos should seize such increasingly big orchestration roles.

**Invest to Modernize Technology.** Telcos should invest to simplify IT, aligning as many systems as possible to reduce overall complexity and operating expenses. With a simpler, more modular IT infrastructure, telcos can secure IT better, interconnect their own services, link with third-party services to create valuable customer offerings, and easily exchange and upgrade modules in the future. As part of this modernization push, companies should consider adding a microservices layer, which could breathe new digital life into legacy architecture. Where traditionally such interactions have been slow, clunky, and manual, a microservices layer would allow partners, customers, and suppliers to digitally engage and transact with the telcos.

Moreover, because B2B customers consider network superiority such a strong differentiator—particularly on the mobile side—they won’t tolerate telcos with poor network quality, security, or older network technologies. Telcos therefore must commit to investing in network upgrades and

early adoption of new network technologies.

**Establish and Take Advantage of the Right Partnerships.** B2B clients increasingly demand high-quality ICT partner “ecosystems” that enable new technologies. Telcos therefore need to be more selective and more open to partnerships by cultivating only true value-adding collaborations and by admitting they cannot provide the full gamut of products and services by themselves. We recommend that telcos create a dedicated partnership-management function to oversee strategy and execution within those collaborations. That will help tame the often chaotic arrangements that define many telcos and encourage new partnerships to form.

**T**OO OFTEN, TELCOS try to do too many things and only incrementally, which result in overly complex and weak offerings—and delay the kind of transformation that long-term success requires. Given the steady decline in connectivity and growing competitive threats both from traditional telcos and newer ICT players, telcos cannot afford to lag behind any longer. Instead, they need to develop a unified program that aims all digital initiatives in the same strategic direction with an ambitious, solid commitment to move quickly and deliver results. Getting the most out of today’s digital opportunity won’t be easy, but telcos that transform should be able to thrive now and in the future.

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