THE DIGITAL TELECOM OPERATOR
AN INDUSTRY AT THE VERGE OF A NEW PARADIGM
THE DIGITAL TELECOM OPERATOR

Despite the fact that telecoms companies are providing the very fabric of the digitisation wave currently disrupting many industries, most are themselves standing aside from the action. One consequence of this is that the telco customer experience is rapidly becoming obsolete. The same is true of the FMCG-inspired business model that has formed the foundation of the industry since the late 1990s – monolithic brands, massive distribution and bold public promotion are increasingly old hat. While some telcos continue to wait or embark in broad, slow transformation efforts, digital companies are adopting a very different mindset to ride the wave.

Digitisation is a wake-up call for the telecoms industry. The cards are now being dealt for a new game – one in which competitive stability is no longer the norm and where the most agile companies, those that are able to shift their mindset, will outsmart the rest.

TELLOS ARE LOSING THE RIGHT TO SELL

Telcos have long been sitting pretty. Historically, their ownership of licenses and access to spectrum and capital have given them the right to operate. Regulation has by and large matched this right with the right to sell to their customers. However, the right to operate and the right to sell are not the same thing.

This difference becomes readily apparent when looking at how customers see things. Customer satisfaction surveys indicate that most telcos score only low to moderate marks. Digital companies such as Airbnb, Amazon, Apple, Google, Netflix, Skype, and Uber are placed well above them in the ratings. Telcos often come towards the bottom of the list in NPS benchmarks, for example (see Exhibit 1). Why? In our view, these low ratings reflect the fact that most telcos provide an obsolete customer experience, sell a range of services that are needed less and less, and are interchangeable in the eyes of consumers.

This is not to decry telcos. Telecoms operators continue to be robust, large and strategically

Exhibit 1: Industries ranked by Net Promoter Score (NPS)

- RETAILING
- ONLINE/DIGITAL SERVICES
- TECHNOLOGY
- HOSPITALITY
- FINANCIAL SERVICES
- INSURANCE
- TELECOMS

Source: SatMetrix data
important companies. They provide one highly relevant service – internet access – which continues to be vital and high growth. A few, though not many, can also afford to play the content game, thereby gaining an edge in terms of differentiation.

All this has in fact been enough to extend the life of the telco’s current business model and to provide a false sense of comfort to many in the industry. Nonetheless, big questions remain. Many traditional telco services are losing their relevance for customers, and while they do provide one vitally important service, this is inherently undifferentiated. Added to this is that the way telcos deliver and sell these services is increasingly obsolete in the eyes of customers, as the gap between their experience of the telcos and that seen elsewhere grows ever larger. This threat is compounded by the introduction of regulation and the advent of new technology that opens avenues for increasing disintermediation. Already some of the digital companies (the companies with high user satisfaction) are starting to sell telco services to their consumers. In such conditions, how long can the telcos remain relevant for their customers and retain the right to sell?

If they lose this right, others will undoubtedly take their place. Large mobile OS makers, social media companies, messaging app providers, search engines and other prominent owners of phone-screen real estate already have equivalent, if not better, brand permission to provide internet access – in fact, they are often the very reason why customers need access to the internet in the first place. With the support of some regulators and new technical developments like eSIM, companies such as these will get many more opportunities to “out-retail” relatively stagnant telcos, relegating them to the status of wholesalers of bandwidth. These threats have not gone unrecognised by the telco industry. A few players (notably but not exclusively MVNOs that have no legacy operations to worry about) are trailblazing a digital telco path, some are already achieving impressive results. FreedomPop, free and GiffGaff are examples of successful businesses that have characteristics distinctly different to the established telcos. While this success should not be overstated – after all, these companies are often seen as marginal innovators that appeal only to specific, small segments – the question remains: is there a way for mainstream players to go digital too and, if there is, what does this entail?
THE DIGITAL TELCO CUSTOMER EXPERIENCE

The digital question can be put another way: just how radical do telcos need to be when going digital? This question is at the heart of what the industry is currently wrestling with. By now, most telecoms executives are moving their companies towards digitisation. Online channel offers have been around for a while. Mobile apps for self-care are common and are improving rapidly. Lots of work is being put into streamlining customer processes. And yet – the actual telco customer experience has so far changed little – certainly when compared to how customers now watch movies, get a taxi, stay in touch with friends, book a table or a place to stay, listen to music, pay for something, find their way around, or buy a book.

With customer habits and expectations changing so quickly, merely continuing to digitise customer processes is insufficient. It pays to think further ahead and formulate a vision of the company’s future digital business model, all the way from the customer experience up.

Starting with the experience, Exhibit 3 highlights the major elements of our own vision of how a digital telco can work for the customer. Adopting such an approach will help telcos regain relevance and ensure they are competitive, both against other telcos as well as newer digital companies.

It is quite reasonable that some industry executives will be sceptical about a number of the features highlighted in Exhibit 3. Releasing control to the customer has often been viewed as ARPU dilutive, for example. In addition, there are fears that making disconnection easy could increase churn.

Though there is some validity to such concerns, the early experience of those that are implementing such ideas shows that when the customer experience is implemented well consumers can actually use their newfound freedom to boost their consumption: customers feel more at ease, less threatened and less constrained than when they were sold operator packages. Also, once disconnection and reconnection is made easy, customers might actually become more loyal to the experience and less prone to disconnecting. This highlights that going digital is as much about a brave, radical shift in business mindset as it is about making the experience more digital.

If a new business mindset is needed, then, telcos face a double challenge: not only will tomorrow’s customer experience need to be fundamentally different, but so will their business model.
<table>
<thead>
<tr>
<th>Exhibit 3: Elements of the digital telco customer experience</th>
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<tbody>
<tr>
<td><strong>TYPICAL TELCO CUSTOMER EXPERIENCE</strong></td>
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<td><strong>FUTURE DIGITAL TELCO CUSTOMER EXPERIENCE</strong></td>
</tr>
<tr>
<td>1 Real-time Activation</td>
</tr>
<tr>
<td>Customers are sold and provisioned services through a mix of physical and online channels, often requiring paperwork and implying significant lead times.</td>
</tr>
<tr>
<td>2 User Control &amp; Freedom of Choice</td>
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<tr>
<td>Customers largely subscribe to fixed tariffs that are structured around pricing plans designed by the operator. Changing these requires human interaction and is subject to rigidities set by operator rules.</td>
</tr>
<tr>
<td>3 Transparency, Simplicity &amp; Beauty</td>
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<tr>
<td>The emphasis is on features and price. Though customers have less options and variants than in the past, those on offer are still sufficiently complex to prevent them picking the best one for them. Nor can they be sure that this continues to be the right one as their needs evolve.</td>
</tr>
<tr>
<td>4 Customer Centricity</td>
</tr>
<tr>
<td>Customers feel their operator remains in control. There are continued rigidities in the offer design, including limitations to the changes that can be made to plans in terms of duration, penalties and so on.</td>
</tr>
<tr>
<td>5 Low Need for Support</td>
</tr>
<tr>
<td>Customer support enquiries are directed to the operator, most of which require call centre interaction. Operator actions (e.g. commercial campaigns) prompt users to call for support more often than would otherwise be necessary.</td>
</tr>
<tr>
<td>6 Contextual Marketing</td>
</tr>
<tr>
<td>Customers receive operator offers and campaigns that are designed by marketers based on off-line behavioural research and which are pushed out to specific user segments through SMS, outgoing calls, and e-channels.</td>
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<tr>
<td>7 Easy Disconnection</td>
</tr>
<tr>
<td>Disconnection is cumbersome and difficult. The process is often linked to a payment default. Reconnection is a lengthy process.</td>
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THE DIGITAL TELCO BUSINESS MODEL

While it is difficult to be definitive in prescribing what tomorrow’s digital telco will look like, through our extensive work with global telecoms executives on this concept we see a series of themes emerging – collectively these themes paint a very different picture to the one seen today.

LEANER AND SIMPLER

We expect tomorrow’s digital telco to employ under half today’s headcount. Strong headcount and external cost savings can be expected from digital operating models in multiple areas, especially marketing and service development, sales and retention, customer care, billing and collection, and overheads – the latter notably including support activities currently embedded within other functions, such as commercial administration, logistics, commercial and support back offices. IT will change too, but here we expect the efficiencies from simplification to be counterbalanced by significantly increased expenditure on more advanced customer-facing functionality.

KNOWLEDGE POWERED

Telcos will become maths houses – and competitive advantage will be built on this capability. Data – coming from multiple sources, including direct, always-on tracking of client behaviour – will be an even more differentiating asset than network infrastructure for the digital telco. Significant investment will go into developing and exploiting this asset. Other related areas for priority investment will include the

Exhibit 4: App-centric customer experience

Donuts provide immediate visually intuitive feedback on:
• Total contracted capacities across major services
• Real-time consumption and remaining capacity

Sliders make complex trade-offs feel simple:
• Three intuitive sliders permit 240 choices without apparent complexity
• Customer feels fully in control and gets immediate feedback on choices

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<tr>
<th>VOICE</th>
<th>INCLUDED</th>
<th>2h</th>
<th>€2</th>
<th>Unlimited</th>
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computing power and advanced machine-learning techniques needed to turn data into knowledge. This investment will enable better managerial decisions as well as automatic decision making: for example, the launch of an impulse data, top-up promotion for a specific customer.

NEW TALENT MODEL

Besides demanding a smaller workforce, tomorrow’s digital telcos will require very different talent profiles. Traditionally, telcos have employed scores of call centre and back office agents, shop clerks, salespeople, marketeers, product managers, controllers, and pricing specialists. All these groups and others will shrink significantly. At the same time, as the mix of operator activities changes, demand will surge for software engineers and developers, data scientists, machine-learning specialists, UX/UI experts, digital marketeers, content and social media experts. Consistent with this, we expect the average cost per employee to rise.

CUSTOMER-FACING IT

Current operators manage IT as an important enabling function, though fundamentally a back-end one: this is widely apparent across the organisation, not only in terms of the talent profile but in terms of the power of the function itself, as well as in the cultural perceptions with regard to IT. In tomorrow’s digital telcos, IT will touch the customer more directly: customer interfaces will speak directly to operator systems without human intermediaries, IT developers will directly shape the experience and functionality of the digital operator front-end, and improvements in the customer services experience will derive more from their digital interaction than from the connectivity services themselves. In other words, IT will become a customer-centric and customer-facing function and will need to be managed as such.

REAL TIME

Digital-age customers expect real-time responsiveness in terms of continuous transparency with regard to consumption, immediate activation, modification and deactivation of services, time-sensitive promotions, and instant feedback on user actions. Such features are key elements of the customer experience. To meet these goals, systems and processes will need to be rethought wherever customers are affected, avoiding batch processes and eliminating lead times.

COMMUNITY SUPPORTED

In contrast to today’s operators, the best of tomorrow’s digital telcos will nurture vibrant user communities. In such communities, satisfied users will support each other, reinforcing satisfaction and recommending services in exchange for benefits. The focus will not be on the telco “feeding” the community in order to keep it active but, rather, on keeping the right balance of incentives, recognition, member-recruit-member schemes and events that encourage the community to work spontaneously for the telco.

A DIGITAL CULTURE

Perhaps the biggest difference between tomorrow’s digital telco and today’s will be in their culture. Employees will be more data driven, discussions more analytical. Digital telcos will need to be more meritocratic organisations in order to be better able to compete for top talent in the high tech marketplace. Their change programmes will target 10X improvements rather than incremental ones: why reduce the back-office load if it can be eliminated altogether? And the focus of such innovation will shift from providing new services to enhancing the user experience and improving industrial design and workflow, while the timeframe for such initiatives will shorten significantly.
**HOW OLIVER WYMAN IS HELPING TELCOS TO CREATE A FULLY DIGITAL CUSTOMER EXPERIENCE**

Oliver Wyman is helping a number of operators to incubate digital telco start-ups. The new entities are to be launched either as digital MVNOs, second brands or as new offers. The digital start-up helps the telco to gain time to market, bypass its legacy and accelerate its transition to pure digital. Though creating such a digital customer experience is only one part of the journey towards becoming a fully digital company, creating a start-up usually proves a no-regret move for most telcos.

The approach builds on our historical “start-up in a box” expertise, with which we have previously launched nearly 40 operations. The new approach combines business, commercial and operational expertise with the technology necessary to create a new offer that provides a fully digital customer experience.

We have seen first-hand how complex, costly, time-consuming and risky it can be to upgrade legacy systems in order to deliver a digital vision. The focus of our approach is therefore on overcoming the major technological challenges that stand in the way of enabling a digital telco offering. Unless the technological complexity deep within the operator’s OSS/BSS is addressed adequately, customers will continue to require extensive help in the form of manual intermediation, thus destroying the digital experience.

To address these issues, Oliver Wyman has secured access to the technology assets required to build the digital telco experience from the ground up. The heart of this is a digital BSS that plugs straight into (rather than integrate with) the core operator assets, such as provisioning and IN platforms. This technology is able to handle all the relevant aspects of the customer experience in a simple, elastic cloud-based solution. This lets the operator’s current systems do the heavy lifting of real-time rating, while the digital platform takes care of the intelligence required to facilitate the customer experience and desired scalability.

In implementing this approach, we work with “digital native” customers to co-design and fine-tune the offer structure, the experience and the look and feel of the digital environment. This ensures that the customer’s digital experience is comparable to that of using their favourite apps. We then deploy the necessary resources and expertise to create a process that is fully integrated into the telco’s business, prior to bringing the concept to market.
Rapid prototyping and trial-and-error approaches will gain ground, displacing today’s emphasis on mega-projects that require detailed and long-term planning.

**GOING DIGITAL**

The number one question for almost every telecoms executive is, what is the best way to go digital? While all agree that they want to digitise their companies, only a few truly embrace the radical nature of the required change. Frustration is common: today’s telcos are encumbered by substantial legacy in operations and customer base: achieving the radical change required to develop a truly digital model is a big stretch.

Though there is no easy answer to such questions, companies are by and large exploring one of two change strategies: wholesale digital transformation or the creation of a digital start-up (see Exhibit 5).

**DIGITAL TRANSFORMATION**

Many telcos have adopted programmes that aim to progressively install the elements required to build a digital customer experience and business model. These efforts include such initiatives as launching product apps, pushing customer service into self-care, improving big data capabilities, simplifying the offer, and renewing IT.

Such initiatives are not necessarily incremental in nature: for instance, a number of operators are deploying completely new IT stacks. These programmes can prove difficult, time-consuming and expensive to implement, as they not only require retooling large and complex operations but also demand wrestling with the telco’s legacy, while protecting customer pricing and its market position and at the same time shifting the mindsets of thousands of employees to a completely different model. Despite these challenges, transformation programmes are vital in that they hold the promise of moving the dial by truly transforming the entire company.
DIGITAL START-UP

An alternative route is to create what in effect is another telco – a purely digital one. This entity is created “on the side”, typically as a segment-oriented flanker brand or product line, possibly even mimicking the mainstream brand for new customers. If successful, the “new” telco will progressively gain weight in the P&L. The idea behind this approach is that it enables the operator to immediately put in place the ideal model for its digital operations and to then use the new entity either to migrate its legacy customers and activities towards the new operation, or to import the digital experience and processes from its new operation onto the old.

In either of these approaches, it is crucial that the operator puts in place a clear governance setup vis-à-vis its existing operation: this needs to be endowed with sufficient empowerment to secure the resources and focus required for the project to succeed. The logic of the start-up approach is threefold. Firstly, it enables operators to go digital quickly – this can often be achieved in a year or even less, compared to the multi-year timeframes demanded for a full transformation journey. Secondly, since the new entity is independent of the legacy operation it allows the operator to take a more radical approach to digitising. This is critical since, to be fully realised, “going digital” is much more than merely digitising existing services. Thirdly, this approach enables the telco to manage risk better – if the venture fails, the original operation is not dragged down with it.

Both the transformation and start-up approaches clearly have advantages. And, handled rightly, both can be compatible. This has led some operators to explore both avenues simultaneously. Doing so enables them to do the groundwork required for making the long-term transformation towards digital, while also enabling them to launch digital services relatively quickly, without having to wait for all their operations to conform to the new pure digital experience. Taking this dual path approach can achieve immediate impact, bypassing many of the problems associated with migrating legacy operations and customers.

The question remains, of course: how to bridge both paths? Even accepting that a digital start-up has a vital role to play, there are numerous hurdles to overcome. Developing a path that successfully migrates customers from the legacy operation to the digital start-up is clearly a far from straightforward task. The start-up will need to be grown to sufficient scale to be able to absorb the majority of the telco’s legacy customers and activity prior to the telco making the final migration and switching off of its legacy operation. Likewise, in the alternative approach, that of developing a path that transfers capabilities and activities from the digital start-up to the legacy operation, the digital entity will need to be capable of helping to accelerate the telco’s transformation, not just of functioning on its own behalf. This will include transferring apps, the offer structure, customer data and knowledge, real-time promotions, and community-based support.

Both these approaches demand that the telco’s digital business model and its vision for its digital customer experience tallies with those of the start-up.
CONCLUSION

Telcos need to be clear about all their vision, chosen business model and the route they will take prior to any attempt to go digital. While getting these things right might not be simple, in our view, launching a digital start-up is likely to be a no-regret move for many a telco. Over the next eighteen months, we expect to witness a significant increase in activity as a growing number of telcos launch digital operations.

An alternative route is to create what in effect is another telco – a purely digital one.
ABOUT OLIVER WYMAN

Oliver Wyman is a global leader in management consulting. With offices in 50+ cities across 26 countries, Oliver Wyman combines deep industry knowledge with specialized expertise in strategy, operations, risk management, and organization transformation. The firm’s 4,000 professionals help clients optimize their business, improve their operations and risk profile, and accelerate their organizational performance to seize the most attractive opportunities. Oliver Wyman is a wholly owned subsidiary of Marsh & McLennan Companies [NYSE: MMC]. For more information, visit www.oliverwyman.com. Follow Oliver Wyman on Twitter @OliverWyman.

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