

L-shaped telcos in an evolving digital world



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For an industry that's in real need of change, digital transformation is no longer just a sound bite. Operators are looking for ways not only to survive, but to also thrive in this ever evolving digital world. Peter Sany, President and CEO of TM Forum, shared with us the way out.

By Kyra Mi

As instant gratification becomes the norm, technological advances follow Moore's law, driving down the cost of communication, storage, and computing technologies. Moreover, OTT players like Netflix, Skype, and Google are encroaching on the telecom industry, so traditional telcos have to jump on the bandwagon of digital transformation or be caught on the wrong side of history.

Sany believes, "We have to think of Darwinism. It's not big versus small. It's not strong versus weak. It's not fast versus slow either. It's the adaptive and agile versus those who are stable and static."

Traditional versus digital

However, to successfully transform into digital telcos, the incumbents face problems as digitization can be very disruptive. It can disrupt existing business models, operating models, the talent pool, and performance measurements. How, then, should

telcos balance traditional and digital business? Are they willing to digitize and innovate at the risk of cannibalizing existing profits? This is likely to be a hard choice for many. Statistics from a Gartner survey show that more than 80 percent of business leaders expect their company to become a digital enterprise by 2019. Yet another report published in 2015 found that only a quarter of the companies surveyed said they would be willing to disrupt themselves to digitize and thus compete more effectively.

According to Sany, the future will be purely digital: "I believe that traditional and digital business will not merge per se. There will only be digital businesses, or digital business models and digital ecosystems left. There truly is no 'digital strategy' anymore...just strategy in a digital world." For sure, there are many ways to get there. But to get there in time, telcos need to make radical changes. Radical does not mean big bang – they cannot just change everything in an instant. They need

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to tread with caution and plan transformation carefully, which gives rise to the innovator’s dilemma that incumbents will encounter during digital transformation. “The innovator’s task is to ensure that this innovation – the disruptive technology that doesn’t make sense – is taken seriously within the company without putting at risk the needs of present customers who provide profit and growth.”

Still, traditional telcos need to learn from digital native companies that are much more efficient, open, and customer friendly. This means being agile in everything they do. Forget the sequential waterfall model – put ideas in the incubator, grow them, and measure the results. Fail fast, succeed even faster. Otherwise, by the time you get there, the world has left you behind.

L-shaped telcos

As for what telcos will look like after they’ve transformed, different people predict different things. For Sany, telcos will be L-shaped. “On the vertical axis of the L, there will be a digital business on its own,” he says. “On the horizontal axis will sit the digital backbone of other industries and ecosystems that have digitally transformed, such

as smart cities, smart health, and so on.”

Ideally, operators will build out a portfolio of new (horizontal) business offerings to provide an integrated and original user experience across all platforms and catering to the unique requirements of their customers from consumers to enterprises. Core (vertical) offerings will be, for example, video in all its shapes – person-to-person video, movies, business video services, surveillance, and public safety. Pervasive integrated video will be one of the main products of the future.

Telcos will play a critical role, providing the digital backbone for other industries and serving as the intelligent pipe used by other smart and digitizing ecosystems. In these smart-X ecosystems, telcos will either wrap or provide natives services. To quote Esmeralda Swartz, former CMO of MetraTech, “In smart cities, telcos have the ability to integrate technology into the heart of the city’s strategy. The build-out of infrastructure and machine-to-machine technologies delivered over ubiquitous communication platforms provides an unparalleled opportunity for a service renaissance. The data generated by smart meters, smart urban lighting, smart water, traffic surveillance, smart

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transport, smart waste management and other smart things creates an unparalleled opportunity across verticals to create tailored applications. Across almost every vertical, there are untapped service opportunities.”

Spaghetti, lasagna, and cake

In the L-shaped model, telcos have to co-create and co-compete. Besides provisioning their own products and services, telcos also have to integrate the physical and virtual services of other companies, including those from their competitors. They will become a vendor and a provider of services in many different and fast-evolving services. As Sany puts it, “From that point of view, it’s a collaborative approach for creating the basic infrastructure to create the technology. At the higher level, it’s the creation of business models...at the ultimate level, facing customers, it’s the creation of composite services, be it composite digital services, or composite digital and physical services.”

This requires telcos to think in terms of ecosystems and how they partner effectively within and across ecosystems. They need to move beyond the spaghetti model, in which everything points

to everything else, to lasagna, a nicely-layered architecture, or even to a cake in which services are put together across traditional silos and existing industry boundaries. That’s why when asked is the glass half full or half empty, Sany said, “It’s not a glass. It’s a pond that’s actually enlarging. The digital economy is a completely different thing. There are vast opportunities out there.”

Transformation enabler

In the digital ecosystem, vendors will definitely have a key role to play. Regarding how they can help telcos transform, Sany contends that, “They need to be thought leaders. They need to work openly in the ecosystems, and collaborate with their customers, competitors and partners. In an evolving ecosystem, everybody works with everybody else in an intermeshed way to create the value fabric. Also throughout the entire hierarchy, you will not only deal with technical people, but you will deal with CEOs where you have to come together and understand the pressures of today and how you transform from your existing business into a future-oriented, future-proof business.” [www](#)

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