

The full story on digital transformation for telcos

The pressure's on for telcos to go digital fast. They need to get customer-focused, enter partnerships where they're not obscured by a big-name partner, and look for high value-added margins rather than a sluggish trickle of profits down the dumb pipe. Martin Creaner, ex-CEO of the TM Forum and Chief Architect of Huawei SPO Lab, gave us his thoughts on the current state of play and where he sees things heading for telcos.

By Gary Maidment



Communicate: What are the benefits of digital transformation for telcos?

Martin Creaner: Digital transformation is a huge focus for the telecom industry due to the gradual decline in revenue from traditional services. So, the industry needs to transform by improving efficiency, and by introducing a whole lot of new services.

We're seeing music and video of course, but services around smart home, IoT, e-health, connected cars, security, and financial services are increasingly emerging. Transformation is all about changing telcos so they can begin to make money on these new services to compensate for the fall in traditional services.

Communicate: Is it fair to say that smaller, less conservative telcos can adapt more easily to the transformation process?

Creaner: That's a good question, and both small and large telcos are trying to adapt. The number one decider for how well a telco adapts is how committed the CEO is.

In terms of size, one of the most successful at doing so now is pretty much the largest telco of all, AT&T. Some middle-sized telcos in the



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Middle East are also adapting very rapidly, like Ooredoo. In contrast, smaller telcos may lack the finance or bulk to move quickly.

But, I think telcos of all sizes can adapt if the CEO has the commitment to stay the course during transformation.

Communicate: In some telcos, we're seeing something of a scattershot approach to digital transformation. How can they implement a more coherent and cohesive strategy?

Creaner: A lot initially go through a period of stopping and starting, because they don't know what to transform towards. Many initially start with something that they can immediately understand, like, "I want to transform my customer experience."

Let's go back to my point about the CEO and the board. When they really accept the need to change and are willing to drive it through

the organization, that's when you begin to see a real, consistent transformation program moving forward. Of course, they'll always focus on one area first, but it's as part of a coherent plan driven from the very top, rather than focusing on just individual departments improving what they do.

Communicate: How can telcos' customers redefine their relationship with customers to make what they're doing more relevant?

Creaner: Many telcos have a direct relationship with their customers in that they provide them with very basic services – voice, broadband, and data. Compared with telcos, however, the customer relationship is much stronger with say Facebook and WeChat, or other services like Google that are overlaid on telco services. The telcos of course are in danger of being pushed down into a dumb pipe because it's the over-the-top players that are developing increasingly strong customer relationships. Telcos have to fight their way back up that relationship chart with users.

They can do so by offering services that go above and beyond basic services. But they need to make users think they're buying the whole management service from the telco, not the third-party. That means I'm



buying a connected car service from my telco in partnership with my automobile provider, or I'm buying a healthcare service from my telco in partnership with my healthcare insurer. I think that's how the telcos' relationship can get solidified with users. And then of course, there are the things we think are simple, but are in fact very hard to do like online services, the ability for a user to change everything they do online and so on. So it's a mixture of these things, services, and also just making the way the users interact with the telco seamless.

Communicate: What are we seeing with partnerships between telcos and third-party providers?

Creaner: We're beginning to see telcos working with healthcare insurers. We're seeing telcos working with companies that provide, say, home management systems. All the big automobile vendors are now working with telcos, and I think that's at the very forefront of what's happening.

These relationships are solidifying, and some of them will eventually work out really well and make serious money. Now, it's more speculative, and it's about trying to build the position. But money will be made with those services relatively soon.

Communicate: How do partnerships between content providers and telcos benefit telcos?

Creaner: I think the challenge for telcos in these relationships is who is perceived as bringing value. For example, Orange and Visa: is this seen as a partnership of equals? Does the end-user perceive that Orange is bringing something valuable? Or do they just perceive them as the pipe? And that's key in all these relationships. Telcos have done it very badly over the last seven or eight years. Look at Amazon's Whispernet where Amazon.com provides books over Whispernet, at first using Sprint and now AT&T. The telco gets hidden in the relationship, and the user's perception is that Amazon is offering the service.

These partnerships look very good on paper, but the telco gets subsumed in the relationship. Therefore, the telcos must focus on maintaining a stature within those relationships. It costs money to market that relationship of course.

Communicate: Where do you think telcos should target their investment?

Creaner: There's obviously the emergence of NFV and SDN, the whole virtualization of network elements, and it's where a lot of telcos are beginning to invest. And that's going to drive down costs, probably not anywhere near as much as we were predicting two or three years ago, because the cost of managing operations and orchestrating those virtualized environments are going to be much higher than previously envisaged.

Of course, there's a huge buzz around 5G – it won't be with us until 2019, 2020, 2021, but people are beginning to look at investing in that. From Huawei's point of view, the infrastructure enablement system drives down costs by moving towards autonomously managed networks, rather than automated networks. Driving down the cost of the business enablement system is not really cost-centric at the business system level. That's more about how you increase the telco's monetization

ability.

Communicate: So, in terms of monetizing data, what sort of things can we expect to see from telcos?

Creaner: Well there are two aspects: external monetization and internal efficiency. Telcos have access to massive amounts of data, but a lot of it isn't monetizable because it's been gathered without monetization permission. Permission is the starting point, and there are lots of ways to do it – Google does it all the time, Facebook does it all the time, Uber and Airbnb do it all the time. Telcos need to learn some of the tricks that are there. And then of course, there's how do you analyze the data?

Communicate: When it comes to low ARPU markets, like emerging markets, what kind of strategies do telcos need to adopt to balance deployment, operating costs, and investment with the money they're getting back?

Creaner: In a low ARPU market, you can't assume that you can just offer additional services to very low GDP per capita markets. Data becomes hugely important there, and there's obviously a whole range of services we're seeing across Africa and India, like Safaricom's financial services, which are layering on top of services that can generate additional revenue

per user. But ultimately, I think, if you're in one of these really low ARPU markets, you have to look at third-party monetization.

We've been looking at a range of potential services, like smart agriculture, where you're subsidizing agricultural services, so you can aggregate the data and then monetize that to people like commodities markets, people like Monsanto who sell seeds. So there's ways of generating and increasing the revenue in low ARPU markets without trying to just extract it from the really poor people who are using your service. You do that through permissions, through data, through overlay services, and not traditional telecom-type services.

Communicate: You mentioned the role of vendors like Huawei earlier in terms of infrastructure. Can you expand on that a little bit? How can vendors help enable telcos to digitize?

Creaner: Vendors have provided a huge amount of innovation that telco partners need on an ongoing basis, and that innovation now just needs to expand towards helping digital transformation from inside the telcos.

There are obviously systems, consultancy services, and new capabilities in CRM that can help

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telcos transform. My advice is that a vendor has to be in partnership with a telco in the role of trusted transformation partner, helping the telco in a range of ways. Systems are one part, networks are one part, but organizational transformation, skills transformation, there needs to be a holistic approach to helping a partner transform, not just let's sell a better system, sell a smarter box, or sell better software. The vendor has to be more holistic, and move up that chain to become the trusted transformation partner.

Communicate: What do you think digital telcos will look like in 2020?

Cleaner: I think from a technology point of view, we're going to see virtualized autonomous networks that are obviously moving into 4G, 5G. It will be data-centric and security-centric. I think we're going to see telcos becoming service enablement partners for SMEs and B2B, and they'll maybe have a slightly smaller focus on B2C and an increasing focus on B2B, or B2B2C. Telcos will have service enablement capabilities, offering a broad range of services to consumer and business partners. They will be organizationally very different – now, they're very much stovepipe organizations where we've got network people, IT people, finance people, marketing.

I would say we'll see the whole omni-channel, 360 degree customer experience management. So telcos will be much more focused on using all the channels available both to get to market and also to get to customers and take information from the

customers.

Communicate: For those that are slow to transform, now's a crucial time.

What will happen to telcos if they don't transform?

Cleaner: That's a difficult question to answer, because if you don't act, you still have the network, you still have the spectrum, you will become the ubiquitous dumb pipe. But dumb pipe is still a business. Maybe your margins are shifting down to commodity margins, 5 to 6 percent sort of margins, rather than the potential value-added margins of around 20 percent. So you'll get shoved down into a lower margin business, but it's still a business that can carry on for a long time because you've got spectrum, licenses, and so on.

But some companies will transform themselves so they enter the higher-margin end of the business. They're not just involved in the infrastructure; they're enabling new services. They've got a strong retail position, because they have shifted their persona to be much more service-based.

If you look at the speed of companies like Uber and Airbnb, who are not directly competitors of telcos, their services are moving really fast. We didn't know the name of those companies five years ago, and now they're household names.

Everybody has to move fast if they want to catch the waves to next-generation services. **H**