



IBM Institute for Business Value

Telco 2015

Five telling years, four future scenarios

Overview

The telecommunications industry was already in the midst of a redefining shift in consumer preferences, business models and infrastructure development prior to the global economic crisis. Faced with structural challenges in declining voice revenues, a maturing mobile industry and increased competition from new entrants, the industry finds itself in dire need of new models for growth. But a number of key variables cast a cloud of uncertainty around the industry's future requiring telecom providers to prepare for several possible scenarios and outcomes.

Fundamental structural challenges in the telecommunications industry – declining fixed-line telephony, saturated mobile markets in industrialized countries, and threats from disruptive cost/revenue models of new entrants – have been exacerbated by the global economic crisis. Growth in mobile communications accounted for much of the industry's success over the past several years, but showed signs of slowing even before the current economic crisis. Mobile broadband growth, enabled in part by the increased adoption of smartphone and netbook devices, is encouraging. But it is unlikely to compensate for voice revenue losses as the industry faces significant pressure to continue large investments in ultra-fast mobile and fixed broadband capabilities to meet the rapidly growing use of complex, rich content and data. This is amidst a challenging funding environment and regulatory uncertainty.

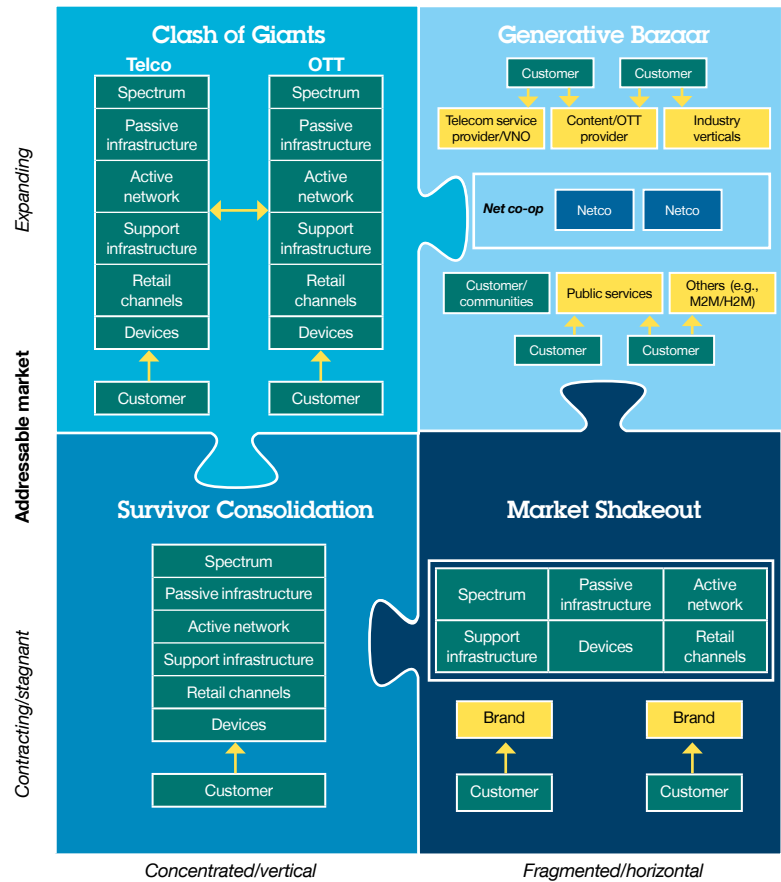
To cope with these challenges and sustain profitable growth, telecom providers will have to prepare for a range of possible scenarios that will largely be determined by how they respond to two key variables:

Addressable market growth – To what extent will the industry expand or contract both in terms of revenue and scope of services?

The dominant competitive/integration model – What is the long term viability of the vertically integrated model as “Over the Top” (OTT) providers, device manufacturers, other new entrants and government / municipality broadband initiatives fragment the marketplace?



The confluence of these two variables produces four scenarios likely to emerge over the next five years:



Source: IBM Institute for Business Value.

Figure 1: Telecom industry scenarios.

- **Survivor Consolidation:** Reduced consumer spending leads to revenue stagnation or decline. Advanced market operators have not significantly changed their voice communications/closed connectivity service portfolio and have failed to expand horizontally or into new verticals. Lack of growth triggers consolidation for survival.
- **Market Shakeout:** Under prolonged economic downturn, investors force carriers to disaggregate assets into separate businesses with different return profiles and retail brands emerge to aggregate and package services from disaggregated units. The market becomes further fragmented by government/municipality initiatives to extend ultra-fast broadband to gray areas, as traditional infrastructure investment concentrates in densely populated areas. Operators look for growth through horizontal expansion and premium connectivity services sold to application and content providers as well as businesses and consumers.

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- **Clash of Giants:** Market expansion gives rise to global carrier consolidation in response to rising stakes from OTT providers and device/network manufacturers (OEM) who are extending their communications footprint. Users opt for shared capability aggregators (presence, contact list, etc.) for telecom and online communications, triggering carrier alliances around initiatives like Rich Communications Suite (RCS) in order to compete with OTT offerings such as Google Voice. Mega carriers expand their market through selected verticals (e.g., smart grids and e-health) and improved functionality.
- **Generative Bazaar:** Barriers between OTT and network providers blur as regulation, technology and competition drive open access. A limited number of horizontally integrated network cooperatives (The Net Co-op) emerge, providing pervasive, affordable and unrestricted open connectivity catering to any person, device or object. A myriad of asset-light service providers emerge, packaging connectivity with new services and creating new revenue models.

The scenarios represent likely industry outcomes at an aggregate level. Each scenario is characterized by different service offerings, usage/consumption patterns, competition structure and infrastructure and device availability. Investment levels, as well as revenue and profit potential, also vary by scenario. To optimize opportunities for success regardless of outcomes in 2015, telecom providers will need to understand the criteria for success for each scenario, assess their current capabilities against these and develop and implement appropriate strategies to narrow any gaps.

Regardless of which scenario plays out, however, successful enterprises will share several common characteristics, including agile business design, a capability and culture of collaboration at various levels, effective cost management strategies and service innovation.

How can IBM help?

- **Business Transformation/Optimisation:** Simplifying business and IT operations to reduce costs, increase business agility and flexibility and enable migration from legacy to next-generation infrastructure and business models.
- **Customer Experience Management:** Use analytics to drive deeper customer and network insight to enable differentiated customer experiences for competitive advantage.
- **Service Enablement:** Service creation and delivery and digital transformation to generate new revenue faster and to create new business models and partnerships leveraging Telecom, Media, and Internet convergence.

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