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Future of Telecoms in Asia

INSIGHTS FOR SUCCESS | IDEAS TO EXECUTE

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Preface

Telecoms has been the key enabler of growth and innovation in the last three decades. The industry did remarkably well in making mobile and internet as pervasive as any other consumer product/service we have known. This contributed to immense growth for the industry participants. The business models were relatively simple. It meant provisioning of networks, setting up of OSS/BSS infrastructures to enable billing and developing distribution networks to manage the explosive growth in demand. Margins were quite good, and the industry attracted the best of global talent.

By the beginning of the last decade, things began to change. **"The pace of innovation in telecoms was now slower than the pace of innovation of the applications on the network".** Startups around the world seized the opportunity and built their businesses with a broader canvas and also leveraging new business models. The telecom companies, most of them continued to generate good cash, but faced increasing erosion of their margins and growth has slowed/declined in many markets.

Telecom companies still have an incredible opportunity in the markets they operate. They need to urgently embrace the changing environment around them. The competition for the incremental growth is not from other telecom companies, but from the global technology giants and the start-ups. Navigating this requires strong leadership. The future of telecoms (the growth in telecoms) is less about telecoms. It is all about delivering and managing the outcomes for the industries and societies that it serves. We brought together eight industry leaders to discuss the journey of transformation. We hope you enjoy this inaugural insight into the future of telecoms.

Authors

Twimbit facilitated a conversation with 8 industry experts. We brainstormed the issues that impacted the industry in 2019 and discussed the key trends and opportunities ahead for the industry. Each participant's view is expressed in their personal capacities and do not necessarily reflect the views of their respective organizations. Thank you to the contributors.

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6 issues that shaped the telecom industry in 2019

1 Huawei's issues with the US government and its determined response with growth in annual revenues both with 5G contracts as well as handset sales. Huawei released results which showed a 24.4 percent y-o-y growth in total revenues till the end of Q3 of 2019. The stage is set for the development of a third mobile operating system, one that is from outside the United States.

2 5G progress

A | Growing standardization of the spectrum and the emergence of 3.5GHz as the spectrum of choice in many countries.

B | Slow progress on licensing, numerous public consultation efforts on shared networks continue. There will be greater sharing of networks in 5G environment in the years to come.

C | The business models for 5G will evolve considerably from the 3G and 4G era. There will be more sharing of networks as well as growing recognition that the services provided will be the differentiating factor rather than the networks.

D | Evolving thinking that we may see private 5G networks in specific industrial or business areas that will drive new used cases. We will have 5G spectrum issued for specific applications in specific areas.

E | Growing importance of developing industry / vertical-specific solutions.

F | China, United States, Korea and Japan have taken the lead in 5G globally. Their success has been based on the ability of the various players to collaborate, develop a roadmap and get a multitude of stakeholders to work together. This augurs well for the growth of the industry. It also demonstrates the important role governments can play in helping shape the future of the industry.

G | Business case for 5G is still unclear, but a lot easier to justify in developed markets and in markets where enterprise business adoption of digital is mature. Developing markets continue to face considerable challenge in building viable business case for 5G in the near term.

3 IOT – There are still a lot of promise and limited revenue impact with various studies suggesting that it accounts for less than 1 percent of total service provider revenues.

A | We have yet to optimize the economics for billions of devices.

B | The battle LP WAN vs NBIOT will continue and both will co-exist. The industry needs more non-telecom companies to participate to help drive the overall growth of IOT solutions.

4 Media and content emerge as possible growth opportunities for telecom service providers.

A | The rise of short media platforms such as TikTok captivated the interest of both consumers, marketeers and investors alike.

B | Video streaming is a growth driver and an opportunity.

C | Telco's examining their role beyond being just aggregators and considering investments in content creation.

5 MVNOs gain traction with their focus on customer experience. This has an impact on profitability. Also noteworthy is the response of several mainstream operators to also launch their own MVNO like brands to compete head on with these companies. MVNOs still continue to be niche players and is likely to have less than 10 percent share across all markets in the next five years.

6 The dilemma of the Indian telecom service providers, namely Airtel and Vodafone on the huge tax burden that they have to pay to the government. With its population of over 1.3 billion, India was a key growth driver for the global telecoms industry in the last decade. A prolonged unresolved issue will have significant long-term impact on the growth of the industry in the coming decade.

The 7 megatrends that will define the future of telecoms 2020 to 2022

1

Cloud – We are still in day one of the cloud industry. It is estimated that less than 5 percent of global workloads are on the cloud. This is a massive opportunity to enable customers onboard the cloud in a safe and secure manner. What role does telecom service providers play in this market?

2

5G – Developed markets seem to have a better business case than developing markets. It is likely that network sharing agreements will come into play. In many markets, governments may decide to limit the role of 5G network buildout to just one or two players. It is possible to imagine a future in some markets where 5G ownership may not be with a telecom company and may be owned by a city or the national government. This approach could yield a competitive advantage for nations. For operators, the services that you provide will define your success more than the ability to win or own a license.

3

Digital Transformation of Enterprises – Every enterprise is undergoing their own digital transformation journey. It involves integrating the disruptive technologies such as IOT, AI, Big Data with new business models. Telecom companies have a huge opportunity to support and play an important role in this transformation.

4

Security – This will continue to be a dominant theme. The total spending on cybersecurity is growing while shortage of good talent continues to prevail. The market is big enough and there is an opportunity for telcos as well as non-telecom companies to participate and grow.

5 **Privacy & Data** – Despite their shortcomings on customer experience, many research studies confirm that consumers have a greater degree of trust with telecom companies as compared to the global tech giants. Telecom companies have an opportunity to serve as the custodians of privacy for the consumer. They have yet to monetize the data that they have of the consumer in a meaningful, yet distinct manner.

6 **EDGE** – Edge will be a defining moment for the telecom industry. It is a major market transition and enables the telecom service provider to be relevant in driving this change. The importance of CITY, Central Business District and similar zones as a customer will emerge. What will be the telco's role in EDGE computing world?

7 **Media & Content** – Media streaming is emerging as an incredible growth opportunity. Every consumer is likely to have multiple media streaming subscriptions. Regional telco's especially in countries where local language content is dominant have an opportunity to participate. Partnerships will play an important role if telcos were to succeed in this initiative. Mergers & acquisitions will be a good approach to build and strengthen content libraries.

Top 6 challenges faced by telecom companies

1 **Talent** – Telecom service providers are no longer able to attract the best talents. This has serious longer-term implications for the growth of the business.

2 **Digital Transformation of the Telco** – the front end to back end. How should the telecom operator transform itself to become leaner, more efficient and leverage the power of disruptive technologies to deliver more value to its customers?

3 The **enterprise customers** present a very big opportunity as they look at digitally transforming their own businesses. Can telecom companies transform themselves to become a new breed of SI's that help drive digital transformation of enterprise customers?

4 How can telcos drive a **business model innovation** in their core business? How can they address the challenge of declining ARPU and declining margins?

5 Developing the **ROI for 5G** – 5G is very capital expenditure (CAPEX) intensive and the business case is still not very clear. The ability to develop a sound business case can be a potential game changer for any operator.

6 **Health Aspects of 5G** – This could be a big issue and has not been understood well. 5G is packed with higher energy radiation. While there is no conclusive evidence, just the sheer buildout of hundreds of thousands of new antennas will worry consumers.

Top 5 recommendations for the CEO

1

USER EXPERIENCE is the biggest opportunity and needs to be the focus area. Acquire, Transact and Engage Digitally – IMPROVE the way you interface with the customer just like SUPER APPS of today. Measure all KPI's on digital engagement flows with customers.

2

Telcos need to evolve from being a 'Network Provider' to **'Network As A Service Provider'**. They need to enable the provision of new services rapidly both by themselves as well as third parties on their network. This needs a radically new approach to IT modernization or the digital transformation of the telecom company.

3

Focus and grow the **ENTERPRISE business** as a percentage of total revenues for the company. A 50:50 mix of enterprise and consumer business is a good aspirational goal to have by the end of this decade.

4

Build IT Skills and an IT-centric Organization. The ability of a telecom company to compete will largely depend on its IT talent pool. How can we build a strategy to acquire the best talent to support the transformation of the company?

5

The growing importance of **content** – Telcos are foraying into acquiring content assets or distribution assets to play an important role in this market adjacency. We will see an explosion of new subscription-based content in the coming years across various categories such as sports, local language and so on. How do we go about positioning ourselves to benefit from this?

Recommendations on Mergers & Acquisitions

1 Telecom companies should look at selling any infrastructure that does not allow them to differentiate. This is what can be called as non-core. This can help develop a greater degree of focus on driving growth in the new services.

2 The assets that a telecom company should consider buying for enterprise services:

A Security

B Cloud

C SD WAN

3 Acquire companies that can bring in great talent across a wide spectrum of capabilities particularly in IT. It should involve both technology as well as business development capabilities.

4 Buy minority stakes in digital service companies within their ecosystem to stay abreast with the innovation as well as to benefit from the growth of digital service economy.

5 Acquire media and entertainment companies. Content will continue to be big driver of top line growth for the industry. Partnerships with existing media companies is a possible way to unlock the growth opportunity. Acquisitions will be powerful to build content libraries.

Top 5 recommendations for the CTO

1

Embrace OPEN network architecture. We need to evolve to a scenario where, ideally, any third party should be able to provision a service using an operator's network elements. In a timeframe of three years, the RAN will be open and CORE network should be where we drive differentiation. Move towards a non-standalone (NSA) based architecture. Standalone architectures (SA) will only be deployed 3 years later.

2

This is the decade of 5G and it will be an engine of growth. The success of 5G is completely dependent on cloudification of the network by deploying fully cloud-native architectures. This will help leverage the new age capabilities such as DevOps, CI/CD, microservices and containerization which is the path towards becoming a complete digital service provider. This is also the path to driving operating expenses down.

3

Build EDGE capabilities in the next 12 to 24 months. It should be 10X more capable than the average.

4

Focus on skills development from Network-centric people to IT-centric people.

5

Evaluate the use of unlicensed spectrum and how that can be leveraged as a strategic enabler.

Top 6 recommendations for the CIO

1 **Chief Technology and Innovation Officer (CTIO)** – The office of the CTO and CIO will converge, and we will see the emergence of a CTIO.

2 Boundaries between network and IT are diminishing. With SD-WAN coming into play there is a lot of overlap between network and IT. **IT and network clouds will merge.** CIO's need to develop a plan to support this trend.

3 The move from Commercial Off-The-Shelf solutions (COTS) to open source technologies can support operating expenditure reduction as well as accelerate innovation.

4 Invest the saved OPEX into IT innovation projects.

5 **Security** – The digitization that is happening is empowering the consumer. The data that was resting in the perimeter is no longer within the perimeter. The principles of protecting the perimeter is not valid anymore. The punitive measures of not taking care of this is going to be enormous. Most telecom service providers protect the privacy and trust of customer data. Invest to ensure that security and privacy is a long-term differentiator for the business.
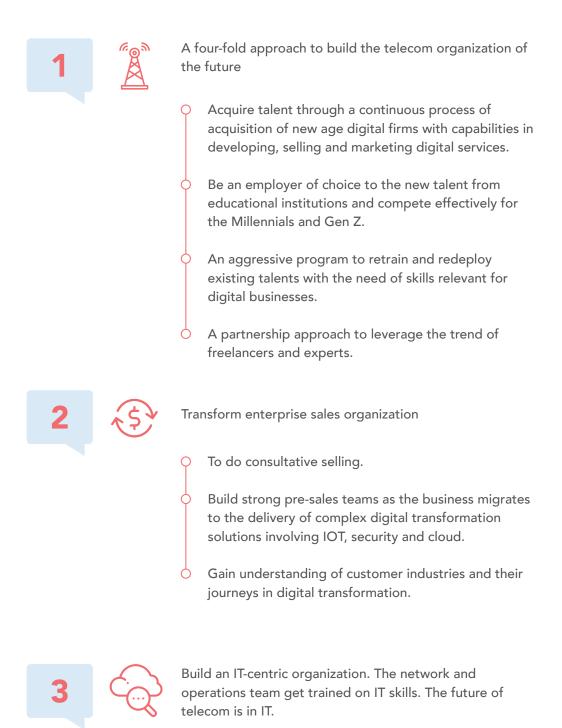
6 **Enabling agility** – This should be a key metric of success for the CIO. How efficient are we in our ability in the provisioning and rolling out of new services? How do we compare our agility with the best in-class SUPER APPS of today? How can we support the bundling of telecom and digital products?

Top 3 recommendations for the Chief HR Officer

1

A four-fold approach to build the telecom organization of the future

○ Acquire talent through a continuous process of acquisition of new age digital firms with capabilities in developing, selling and marketing digital services.

○ Be an employer of choice to the new talent from educational institutions and compete effectively for the Millennials and Gen Z.

○ An aggressive program to retrain and redeploy existing talents with the need of skills relevant for digital businesses.

○ A partnership approach to leverage the trend of freelancers and experts.

2

Transform enterprise sales organization

○ To do consultative selling.

○ Build strong pre-sales teams as the business migrates to the delivery of complex digital transformation solutions involving IOT, security and cloud.

○ Gain understanding of customer industries and their journeys in digital transformation.

3

Build an IT-centric organization. The network and operations team get trained on IT skills. The future of telecom is in IT.

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