

Telcos versus Techcos: Who is winning the battle of strategic capabilities?

Many telcos have shared their ambition to become techcos. This will require significant changes, one of which is building the right skills and capabilities. STL Partners has conducted a significant study to benchmark the skills we consider critical for success in the future. Here is a summary of our high-level findings.

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February 2024

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Capabilities are a board-level issue, not just an HR question

Multiple STL discussions over the last six months have focused on telcos' ambition to become techcos, i.e. to think, operate and be perceived by the market in a way similar to the Internet hyperscalers like Alphabet, Amazon or Microsoft.

We maintain the view that such a transformation is difficult but possible. It requires a telco to adjust its financial model, navigate many headwinds coming from the market, regulators or stakeholders, and skilfully take advantage of the opportunities presented by technological innovation and the advent of the Coordination Age.

But, as the adage goes, real change starts from within. To become a techco, a telco needs to build the right skills and capabilities, changing the profile of its workforce.

This is not an HR-only issue; on the contrary, it is one of the utmost strategic importance for the organisation because a telco cannot build a new future without the right people in place. It is an issue that needs to be brought up in every strategic discussion and be owned by the C-suite management.

What are the skills required for success in the future?

People and technology need to work together to achieve the telco ambition of a techco end-game. STL has undertaken research to pinpoint the skills that telcos need, if they are to become more like techcos, and has benchmarked major telcos against major techcos in this regard.

We have identified the following nine groups of capabilities that telcos require for a techco future:

1. Network
2. Software
3. Cloud
4. Artificial intelligence (AI) and machine learning (ML)
5. Data analytics
6. Cyber security
7. Automation
8. Innovation
9. User experience (UX)

Telcos will always need network expertise, but they will also need an increasing understanding and adoption of cloud computing and cloud management, as well as many more software skills, as IT and network infrastructure shift away from traditional hardware and unlock new capabilities.

AI and analytics are the jewel in the crown of techcos, and telcos must make no mistake: they need to up their game to attract and grow more AI / ML talent.

Telcos must increase their internal cyber security expertise in order to maintain the hard-won trust of customers as telcos' systems become more open, and as the importance of telecom infrastructure for the stability of the national and global economy builds.

Telcos must also embrace automation to leverage the advantage of new software foundations and maximise efficiency to the level for which techcos are known.

And last, but not least, telcos need to keep the customer front and centre with growing expertise in innovation and user experience. Both consumers and enterprise users gravitate towards the simplicity, intuitiveness, flexibility, adaptability and richness of the experience they get from digital services. This requirement will not

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dwindle but will only loom larger as generations change and the population becomes increasingly digital-native.

So how do telcos and techcos compare in strategic capabilities?

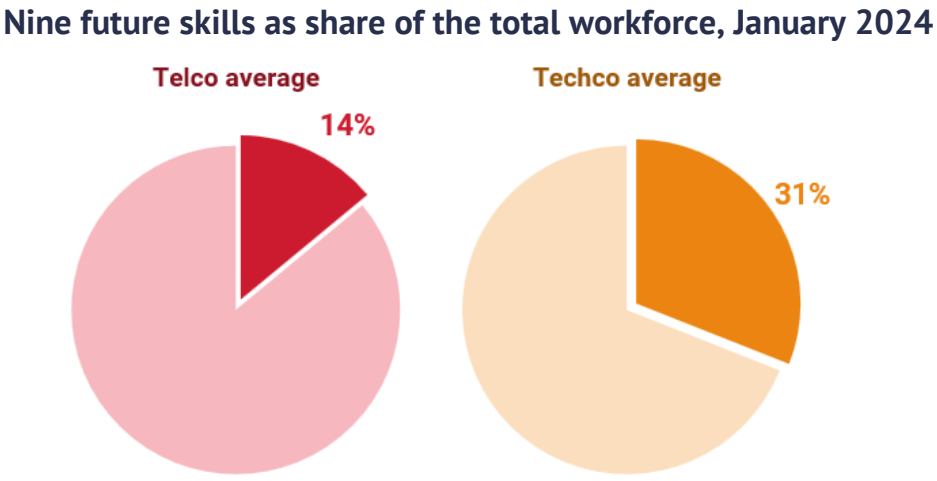
STL has built a data insights tool (The Future Skills Tracker) to determine where telcos and techcos are in terms of the accumulation of the nine core skills we have identified.

In January 2024, we compared data from 19 leading telcos worldwide, including AT&T, Deutsche Telecom, Orange, Singtel, Telefonica, Telstra, Verizon, Vodafone, and more, with data from nine techcos, including Microsoft, AWS, Google, Nvidia, Intel among others.

Here are three main findings from our study:

1. Techcos are well ahead of telcos in the adoption of future capabilities across their organisations

While almost one in three employees in the average techco is deployed to a role aligned with a future skill, this is true for only one in seven employees in the average telco.



Source: STL Partners

2. Telcos are increasingly building up future skills but are on average more than 5 years behind the techcos

Over the last 5 years, an average of 33% of the newly appointed employees (either hired or moved internally) in techcos have been placed on jobs requiring future skills. This number has remained broadly consistent since 2019.

In the same period, telcos have seen a growing share of employees recruited or moving to roles with future skills. And yet, even most recently- in the last 12 months- only 20% of the recruits and internal movers went to roles requiring future skills. In the most advanced telcos, however, this proportion was close to 40%, suggesting that some operators continue to pull forward.

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So, it is clear that telcos understand the need to accumulate future skills but the speed with which they are doing it suggests that it will be a few more years before most of them catch up with techcos.

3. Within the telco pack, there are some clear front-runners.

The top three performers in our group of telcos are Swisscom, Singtel and Telstra. All of them are well ahead of the telco average when it comes to amassing future skills. We look at them as examples of telcos investing in capabilities that over time will result in more techco-like operations, strategy and performance.

Why are telcos behind techcos?

We believe there is a myriad of reasons.

One is that telcos' extensive legacy business requires maintenance, which pulls the focus of some operators away from the transformation required for the future.

Another reason could be the lack of understanding of how a telco is doing compared to peers and to techcos when it comes to skill building and its necessity, particularly, for new value creation. This is why raising the issue to the strategic, board-level is hugely important.

An additional explanation may be that in some markets, telcos find it difficult to attract and retain technical talent, especially in competition with techcos. This is a topic we have explored in our newly published report Employer brand: How to win strategic telecoms talent. Once again, solving this challenge requires involvement from the very top of the organisation.

At STL, we will continue to monitor telcos' progress towards techcos on all fronts, including skill accumulation. We will be updating the data in our Future Skills Tracker regularly.

Over the next few weeks, we will publish an extensive report with the findings from our Future Skills Tracker, as part of our Executive Briefing Service.

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