



DISRUPTION IN THE TELECOM INDUSTRY: HOW TO GROW IN THE ENTERPRISE SPACE

STL Partners

70% of telecoms operators that STL Partners surveyed in March 2022 stated that they had ambitions to move beyond connectivity and saw their future in creating value through platforms and applications. Being successful in doing this requires telecoms operators to make a significant departure from their current product set and operating model. It would also require telecoms operators to break into, or disrupt, existing markets that provides those sorts of services to customers.

Most telecoms operators see more opportunity to cause this kind of disruption with their enterprise business in comparison to their consumer division. This is partly because many of the new technologies that telecoms operators are exploring (for example 5G and edge computing) unlock more compelling use cases for enterprises than they do consumer. And because enterprises are more likely to actually pay more for these use cases in comparison to consumers.

However, despite these lofty ambitions, there is relatively limited evidence of telecoms success in being disruptive players. STL Partners has developed an enterprise focused matrix to evaluate which telecoms operators to date have had the biggest success here. Figure 1 indicates the four main domains in which we evaluated success and some of the metrics within them that we scored telecoms operators on. The focus of the matrix was to provide an objective sense of how successful overall the telecoms industry has been at disrupting new markets, as well as identifying key telecoms operators who have invested significantly in disruptive initiatives to draw out lessons from them for their peers.

Figure 1: We evaluated telco disruption using objective measures across four key domains



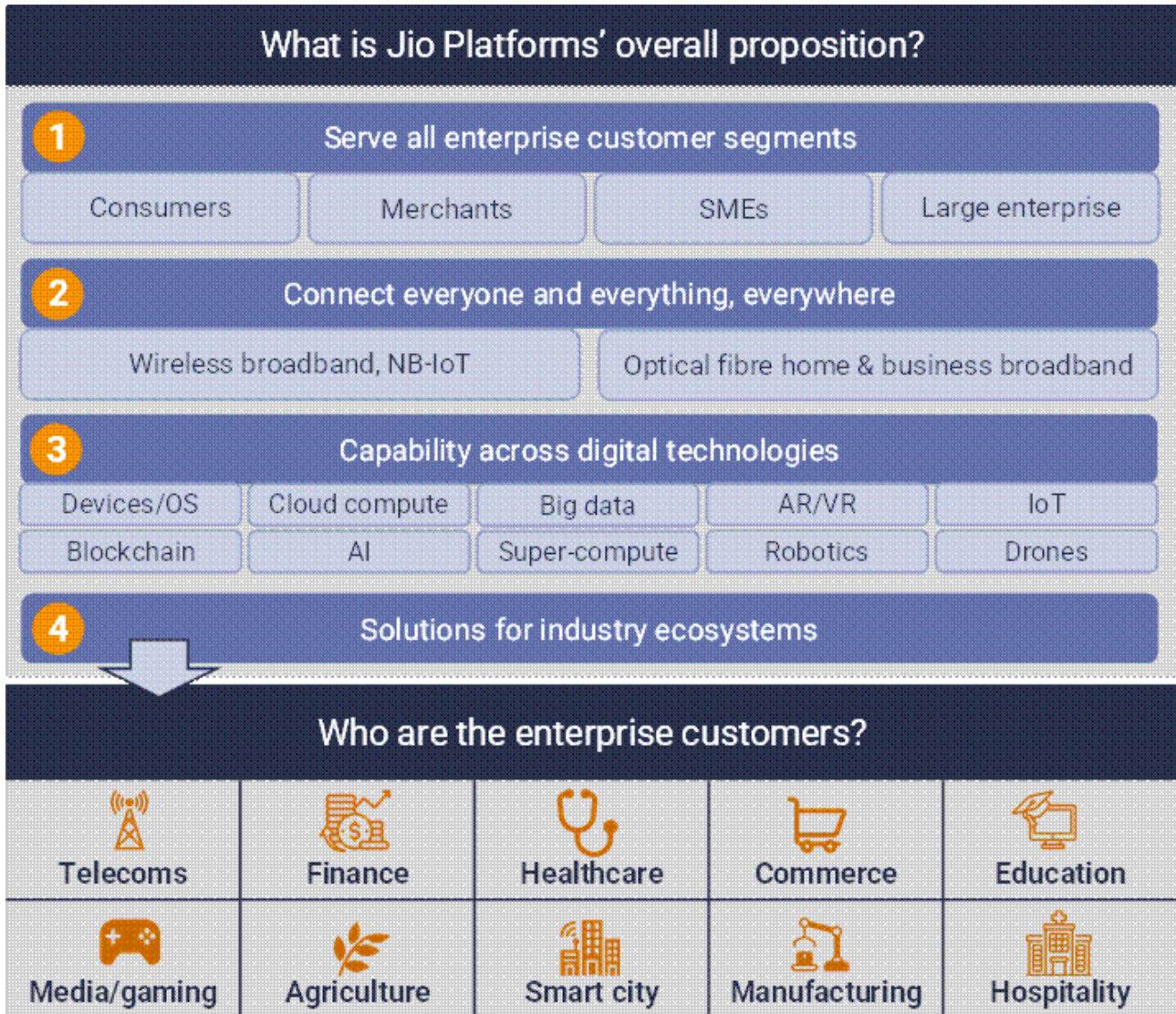
Product and customer experience: Jio Platforms takes Reliance Jio far beyond a typical telecoms operator product offering

To be disruptive, the minimum bar is that the telecoms operator is either:

- Providing a product or service that it would not typically do;
- Or, is providing a typical product or service but in a way which vastly differentiates from a customer experience perspective.

Reliance Jio has disrupted the Indian market by doing both of these measures. First of all, Jio entered the market by giving away millions of free SIMs with free voice and data services across India for the first 6 months. This helped them to quickly gain a significant market share off of its main competitors, Bharti Airtel and Vodafone. Next, Reliance Jio (which became one arm of Reliance Platforms' offering) launched applications across multiple industry verticals (e.g. education, healthcare, retail) and began offering services that competed directly with big internet players within India e.g. Jio Meet (their competing offering to Google Meet). Figure 2 highlights the breadth of ambition of Reliance Platforms as it looks to go far beyond the typical telecoms operator offering and become a digital services player.

Figure 2: Reliance Jio’s proposition goes far beyond traditional enterprise telecoms services



Financial: SK Telecom invest differently to less disruptive players

Telecoms operators need to increase their investment in R&D to drive differentiating service innovations. To do this, operators will need to reduce costs which do not support differentiation e.g. network CAPEX and instead increase spending on network-independent service innovation activities like R&D, service delivery, customer experience management etc.

SK Telecom are one operator that have consistently invested in R&D. Figure 3 confirms that SK Telecom have invested the equivalent of more than 3% of their annual revenues

into research and development over the last five years. The average telco invests only as much as 0.6% by comparison.

This sustained level of investment in R&D has enabled SK Telecom to become the first telecoms operator to commercialise 5G and a leading player in the edge computing space through both their own internally developed MEC platform and their partnership with AWS. SK Telecoms “New biz” ICT unit (encompassing media, commerce, security and more) and has seen more significant growth than their MNO business (from \$3.8 billion in 2018 to \$4.6 billion in 2019).

Figure 3: SK Telecom has consistently invested more than 3% of its revenue in R&D

R&D COST



KRW 582.5 billion

R&D MANPOWER



1,538 persons

Source: SK Telecom annual report, 2019

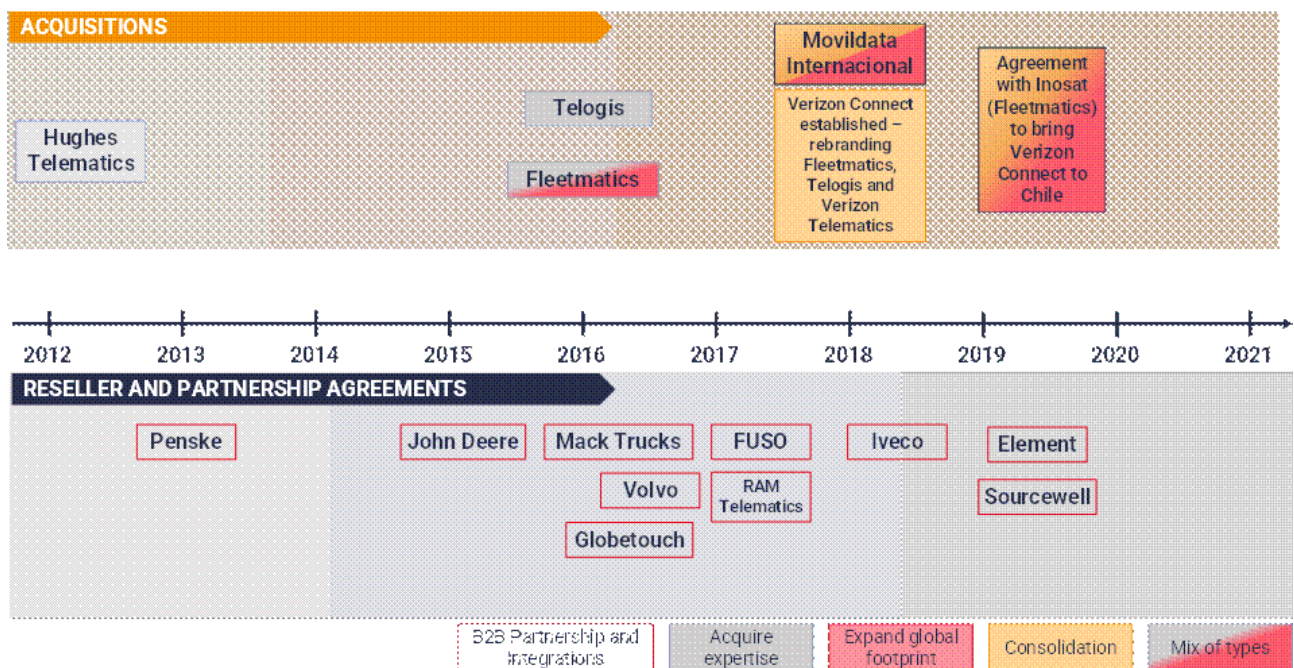
Ecosystems: Verizon have been building an ecosystem around their fleet management solution since 2012

To be disruptive in the enterprise space, telecoms operators will need to serve new customers, understand new competitive dynamics, and partner and collaborate with non-traditional players. Even with increased R&D investment, by themselves telcos are very unlikely to have all the skills and capabilities needed to go-to-market.

Instead, almost all disruptive telecoms operators have undergone a lengthy period of partnerships, acquisitions and investments in order to enter and sustain their position in a new market. Figure 5 charts the progress of Verizon as they look to establish their fleet management and telematics business, Verizon Connect.

The key lessons from Verizon’s journey are that being a truly disruptive player does not happen overnight. Verizon began its journey to establishing Verizon Connect in 2012, more than ten years ago. The same level of sustained long-term investment in the ecosystem can be charted with Telus and their healthcare division, another strong example of successful enterprise disruption by a telecoms operator.

Figure 5: Verizon has built a successful fleet management solution through a combination of partnership and acquisitions



Source: STL Partners

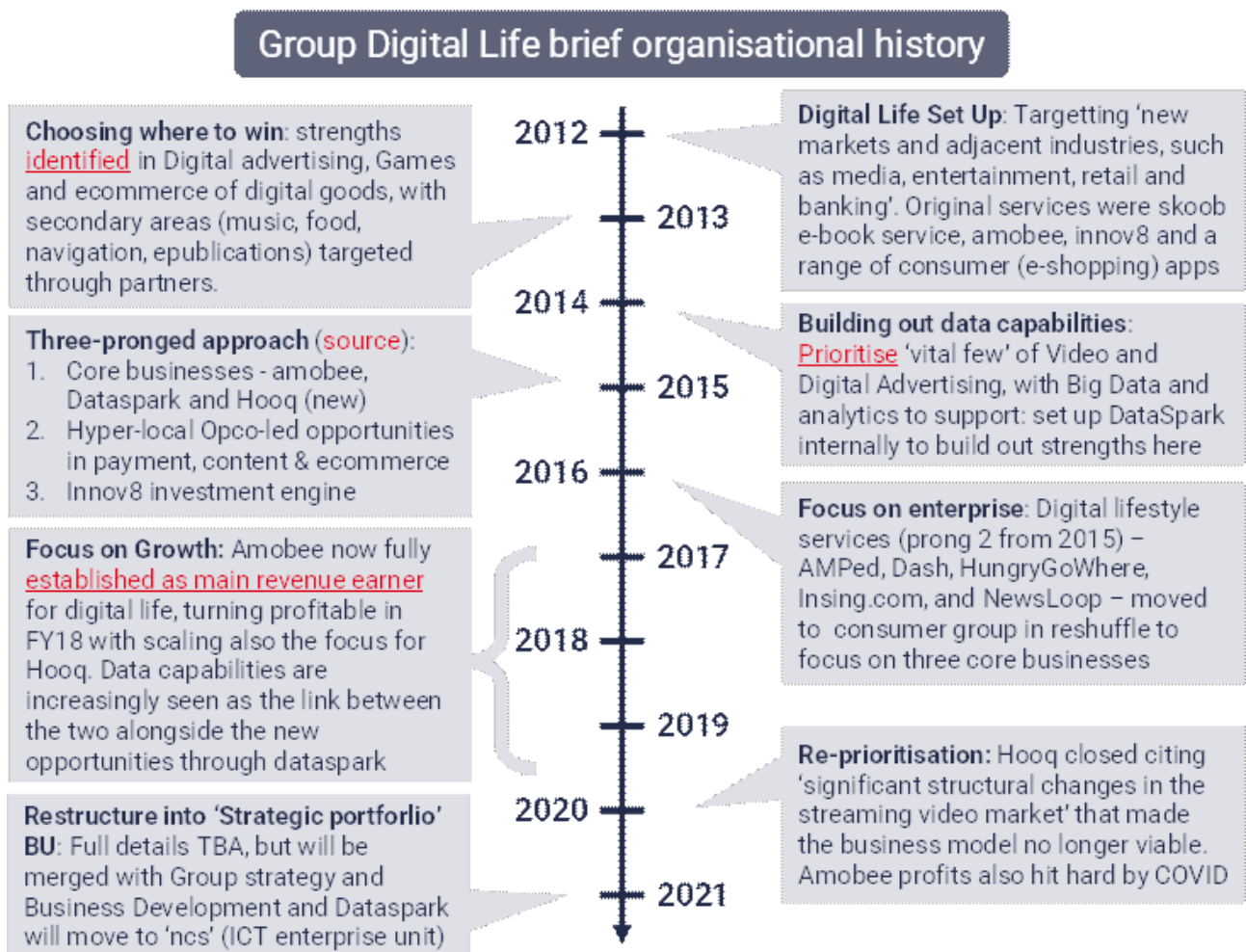
Operating model: Singtel has demonstrated agility in the way they organise and operate

If telecoms operators are going to disrupt new markets, they must first disrupt their own operating model internally. They cannot expect to be successful particularly in delivering SaaS services without embracing the flexibility and agility exemplified by cloud and software companies. However, this kind of operating model is a far reach from the CAPEX-

intensive model that telcos primarily exist in today – and the risk profiles are vastly different.

In order to manage this, most successful telecoms operators have given operating units focused on disruptive products and services a high level of autonomy to operate differently to their parent company. Singtel have embraced this approach several times over across a range of disruptive products including Amobee (their adtech business,) Dataspark (their data monetisation business) and Innov8 (their venture capital arm). Figure 4 indicates a brief organisational history of Singtel’s Group Digital Life business unit which many of these ventures sit underneath. Singtel’s flexibility to restructure and reorganise has enabled them to wind down rapidly ventures that are not turning a profit, while nurturing those that do.

Figure 4: Singtel has continuously restructured to enable them to scale solutions



Source: STL Partners

Ultimately, a successful telco disruptor will need to make changes across all four domains. They will also need to be patient and understand that disruption, though it sounds immediate, takes time and investment to truly take hold. Telecoms operators each have unique businesses and different market and competitive dynamics, but much can be learnt from those that have been successful.

Learn more about our work on telco disruption and enterprise revenue growth

Identifying opportunities for growth in digital health

Watch our recent webinars on:

- **Private 5G: What is the business case for the manufacturing sector?**
- **Telco to techno: how to manage this transformation**
- **Why marketplace sits at the heart of thriving ecosystems**

How STL Partners Transformation leadership practice can support you

We believe that adaptability is an essential organisational capability for the Coordination Age. Through our research, we aim to provide inspiration as to how transformation leaders can enhance organisational flexibility and innovation, as well as secure the necessary buy-in from stakeholders to deliver desired transformation outcomes.

Get in touch to understand how STL Partners can support you:

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