Top 10 risks in telecommunications revisited
Mitigating threats to operators
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Top 10 risks in telecommunications 2012 was part of our ongoing series of studies designed to pinpoint the most critical risk issues, analyze the sector’s evolving responses and highlight elements of emerging leading practice.

In last year’s risk report, we outlined obstacles that operators must avoid if they are to capitalize on new opportunities. In an industry environment where stakeholders are more demanding than ever and where customer expectations continue to rise, it is imperative that operators develop specific responses to a range of threats.

Telecommunications continues to face a series of challenges, whether macroeconomic in nature or allied to long-term structural pressures. Even so, the prognosis for the industry is better than it has been for some time. Greater regulatory backing for infrastructure investment coupled with new demands from customers and enterprises means that operators are in a strong position to extend their service propositions into new areas.

In Top 10 risks in telecommunications revisited: mitigating threats to operators, we delve into the measures we believe operators can adopt, not only to fend off the many pressures facing their organizations, but also to make the most of an expanding horizon of service possibilities.

Top 10 business risks for telecommunications in 2012

- Failure to define new business metrics
- Lack of confidence in return on investment
- Disengagement from the changing customer mindset
- Failure to capitalize on new types of connectivity
- Lack of organizational flexibility
- Insufficient information to turn demand into value
- Poorly formulated M&A and strategic partnerships
- Lack of regulatory certainty on new market structures
- Privacy, security and resilience
- Financial
- Strategic
- Compliance
- Operations

Below the radar
- Evolving service cannibalization scenarios
- Concentration of equipment vendors
- A more pressing green agenda
- Difficulties in managing debt and cash
Mitigating business risks

How are operators faring?

In our conversations with senior management, we have found that operators are already taking steps to meet sector risks. Concerns around business model overhaul, disengagement from the customer mindset and return on investment are, and will remain, leadership priorities.

Yet this is not to suggest that such risks are diminishing. The challenge in these instances now becomes how best to accelerate existing moves and pursue bolder responses. In the case of “lack of confidence on return on investment,” for example, network sharing is well-established, and operators can look to more dynamic forms of infrastructure rationalization such as Radio Access Network (RAN) sharing.

Meanwhile, risks that have recently entered the top 10 risks for telecommunications, such as “insufficient information to turn demand into value” and “Failure to define new business metrics,” remain areas where mitigation strategies are only just emerging. Here, the challenge is to formulate responses and make them leadership priorities. Only then can management attention turn to execution issues.
In Figure 1, we highlight how operators are coping with each of the risks in the top 10. This is derived from our interactions with leading operators themselves, as well as from our understanding of the risks themselves and how they are likely to evolve over the next 12 months.

As such, we have evaluated risk mitigation strategies by assessing the maturity of current responses as well as how high they rank as leadership priorities. We also consider whether these risks are likely to become more pronounced in 2013 in view of the success of existing mitigation strategies and external factors such as regulatory demands, customer needs and competitor actions.

**Our assessment of operator responses to risks**

Reading across the three categories of operator mitigation strategy assessment, a number of conclusions can be drawn:

- Leading sector risks (No. 1, No. 2 and No. 3) are already being dealt with as a leadership priority through well-established strategies.

- Other risks represent more recent pain points. While responses in these areas are often nascent, management focus varies in intensity (No. 6 and No. 8).

- The prospect for risks increasing or decreasing in magnitude over the next 12 months varies substantially. We see regulatory threats (No. 5) decreasing, while risks emanating from a lack of business intelligence (No. 4) are seen increasing.

Even for risks where operators are prioritizing responses – notably for “Failure to shift the business model from minutes to bytes” and “Disengagement from the changing customer mindset” – factors informing the risks, particular competitor actions, are changing continuously. As such, operators must maintain high levels of focus as they execute their strategies.

**Figure 1: Operator mitigation strategy assessment**

<table>
<thead>
<tr>
<th>Risk Description</th>
<th>Mitigating strategy maturity</th>
<th>Mitigating strategy as leadership priority</th>
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**Key**

- High
- Medium
- Low

Mitigating threats to operators
Operator mitigation strategies per risk

Summary

1. Failure to shift the business model from minutes to bytes
   - Revisiting pricing approaches
   - Adapting the business model to support new roles in the value chain
   see page 7

2. Disengagement from the changing customer mindset
   - Improving customer communications and maximizing brand trust
   - Adopting the OTT mindset in new service areas
   - Improving segmentation to isolate new customer demands
   see page 8

3. Lack of confidence in return on investment
   - Extracting more value from suppliers
   - Reducing network duplication
   - Educating the market on a shifting network landscape
   see page 9

4. Insufficient information to turn demand into value
   - Taking a holistic approach to business intelligence improvements
   - Taking a lead on predictive analytics
   - Turning big data into a new revenue stream
   see page 10

5. Lack of regulatory certainty on new market structures
   - Engaging better with policymakers in core service areas
   - Managing compliance demands in new service areas
   - Maintaining workable stances on net neutrality
   see page 11
Failure to capitalize on new forms of connectivity
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Poorly formulated M&A and partnership strategy
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Mitigating threats to operators

6

- Building capability and credibility in M2M
- Balancing unique selling points and partnering needs in the cloud

7

- Reviewing core competencies as a precursor to acquisitions and divestments
- Providing clarity on the benefits of consolidation
- Striking more productive partnerships with other industry players

8

- Overhauling customer-related metrics
- Looking beyond EBITDA to describe new revenue streams
- Focusing on new types of coverage and penetration metrics

9

- Outlining specific areas of responsibility in data retention and piracy
- Prioritizing robust network infrastructure
- Leveraging trusted brands to launch new security-centric services

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- Bringing together new competencies in digital business units
- Creating a culture of innovation
- Transforming go-to-market to serve customers better
Top 10 risks in telecommunications: mitigating threats to operators
Operator responses

Revisiting pricing approaches

Charging models need to be overhauled. Voice is just a subset of data, particularly as VoLTE devices start to penetrate the market. As data speeds increase, operators must revisit their monthly packages, balancing unlimited tariffs, tiered pricing and related overage rates, while also considering the role to be played by Wi-Fi or fixed-line service elements in their service propositions.

Operators also can realize new types of added value, by launching family and multi-device, multi-access offers – important moves have already been made by operators in the United States in this regard, for example.

As historic distinctions fade between mobile spend levels, service demand and payment plan preference – our mobile consumer survey shows prepaid users have a strong appetite for mobile data services, for example – operators must reconsider their customers’ needs. Although consumers demand greater transparency of tariffs, flexible pricing structures remain an important feature of service packages.

In this light, operators should reassess how they create and communicate value, and how this translates into effective price structures. The challenge for service providers is to create value cost effectively before convincing buyers to pay proportionately with that value. For example, operators should position LTE packages as much more than an opportunity to remove unlimited data rates or launch unlimited voice and text bundles – such moves may neglect longer-term routes to differentiation based on coverage, data throughput or enabling APIs.

Our consumer survey demonstrates a high correlation between tariff understanding and user receptivity to new service propositions, placing an even greater importance on effective communication of pricing and tariffs. Increasing sales force effectiveness in cross- and up-selling new packages should be a priority, while device subsidy models can be revisited. Already operators in France, Spain and United States have removed or plan to remove smartphone subsidies, exploring customer willingness to accept higher upfront fees in return for lower price points for service plans.

Changing the business model to support new roles in the value chain

In an era when pricing pressure is endemic and customers of all service types want more for the same amount or the same for less; it is imperative that operators outline areas where they can become trusted providers of new services.

With a wider set of entities involved in the customer experience, operators can exploit roles elsewhere in the value chain. Disruptive service providers can benefit from telcos’ legacy expertise in many areas – providing billing services for third-party app stores is one area where operators are already making headway, for example. In order to maximize these opportunities, operators should reflect on how value chains are changing – and how their own definitions of enterprise and wholesale operations need to adapt to changing industry ecosystems. For example, some customers such as media distributors and other carriers have a growing demand for managed services from operators. In this light, existing customer relationships with enterprise divisions may need to be revisited to adapt to increasingly wholesale service-oriented customer needs.

As value shifts from minutes of usage to volumes of data, operators need to move away from their legacy strategies focused on customer retention, which have had the effect of commoditizing the value of minutes and bandwidth in customers’ eyes. Instead of concentrating on fighting churn, operators need to target revenues from new services that tap into rising demand and master a wider array of charging models to monetize their services.

### Failure to shift the business model from minutes to bytes

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#### Mitigating strategy maturity

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Operator responses

Improving customer communications and maximizing brand trust

Operators need to clearly communicate the value they provide. Network quality remains important, and more can be done to advise and reassure customers about coverage levels and signal strength. Meanwhile, operators have highly trusted brands compared to disruptive start-ups. The opportunities arising from these customer affinities need to be seized as operators widen their service propositions in an age of ever-faster technology cycles.

At a more granular level, one of the major findings of our recent mobile consumer survey is that end users struggle to understand mobile data tariffs. Only 56% of global mobile users understand the mobile data plans that are the bedrock of operators’ mobile data business models. What is more, customers confused by data tariffs are also far more likely to feel that their service providers do not communicate new services to them.

In this light, operators should overhaul their tariff explanations while providing further education to customers around data consumption. Consumers need more advice on how their usage translates into costs – failure to support end users here will undermine attempts to monetize demand for mobile data.

Adopting the OTT mindset in new service areas

Much is made of the threat posed by disruptive competitors in areas such as smartphone operating systems, mobile applications and instant messaging. However, today’s explosive levels of data demand owe much to innovation from these newcomers.

Going forward, operators can themselves replicate OTT applications as part of services bundled with network access. The convergence of TV and internet services represents a still largely untapped area in this regard. Combinations of digital terrestrial television and OTT applications represent a substantial addressable market for operator who have the ability to act as low-cost providers in an increasingly competitive space.

At the same time, creating OTT-style mobile applications is an area where early adopting operators are making headway. Such developments can only help operators move further beyond the “walled garden” mentality of the past, thereby creating more opportunities in an open ecosystem.

While monetizing such services will remain challenging, opportunities to retain existing customers and bolt on premium service elements should motivate new ways of thinking about service provision. Innovation should place a premium on boosting time-to-market, while offering customer a greater range of “freemium” service propositions.

Improving segmentation to isolate specific customer demands

Customer segmentation needs to be deployed across consumer and enterprise segments. Mobile consumer needs vary significantly between urban and rural areas and according to age. While operators have already created youth-oriented brands, long-standing assumptions about the difference between pre- and post-paid users should be overhauled.

In the enterprise market, customer needs differ more markedly than ever between industry verticals as smart industry solutions come to the fore. Meanwhile, end user needs in the small office, home office and small to medium segments have been historically underserved. Operators can do much to leverage the relatively higher spend on telecommunications compared to IT in this part of the market by offering unique, tailored packages.
Operator responses

■ Extracting more value from suppliers

Vendors are in a strong position to help operators cope with a rising capital expenditure burden. For operators in emerging markets, the vendor financing model is making a comeback, while single RAN solutions are allowing operators to modernize networks in a way that creates new efficiencies as new technologies overlay legacy standards.

Very-high-bit-rate Digital Subscriber Line (VDSL) bonding and vectoring techniques offered by vendors can help operators improve network performance levels. This confers competitive and cost advantages given high fiber rollout costs and the traditional speed advantage enjoyed by cable competitors.

Other vendor offerings should not be overlooked: network outsourcing can help operators reduce costs by 20% or more. Looking ahead, operators should consider the timing of outsourcing arrangements while developing relevant key performance indicators. In addition, operators should discriminate clearly between the benefits of single and multi-vendor approaches.

■ Reducing network duplication

Network sharing has been a feature of the telecommunications sector for some years. However, its status has moved from “nice to have” to “mission critical” – particularly in an environment where macroeconomic challenges compound the structural concerns surrounding pricing and regulatory pressure.

Looking ahead, there are opportunities for operators to move well beyond the bilateral sharing agreements that have historically characterized shared network approaches. Moving from passive to active infrastructure sharing represents a bolder strategy that can optimize capex and opex savings.

At the same time, wholesale LTE network approaches are attracting interest in markets as diverse as Kenya and the US, suggesting that market structures are more flexible than industry watchers have previously considered. Such opportunities need to be carefully evaluated by operators so that they can future-proof their network rationalization agendas while also understanding new routes to market entry.

■ Educating the market on a shifting network landscape

Fears of a capacity crunch may well require additional qualifications. Even in mature mobile markets, data usage varies considerably from country to country – for example, Swedish mobile customers use four times more data per month compared to UK users. Meanwhile, capacity concerns are making their presence felt in urban areas; mobile infrastructure investment per capita is higher in rural areas. As operators migrate to 4G, they need to make clear the incremental nature of LTE expenditure so that industry fears of a capex spike are assuaged.

In addition, small cell strategies – which help meet rising demand in urban areas – need to be clearly articulated so that investors understand how heterogeneous networks are becoming an essential part of the network landscape.

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Operator responses

- Taking a holistic approach to business intelligence improvements

As operators move toward a more sophisticated analytics environment, improvements need to be made on a number of fronts before business intelligence capabilities can be overhauled.

For one, data is currently fragmented, with a mixture of customer, product and asset data residing in multiple systems. This means that operators must employ sophisticated data mining tools ahead of attempts to convert this wealth of data into customer insights.

Meanwhile, the costs associated with translating data from legacy frameworks into useable formats are substantial. Close engagement with vendors is needed going forward, and cloud-based solutions may help operators reduce costs as the overall data storage burden increases.

- Taking a lead on predictive analytics

Predictive analytics has a vital role to play for operators transforming their business intelligence capabilities. Cutting-edge analytics can deliver a number of benefits – from delivering customer insights that can improve marketing propositions and reduce churn to aiding network capacity planning.

Operators in developed markets are already moving forward with such initiatives, and emerging market players will also benefit from new insights in this area.

Telecommunications lags other industries such as retail, where use of predictive analytics is in a mature phase. Operators need to devote more time, investment and resources to this area so they can make the most of their legacy advantages in areas such as location-sensitive data.

- Turning big data into a new revenue stream

Improved reuse of information assets can improve time to market and improve existing customer relationships. However, the long-term challenge for operators is to provide new types of services that leverage their customer insights.

In this scenario, operators can provide new types of managed services for wholesale and enterprise clients in addition to network connectivity. However, this requires operators to work much more closely with customers, given that big data is an emerging area, where value perceptions and service propositions are only just emerging.

By the same token, operators must develop clear stances of the privacy and security of customer data – to reassure end users and satisfy compliance demands.
Operator responses

- Engaging more productively with policymakers in core service areas

Operators must engage more closely with governments, which are now more important stakeholders in the telecommunications industry. Although regulatory policies are now starting to cultivate a pro-investment environment, governments are increasingly driving national agendas as they concentrate on the socioeconomic benefits of new infrastructure.

By communicating standpoints in areas such as state infrastructure funding, equivalence of access and long-term spectrum release, operators will be in a stronger position to achieve negotiated outcomes with regulators.

Areas such as network sharing and spectrum refarming and trading remain areas where regulatory standpoints are still evolving. The onus is on operators to engage effectively with lawmakers in these areas. By taking a wider view of the advantages of new infrastructure in terms of benefits to the public and private sector – and sharing knowledge with policy makers – regulatory landscapes can provide more certainty for governments, citizens and operators alike.

- Managing compliance demands in new service areas

As operators look toward adjacent market segments for new growth opportunities, they need to consider the compliance burdens involved.

Mobile money is an area where telcos are already transforming financial inclusion. However, the need for proportionate regulation is pronounced. Legacy banking regulation can prove too onerous for new entrants, and operators must engage with relevant regulators to ensure sufficient incentives exist for them to become payment providers.

- Maintaining workable stances on net neutrality

Net neutrality remains an ongoing debate in the telecommunications industry. Regulatory attitudes are in flux – and differ between regions such as North America and Europe – while content providers and operators traditionally share opposing views.

Looking ahead, operators should ensure that they build flexibility into their stances, especially since regulatory positions vary from market to market. Operators should be able to link their net neutrality views with their approaches in related areas such as traffic management and quality of service.

In this way, they will be in a strong position to engage positively with regulators. Moreover, they should communicate more effectively with other industry stakeholders, such as content providers, so common ground can be discovered where possible.

Lack of regulatory certainty on new market structures

Uncertainty over regulators’ approaches to new market structures is undermining operators’ willingness to invest. It is increasingly crucial for governments and regulators to adopt pro-investment policies to sustain the sector’s momentum and for operators to form workable stances on a range of issues, including the increasing interrelationship between fixed and mobile policies. At the same time, all these groups must work together to achieve greater clarity over regulatory approaches.

Mitigating strategy maturity
Mitigating strategy as leadership priority
Likelihood of risk increasing in 2013

Key
Operator responses

- **Building capability and credibility in the M2M market**
  Operators are extremely well-positioned to grow new revenue streams in M2M across a range of industry verticals.

  However, a number of challenges need to be met head-on if they are to maximize the revenue opportunity. For one, core competencies need to be clearly delineated. Operators need to decide whether to build internal capabilities or partner in areas such as application development and management platforms.

  At the same time, new forms of customer centricity are needed. Many enterprise customers may not be aware that their business challenges can be solved by M2M, due to still-low levels of awareness in the market.

  Operators should also consider majoring in key industry verticals. For example, utilities and automotive M2M solutions that tend to be national in scope may align better with existing operator footprints. In the longer term, connected consumer device opportunities may require new cross-border strategies enabled by partnerships with other operators and device manufacturers.

- **Balancing unique selling points and partnering needs in cloud computing**
  Cloud computing represents another long-term growth opportunity for telcos. However, technology players are leading new solutions in this area.

  Going forward, operators should focus their energies on certain solutions such as infrastructure as a service, where they are well-placed to compete with their technology company peers. Areas where operators can differentiate their offerings include service-level agreement (SLA) provision, networking reliability and quality of service. Nevertheless, there also are opportunities in other areas such as platform as a service and business processes as a service – parts of the market that telcos may have somewhat overlooked in the past.

  While time to market in cloud services is vital, particularly as enterprise concerns around security and compliance start to recede, operators must ensure that they can realign their existing capabilities to support a cloud-based service delivery model. This means ensuring that internal network and IT teams collaborate effectively while overhauling sales teams’ incentives so they fit with a pay-as-you-go business model.

  Partnerships with IT services players will need to be revisited so joint go-to-market strategies can be formulated. Technology partners will have a key role to play in offering complementary services such as sales training and integration services.
Operator responses

Reviewing core competencies as a precursor to acquisitions and divestments

As business models in telecommunications undergo a period of dynamic transformation, it is vital that operators reassess their core and non-core competencies. Acquisitions and divestments can then play a vital role in helping operators strategically reposition themselves, while also providing greater transparency for investors, thereby generating higher valuations.

For example, the number of tower-related transactions is rising, from Africa to the Americas. While this serves the near-term purpose of freeing up cash, it also signifies that operators do not view tower ownership as a core competency. Specialists are better placed to maintain this kind of infrastructure — and by engaging in sale-and-leaseback deals, operators are able to focus more on marketing services to their customers.

On the other hand, operators also should consider how acquisitions can bring immediate benefits in terms of credibility in new market segments. Players with sizeable ambitions in areas such as data centers, M2M communications and digital media may find that targeted acquisitions bring new capabilities in a way that can boost time to market.

However, such deals can only provide long-term benefits if they are harnessed effectively within existing global footprints and organizational cultures — meaning leadership buy-in is vital and integration considerations have to figure prominently in the rationale for acquisition.

Providing clarity on the benefits of consolidation

Consolidation remains very much at the heart of the telecommunications transaction landscape, as witnessed by recent deals in the US, for example. Scale benefits in such scenarios are undeniable, yet regulators are highly conscious of the potential detrimental effects on competition levels. Nevertheless, fewer competing infrastructures can speed the rollout of new services, crucial at a time when the capex burden of the industry remains considerable.

As such, operators need to take extra steps to outline the benefits of consolidation scenarios – in terms of improved customer experience and more rational market structures. At the same time, operators should consider a range of alternatives, from network-sharing joint ventures to synergy-centric partnerships with their peers in other areas such as procurement.

Striking more productive partnerships with players from other industry sectors

Partnerships are of rising importance in an industry where M&A risks remain high and where risk-sharing in new market segments is attractive.

However, many tie-ups remain highly defensive in nature – agreements between banks, operators and retailers in mobile payments are a good example of this. Going forward, operators should view such partnerships as more aggressive vehicles to support new growth opportunities. This involves highlighting the benefits to each partner up-front, while regularly revisiting strategic aims, medium-term targets and governance structures.

In Asia, we are already seeing bolder joint ventures struck between operators and technology providers as they target gains in the semiconductor market, for example.

Even so, partnerships may not always provide the best route to innovation. As recent operator moves demonstrate, nurturing innovation through venture funds can also help incubate new skills and expertise – particularly given that quickening technology cycles mean it is ever more difficult to select the right competencies for future service scenarios.
Operator responses

■ Overhauling customer metrics

Customer-related metrics should be a priority as operators overhaul their key performance metrics to reflect an environment where revenue growth is trending toward data, consumers are aggregating devices and operators are looking to M2M for new revenue streams. In this light, it is clear that historic indicators such as minutes of use (MoU) and ARPU are lacking in insight.

Metrics involving revenue generating units (RGU) have been leveraged successfully by cable operators, helping to communicate success in up-selling new services, while US mobile operators are using average revenue per account (ARPA) to reflect the take-up of shared data plans. Meanwhile, revenue per megabyte and M2M-related metrics can give investors a better sense of the quality of growth in the mobile data market.

Operators should look to leverage more nuanced metrics such as these, which will help investors understand the nature of growth across a number of customer segments.

■ Looking beyond EBITDA to describe new revenue streams

EBITDA remains a mainstay of financial metrics used in telecommunications. However, its relevance was more marked a decade ago, when operators were recovering from the TMT bubble.

For one, core earnings metrics fail to reflect the sector’s high capex needs, which are crucial as the industry shifts toward fiber infrastructure and LTE networks. Just as importantly, EBITDA margins also fail to reflect new growth areas, where core earnings margins typically underperform levels apparent in core but declining service areas such as mobile voice.

Going forward, further detail is needed at the level of operating cash flow – a metric that European operators and others are already relying on more and more. Meanwhile, metrics such as cash return on invested capital (CROIC) can help communicate progress in areas such as cloud/IT services and M2M services.

■ Focusing on new types of coverage and penetration metrics

As infrastructure rollout becomes a vital enabler for productivity gains and customers aggregate new types of devices, it is vital that industry players start to communicate coverage and penetration metrics in new ways.

Revealing more details on tablet, smartphone and TV take-up can give investors a better sense of growth opportunities available to operators pursuing multi-screen strategies. At the same time, existing network-based metrics can be refined – in-building coverage targets are likely to be more important than more basic measures going forward.
Operator responses

- **Outlining specific areas of responsibility to regulators**

  Although operators’ privacy and security credentials are seen as a strength, the role of data guardian has its drawbacks. Compliance demands are set to rise not fall: recent policy initiatives such as the UK Communications Data Bill suggest a rising burden on operators as communications monitoring is tightened.

  As new laws are proposed or introduced, operators should make clear their positions – building consensus with their peers and partners is a vital component of this. Many such data retention initiatives are contentious, and operators will be left exposed to a range of risks, from increased compliance costs to reputational damage, if they do not articulate clear and workable stances.

  Content piracy is another area where demands on operators are rising. Copyright holders are seeking tougher penalties on those who pirate content. Cooperation is vital in this regard, with the potential to develop new payment models for digital content representing one area where shared initiatives could bear fruit.

- **Prioritizing robust network infrastructure**

  While network upgrade strategies are at the forefront of operator thinking, ensuring acceptable service levels on legacy infrastructure is no less important.

  In the last year, network outages have been reported in many parts of the world, affecting mobile operators from the UK to Singapore. These have led to significant customer dissatisfaction, which is all the more damaging given that operators are hoping to differentiate on levels of mobile data coverage.

  Looking ahead, operators have to ensure that their focus on network upgrades does not come at the expense of guaranteeing acceptable levels of customer service across core voice and messaging services. This means working more closely with suppliers, both to identify problems when they occur and to take steps to avoid costly network downtime scenarios in the future.

- **Leveraging trusted brands to launch new security-centric services**

  Operators typically outscore their counterparts in the technology industry when it comes to trust levels regarding security and privacy of data. These high levels of customer trust need to be translated into new service propositions that can differentiate their service propositions in a crowded market.

  Security-oriented services can come in a variety of guises. For telcos that serve multinational corporations, this means offering managed security services that form part of larger, cloud-based propositions. Capabilities in vulnerability assessment need to be extended while customer needs will vary considerably according to industry vertical and geographic footprint.

  Meanwhile, consumers require greater levels of reassurance from their service providers. Security options can be added to home networking solutions while our customer survey *The mobile maze* has shown that improved privacy and security features are vital if consumers are to take up new mobile payment services.
Operator responses

- Bringing together new competencies in digital business units

Established operators have already taken steps to create new business units aimed squarely at harnessing innovation in digital and ICT domains. However, this is becoming mission-critical for a wider range of players, and the challenges accompanying such moves are considerable.

Leadership will be a vital enabler for such new units, which must coexist effectively with more established network- and customer-centric parts of the business. Existing competencies at operators straddle different parts of the business: for many incumbents, historic expertise is concentrated in domestic markets while innovation capabilities may have been acquired through acquisitions.

In this light, operators will need to consider how global strengths in new service areas are created through historically decentralized organizations where country-level leadership often plays a key role in decision-making.

- Creating a culture of innovation

Operators have historically lagged behind their counterparts in the technology and media sectors when it comes to encouraging innovation. As a result, time to market has suffered, as has the sheer range of product and service development.

Looking ahead, operators should consider embracing innovation as part of their organizational structures, ensuring that ideas from all corners of the company can reach senior decision-makers. As part of this, operators should consider specialized innovation divisions, even within recently created business units, so that the best ideas stand the greatest chance of being delivered into impactful new services.

As part of this, a policy of external hires in key areas can maintain high levels of idea generation, which is crucial if operators are to compete effectively in more diverse value chains. In addition, partnering approaches need to evolve considerably so that knowledge is shared more effectively between different organizations, with the recognition that no single entity owns the customer.

- Transforming go-to-market to serve customers better

Many forward-looking industry scenarios offer an increasing focus on wholesale opportunities as the source of new revenue streams. As enterprise customers become increasingly demanding in areas such as managed services, operators need to serve their demands in new ways.

Crucially, this means that operators should treat certain enterprise customers more like traditional wholesale customers, given their growing need for end-to-end solutions. As part of this, operators must overhaul their go-to-market, whether by ensuring tighter fusion between retail and wholesale sales teams or offering greater levels of pre-sales support and customer education.
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Mitigating threats to operators
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