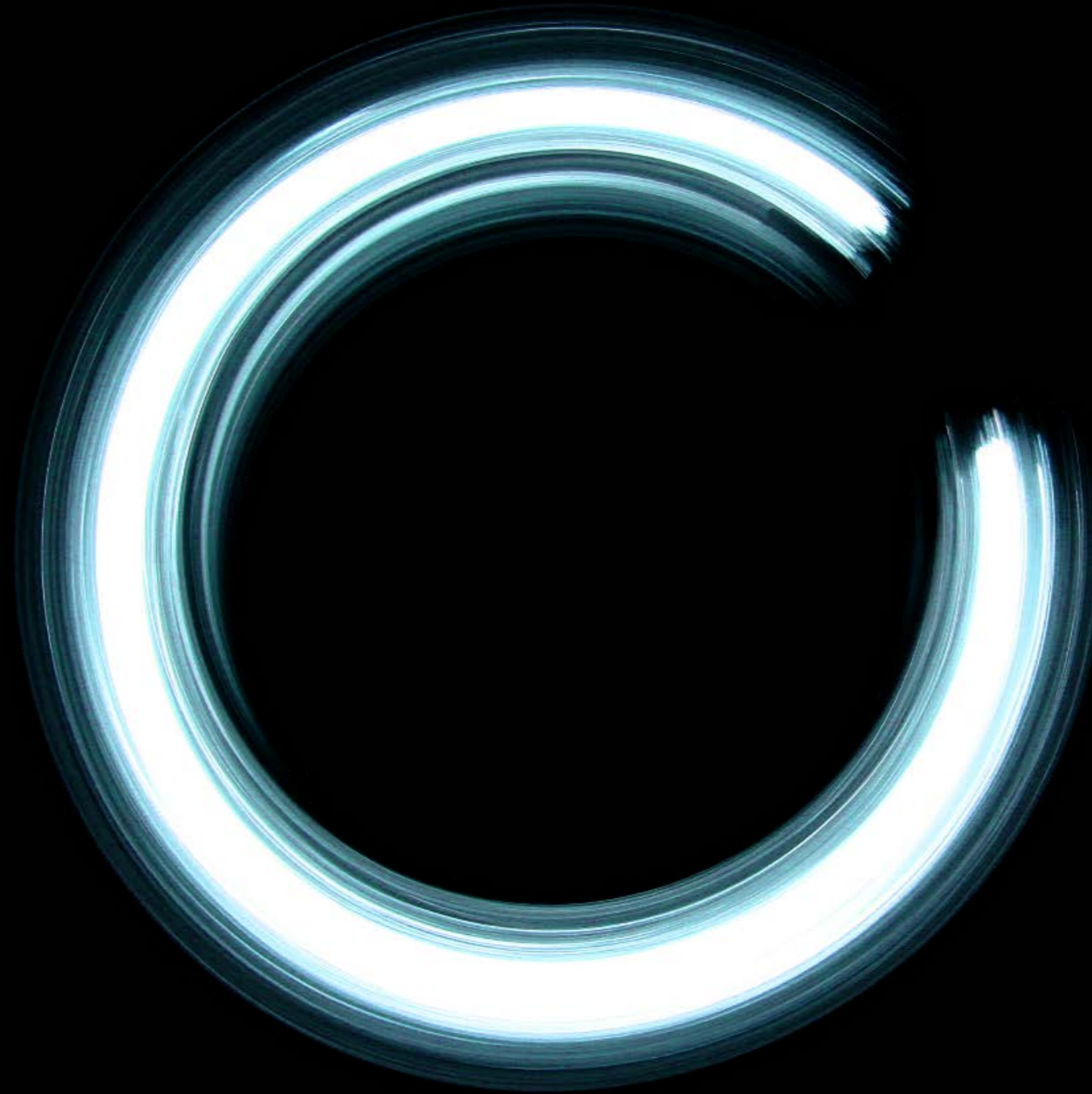


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B2B

Igniting the new telco value engine

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A shift from consumer to enterprise

Historically, most global telecommunication carriers have focused on capturing growth in the consumer segment. However, increasingly saturating mobile markets, disruption from OTT providers in core voice and SMS services, and intense price competition is putting B2C markets under pressure. In contrast the increasing demand of small business and enterprise clients for end to end ICT services presents a growth opportunity. In particular, demand for IT services is on the rise as businesses go digital.

The transition from telecommunications provider to an integrated ICT services company is fraught with complexity. Many telcos have extended their portfolio to include IT products and services, either organically or through acquisitions, but have often failed to fully integrate and leverage the combined portfolios.

As traditional telco operators explore relatively uncharted territory in B2B growth, important choices emerge. The following paper provides a perspective on the implications and opportunities associated with these choices.



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Where to play

- >Business model options
- >Portfolio options
- >Priority customers

How to win

- >Adopting a digital operating model
- >Creating an integrated ICT product portfolio
- >Acquiring capabilities

02 Where to play

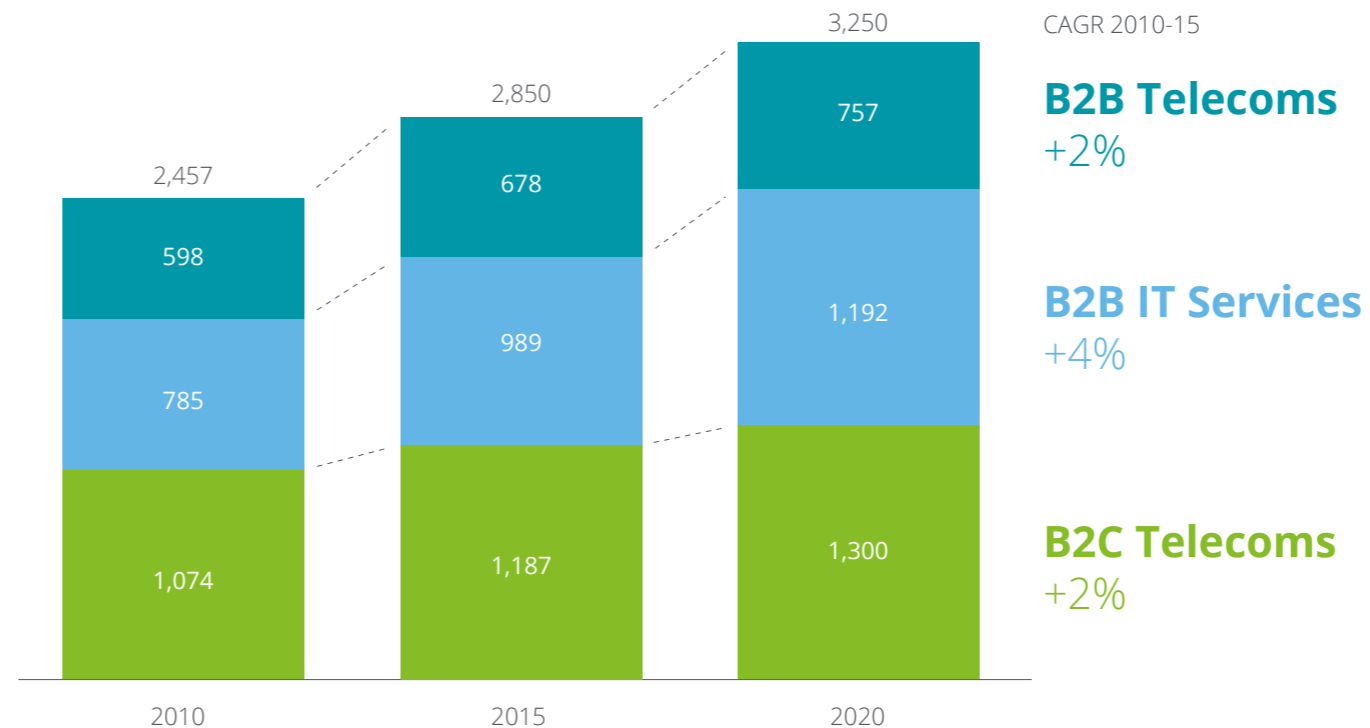
Why B2B?

Higher growth rates are the main attraction for telcos of B2B, but higher net profit margins, a client base willing to pay more for differentiated service, and a reasonable defense against over-the-top substitution (at least for now) also play a part.

Large, integrated operators such as AT&T, Vodafone and Telstra typically see B2B revenues contributing around 30% of overall revenues, while for smaller, mobile-only or fixed-only operators, it is closer to 15%.

The line between 'telco' and 'ICT' continues to blur. System integrators drive many of the large deals and telcos risk being relegated to a supporting role, in turn losing ownership of the customer. Within the client organisation, the distinction between CTO and CIO continues to dissolve, with 'CTIO' types making procurement decisions.

Global ICT Market Revenues and Growth USD Billions



Source: Gartner Market Databook - 4Q15 Update, Deloitte Analysis

■ B2C Telecoms ■ B2B IT Services ■ B2B Telecoms

Low growth and margin pressure in B2C make delivering on B2B growth expectations critical



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Balancing legacy and new services

Perhaps the biggest challenge faced by telcos entering the ICT services market is the need to balance legacy and new business.

To further complicate matters, the portfolio mix depends on the customer segment. More than half of large enterprise customers' ICT spend tends to be IT related, while small to medium enterprises (SMEs) and small office/home offices (SOHOs) are still dominated by voice and data services (though they are earlier cloud adopters). As many telcos have learnt the hard way, a strategy that works for large enterprise and corporate can be completely misguided for the lower segments.

Strength in core data services is the backbone from which telcos expand into higher growth and more complex B2B services like managed services, internet of things (IoT), unified communications and security. These service segments require competing head to head with IT companies such as IBM, HP or Accenture. A number of telcos globally have been able to credibly play in this space leveraging their strength in the network, client proximity and trust.

Cloud is one of the highest growth parts of the ICT portfolio and telcos have an opportunity to play based on their network control. However, the big tech players such as AWS and Microsoft

Data services are the backbone from which a broader ICT portfolio can be built

are fearsome competitors. Telco efforts in cloud have been mixed, and the most successful are those that have effectively integrated third party services into their offering. Some telcos are doubling down on datacenter and cloud such as BT with its 'Cloud of Clouds', while others, especially in the US, are considering selling datacenter assets.



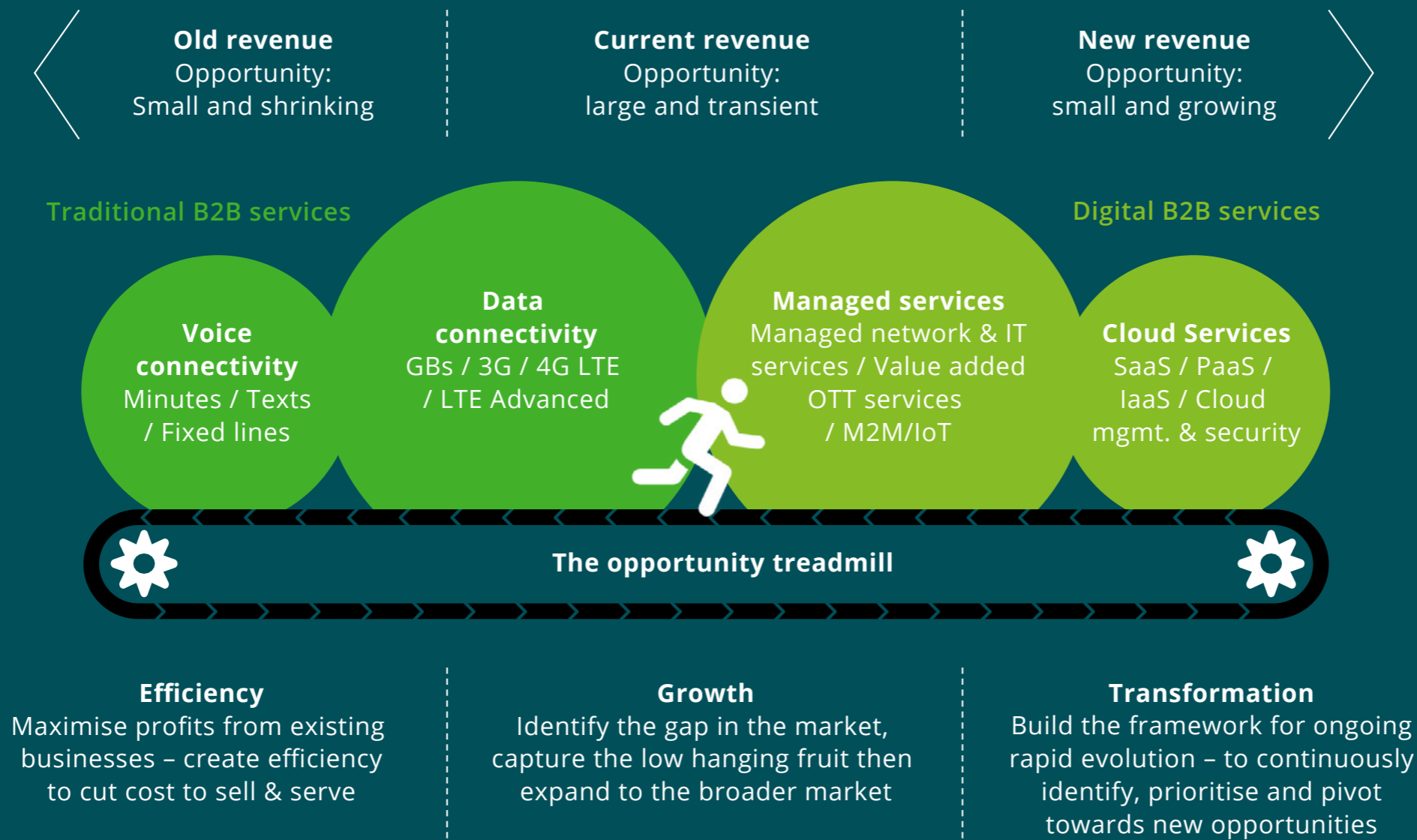
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The opportunity treadmill



Aligning the operating model to the business model

There is a range of business models options within the ICT portfolio. Each has a unique set of considerations around P&L construct, margin structure, investment needs, and capability asks.

Telcos are traditionally capital intensive businesses, but expanding from their carriage products into services means getting to grips with a different commercial and operating model. For example, a system

integration business requires highly skilled labor (and associated recruitment and talent management capabilities). In contrast, a capital intensive hosting business will require specific tools, technologies and platforms with technology sophistication and platform scale as the key value driver.

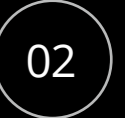
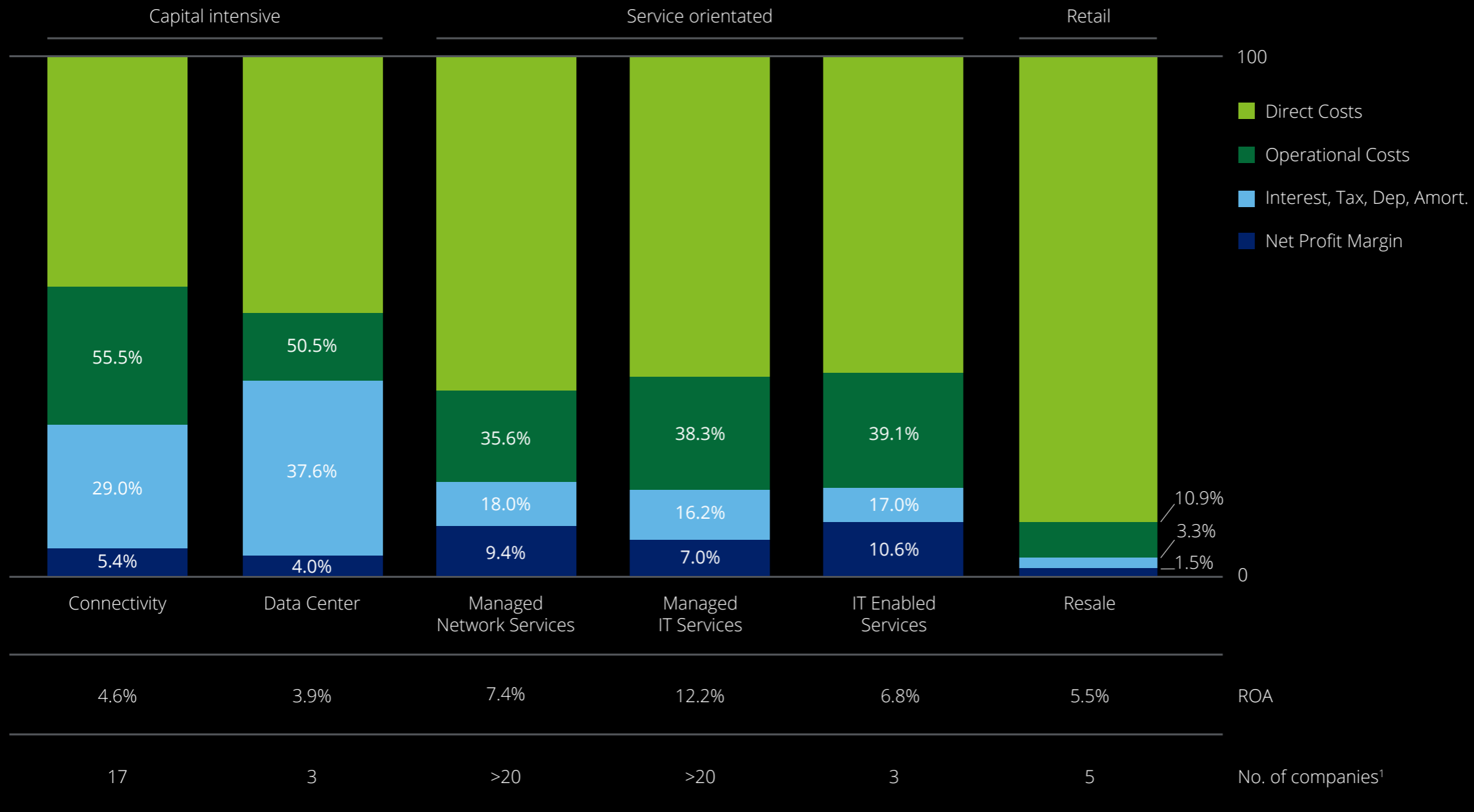
As traditional telecom operators move into new ICT portfolios, a shift in governance and performance metrics is required to reflect the different economics of the business they are in. Direct costs, for example, must be managed much more closely in a services business for profitability to be maintained.

Integrated ICT service-centric portfolios require a consultative sales and delivery approach



02 Where to play

Industry weighted average margins by product/service



Capturing the opportunity

To make the B2B value creation engine run you must transform the operations and build new capabilities. The key areas of change are in digitisation of operations, modularisation of solutions and acquisition of new capabilities:

- **E2E Digital Operations:** In terms of operations, processes need reinventing for the digital age to substantially improve both customer and employee experience while reducing operating costs, but the right technology and data foundations need to be in place.
- **Integrated ICT Portfolio:** In terms of the value proposition, the telco needs an integrated portfolio which is built on and allows solutions to be designed using industrialised building blocks. This will allow telcos to capture revenue from new services, while reducing costs associated with personalisation and customisation.
- **Inorganic value creation:** Finally, in terms of the corporate portfolio, B2B is evolving rapidly. Value creation requires leveraging joint ventures to access capabilities in a capital efficient way, acquiring specialist capabilities in a targeted approach and reviewing the portfolio to see if there are assets that could be increased in value through partial or complete sales.

Digitising operations,
modularising solutions and
acquiring new capabilities
are key to winning in B2B



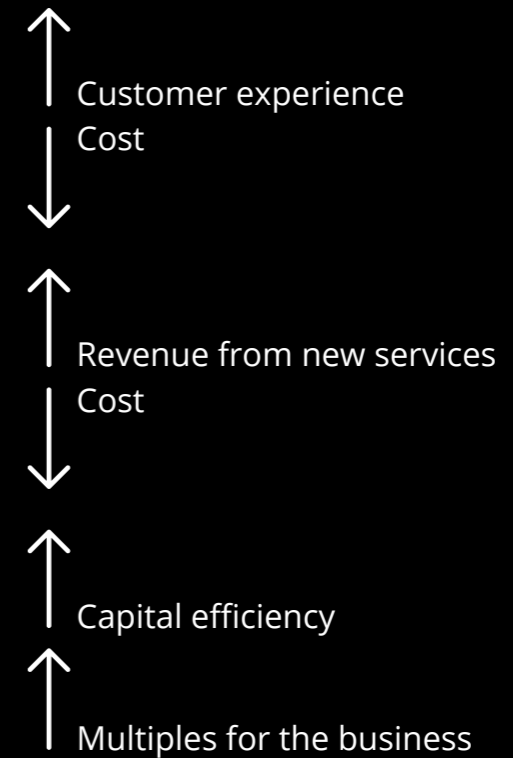
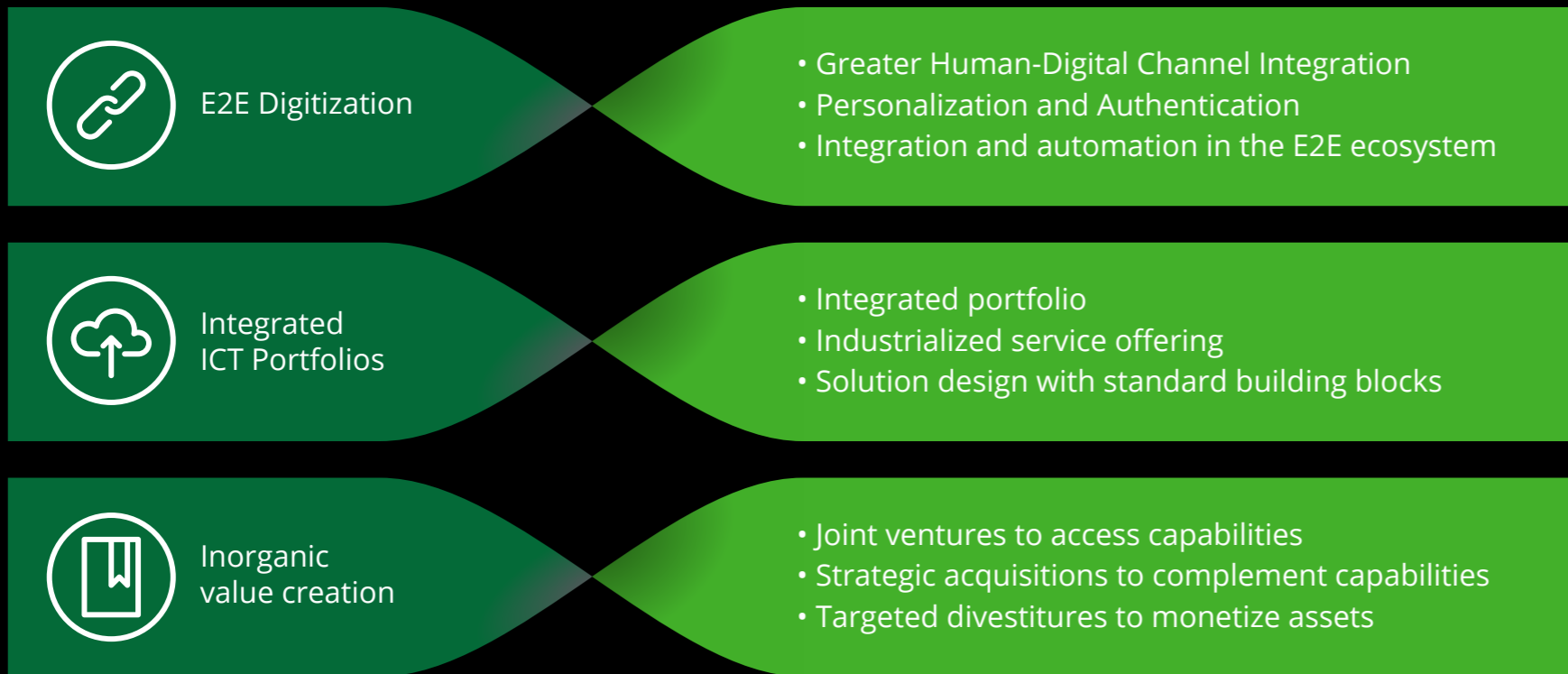
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Capturing the opportunity



Digital operations built on firm foundations

Telcos have often struggled to make the economic case for digital investment in B2B thanks to the smaller volumes and greater complexity and variety of products, contracts and service tiers.

Where digital investment occurs, it is often in product silos. It is not uncommon to find a plethora of portals offering detailed product information but limited functionality given the spaghetti-like legacy environment that digital applications need to integrate with.

As telcos transition into ICT providers that offer cloud-based applications and services, they compete with digital natives, earning operating margins a fraction of their traditional carriage services, and discover their clients expect to engage digitally.

Integration of human and digital channels

For large enterprise customers, the role of the account executive or service manager remains important, but their interactions must be informed not only by digital channel interactions but by product usage, and made richer through digital tools.

Authentication and personalisation

Authentication and personalisation is more complex but more critical. With the range and complexity of services provided to enterprise customers a one-size fits all digital self-service experience is unlikely to cut it. Rather, a unified log-in and authentication process that allows an enterprise customer to see the information that is relevant to them and their service context is required.

Automate and integrate processes

There is a greater need for ecosystem players to automate and integrate processes and systems – the level of transparency due to high availability of digital data fosters open collaboration and sharing of ideas that beyond organisational boundaries, which is particularly relevant for ICT providers who integrate a portfolio of in-house and third party products and services, but who also often sell through indirect channels.



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03 How to win

And yet relatively few B2B organisations are exhibiting these digital capabilities: why not? In the past, piece-meal and tactical investment in digital by B2B organisations and lack of investment in the technology foundations has led to a disjointed customer experience and high operating costs. Often foundational elements are neglected as benefits are spread across many business areas and investment must be pooled across business units, but without them digital initiatives quickly hit diminishing returns.

Leading digital players in B2B have got the following basics in place:

1. A 360° view of the customer: a clean and centralised customer data (integrating first, second and third party data sets), supported by a real-time analytics capability
2. Identity management: the ability to simply authenticate users, including single sign-on and access and permissions management
3. Common solution catalogue.

With these foundations in place, businesses can then start joining up their digital investments: integrating marketing automation software with CRM and social listening platforms; driving collaborative sales and service models to improve cross-sell/upsell, and bringing usage data and insight into product development and sales planning cycles.

Without the right technology foundations, digital investments quickly hit diminishing returns



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Integrating operational silos

Significantly differing process standards, different skill and organisational requirements as well as different BSS/OSS requirements has led to unsynchronised client approaches – with various sales teams from the same company approaching the client and resulting in missed cross- and up-selling opportunities through combined and integrated ICT offers.

Telcos need to streamline their operating models to enable integrated sales and delivery of products and IT services and solutions.

Nevertheless integrated ICT portfolios require a different sales, delivery and service approach. To operationalise ICT portfolios some changes in the operating model are required.

A full integration of telco and IT operating models is needed for profitable growth

Siloed thinking and portfolios

- Failure of telco players to fully integrate the IT organisations
- Separate ‘siloed’ portfolio and subsequently sales approaches
- Lack of new and integrated ICT propositions – instead of just adding IT services and products to the existing portfolio

Cultural and operational differences

- Customer-centric eTOM (Telcos) vs. service- and operations-centric ITIL (IT Player) process approaches and terminologies
- Differing delivery as well as operating models as well as the corresponding roles and skills

Separate IT stacks

- Different and separate IT-stacks for Telco and IT products and services due to different process and business requirements as well as product complexities
-



Processes

Integration of eTOM and ITIL processes into an integrated and scalable ICT process landscape.



Organisation and Skills

Ensure availability of skilled organisation to enable differentiated ICT sales and delivery approach.



IT and Infrastructure

Integration and rationalisation of IT stacks to support the integrated operating model.



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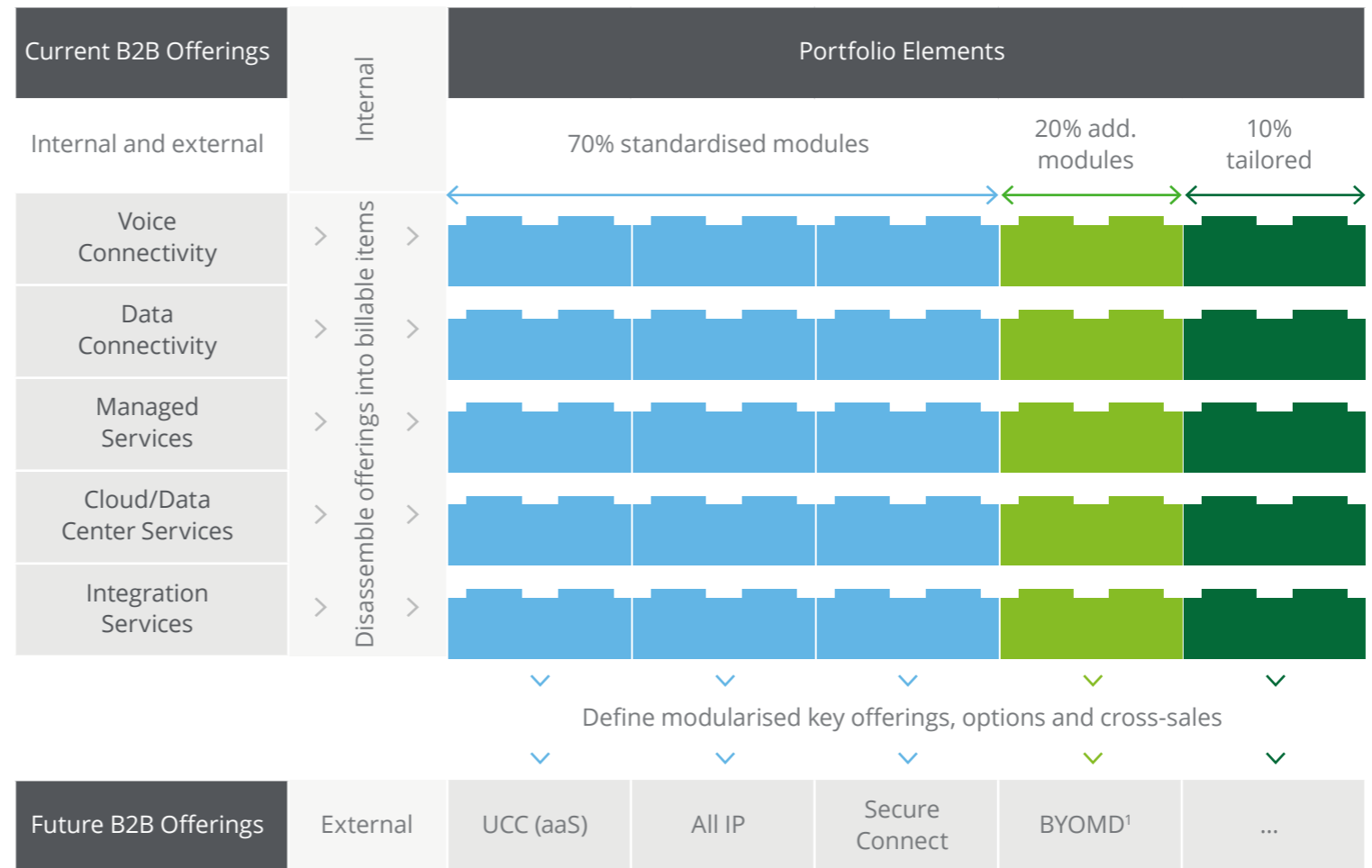
Configuring scalable ICT portfolios

An important first step in the development of new integrated ICT operating models is the definition of an end-to-end ICT portfolio.

By integrating the telco and IT portfolios, ICT players have the opportunity to decompose and standardise their combined telecoms and IT portfolio.

Next to cultural benefits for the organisation, 'productisation' of the integrated portfolio enables standardised, scalable and sustainable B2B processes, organisations, leading to cost optimised IT stacks.

The disassembly of the telco and IT portfolio components to standardisable product modules as illustrated below enables integrated ICT portfolios.



The disassembly of the telco and IT portfolio components to standardisable product modules as illustrated below enables integrated ICT portfolios

Acquiring and partnering for new capability

Organic development of the capabilities required to deliver ICT solutions will be challenging for most of the telco operators. There simply isn't time. The long term nature of B2B contracts means the opportunity cost of being slow to build is high.

While inorganic growth will be a key accelerator to scale the new portfolio, there are many execution options including acquisitions, JVs or alliances/partnerships.

Inorganic Model	Advantages	Disadvantages
Joint-Venture (JV)	<ul style="list-style-type: none">• Shared market knowledge and know-how• Shared risks/costs	<ul style="list-style-type: none">• Loss of control and equity ownership
Acquisition	<ul style="list-style-type: none">• Rapid entry into new markets or capabilities• Leverage existing customer base/operations	<ul style="list-style-type: none">• Higher up-front investments required• Execution risk due to complexity of integration
Strategic Alliance	<ul style="list-style-type: none">• Lowest execution risk and lowest investment capital	<ul style="list-style-type: none">• Difficult to hold partner accountable for results/KPIs

Inorganic growth will be a critical accelerator but should not be limited to acquisitions





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Identify gaps and complementary areas in current portfolio

Determine Best-Fit Partnering Construct

Identify right partner and define Deal Structure and terms

Develop Launch Plan and Strong Governance and PMO

The selection and integration of partners is crucial to rapid and cost-efficient launch of new products and services

The ICT and digital space is inherently ecosystem-driven and partnerships are becoming increasingly common as operators try to create value. Partnerships are relatively easy to form, but most amount to little more than simple GTM alliances, or simply cannot sustain themselves beyond the first few years. The key question revolves around how to make meaningful partnerships last. Taking a structured approach to formulate the right partnership constructs can help.

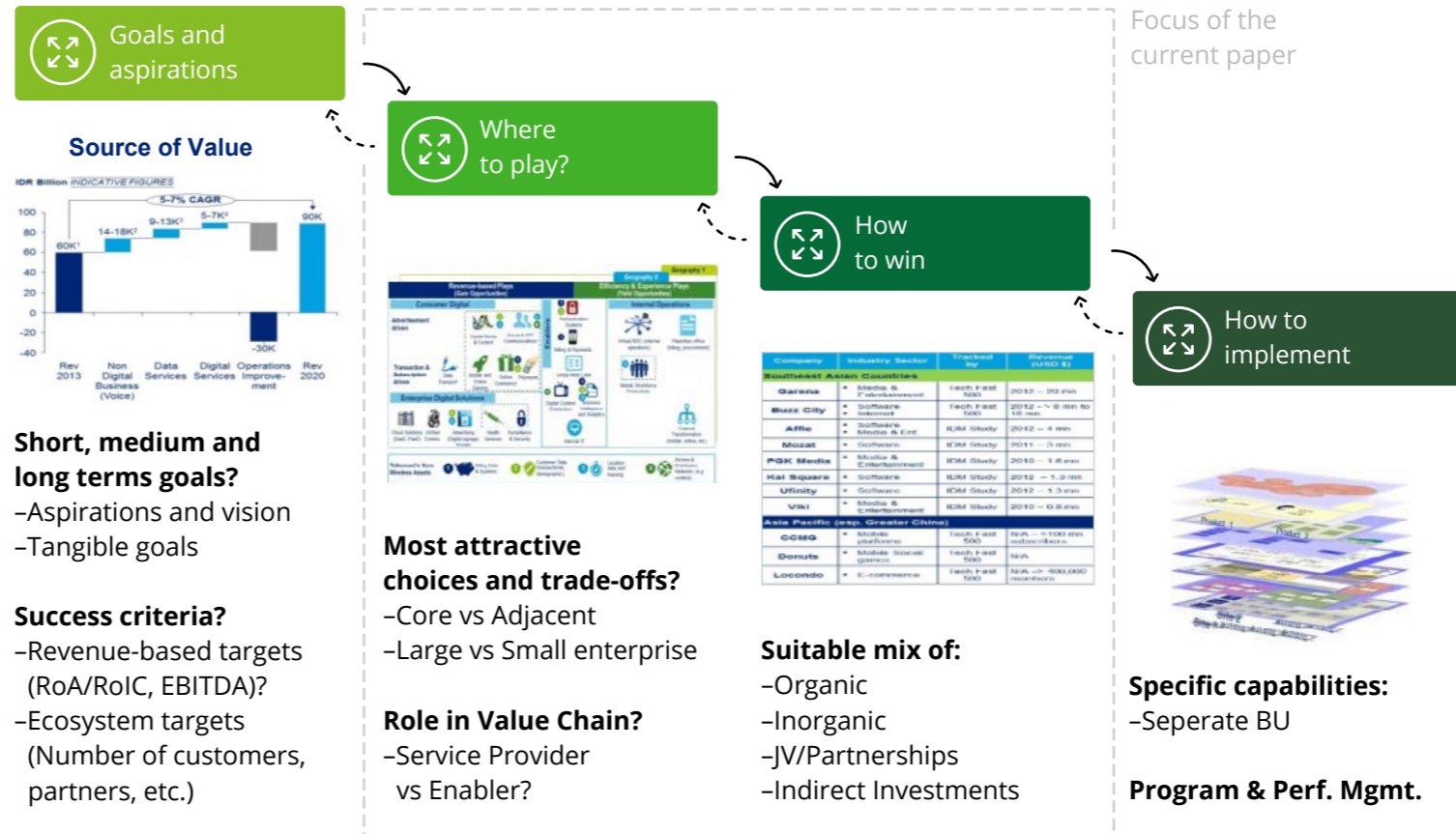
Across this lifecycle, contractual obligations, legal entity ownership, operating and financial policies, term and even ease of exit must be considered, but choices will ultimately be governed by risk appetite vs. desire/need for control in the partnerships.

In the B2B space telcos should consider the right way to tackle any new opportunity from the ecosystem and partnership's perspective. Should they do it alone? Are there opportunities to go quicker or more effectively through JV, acquisitions or strategic alliances? These questions need to be asked at the beginning of each opportunity in ICT space.

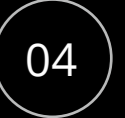
Monitor Deloitte's Choice Cascade™ forces sharp choices and organisational alignment to execute

Monitor Deloitte's strategic growth cascade framework provides an iterative approach to assess and align critical choices around transformative decisions.

Monitor Deloitte is a market-leading global strategy consultancy, focused on delivering client insights and impact across international markets



We bring global expertise in the B2B ICT sector



Globally Integrated B2B team and expertise

- We are a **global market leader** in consulting for telco companies, especially in the B2B space.
- Our **global network** provides us with **direct access** to **knowhow** and client **experts** in all markets worldwide.



Strong Track Record, and experiences with leading B2B Operators

- We bring a **lean team** with **deep industry knowledge** that is able to focus on the issues from the start – No “boiling the ocean”.
- Our global SMEs will bring in **best practices** to ensure optimal project results.



We provide a proven methodology and framework

- Our **structured, results-oriented strategy approach** enables fast progress.
- **No “learning phase”** in the beginning of the project required.

Monitor Deloitte performs ICT/B2B projects for leading international ICT players

Selected B2B/ICT projects overview



■ Where to play
■ How to win

Digital strategy for B2B growth for a leading US carrier

Digital Channel for Indirect Partners for a leading US carrier

B2B growth strategy in connectivity and ICT markets for a leading Asian Carrier

Strategic alliances to accelerated digital ecosystems for a leading B2B provider for a leading Asian Carrier

ICT market entry strategy and B2B service portfolio extension roadmap

Definition of new ICT value proposition for corporate & government segments

B2B portfolio strategy definition for a European ICT player

Implementation of an ICT product and services roadmap

Business modelling and planning to enable a sustainable ICT strategy execution

B2B and Cloud strategy definition in order to grow topline for European incumbent

T-SDN virtualization plan and monetization model for a Latin American operator

Developed Go-to-Market strategy and potential partners screening for European Telco's roaming services unit

Diversification strategy in the data center market and product concept development

Pricing strategy for B2B market for a European Operator



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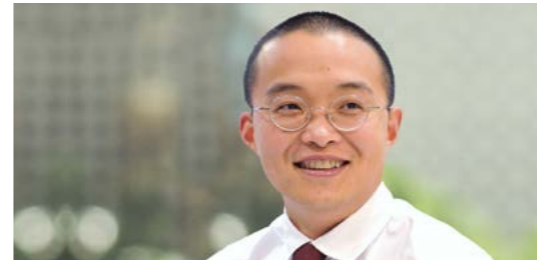


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