



The future of telco

Adapt to thrive

January 2016



The digital clock is ticking for the traditional telco.

Alex Holt explores how the traditional telco will struggle to survive beyond the next decade ... unless it embraces the opportunity presented by digital.

To do that it must first take note of the 'Unicorns': the private – often digital – businesses valued at more than \$1 billion, who are known for their agility, customer focus, great value and being cool. Traditional telcos cannot simply duplicate the DNA of the Unicorn and transplant it into their own businesses. But by mimicking the best of the Unicorns while still playing to their established strengths, they can yet become the digital telco of the future.

In one sense, the traditional telco's position has never been more secure, despite upheaval across the industry. Our society and economy demands ever faster, more reliable networks, meaning the telco's infrastructure arm is more important than ever. Recent KPMG analysis estimates that planned ultrafast broadband investments could add up to £30 billion to UK GDP over the next ten years⁽¹⁾. For those willing to write big cheques, there is a significant long-term investment opportunity to build speed and capacity into the network.

But it is in retail markets where the traditional telco is more fragile, and undoubtedly this is where the next battle for the market will be fought. If a successful traditional telco is to become a successful digital telco, it must make changes to its retail operations... and quickly.

Their first challenge must be to shift the prevailing business mindset from one focused on engineering to one focused on the customer. There remains a legacy culture in some telcos in which the customer is a secondary consideration to engineering.

The Unicorns play by different rules. They identify a real customer need, quickly build a product, create a significant user base and then figure out how best to monetise it.

Although reports of the telco's death have been greatly exaggerated, they are seeing a gradual erosion in performance. Cost-cutting programmes have masked the decline for a while, but the stark reality is that growth in many of these businesses is stagnant. Perhaps this hard truth will serve a purpose: some of these organisations need to wake up to and realise they require a fundamental shift in culture.

This urgent need to focus on customers should lead to other important changes that will help them transition from the Old World to a New Digital World.

A successful digital telco will use data and analytics to inform business decisions. Data will provide greater insight into what the customer wants, allowing the telco to service the customer the way they want and offer products and services they

(1) DELIVERING BRITAIN'S DIGITAL FUTURE: An Economic Impact Study

actually need. By improving service and being relevant to the customer, a telco will increase the number of services it sells, which in turn will increase retention. The digital telco will also be a ruthless commercial operator, adopting an approach akin to that of a Private Equity house: relentless at taking out unnecessary cost and making shrewd investments in areas of growth.

Telco CEOs must demand and conquer the engineering mentality.

By digitising the customer journey from end to end, the cost to serve is vastly reduced by automating much of it in a way that delights, rather than infuriates. Telco customers often have relatively simple requirements. In these instances, the digital telco would see the need for human intervention as a failure of process design.

The contrasting sizes of the old and new telco is where the differences in model are most striking. An outfit like WhatsApp – with c.500 million users, instant messaging and video customers – was run by less than 100 employees when acquired by Facebook.

A traditional telco has many multiples of that workforce in its finance department alone. Some might say that it's an unfair comparison, but it was sold for some US\$22 billion – more than EE, the largest mobile carrier in the UK.

There is a lot of hype around the battle between the Unicorns and the 'Dinosaurs'. It is high time that the traditional telcos started to realise the benefits of becoming a digital telco. If they can become truly customer-led, properly deploy data and analytics and adopt a commercial philosophy that a PE house would be proud of, the results will be clear:

- Top line growth
- Reduced cost base
- Higher retention
- Increased number of services sold

Investors are clearly keen to pour money into this sector, but increasingly they are asking questions about who the winners and losers will be. It is time for traditional telcos to demonstrate they are moving towards the digital future by adopting a more customer-centric approach. There is still time, but the digital clock is ticking...

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