BearingPoint® // Beyond

Partner ecosystems: the silver bullet for telco woes?

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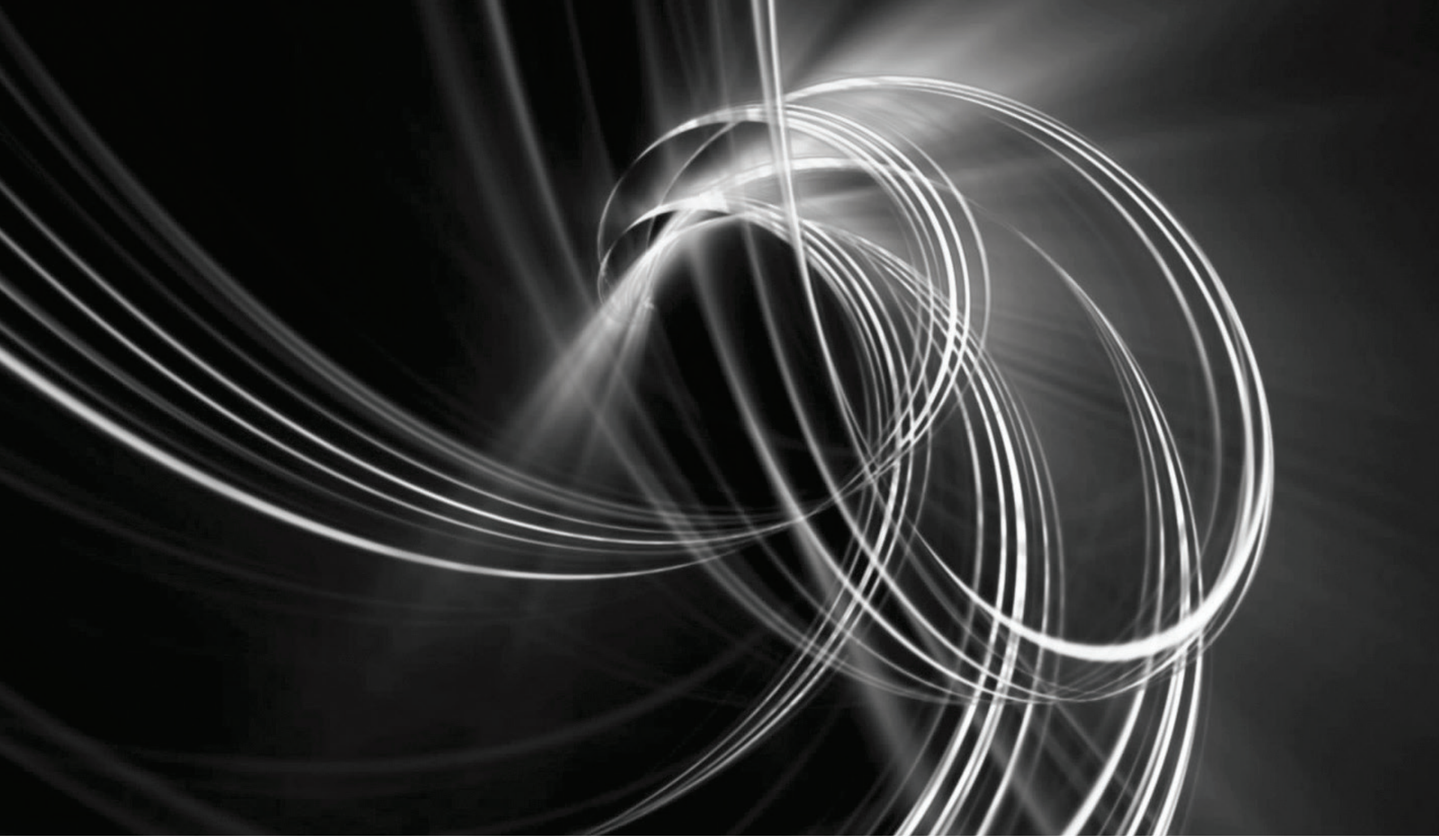


Introduction

Digital transformation has rapidly become the clarion call for Communications Service Providers (CSPs) around the world. This journey often focuses upon using technology to shore-up short term financial performance by delivering greater efficiency, in preference to the widely held view that, if CSPs don't look to new digital business models, then they will not survive in their current form. And they certainly won't achieve the 'S-curve' growth enjoyed by the OTT players and digital superpowers.

Drive growth, foster innovation

To thrive, CSPs need to innovate to counter commoditization, win new customers and grow topline revenue. Few innovations (improvements or new services alike) are created solely in-house, therefore the right partner ecosystem is paramount. Multi-party innovation is the trend in telecoms. All the more in digital, where flexible service components can be quickly added and combined. Co-innovation of more sophisticated and harder to replicate offers with first mover advantage, to which CSPs add their own service wrapper and user experience, is now the only practicable model.

Despite this, to date very little scale research has been conducted in this area and, consequently, there is limited insight. CSP attitudes towards partner ecosystems are unknown, as is the progress in establishing ecosystems and the challenges in building them.

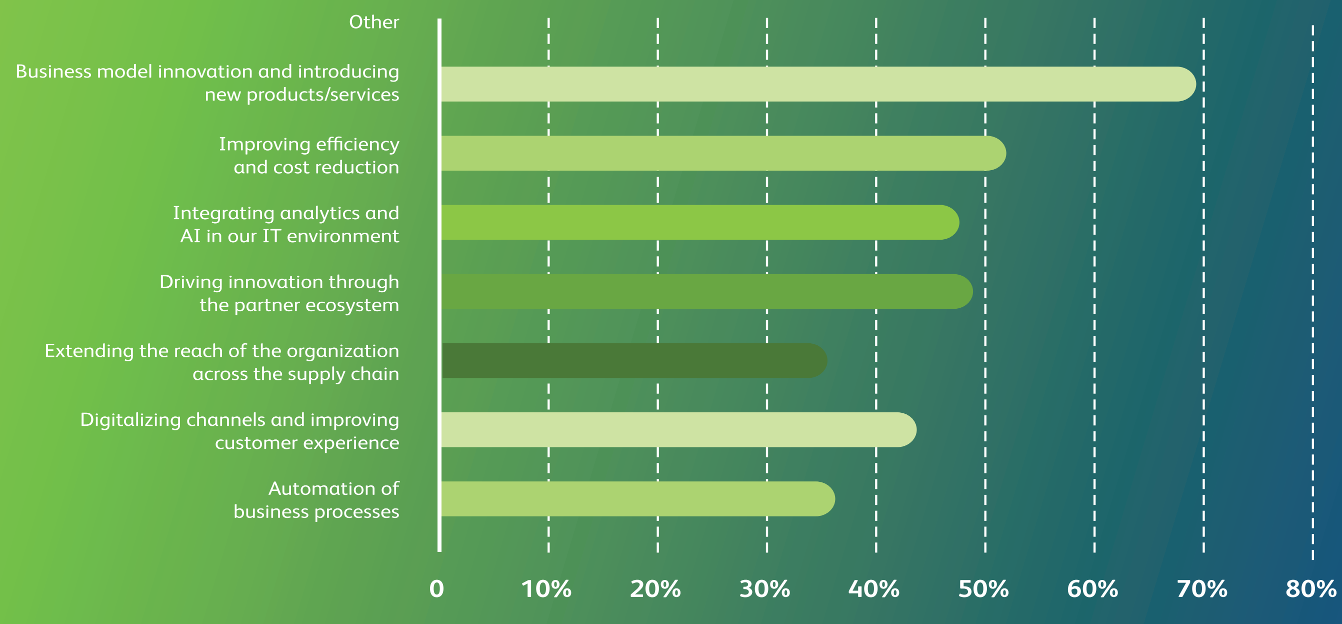
To begin to shed light on these issues and to support CSPs in establishing and executing their partner ecosystem strategies, BearingPoint // Beyond commissioned a large-scale primary research study. Conducted by Coleman Parkes, 85 executives representing tier one and tier two CSPs across Europe, Asia and the U.S. were interviewed. 440 senior executives across IT & technology, automotive, transport, banking and insurance sectors were also similarly surveyed, to help rank the progress of CSPs against other industries of a comparable size and scale who are also driving significant digital change.

The results paint a picture of a telecoms industry with high expectations of the impact of ecosystems on their businesses. However, there is an enormous amount of work to do and challenges to overcome before these benefits can be realized.

State of the nation: CSP digital strategies

The good news is that 55% of CSPs have defined their digital strategies and are implementing them. An additional 44% are in the planning phase and only one percent have not considered defining a digital strategy. It's clear that CSPs are taking the lead in driving digital strategies and the majority have stopped 'talking the talk' and started 'walking the walk'.

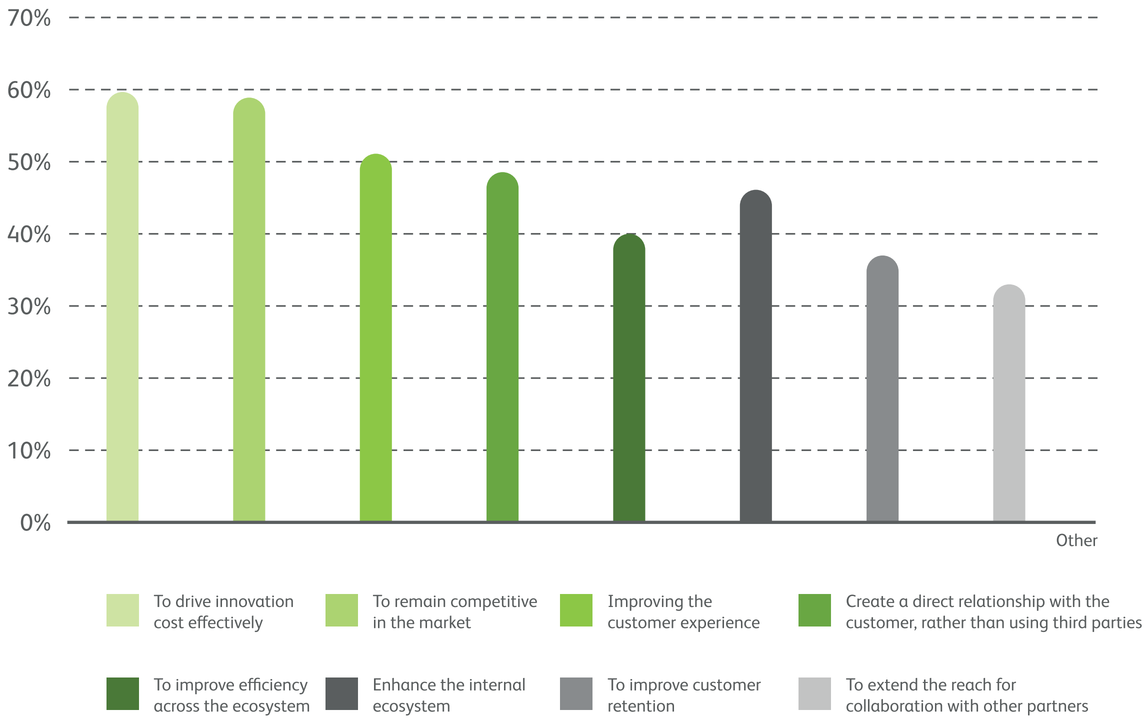
One of the key areas of focus for CSP digital strategies is business model innovation and introducing new products and services (69%). Improving efficiency is also important for 52%, followed by driving innovation through partner ecosystems (49%). Interestingly, issues such as automation of business processes and improving customer experience came further down the list.



What are the key areas of focus for your digital strategy currently?

Ecosystem attitudes and expectations: the silver bullet?

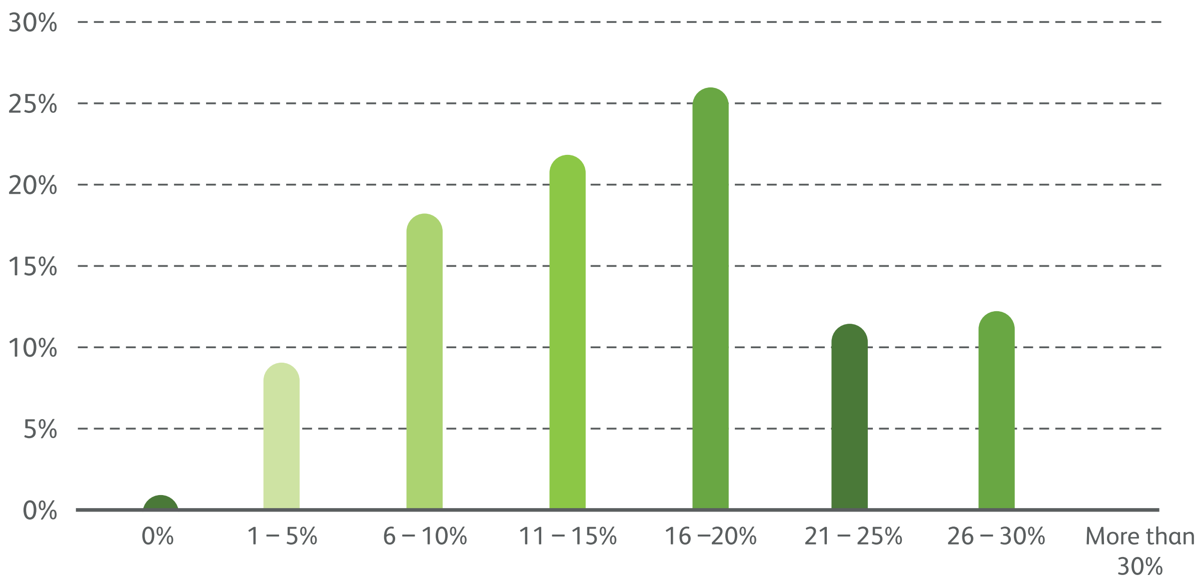
There are two main types of ecosystem available to CSPs. One type is internal, designed to bridge organizational silos. The second is external – either with partners (providers of complimentary capabilities, products and services or channel partners) or customers. Focusing on partner ecosystems – which can have a more transformational impact on a CSP – the telecoms industry has high expectations on perceived benefits.



How does your company want to/plan to utilize the partner ecosystem?

60% of CSPs expect partner ecosystems to drive cost-effective innovation, 59% to help them remain competitive, 51% to improve customer experience, 48% to create direct relationships with customers, 45% to enhance the internal ecosystem and 40% to improve efficiency. It seems as though partner ecosystems are turning into the 'silver bullet' for a great many of the business challenges that CSPs face today.

"An ecosystem is an open, multi-sided collaboration between different parties. These parties can include: the internal units of an organization, current and future business partners, and customers. An effective ecosystem will enable an exchange of ideas/products/services or information in an iterative way and will include operative processes and tools to share the benefits between the parties. Such an ecosystem can help generate new ideas, drive innovation, expand offerings, increase reach and grow revenue."



If you were able to successfully develop your ecosystem, by what percentage would you expect your revenues to grow in the next two years based on your current level?

This suggestion is validated when CSPs are asked about the percentage revenue uplift they expect to see in the next two years if they are able to successfully develop their ecosystem. 9% expect a modest 1-5% revenue boost, 18% 6-10%, and 22% anticipate an 11-15% increase in revenues. However, a startling 50% of CSPs expect their revenues to grow by more than 16% in the next two years based on a successfully developed ecosystem. Of that, 12% anticipate growth of more than 25%. The stakes are incredibly high.

When it comes to the sectors that CSPs currently partner with, there are few surprises. 67% work with other telecommunications companies, 62% with IT and technology companies and 54% with utility companies.

But there is significant change on the cards. When asked which sectors CSPs expect to be partnering with in the next two years, manufacturing rises to 42% (from 17% today), insurance increases to 42% (from 25%) and automotive climbs to 33% (from 12%). There is a clear switch around with CSPs seeing a declining need for partnership with telecommunications (67% falling to 25% in two years), utility (54% to 29%) and transport (25% to 12%) sectors in the next two years.

If CSPs are unified on the 'what' – that partner ecosystems are the answer to many problems, including significant revenue growth and service diversification – there is much less certainty on the 'how'.

Ecosystem progress report: a tale of inconsistency and catching up

The researchers put forward five potential partner ecosystem models (see box-out).

They asked each CSP executive "Which of the following types of partner ecosystem is most similar to the ecosystem you currently have in place/plan to introduce in the future?" and matched their answers to each of the five models.

36% of answers most closely matched 'model one' – using a partner ecosystem to drive business growth, innovation and new revenues. 29% most closely matched 'model two' – using a partner ecosystem to increase revenues by selling new services to existing customers. 21% most closely matched 'model three' – using a partner ecosystem to increase retention and loyalty. 8% are focused on a model that increases efficiency and profitability internally, and finally, 5% on improving efficiency in the use of channel partners.

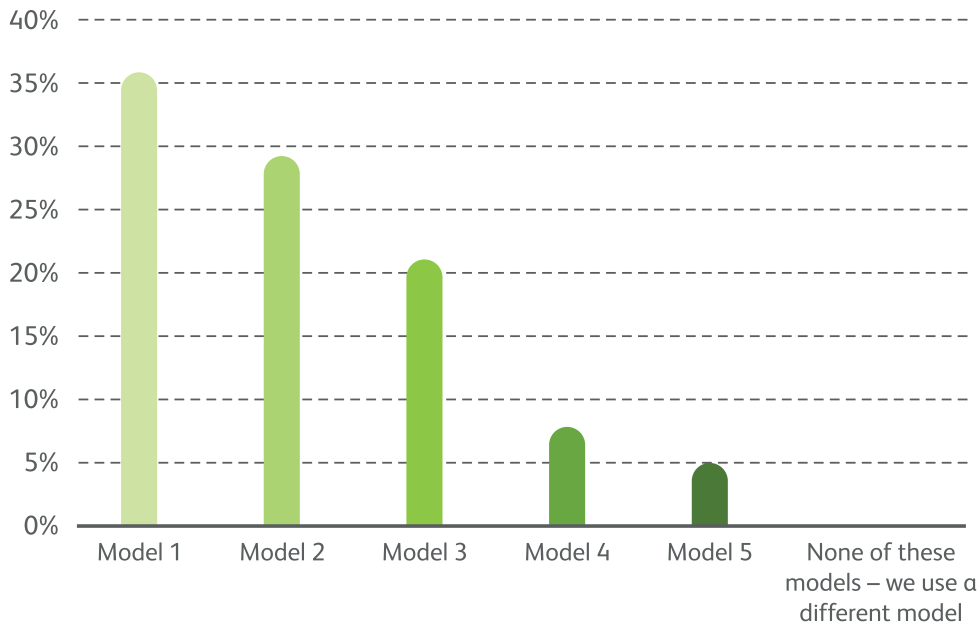
Model 1: *focuses on business growth, innovation and creating new revenue sources through collaboration with other partners*

Model 2: *focuses on increasing revenue streams from existing customers by selling new products/services, eg. Product bundles*

Model 3: *focuses on increasing customer loyalty and retention through the ecosystem*

Model 4: *focuses on increasing efficiency and profitability internally by leveraging relationships in the internal ecosystem to improve busienss efficiency and remove silos*

Model 5: *focuses on improving efficiency in the way the business currently uses its channel partners*

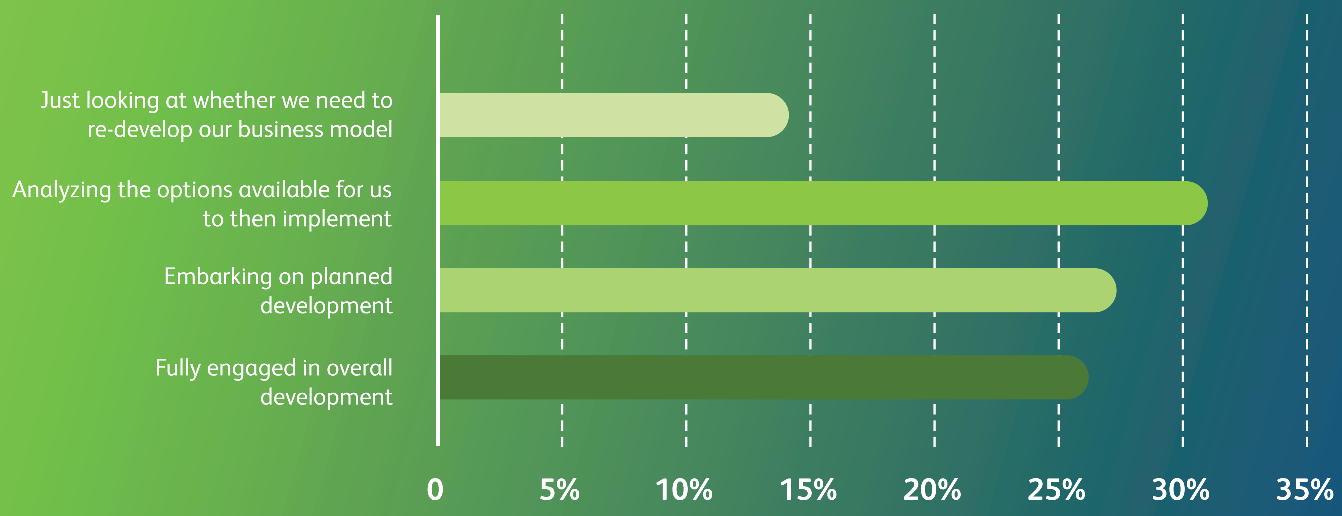


Which of the following types of partner ecosystem is most similar to the ecosystem you currently have in place/plan to introduce in the future?

The lack of consistency in terms of partner ecosystem models is telling. Despite dozens of books, hundreds of conference speeches and thousands of news articles on the subject of partner ecosystems, there is no dominant model yet in play across the five surveyed. The choices a CSP makes will be company-specific, based on their strategy, their needs and their existing relationships. And as it stands, only 26% of CSPs are currently engaged in the development of new digital offerings.

When asked about the progress they are making in terms of business model innovation and developing new digital offerings – many of which are underpinned by partner ecosystems – CSPs are the stragglers. CSPs ranked lowest for being fully engaged in the execution of new business models and offerings amongst the industries surveyed (26% vs an average across industries of 34%). That said, telecoms is in a strong position to 'catch-up', with 27% embarking on planned development. 31% of CSPs are analyzing options, 14% are looking at whether they need to re-develop business models and only 2% have not considered the issue.

In summary, CSPs are perhaps a little behind other sectors in executing ecosystem strategies. There is no single partner ecosystem model dominating their thoughts and this is typical of a relatively immature market. But as their strategies become more concrete, there is certainly the potential to gain ground on other sectors. That is, if CSPs can overcome some significant challenges.



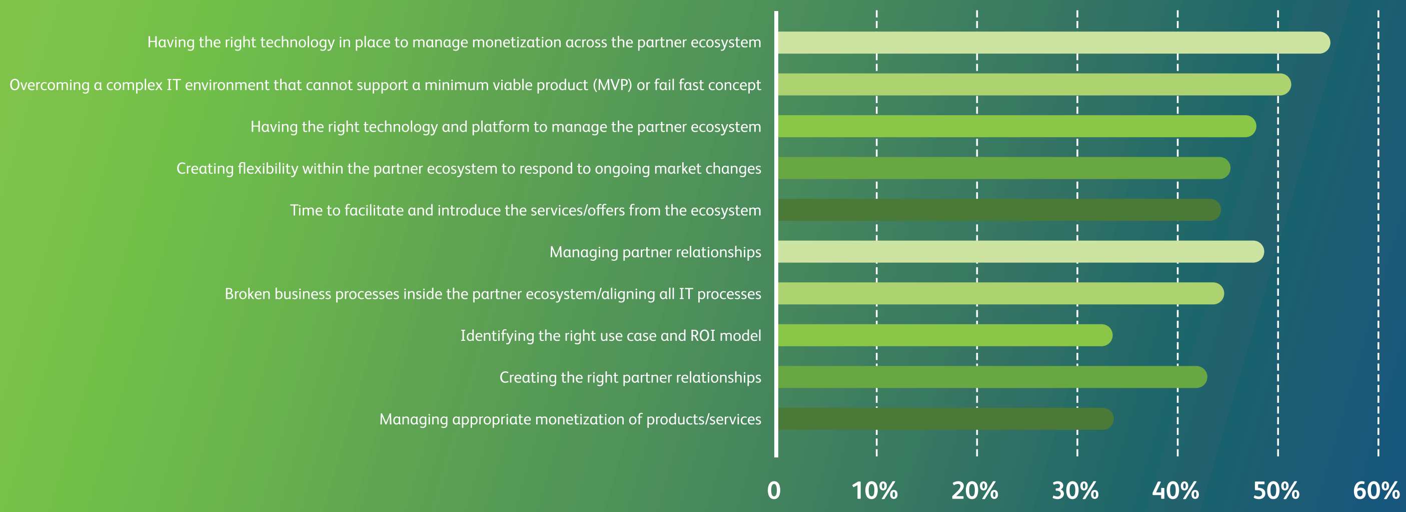
Where would you say your company is in terms of business model innovation and development of new digital offerings?

Ecosystem blockers: it's all about the tech

If the benefits CSPs expect from partner ecosystems are business-led, the primary blockers are technological.

Having the right technology in place to manage monetization across the ecosystem is the number one challenge facing CSPs in managing and enhancing their partner ecosystem (55%). 51% point to complex IT environments that reduce agility, 49% say managing partner relationships and 48% suggest that having the right technology and platform to manage the partner ecosystem is a major challenge. This poses deeper questions about how CSPs are organized and whether they can effectively support business leaders by delivering the right technology, skills and business agility needed in a digital environment.

Of the 19 potential challenges outlined in the survey, four of them were technology-oriented – but three of these made the top four challenges facing CSPs in managing and enhancing their partner ecosystem. It's clear that future business success is dependent on the technology choices CSPs make in the coming months and years.



What are the current challenges with managing and enhancing the partner ecosystem?

BearingPoint // Beyond advice

As CSPs look to evolve their business models to put a heavier emphasis on the need to innovate to create products and services which add more value to customers, whilst being harder for competitors to replicate, partner ecosystems are a vital component. This becomes increasingly important as use cases for 5G, IoT and NFV/SDN are more complex and far more ecosystem-based, meaning that successful partnering will be key to earning a return on investment.

The preferred model in digital is well known and used by startups, mature enterprises and digital superpowers alike. It combines a digital business platform to bridge internal silos and enable curation of a differentiating partner ecosystem to create, trade, fulfil and monetize services in a completely automated way. Marketing moves away from broadcasting to impacting the broader influences on customer buying behavior, data is captured for insight and lean startup approaches are undertaken to experiment and get rapid customer feedback on new products and services. The aim is to underpin the new digital business model with an engine of growth that continuously builds competitive advantage through a powerful network effect. These changes can be evolutionary and staged to protect the core business whilst building adjacent revenue streams using a hybrid business model approach.

Research shows that businesses that embrace this way of thinking grow at twice the rate of those that don't. At its core, executing on the potential of partner ecosystems comes down to CSPs defining and delivering a digital platform-based business model. And for that, they need a digital platform technology solution. And they need to move fast.

BearingPoint // Beyond has been created to help CSPs do just that. BearingPoint // Beyond provides both the guidance CSPs need to define the digital platform-based model that is right for them, and the agile digital platform that enables the delivery of that model and the myriad of business benefits it will bring. BearingPoint // Beyond supports CSPs in their drive to facilitate true innovation with and between partners, to launch new digital services at speed and to move away from legacy IT and complicated BSS systems.

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BearingPoint // Beyond helps organizations reinvent their business model and grow from efficiency to innovation. Our digital platform solutions give them the start-up advantage, to move rapidly from ideas to concept to revenue, with minimum risk and cost.

This brings our clients closer to their customers, enabling them to build connections between systems and partners, while becoming more agile in face of digital disruption.

BearingPoint // Beyond is part of BearingPoint, an independent management and technology consultancy with European roots and a global reach. A worldwide consulting network with more than 10,000 people, BearingPoint supports the world's leading companies and organizations in over 75 countries, engaging them to achieve measurable and sustainable success.

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