

Operators are establishing partnerships to help them to move into services beyond connectivity

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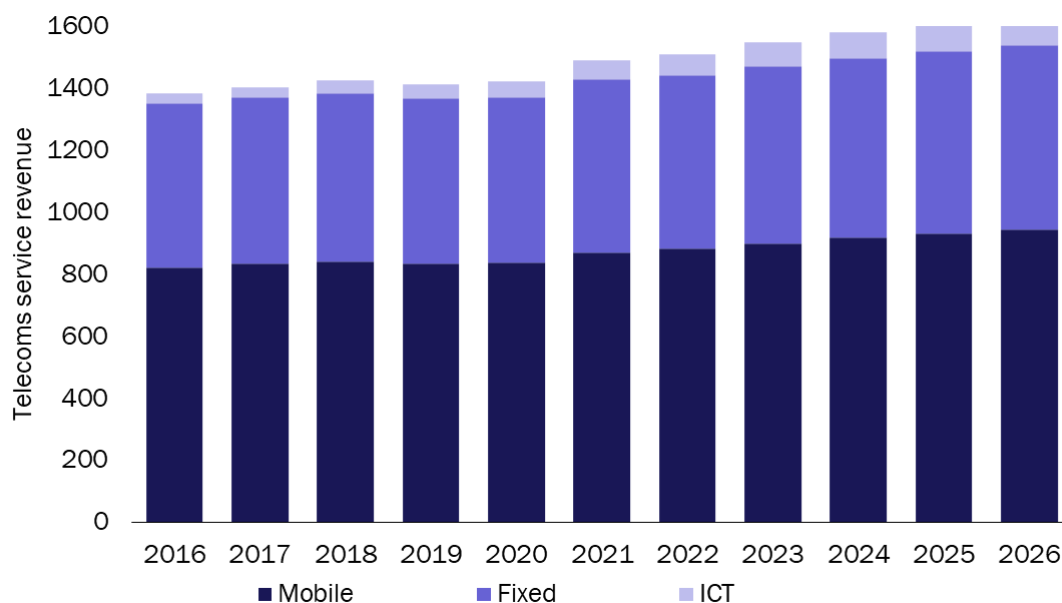
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Telecoms connectivity has been a solid profitable business for operators but their core services have become increasingly commoditised, leading to a lack of revenue growth over the last 5 years. Therefore, operators are looking to new areas to help them to increase profitability, reduce churn and improve the competitiveness of their core businesses. All operators are continuing to improve their networks and service offerings, but many have also started to create strategies for revenue growth in other areas. The challenge for most operators will be to create a clear and strategic technology roadmap for maximising profit from these new growth areas. Many operators may struggle to convince businesses that they can be a trusted provider of services beyond just connectivity and so are establishing partnerships to expand their offerings into new business areas.

Operators are looking to services beyond connectivity

We expect mobile and fixed-line service revenue to increase at a CAGR of just 1.4% and 1.2%, respectively, over the next 4 years (Figure 1); it is becoming vital for operators to expand their capabilities into new services if they are to increase profitability, reduce churn and differentiate themselves from other operators in years to come. For example, SK Telekom expects that its mobile and fixed-line service revenue will grow at a CAGR of just 2% during 2021–2025, while its new cloud and data-centre business revenue will grow at a CAGR of 30% during the same period.

Figure 1: Telecoms service revenue by type, worldwide, 2016–2026



Source: Analysys Mason

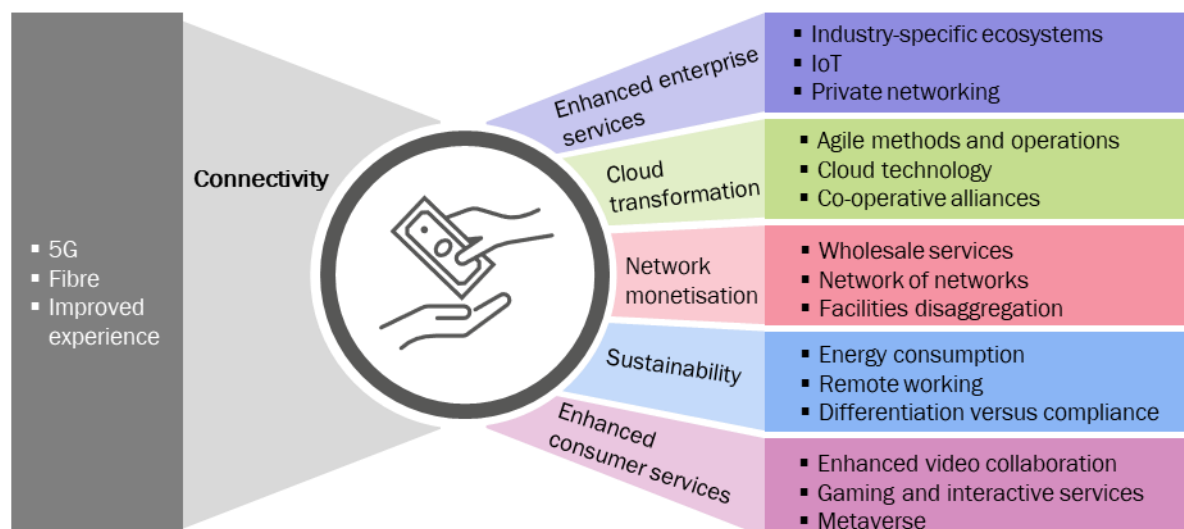
In general, telecoms operators are well-positioned to enter and expand into new technology markets because they have good core data and connectivity capabilities. Operators may benefit from expanding their services based on their connectivity strengths, rather than trying to tap into specialised markets. However, operators should continue to proactively encourage businesses to take on additional services and gain the trust of customers in services beyond connectivity. One strategy for this is to acquire, and establish partnerships with, IT providers and systems integrators (SIs). This strategy will help operators to strengthen their position in new technology markets and expand their customer base. For example, as part of Verizon’s ‘building the future’ business strategy the operator has used M&A deals to acquire key technology for improving its footprint in emerging areas such as AI and platform-based offerings. Verizon has also built partnerships with 58 technology partners to gain value from a large number of digital teams.

Operators are establishing ecosystems of partners to expand into new growth areas

Operators can use partner ecosystems to connect with a large number of external companies, share benefits such as foundational services, expertise and data, and to create an environment for integrating legacy applications into new services. Most operators lack technical knowledge and dedicated teams for new growth areas, but joining an ecosystem can enable operators to access help with application development and develop expertise at a relatively low cost and risk. Operators that actively collaborate in partnerships with IT providers are likely to be in a better position to drive their businesses into new opportunity areas and to offer a wider portfolio of third-party services.

We recently evaluated the investor presentations of many major operators worldwide to assess their stated growth strategies. Many operators are staying with a low-growth, low-risk connectivity strategy. However, more than half of the operators are planning to go beyond connectivity to increase revenue and we have identified five such strategies (Figure 2). The most common of the five strategies was to push into advanced enterprise services, normally based on cloud transformation and alliances with enterprise services partners.

Figure 2: Operator strategies for revenue growth, by type



Source: Analysys Mason

Operators should look carefully at the available ecosystems of different partners to select the ones that best meet their network and customer requirements. Some operators have established a large and strategic ecosystem of partners to support their broad expansion strategies, including the following.

- **América Móvil** has formed alliances with Amazon, Cisco, Fortinet, Google, Microsoft, Salesforce, SAP and VMware to support its transition from telco to a more solutions-based company.
- **Deutsche Telekom** has around 500 technology and industry partners including AWS, Intel, Microsoft and VMware, as well as partnerships with many start-ups.
- **Etisalat** has strategic partnerships as one of its goals for maximising value from core services and beyond. It has a range of technology and telecoms partners, including AWS, Microsoft and Nokia.
- **Orange** has around 88 partners including AWS, Dell, Google Cloud, HPE and Microsoft that help it to expand its expertise in digital growth areas.
- **Rakuten** has 16 partners, 8 of which are technology partners such as Branch, Shipstation and Singular.
- **SK Telekom** has around 177 key partners. The company has been expanding its collaboration with global companies such as AWS and Microsoft to improve the competitiveness of its technology services compared with those of global IT players.
- **Telefónica Tech** has formed partnerships with 12 large technology companies including AWS, Azure and Google Cloud, which support Telefónica in growing its business beyond connectivity.
- **Telstra** has a strong network of partners across 200 countries and territories. Partners include Amazon, Apple, Google and Microsoft and support Telstra in creating new emerging products and services.
- **Verizon** has around 147 partners. These include connectivity vendors, original equipment manufacturers (OEMs), cloud vendors and integrators, IT vendors and telecoms providers.
- **Vodafone** has 30 partners in 48 countries, including Accenture, AWS, Cisco, Google, Microsoft and Ring Central. Vodafone collaborates with these on new growth opportunities.

Network operators are choosing between low-growth, low-risk strategies and potentially higher growth in areas where they have little previous success. Unlike in the past, the telecoms industry does not have one obvious path forward. All operators are building on the strength of their network connectivity services; some are pushing beyond connectivity into new areas, often supported by alliances with partners.