

IBM Institute for Business Value

# The natural fit of Cloud with Telecommunications



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## Overview

As an industry, Telecommunications has been wandering in the mist that is Cloud for the past 18 months. Now, the mist is starting to clear. The industry is beginning to see what Cloud really means to its future success. The good news is that communications service providers can stop considering the Cloud as the end goal, and start pursuing specific Cloud-enabled business moves that can generate substantial growth in revenue and profit.

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## *Winning in a new game through new business models*

As providers of connecting networks, CSPs have a unique opportunity to play a key role in business value creation on the back of Cloud technologies. Through our global survey of business and technology executives – 88 of which represented the Telecommunications industry – we discovered that CSPs are actively looking to Cloud to drive new business and move up value chains and to the verticals by utilizing their unique industry assets. More than three-fourths of the CSPs in our survey indicated their companies had piloted, adopted or substantially implemented Cloud in their organizations, while 94 percent expect to have done so in three years.

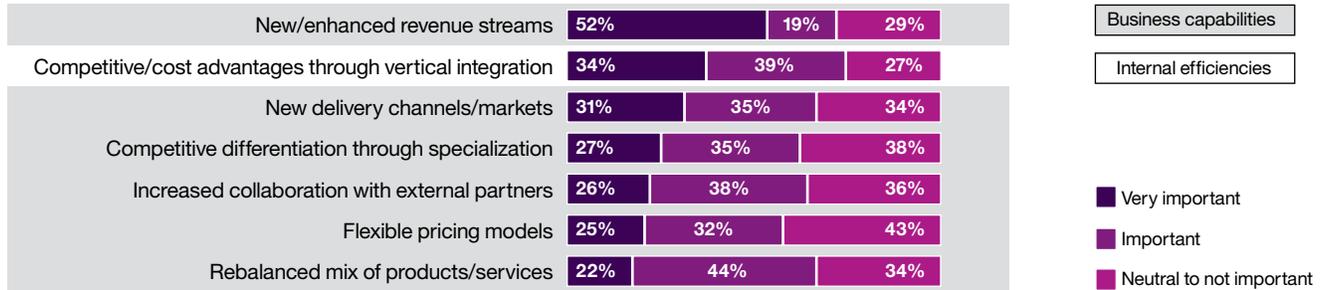
More importantly, our survey reveals that CSPs are particularly targeting more strategic business capabilities (see Figure 1). Only one of the top seven objectives cited focuses on internal efficiencies, with 73 percent of Telecom respondents looking to Cloud to drive competitive and cost advantage through vertical integration. More than half of Telecom respondents cited the creation of new/enhanced revenue streams as “very important,” making it the number-one objective.

Our findings also suggest that CSPs are just beginning to understand the power of Cloud to help drive business innovation. Only 24 percent of survey respondents currently use Cloud for sweeping innovation, such as entering new lines of business or industries, reshaping the industry or transitioning into a new role in their industry value chains. However, 57 percent of CSP respondents plan to rely on Cloud for business model innovation within the next three years, significantly more than the 35 percent of the full survey sample.



**How important are the following objectives for adopting Cloud?**

Percentage of Telecom respondents



Source: 2011 IBM Institute for Business Value/Economist Intelligence Unit Cloud-enabled Business Model Survey.

Figure 1: CSPs clearly intend for cloud to improve their strategic business capabilities.

### Cloud Enablement Framework

A number of CSPs are already driving Cloud-enabled innovation across customer value propositions and industry value chains. To measure the extent to which a CSP's use of Cloud can affect value propositions and value chains, we created a "Cloud Enablement Framework" that identifies three organizational archetypes: Optimizers, innovators and disrupters:

**Optimizers:** Optimizers use Cloud to perform current business more efficiently and effectively, in this way incrementally enhancing their customer value propositions. Given the control CSPs have over access networks, they are well-positioned to optimize the network connectivity of their customers, as well as that between third-party Cloud providers and end users. In addition, CSPs can leverage their data centers and key strengths in communication technology to offer hosted Cloud-based integrated communications services that combine voice telephony, SMS, instant messaging, video conferences, collaboration and the like.

**Innovators:** Innovators use Cloud to significantly improve customer value through leveraging CSPs' distinctive assets in the delivery of current services, resulting in new revenue streams based on new business models. The opportunity for the CSP is to maximize its role in the value chain to deliver, either as a vendor or partner, both horizontal and vertical Cloud-based applications. Horizontal applications include communication/collaboration services, sales force automation, work flow management, enterprise resource management and customer relation management, while vertical applications involve complete end-to-end Cloud services for industry verticals, in particular highly security, privacy-conscious industries like Healthcare, Government and Financial Services.

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**Disruptors:** Disruptors rely on Cloud to develop radically different value propositions, as well as to generate new customer needs and segments, by enhancing the end-customer experience. CSPs have an enormous amount of unique information about their customers. By combining this knowledge with their other unique assets, CSPs can accelerate the explosion of innovative disruptive services that either they or other parties develop. In fact, by adopting a “two-sided” business model, CSPs can generate revenue from both customers and third parties including OTT providers by offering prioritized or guaranteed services – instead of best effort – on selected OTT Cloud applications. Our survey indicates a larger number of disruptors expect to outperform their peers in the next three years than do innovators or optimizers. While they face greater risks, disruptors tend to anticipate higher rewards.

## To optimize, innovate or disrupt?

Whether CSPs choose to become optimizers, innovators or disruptors depends on a variety of factors, including how much they want to or can invest, the risks they are willing to assume and the characteristics of their partner ecosystems. We suggest CSP leaders assess their organizations to determine which archetype they most closely match today – as well as which they aspire to – and how they can leverage Cloud to create new business models that promote long-term growth and benefit. CSPs can play a key role in value creation on the back of Cloud technologies – and now is the time to expand and exploit the opportunities.

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## How can IBM help?

- **Business and technology strategy consulting services:** Helping clients leverage cloud to develop executable strategies and transform their businesses, operations and organizations by delivering business value through technology
  - **The IBM Cloud Enablement Business Model Accelerator:** A tool that helps clients generate immediate Cloud-related business opportunities
  - **The IBM Cloud Service Provider Platform:** A platform that has been specifically tailored to the needs of CSPs and designed to create, manage and monetize CSP Cloud services.
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