

## Telecom switches emphasis

*Preliminary analysis of the 2007 Telecom Industry Survey*

*Business model transformation is emerging as one of the key drivers of future value for telecommunications (telecom) providers. This is a change from 2006, when telecom executives in the IBM CEO Study 2006 placed less emphasis on business model innovation, concentrating instead on products and services innovation. Business model transformation will demand new, very significant distinctive capabilities. Therein lies perhaps the industry's greatest challenge: 2007 Telecom Industry Survey respondents still point to traditional sources of competitive advantage rather than some of the newer dimensions that will determine success in the markets they are now entering.*

There is a perceptible shift in the telecom industry's focus away from cost reduction to business model transformation and revenue growth. Whereas only 34 percent of telecom providers singled out business model transformation as a source of value five years ago, 69 percent now believe it will be the primary driver of value in the industry going forward (see Figure 1).

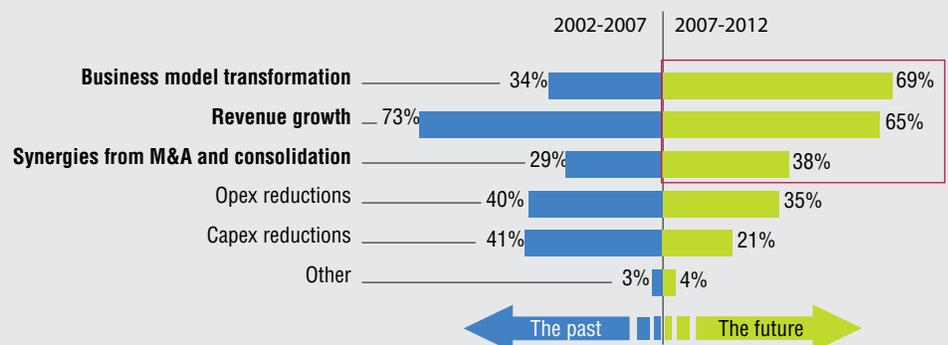
Globally, revenue growth takes second place, with 65 percent seeing it as an important source of value. Many more firms also expect to reap synergies from mergers and acquisitions over the next five years than in previous years. Fewer companies see managing operating expenditure as a means of creating substantial additional value.

Other key findings of the 2007 IBM/Economist Intelligence Unit Telecom Industry Survey are:

- Business model transformation, with a strong focus on external collaboration, is considered critical

- Distinctive capabilities need to be reassessed and better aligned with business model changes
- Voice and broadband still dominate the "revenue mix," but converged content services are the preferred growth engine
- Advertising is expected to make a significant revenue contribution, but operators have yet to exploit this new opportunity
- The end-to-end telecom and media "experience" is a key differentiator, but is critically dependent on service, ease of use, and applied customer knowledge
- Despite optimism by most survey respondents, the complexity of network transformation persists
- Most respondents anticipate an increase in outsourcing across various business functions.

FIGURE 1. Sources of value in global telecommunications, 2002-2012.



Source: The 2007 IBM Institute for Business Value and Economist Intelligence Telecom Industry Executive Survey (n=252).



## Dealing with the change in focus for telecom

Over the next five years, telecom providers will be focusing primarily on the twin challenges of transforming their business models while growing their revenues. As revenues from traditional telecom services decline, the continual erosion of technology barriers to adjacent industries offers the prospect of new markets for telecom providers. Technology changes in themselves however, do not confer competitive advantage on telecom providers in the new converged markets. To be successful, telecom providers need to think about the applicability of their distinctive capabilities to these new markets.

Opportunities for growth in competitive telecom markets will, among other things, be achieved by taking market share both from traditional competitors and new entrants; extending the scope of telecom services to other parts of the household budget; and from alternative sources, such as advertising.

Telecom providers, however, need to be realistic about revenue expectations for advertising and content. The skills and capabilities required to compete in these

markets are very different from those traditionally nurtured by telecom providers. Where possible, telecom providers should exploit partnerships and collaboration with leading partners in each of these areas, but they must be clear about the value they bring to the relationship.

With the expected shift in the revenues toward convergent services, service quality will become critical. Service management capabilities for traditional voice services are not sufficient for the delivery of high quality converged, voice, video and data services. Current levels of investment in this area, however, do not appear to match its growing importance. As telecom operators increasingly compete with media and other non-telecom providers, end-to-end service quality management across multiple networks, devices and content sources offer opportunities for differentiation.

As telecom providers transform their business models – redefining their role in the emerging convergent value chain (of IT, media and telecom) and exploring alternative ways of earning revenue – they will have to develop a set of complementary distinctive capabilities for sustainable competitive advantage.

© Copyright IBM Corporation 2009

IBM Global Services  
Route 100  
Somers, NY 10589  
U.S.A.

Produced in the United States of America  
January 2009  
All Rights Reserved

IBM, the IBM logo and [ibm.com](http://ibm.com) are trademarks or registered trademarks of International Business Machines Corporation in the United States, other countries, or both. If these and other IBM trademarked terms are marked on their first occurrence in this information with a trademark symbol (® or ™), these symbols indicate U.S. registered or common law trademarks owned by IBM at the time this information was published. Such trademarks may also be registered or common law trademarks in other countries. A current list of IBM trademarks is available on the Web at "Copyright and trademark information" at [ibm.com/legal/copytrade.shtml](http://ibm.com/legal/copytrade.shtml)

Other company, product and service names may be trademarks or service marks of others.

References in this publication to IBM products and services do not imply that IBM intends to make them available in all countries in which IBM operates.

To request a full version of this paper,  
e-mail us at [iibv@us.ibm.com](mailto:iibv@us.ibm.com)

### How can IBM help?

- **Strategy and Change:** Help to define and implement organizational change and strategic leadership programs
- **Business Model Innovation:** Innovate your business models to capitalize on opportunities in new formats, while also protecting core revenues
- **Component Business Modelling (CBM) tools and Service Oriented Architecture (SOA):** Help with selecting where to focus your organization and building flexible IT infrastructure for the future

### Key contacts:

**IBM Institute for Business Value:** Ekow Nelson, [ekow.nelson@uk.ibm.com](mailto:ekow.nelson@uk.ibm.com)

#### Telecommunications Industry:

- |                     |  |
|---------------------|--|
| <b>Global</b>       | Chris Pearson, <a href="mailto:chris.pearsoni@uk.ibm.com">chris.pearsoni@uk.ibm.com</a>    |
| <b>Americas</b>     | Judith A. List, <a href="mailto:jalist@us.ibm.com">jalist@us.ibm.com</a>                   |
| <b>Europe</b>       | Ingo Zimmerman, <a href="mailto:ingo.zimmerman.@de.ibm.com">ingo.zimmerman.@de.ibm.com</a> |
|                     | Mario Cavestany, <a href="mailto:m_cavestany@es.ibm.com">m_cavestany@es.ibm.com</a>        |
| <b>Asia Pacific</b> | Nick Gurney, <a href="mailto:nick@au1.ibm.com">nick@au1.ibm.com</a>                        |