IBM Institute for Business Value

Telco 2015

Five telling years, four future scenarios

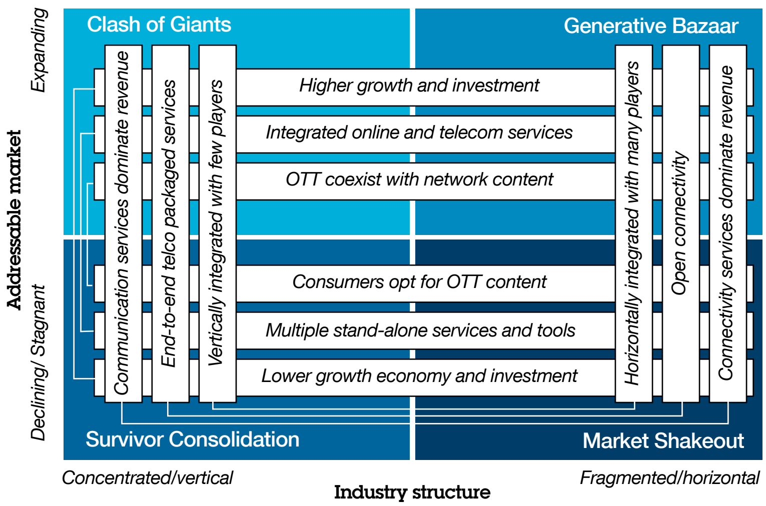
Overview

Despite the run-up in mobile revenues over the last few years, communications revenue growth is beginning to falter as voice markets in developing countries saturate. Unfortunately, content and connectivity revenues have not risen quickly enough to offset these declines. Facing this dilemma, how will the industry evolve over the next five years? Our research suggests four plausible scenarios and the events that would signal their unfolding. More important, we outline the characteristics of companies most likely to succeed in each of these possible futures.

The telecommunications industry has experienced more change in the last decade than in its entire history. In 1999, only 15 percent of the world's population had access to a telephone; by 2009, nearly 70 percent had mobile phone subscriptions. This decade has also brought steep declines in public switched telephone network (PSTN) voice revenues, an explosion of over-the-top (OTT) communication services, phenomenal growth in mobile communications, global industry consolidation and even ground-breaking telco decisions to outsource their networks.

Fueled by recent rapid adoption in developing countries, mobile communications have propped up the industry's top line. But now with these markets saturating, communications revenue growth as a whole is beginning to stall, and content and connectivity revenues have not risen quickly enough to compensate. Although increases in mobile Internet usage offers a glimmer of hope, the telecom industry faces some serious questions: Where will future growth come from? How will the industry evolve?

Our research suggests that several trends are clear, each with a high probability of a specific outcome. However, we have also identified 13 key unknowns that will have a major impact on the future of the industry. These variables generally fall into two main categories: potential areas of growth and the prevailing competitive structure of the industry. Mapping the extremes of the possible outcomes related to these uncertainties reveals different scenarios for what the industry might look like five years from now.



Source: IBM Institute for Business Value analysis.

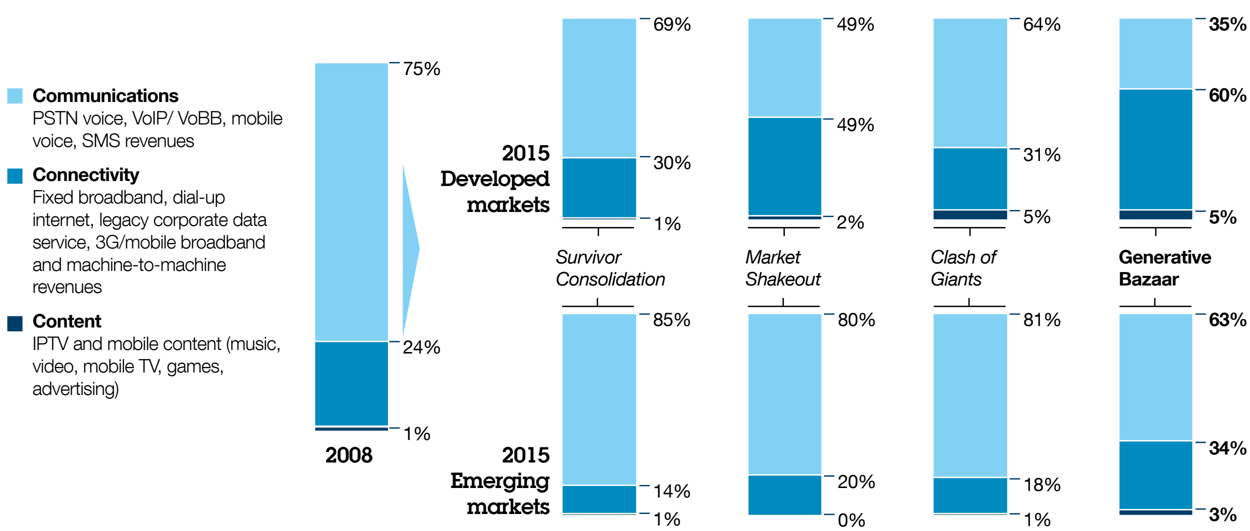
Figure 1: **Four possible scenarios could result from key industry developments whose outcomes are, as yet, unknown.**

Survivor Consolidation: Reduced consumer spending leads to revenue stagnation or decline. Developed market operators have not significantly changed their voice communications/closed connectivity service portfolio and failed to expand horizontally or into new verticals. Investors' loss of confidence in the telecommunications sector produces a cash crisis and elicits industry consolidation.

Market Shakeout: Under prolonged economic downturn, investors force carriers to disaggregate assets into separate businesses with different return profiles, and retail brands emerge to aggregate and package services from disaggregated units. The market is further fragmented by government, municipality and alternative provider (e.g., local housing associations or utility) initiatives that extend ultra-fast broadband to gray areas, while private infrastructure investments are limited to densely populated areas.

Clash of Giants: Carriers consolidate, cooperate and create alliances to compete with OTT providers and device/network manufacturers that are extending their communications footprints. Mega carriers expand their markets through selective verticals (e.g., smart grids and e-health) for which they provide packaged end-to-end connectivity solutions. Telcos develop a portfolio of premium network services and better-integrated digital content capabilities to deliver new experiences.

Generative Bazaar: Barriers between OTT and network providers blur as regulation, technology and competition drive open access. Infrastructure providers integrate horizontally to form a limited number of network co-operatives that provide pervasive affordable and unrestricted open connectivity to any person, device or object, including a rapidly expanding class of innovative asset-light service providers.



Source: IBM Institute for Business Value and IDATE analysis.

Figure 2: **Although revenues shift from communications to connectivity in all four scenarios, the substitution is highest by far in the Generative Bazaar.**

To return to growth, the telecom industry needs to act collectively to create the conditions necessary for the more dynamic and profitable scenarios of Clash of Giants or Generative Bazaar (see Figure 2). They can begin to accomplish this through greater global industry cooperation on common capabilities and platforms to improve competitiveness with global OTT providers. The role of service providers can be enhanced in adjacent vertical markets, enabling new business models in health, smart grids, transport, retail, banking and more. Further growth can be achieved through pervasive, open connectivity for any person, object and a multitude of connected devices, by stimulating third-party innovation and leveraging customer and network insights to deliver new experiences that help to accelerate the evolving digital economy.

How can IBM help?

- *Business Transformation/Optimization:* Simplifying business and IT operations to reduce costs, increase business agility and flexibility and enable migration from legacy to next-generation infrastructure and business models.
- *Customer Experience Management:* Use analytics to drive deeper customer and network insight to enable differentiated customer experiences for competitive advantage.
- *Service Enablement:* Service creation and delivery and digital transformation to generate new revenue faster and to create new business models and partnerships leveraging Telecom, Media and Internet convergence.

To request the full report on this study, e-mail us at iibv@us.ibm.com

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