

# Crossing the Digital Divide

Telco operators offer products and services that are among the world's most technologically advanced, but many still need to bridge a wide gap in their business practices before they can fully realize the advantages and opportunities of the digital economy.

For many Telcos, the gap between their commercial operations and those of digital leaders is a divide that must be crossed if they are to take advantage of the fast-growing global digital economy. Many recognize the revenue opportunities that a fully digitalized business would bring them, but lack a clear vision of how digital transformation would be applied to their business and a solid strategy for making that vision a reality.

MATRIX Software believes that a digital strategy for Telcos must address three key elements which are pillars of a successful future business:

- **Digital Experience:** Taking advantage of digital technology to enable the intuitive journeys that consumers are coming to expect
- **Digital Commerce:** Using digital technology to make commercial transactions across multiple sales channels transparent and effortless
- **Digital Attitude:** Thinking and acting like a digitally native business, utilizing technologies such as ubiquitous broadband and advanced IP devices to create new opportunities and enhanced customer relationships

When we think of digital leaders, these are the kinds of characteristics that come to mind. Companies like Amazon, eBay and Uber are dominant not because their offering is so extraordinary (they largely deal in products that would have been recognizable in the 1990s), but because of how they offer, sell and fulfill their propositions (through advanced digital commerce) and how they engage with their customers.

These characteristics are important for Telcos to recognize. If the industry suffers from digital lag, it is not in respect of its highly advanced proposition but rather in the business sphere including its commercial product development and rollout, sales processes and customer interactions. Telcos struggle to disguise their roots in a slower-moving retail economy, and in many instances still depend on systems that date from an earlier generation of IT automation, or what we might think of as the last great transformation.

## What Does a Digital First Business Look Like?

Compared with digital leaders, such as those of the FANG group, the Telco industry operates under unique pressures and historical disadvantages. These businesses carry no legacy infrastructure, are rarely dependent on physical assets outside of data centers, are not subject to burdensome regulation or even taxation and are not required to be interoperable with their competitors. Their list of advantages is long, while Telcos are tethered to their (highly successful) legacy.

If we reflect on the success factors that differentiate digital leaders and underpin their success, we might consider the following:

- **Real-Time:** Companies like eBay, Uber and Amazon work in a real-time space. Customers have an accurate view of their accounts and any transactions that are underway. Products, services and orders can be self-configured. Payments are immediate and bills are rare. Fulfillment is triggered directly from the order and is either immediate (for virtual products) or as fast as courier services can operate. Disputes can be resolved immediately, through chat. Very little customer-facing activity is batched or deferred and customer service is regarded as a differentiator, not just a cost.
- **Agile:** Products and services are often software based, not reliant on cumbersome, expensive infrastructure and only rarely dependent on devices. It means they can be created, adapted and tested quickly. They typically require few development resources, a relatively low skill set and lend themselves to easy desktop collaboration.
- **Social:** Most digital leaders emerged in the era of social media and were quick to recognize the importance of customer engagement. Facebook was built around social interaction. Customers valued Amazon in large part for its customer reviews. eBay and Uber used their customers to validate their business model and build trust. Digital businesses use peer-to-peer interactions to create a sense of community and to build reputation and confidence.
- **Machine-Centric:** Most successful digital businesses manage very well without a main street presence or even call centers, preferring to provide through email and chat — services which can easily be replaced by AI technology over time. Where there is a physical element to the business, such as Amazon's distribution or Uber's taxis, there is clear strategic interest in taking the human out of the equation at the earliest opportunity, in favor of cheaper and more biddable robots and automated vehicles.

## Where Does This Leave Telco?

In summary, leading digital businesses have exploited new technology to make themselves fast, efficient, market-responsive and profitable. Their explosive business growth over recent years suggests that customers like this approach too, or at least regard any shortcomings that accompany it as an acceptable trade-off for lower prices and greater convenience.

It leaves Telcos on the wrong side of a digital divide, which might be defined as follows:

- **An Absence of Real-Time Interactivity:** Digital technology means that the ordering process and the configuration of the customer package can be much more interactive. In addition, customers that are involved with the construction of their package, that choose its various elements and how it will be delivered, are likely to be much more loyal than customers who are limited to a few generic choices. A digital Telco will move steadily away from deferred and linear processes (such as order management and billing) to real-time interaction through apps, chat and social media.
- **Business Sluggishness:** Perhaps tied to a reliance on aging software platforms and traditional development cycles, and to the need to work with physical infrastructure and deployments. But virtualized network functionality is making change increasingly easy to effect, while it is becoming evident that legacy business IT can be gradually (perhaps not so gradually) sunsetted, either through transition to lighter, more agile digital platforms or by outsourcing to third-party providers.
- **A Relatively Closed Business Mindset:** Many digital businesses make the customer part of the business, not just its target. Others share their platform, making customers of businesses that might otherwise have been competitors.

Relatively few Telcos have yet exploited their customer's natural willingness to participate in affinity groups, seem to work only reluctantly with partners and are prone to relying on an unchanging set of vendors, many of whose offerings and attitudes also date from an earlier commercial era.

## Bridging the Gap

Identifying the gap is one thing, but the approach that is taken to bridging it will represent the Telco's digital strategy and will be perhaps its most important business decision in a generation. MATRIXX sees Telcos tending towards one of two strategic directions:

- **A Complete Transformation of the Telco IT Stack:** The counsel of perfection but one that carries the risk of being lengthy and costly, and in the end leaving Telcos still lagging the market. While Telcos certainly need their IT stack to be carrier class, they also need quick wins and early payback in areas where they are currently suffering competition from more agile, digital insurgents.
- **A Selective Transformation:** Where a fully digital approach is introduced to support a subset of customers or services, often creating a new digital business within the organization. Transformation is typically quicker, impact on the overall business is less and risk is lower. If the approach proves unsuccessful, the cost will be minimized, as will the effort needed to roll back or adapt the initiative. If it proves successful, on the other hand, it will be relatively easy to introduce the approach across the rest of the business, making incremental improvements and updates at each stage.

## Characteristics of Legacy and Digital Operating Models

Business Issue	Legacy Operating Model	Digital Operating Model
Business Agility	Low	High
IT Complexity	High cost, slow	DevOps, agile
Personalization	Static, segment of many	Dynamic, segment of one
Customer Engagement	Limited	Active
Monetization	Missed	Timely
Digital Channels	Low < 80% call center and retail	High > 80% mobile-first
Cost to Serve	Dollars/interaction	Cents/interaction

Source: 451 Research

In practice, and at least for a significant transition period, a combined, or hybrid approach is likely to offer the best return for many Telcos. For example, a light, digital stack is developed to support the more dynamic, growing side of the business (new cloud-based lifestyle services), enterprise IoT propositions or a new digital brand targeting the rising generation of consumers. This is while the legacy stack continues to support traditional services and longstanding customers. Such an approach will minimize both investment and business risk, while allowing a strategy for a fully consolidated agile IT environment, or perhaps for the outsourcing of the stable legacy environment to a managed services partner to evolve over time.

### Towards a Blue Horizon

Many Telcos are looking across a significant divide between them and the digital high ground occupied by today's digital leaders. The good news is that the gap is far from unbridgeable, and that a pragmatic and tactical approach may provide quicker, better and more cost-effective returns than a lengthy and high-risk strategic overhaul.

For more ideas on digital strategy, see MATRIX and 451 Research's paper *Fast Tracking Telcos to Digital Transformation* (September 2018). And for more on how leading digital service providers such as Telstra, Vodafone, and Yodo are using MATRIX solutions to underpin their digital transformation, visit <http://www.matrix.com/customers/>.