

CROSSING THE CHASM: MOBILE CARRIERS ACCELERATE DIGITAL SERVICES PLAY

GOING DIGITAL 2.0: THE EVOLUTION
OF THE TELCO



by **docomo** digital



In what almost feels like a 'once upon a time' era, voice and text services were a telecom operator's revenue mainstay. But how things have changed! And rapidly. Faster data transfer speeds have transformed lives, the role of the mobile phone and—lest we forget—the role of a telco, which seemed to have taken a backstage role as an enabler.

We are now in the nascent era of 5G, which will offer rapid data transfer capabilities. As 5G networks are characterised by lower latency, enhanced capacity and dependability, and they enhance consistency and performance,¹ the possibilities offered are mind-boggling.

Almost every form of communication, or digital entertainment, or service, is now accessible or available via a mobile handset that is internet-enabled. This means that thanks to advances in mobile internet—which has gone hand in hand with the increasing sophistication of device hardware—the smartphone has become central to almost everything we do.

Take for instance over-the-top (OTT) communication services that have revolutionised communication, such as the likes of Apple's FaceTime, Google Hangouts, Microsoft Skype, Tencent's WeChat, or Facebook's WhatsApp. Or for that matter a plethora of OTT media streaming services such as Netflix, Prime, Disney+ or HBO GO. For many around the world, it is hard to imagine life without all of this. (For many teenagers, there hasn't been a life without these services).

But while one could intuitively assume that all of this has meant more revenues for telcos,

life hasn't really been that simple. The irony is that these services, which are enabled by telcos, can cannibalise the enabler. Increased data consumption hasn't resulted in a similar increase in revenue. Francesco Zampini, Director of Devices and Digital Products and Services at CKH Innovations (Hutch Group), points this out, saying "the growth in terms of data usage is higher than 30%. In some markets, it is close to 50%. However, our revenue base is not growing at the same pace."

A user accustomed to making calls or sending messages via OTT platforms doesn't feel the need to make a traditional telephone call any longer. It wasn't long before telcos realised this and acknowledged that merely higher consumption is not going to help them stay profitable, because data prices were plummeting.

To support higher data consumption, telecom operators started banking on content and investing in it. Many telcos believe this strategy will boost customer acquisition and reduce customer churn.²

"I think for the foreseeable future, streaming is going to be on the radar; it's going to be available in the marketplace, and you're going to see an increasing number of competitors," says Jeff Kagan, an independent wireless, telecom and technology industry analyst, consultant and bestselling author. Strategic partnerships between telcos and content companies, therefore, will be a "win-win-win" situation – for telcos, content companies and consumers.

“ The outlook for telcos is entirely positive. We will enter many areas not purely related to connectivity. And I think we are very well-positioned to be the trusted partner for customers in that scenario.”

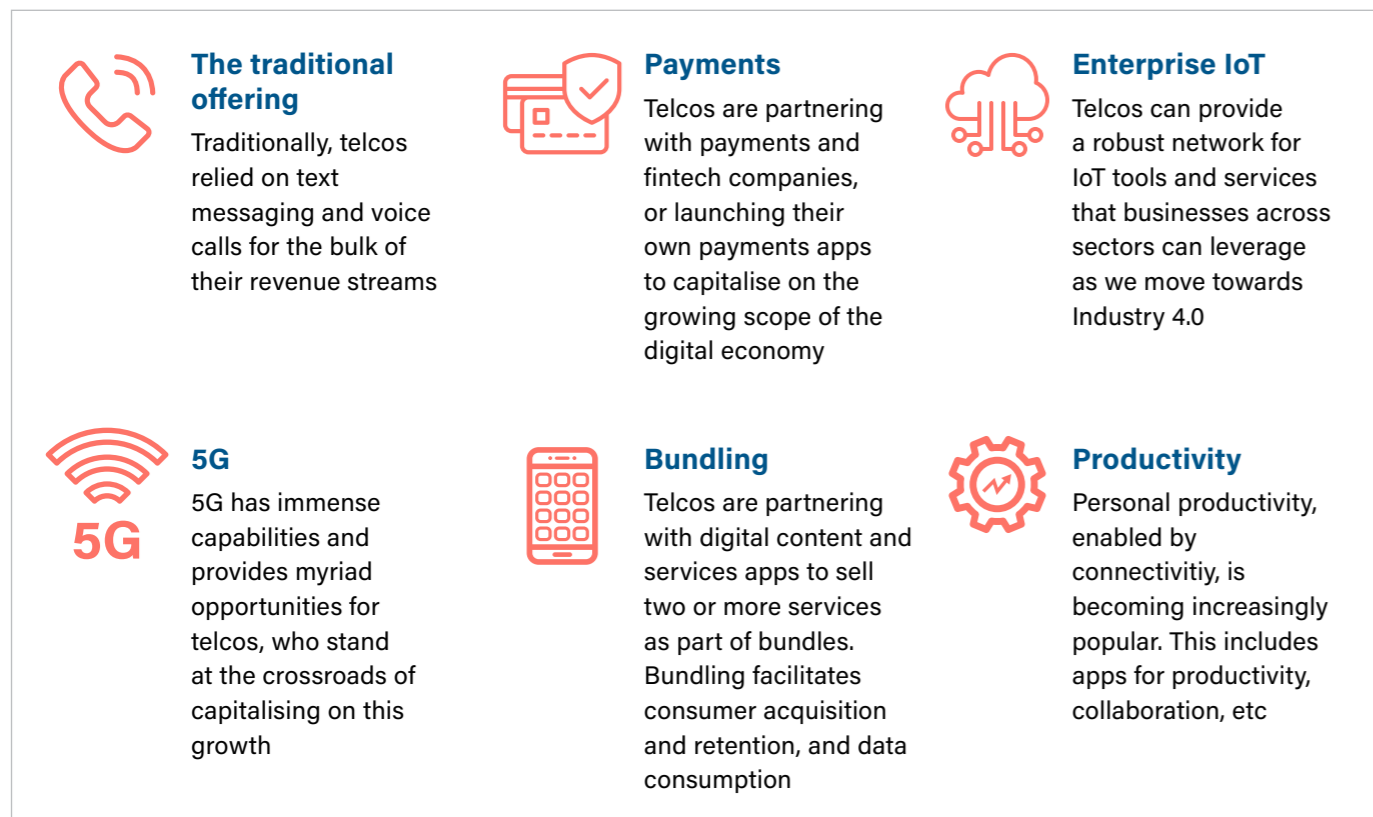


Mariano Martinez
Director of Partnerships
Telefónica Group
Telefónica

¹ UFINET. *The Evolution of Wireless Telecommunication: From 1G to 5G*. Available online at: <https://www.ufinet.com/the-evolution-of-wireless-telecommunication-from-1g-to-5g/>

² Livemint. *TMT Convergence: Future of media, and entertainment sector*. Available online at: <https://www.livemint.com/Technology/AHccMydrdXnNN6qgIQcDCJ/TMT-convergence-Future-of-media-and-entertainment-sector.html>

Exhibit 1: Key consumer revenue streams for telcos



Source: DOCOMO Digital

There has been a discernible shift towards digital entertainment offerings among telcos, with many looking to prioritise the development of business models around digital content, games, home, payments or a mix of these. Given the centrality of the smartphone in our lives, forays are also being made into a range of other services such as health, education, various aspects of productivity, and location-based services including retail and travel.

According to a 2017 report from the World Economic Forum, telcos could generate additional operating profit to the tune of \$142 billion by 2025, or 15% of total consumer telecom services revenue.³ The numbers are eventually going to be even higher, given the impacts of COVID-19 on digital content consumption appetite and habits, and the associated developments that have come with it.

Digital services wouldn't have blossomed with the swiftness they have, if hardware development hadn't kept pace. Fortunately for the telcos, it has.

The smartphone is now no longer a luxury, and its affordability—thanks to the proliferation of android-based devices—no longer a constraint. Two in three people worldwide own a mobile phone now. There are about 5.3 billion mobile phone users,⁴ and of this number, about 4.4 billion are mobile internet users. On average, this subset spends 3 hours 39 minutes daily.⁵ Most importantly, it is estimated that by 2025, 72% of all internet activity will come entirely from smartphones.⁶

It is where revenue growth is.



³ World Economic Forum. Digital Transformation Initiative: Telecommunications Industry. Available online at: <http://reports.weforum.org/digital-transformation/wp-content/blogs.dir/94/mp/files/pages/files/dti-telecommunications-industry-white-paper.pdf>

⁴ DataReportal. Digital Around the World. Available online at: <https://datareportal.com/global-digital-overview>

⁵ DataReportal. Digital 2021: Global Overview Report. Available online at: <https://datareportal.com/reports/digital-2021-global-overview-report>

⁶ CNBC. Nearly three quarters of the world will use just their smartphones to access the internet by 2025. Available online at: <https://www.cnbc.com/2019/01/24/smartphones-72percent-of-people-will-use-only-mobile-for-internet-by-2025.html>



INTO THE UNKNOWN: TELCOs OF THE FUTURE

The lines between different areas of communication, entertainment, productivity and work are blurring and no telco can afford to not think about all of them.

With 5G network rollouts already underway, it is important telcos prioritise transformation. However, the transition into new categories has many telcos facing an existential problem: of how to allocate investments towards existing infrastructure upgrades within tight financial parameters? While doing so, how can they focus on preparing for services that hold promise of generating future revenues?

Telcos associated with new projects have taken the leap of faith and made investments. But others are going to lean towards a slower approach.⁷ But Mariano Martinez, Director of Partnerships at Telefónica Group, suggests the outlook for telcos is positive. "We will enter many areas not purely related to connectivity. And I think we are very well-positioned to be the trusted partner for customers in that scenario."

Telcos must differentiate. They must invest in R&D, keep an eye out for mergers and acquisitions, and make periodic upgrades to network infrastructure. This will allow them to leverage on opportunities that offer potential to boost revenues.

Meanwhile, tech innovations aside, the customer will remain at the heart of developments. "Giving our customers the possibility to have access to the best hardware, the best connectivity, the best content and portfolio products, the best gaming experience is a very, very strong proposition," Mr Zampini says.

Revenues and key performance indicators aside, the pandemic has highlighted the glaring need to bridge the digital divide. This is a pressing requirement both within and across countries, given the central role of the digital economy. The most marginalised sections of society were already facing hurdles; they became worse-off following the pandemic. The problem has been particularly acute in least-developed countries. This has underscored the need for efficient and inexpensive technology access.⁸

“ Offering DCB allows telcos to accelerate their transition to move beyond connectivity. There is a clear opportunity here for telcos to leverage on trust, on the position that we have in our markets, and to be a credible player in new categories.



Francesco Zampini
Director of Devices and Digital Products & Services
CK Hutchison Group



⁷ Intel. Network Transformation Will Enable a New 5G Architecture. Available online at: <https://www.intel.com/content/www/us/en/wireless-network/5g-network-architecture.html>

⁸ World Trade Organization. E-commerce, Trade and the COVID-19 Pandemic. Available online at: https://www.wto.org/english/tratop_e/covid19_e/e-commerce_report_e.pdf

THE ROAD AHEAD

Telcos look well-positioned to transcend into a digital avatar. The increasingly sophisticated digital ecosystem with the mobile phone at its centre, coupled with the power of the impending 5G revolution, means telcos have much to work with as they prepare for the future.

We are already witnessing change in how certain carriers are heeding to these calls for change and adapting. They are pioneering convergence 2.0 to provide vital digital services, diversifying their revenue streams in the process.

In the coming years, we expect this trend to accelerate, with telcos actively focused on innovating or partnering in the areas of content creation and streaming, mobile commerce, health, education, productivity, and home automation (on the consumer side).

But challenges exist. Increasing content costs, rapidly growing competition in this space and divided viewership numbers are issues to contend with. Separately, 5G adoption and implementation requires large capex.

We are going to witness a tussle between trying to keep costs low, but at the same time investing in innovation and partnerships to bring greater value to customers. The challenges notwithstanding, telcos are well-positioned to benefit from advances in the smartphone and other advances in the areas of digital payments.

It is not an opportunity they can miss.

The telco of the future will perhaps look very different from what it does today. Will we even think of them as telephone companies anymore? Or will we see them as nebulous organisations that offer communications, entertainment, network and media products and services and a lot more? It is anyone's guess.



ABOUT US

DOCOMO Digital is the international payments business of NTT DOCOMO. We partner with carriers, merchants, OTT services, app stores and payment providers in both developed and emerging markets around the world. We solve for the challenges of customer acquisition and retention, regulation, and complexity for our partners with alternative payment methods such as direct carrier billing and digital wallets. With teams based in 15 countries, we enable our partners to grow their digital services revenues while enhancing the customer experience for their users. Our robust managed services platform and coverage across carriers and the most locally relevant payment methods enable faster time-to-market, especially for streaming, gaming, e-commerce and productivity application providers.

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