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The High Cost of Taking a Wait-and-See Approach to Digital Transformation



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Introduction

For many communication services providers (CSPs), there seems to be a gap between what they say about digital transformation and what they actually do.

For instance, 82 percent of CSPs have identified digital transformation as a critical and immediate objective, but 62 percent lack a digital strategy. Or, consider that 95 percent of CSPs recognize the importance of a Chief Digital Officer to drive digital transformation strategy, yet only 14 percent have one.¹

This disconnect is creating real-world problems for the telecommunications sector. A recent Forrester report found that CSPs are unprepared for digital transformation, with telecom companies ranking at or near the bottom for several critical success factors, including business agility and customer experience.² While industries such as retail and banking are seen as “setting the standard” for digital transformation, telecommunications is performing “poorly.”³

Despite these issues, many CSPs are taking a wait-and-see approach to digital transformation. However, being behind the curve in the digital economy puts providers at particular risk of being usurped by outside disruptors, agile competitors that can use digital to dominate markets and drive high growth, profits, and market capitalization.

This white paper explores the high cost of taking a wait-and-see approach to digital transformation—or worse, doing nothing at all—and outlines several key elements that CSPs need to begin making the transition to a digital-first business.

KEY TAKEAWAYS

- › Many CSPs are taking a wait-and-see approach to digital transformation, putting them at risk of disruption.
- › Without a digital transformation strategy, CSPs face declining revenue, customer churn, and market share erosion.
- › Digital transformation initiatives can increase market share and profitability.
- › A platform strategy can help CSPs deliver digital products and services with the greatest speed and least risk.

1 “Two Perspectives on Customer Experience,” Vincent Rousselet, Global Head, Market Insight & Strategy, AMDOCS, June 2016

2 “The Digital Transformation Race Has Begun,” Forrester, September 2017

3 “Most businesses unprepared for digital transformation,” by Sead Fadilpašić, ITProPortal, March 22, 2018



What is digital transformation?

IDC defines digital transformation as the continuous process by which enterprises adapt to or drive disruptive changes in their customers and markets by leveraging digital competencies to innovate new business models, products, and services.



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The Barriers to Digital Transformation Are Significant

No one is trivializing the investment and effort required to transform a company to compete in the new digital economy. Change is never easy, and the transformation of everything—including business models, processes, skillsets, products, services, the customer experience, and beyond—is a daunting proposition.

Transformation for traditional companies is made all the more difficult because of their entrenched way of doing business. In an EY study, respondents reported that legacy IT and a lack of digital skills are the two main barriers to change, with 65 percent citing the “burden of legacy IT platforms and architecture” as the greatest obstacle to digital transformation.⁴

When companies do try to digitally transform, the chances of failure are high. In fact, one-third (33 percent) of organizations that have initiated digital transformation efforts have cancelled a project in the past two years, while more than one-quarter (28 percent) have seen a project fail within the same timeframe. The costs of a cancelled or failed digital transformation project are also considerable, averaging \$527,389 and \$691,552 respectively.⁵

Given these realities, it may seem prudent to avoid the risks of future transformation initiatives altogether, and many companies do just that; two-thirds (66 percent) of organizations say that the expense of failed digital transformation projects has caused them to not pursue additional opportunities.⁶ However, taking a wait-and-see approach is a dangerous strategy. Waiting and watching can create an innovation gap that can become a virtual cliff, making it impossible to catch up or leapfrog back into a competitive position.

74% of telecommunications companies report that disruptive competition is the top strategic challenge faced by their business.⁷

4 “Digital Transformation for 2020 and Beyond: A global telecommunications study,” EY, 2017.

5 “The Digital Transformation PACT,” Fujitsu, 2017.

6 Ibid.

7 “Digital Transformation for 2020 and Beyond: A global telecommunications study,” EY, 2017.



Telecom Companies Can't Afford to Move Slowly

A global survey by enterprise software vendor SAP and Oxford Economics shows that 84 percent of executives say that digital transformation is critical to their company's survival.⁸ The vast majority are under no illusion that there is a choice about whether to transform for the digital economy.

Among all the sectors impacted, the telecommunications industry ranks number two on the list of top industries facing disruption from digital technologies, second only to media.⁹ It's little wonder then that 71 percent of CSP executives say that digital business models and services are their most important strategic priority through 2020.¹⁰

Yet progress towards transformation of telecommunications companies has been frustratingly slow. The resulting costs and missed opportunities of getting behind in the digital economy are enormous:

- **Declining revenue:**

There's been a consistent decline in average revenue per user (ARPU) for communications companies. Declining voice and SMS revenues haven't been replaced by data consumption. At the same time, Facebook experienced 28 percent year-over-year growth in ARPU in the fourth quarter of 2017, while Snapchat's ARPU climbed by 39.3 percent year over year in the third quarter of 2017.¹¹

- **Customer churn:**

Today's consumers and business customers expect a state-of-the-art experience when interacting with brands and base their loyalty in large part on that experience. Yet, the telecommunications industry Net Promoter Score (a measure of customer loyalty) is just 31, placing it 14th out of 20 industries.¹² Translated into dollars, this lack of loyalty, otherwise known as churn, is estimated to cost the top telecommunications companies \$65 million per month in lost revenue.¹³

- **Loss of market share to more digital-savvy companies:**

A survey of mobile users shows that customers prefer the experience of digital-first companies, with 73 percent saying they wish their mobile service provider operated more like Amazon. Further, 75 percent would buy mobile services from Amazon, PayPal, or Netflix if those brands offered them.¹⁴

- **Risk of disruption:**

Communications companies are losing profit and value as they continue to fail at monetizing the digital opportunity. Accenture reports that operators' share of the industry profit pool declined from 58 percent in 2010 to 47 percent in 2015, and is forecast to drop to 45 percent in 2018.¹⁵

8 "4 Ways Leaders Set Themselves Apart," SAP Center for Business Insight and Oxford Economics, July 2017.
9 "How Telecom Companies Can Win in the Digital Revolution," McKinsey & Co., October 2016.
10 "Digital Transformation for 2020 and Beyond: A global telecommunications study," EY, 2017.
11 "Facebook's Average Revenue per User: The Trend in 4Q17," Naomi Gray, Market Realist, February 2018.
12 "The NPS Industry Benchmark," CustomerGauge, January 2018
13 "Churn in the Telecom Industry: Identifying Customers Likely to Churn and How to Retain Them," Aditya Kapoor, February 2017
14 "Survey Shows 75 Percent of Consumers Would Buy Mobile Services From Amazon, PayPal and Netflix," Matrixx Software, October 2017
15 "Digital Transformation Initiative: Telecommunications Industry," WorldEconomicForum, January 2017



The Rewards of Digital Transformation

What can companies expect to achieve from transformation beyond the ability to simply survive in the new digital economy? All indications point to significant benefits stemming from transformation, from growth opportunities to greater profitability, new revenue streams to reduced churn, and more.

In a global survey by SAP, the top 100 companies reporting the greatest level of transformation say they're achieving big benefits: 85 percent say they've seen increased market share and 80 percent say they've increased profitability.¹⁶

In the telecommunications industry, the largest opportunities in enterprise digital services will likely be in information security, enterprise mobility management, unified communications, cloud services, and analytics. Together, these areas could add a further \$48 billion in operating profit across network operators and equipment vendors.¹⁷ Moreover, almost one-quarter of global operators report that they expect digital services across consumer and enterprise applications to account for more than 25 percent of total revenues by 2020.¹⁸

Beyond a direct uplift in sales, offering digital services to customers could improve customer retention. The World Economic Forum and Accenture estimate that a 0.5 percent to 1 percent annual reduction in churn could generate additional operating profits of \$10.3 billion over the coming decade.¹⁹



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Sizing the opportunity

The digital transformation of telecommunications represents a **\$2 trillion** opportunity for industry and society. Of this, the value to the telecom industry could exceed **\$1.2 trillion** in cumulative operating profit from 2016 to 2025.²⁰

Winning in the Digital Economy Takes a Platform Approach

What can CSPs do to transform their businesses for the digital economy? They need to deliver more value, sooner rather than later, in the form of digital products and services. And they need to deliver those products and services with the kind of experience that keeps customers coming back. The way to do this with the least risk and the greatest speed is to utilize a platform-based approach.

¹⁶ "4 Ways Leaders Set Themselves Apart," SAP Center for Business Insight and Oxford Economics, July 2017

¹⁷ "Digital Transformation Initiative: Telecommunications Industry," World Economic Forum, January 2017

¹⁸ "Digital Transformation for 2020 and Beyond: A global telecommunications study," EY, 2017

¹⁹ "Digital Transformation Initiative: Telecommunications Industry," World Economic Forum, January 2017

²⁰ Ibid.



As a platform, a company connects its customers to products and services often created by third parties. For example, a ride sharing company like Lyft doesn't own a fleet of cars. Rather, it acts as a platform to connect drivers with cars to passengers looking for rides. In a similar way CSPs can, for example, connect their business customers to valuable solutions, such as office productivity software, without needing to develop it themselves.

The World Economic Forum reports that by embracing the transformational power of platforms, enterprises across all industries are capturing new growth opportunities and changing the way they do business.²¹ Platforms also support the growth of digital ecosystems, which can enable companies to develop better features at a faster pace than working alone.

Most telecom providers already have many of the key ingredients that they need to succeed with a platform strategy. Here are three approaches CSPs can focus on to begin the transition:

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1 Put the customer experience front and center

CSPs already give customers the products and services they use every day. As such, they've successfully created one of the most essential elements for a successful platform: a large, active customer base. However, CSPs need to remain focused on the customer. It is crucial to ensure that every technology enhancement is well integrated into the customer experience.

2 Make partnering your default

Most CSPs have traditionally focused on going it alone and building products and systems in house. Now, the digital economy demands more active engagement with partners to understand the competition and where to find value to deliver to your own customers. CSPs that partner well will ultimately beat those that don't.

3 Find the value first, worry about execution later

Platforms can provide real value, but only if the business case is clear and there is internal alignment around a digital transformation strategy. If your organization is not on the same page, your platform project will most likely fail. Align and find value first, and then execute your transformation plans.

²¹ "Digital Transformation Initiative: Telecommunications Industry," World Economic Forum, January 2017



Conclusion

It may seem like everyone in the telecommunications industry is talking about digital transformation, but the key question is what organizations are actually doing to change the way they do business. Given the complexity and potential risks of digital transformation projects, many are taking a wait-and-see approach, putting off the planning and execution needed to help their companies thrive in the digital economy.

However, waiting is not an option. Falling behind in digital transformation can lead to a range of issues, including declining revenue, customer churn, loss of market share, and increased risk of disruption.



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To accelerate digital transformation, CSPs should utilize a platform-based strategy. With the right platform, your company can drastically reduce the risk, effort, and time-to-market with new digital products and services. At the same time, you can deliver the type of customer experience you need to promote your brand and grow loyalty.

Traditional incumbents can still win the digital economy, but the old business models must change. The time for waiting is over.

Interested in Learning More?

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