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What Five Trends Mean for Telcos

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Industries / Telecommunications

Take-Aways

- Telecommunications companies are currently experiencing surprisingly low returns, and will require a change in strategy if they hope to perform well in the future.
- Structural separation, B2B applications and competitive hyperscalers are all opportunities for traditional telcos, or threats.
- Telcos can increase value by building a bionic core business, moving into tech, offering 5G applications and operating models, and improving transformative enablers.

Recommendation

From 2019 to 2022, telcos had a total shareholder return (TSR) of 9%, performing a percentage point below the equities market as a whole. Between 2019 and 2022, pure-play telecom infrastructure companies actually outperformed the market by six points, but regional and global service providers brought the overall TSR down. How can the industry as a whole get back into the double digits? This report from the Boston Consulting Group offers some ideas.

Summary

Telecommunications companies are currently experiencing surprisingly low returns, and will require a change in strategy if they hope to perform well in the future.

Consider every trend coming over the horizon – AI, virtual reality, blockchain, cloud-based applications, and Web3 – and you’ll have to recognize that the telecom industry could play a strong role in nearly all of them. But each telco’s future will depend on how they handle five upcoming trends, namely: structural separation; B2B 5G applications; competitive hyperscalers; Web3; and generation Z’s rise.

“Telecommunications used to be a hot, innovative sector with skyrocketing returns. Those days are mostly gone.”

Telcos can’t assume that they’ll get their allotment of the Web3 market, because start-ups, established tech firms, and every other type of company, from health care to auto, will be elbowing their way into the space. To preempt these challengers, Telcos will have to develop novel applications, keeping in mind that as their future customers, gen Z expects a high-quality digital experience. If telcos sleep on innovation, some other company will be the one to deliver.

Structural separation, B2B applications and competitive hyperscalers are all opportunities for traditional telcos, or threats.

While some consumers are already embracing 5G, B2B still represents a larger market. Telcos should consider investing in high-speed data transmission for the cloud-based applications that will become increasingly important as businesses digitize core processes.

“Hyperscalers” are companies that leap past their original markets into new territory – think Amazon, Microsoft and Apple. To compete with hyperscalers, telcos may have to join them. They can either partner with companies that have already seen some success in new markets, or invest in internal innovation to beat them at their own game.

“If navigated correctly, these five trends represent an enormous opportunity that could significantly change the trajectory for telcos, producing years of solid, above-market returns.”

Finally, it's no secret that telco companies that focus solely on infrastructure are winning when it comes to TSR (total shareholder returns), easily beating their integrated or service-providing partners. Does that mean every telco company should split? Not necessarily. Sometimes shaking off the cumbersome legacy service portion of the business works, because it frees the company to work with multiple service providers, a move that typically improves infrastructure use by up to 80%. It also makes the company more appealing to private equity firms, helping procure investments for the capital-heavy tech developments. But many companies are now taking this route, which means more competition and lower profits. If a telco has a strong customer service and retail game, they can already charge more for their services. At that point, it's better to keep the company integrated.

Telcos can increase value by building a bionic core business, moving into tech, offering 5G applications and operating models, and improving transformative enablers.

Telecommunication companies need to move back into double-digit returns, and they'll only be able to do that by expanding into new markets with novel products and services, often by exploring partnerships with companies in those areas, all while cultivating relationships with new customers. It's a daunting series of hurdles.

"The prospects of achieving double-digit or higher returns may seem slim in the coming years."

Telcos can't cling to what's worked in the past if they want to move into the future, and the future will require five tactical moves:

1. **Build a "bionic core business"** – Strive to enhance efficiency, customer interactions, pricing, sales and marketing through AI, data analytics, and digitization.
2. **Transform from a "telco to techco"** – Telco companies can make inroads into telco-adjacent opportunities if they identify them early. Implement pilot programs into new markets, and incremental gains could turn into larger revenue streams.
3. **Develop "5G applications as a network leader"** – The cloud-enabled applications on the horizon will require technological and physical capacities beyond telco companies' current capabilities. Invest in network expansion and modernization to support "virtualization, AI, open access, data analytics and digitization."
4. **Cultivate a "next-gen operating model"** – Which is your strength? Network, service or infrastructure? Only a careful examination of finances, strategy and market considerations will reveal whether a company should separate and focus on only one of these capabilities, or stay integrated.
5. **"Improve transformative enablers"** – With entry into new markets, telcos need to be able to attract highly skilled workers, especially as they diversify into new markets. Adopt an agile culture, embracing a test-and-learn approach with a fail-fast mentality, but maintain centralized management and solid governance procedures.

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