

UNBUNDLING THE MOBILE OPERATOR

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The mobile industry is currently going through a period of radical transformation and facing an unprecedented set of challenges, driven by shifts in technology, customer behavior and regulatory approaches. At the same time, countries demonstrate wide disparities in terms of penetration rates and adoption of data. Some developing nations are still grappling with universal coverage for voice, while trying to play catch up on 3G and 4G.

The diverse set of challenges and rapid change is putting pressure on cellular companies to be more agile and consumer focused. At a time when industry revenues are flattening due to OTT and price competition, continuing investment in coverage and new technology is requiring higher levels of investment.

It is our view that the time is now right to ask the question of what the shape and form the ideal telco value chain should be. While convergence and its opposing force, deconstruction, have been talked about for years, the forces at play today are probably mature enough to finally force the unbundling of the mobile operator.

As the change happens, whether by market forces or by community advocacy, we have to be prepared for the new economy in the telecommunications industry.

The future value chain will need to be organized around the different logics of the integrated chain today. In reality, the mobile value chain is a collection of a few different business logics:

- **The long term cycle of large Capex and utility like returns of fundamental infrastructure.**
The need to develop long term scalable technology is a major challenge in the highly-competitive and cost-sensitive telecommunications industry. Such long term thinking may be at odds with the more fickle nature of the service side of the business. Telcos are increasingly exploring the Netco concept as one way of bridging this divide, and there seems to be strong interest in infra sharing especially in the passive end of the business. Infra JVs, tower sales/spin offs, and even shared small cell partnerships with separate governance or independence may soon be the norm.
- **The “hits” based approach of content, focused on innovation and rapid go to market.**
As other industry pundits have noted, a fundamental new DNA is needed by telcos to compete in this space. The engineering based, multi-year returns approach is no longer relevant here. To embrace the “Silicon Valley” mentality, Telcos are increasingly running digital as distinct businesses, right down to separate cultural norms for the organization.

- **The experience logic of the customer care business.**

Operators must also build a greater agility and responsiveness to the customers. As access becomes commoditized, experience whether network or service based will matter more. In the long run, the ability to be relevant as a telco will probably rest with its ability to engage and connect with customers.

- **The brand and pricing based dimension of the distribution and retail end of the business.**

The “FMCG” era of the mobile business will likely become even more brand centric, and retail and digital points of presence will be critical to success. Telcos will increasingly distribute on brand and off brand services, and perhaps act more as a trusted brand for consumers.

While some Telcos may well continue to manage the inherent conflicts in the integrated value chain, it is becoming clear that many are considering formal and informal mechanisms to build more agility into the system and ensure each part of the business works to the right logic. We believe quite a few will take the path of some sort of unbundling of their businesses.

Passive infrastructure is perhaps the leading edged this unbundling. The fact is that cellular companies cannot build, operate and maintain their tower assets at the cost or level that a dedicated telecommunications infrastructure company can offer. The additional pressure of regulatory requirements, local council specifications and community advocacy to this scenario will eventually tip the balance in favor of infrastructure outsourcing.

Such changes are not likely to happen overnight, and are perhaps best driven by allowing commercial market based approaches to dictate the pace of transformation. In the passive infrastructure world, pioneers will need to get the right change management approach especially when converting a traditional back office function (civil and structural) into a business (towers).

“May we live in interesting times” as they say. For those of us in the industry today, that is probably the one certainty.

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