



WHITE PAPER

Key Success Factors for Digital Transformation in the Communications Industry

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In mid-2015, IDC conducted in-depth interviews with business and IT executives of communications service providers (CSPs), including large tier 1 telcos and cable and satellite providers, as well as smaller regional service providers and small local ISPs, to understand their digital transformation strategies. Though the maturity and specific digital initiatives of the companies varied widely, one theme was clear: The communications industry is transforming for the digital age to better interact with and service the customer. As CSPs continue their journey to become a digital enterprise, the following key success factors should be kept in mind:

- Establish a digital strategy and a five-year plan.
- Leverage analytics to better understand customers and reduce churn.
- Develop an omni-channel platform that can evolve with the business.
- Implement a digital IT strategy that addresses legacy transformation.
- Evaluate integrated digital IT options to help speed time to market.

Establish a Digital Strategy and a Five-Year Plan

Digital transformation has emerged as a key strategic goal for the communications sector. This offers increased agility, reduces time to market, and can have a positive impact on margins. The communications industry is in transition and faces significant competitive threats from emerging sectors and new business models. Implementing digital transformation provides additional tools to gain much-needed insight to understand and to respond rapidly to customer requirements while improving the customer experience.

Digital transformation is being implemented or under evaluation by many CSPs; however, only a small percentage of companies are well along in the process and are actually executing their business strategy largely on digital platforms. Most CSPs are still just one to two years into the digital transformation process, which is expected to take five to six years, and will continue to evolve for additional years as consumption patterns and technology evolve. While this trend is in its initial stages, some CSPs are achieving success in reducing churn as a result of improved agility and improvements in Customer Experience scores.

The Customer Is Driving the Transformation to Digital

Digital transformation is being driven by the need for improved customer experience management (CEM), customer insight, and proactive monetization, which can be achieved through the analysis of customer usage to better align service and the overall CSP portfolio. CSPs are prioritizing the implementation of digital transformation for improved customer interaction to reduce churn, to improve the customer experience, and to attract new customers via new channels. However, this is not enough to enable CSPs to prosper and maintain strong growth.

CSPs are under siege from OTT players that are much more adept at proactively leveraging end-user data, so implementing a digital strategy is essential to survival. Because of the fast-changing nature of the communications industry, especially within the mobile and video sectors, achieving cost efficiencies and agility is a top priority to stay ahead of the competition. Telcos can achieve competitive differentiation through digital transformation by leveraging analytics as well as software-driven cloud platforms to more efficiently and effectively understand customers. According to a large United States-based telco executive, "The main driver of digital transformation is to improve our business by understanding customers' buying and usage patterns so we can retain customers and upsell existing customers and attract new ones."

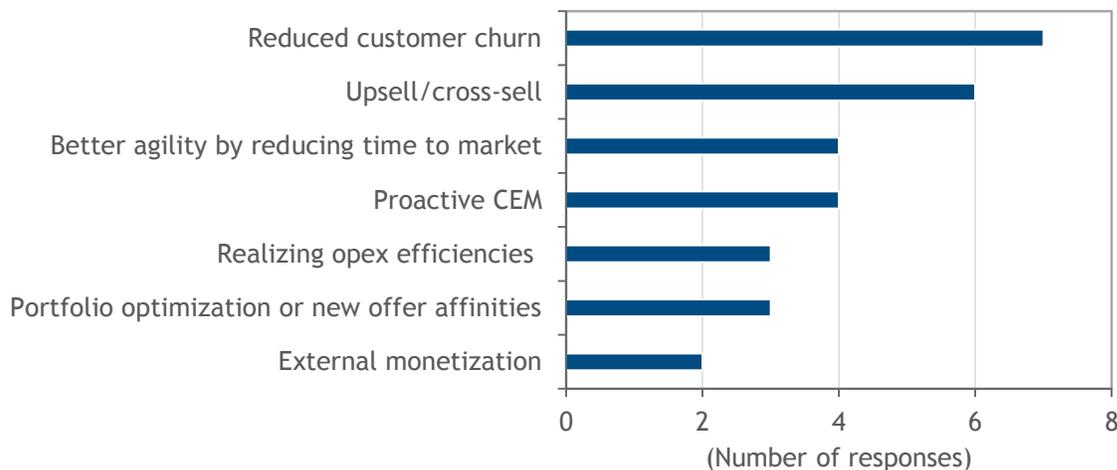
Leverage Analytics to Better Understand Customers and Reduce Churn

Analytics in the communications industry are used for understanding customers and their behavior and usage patterns to improve markets via reduced churn and upselling new services to grow the business. Interviews with CSPs revealed that reducing churn, or keeping the current customers, is the number 1 priority for using analytics (see Figure 1). According to a marketing head of a CSP, "Reduced customer churn is high priority because this measures the amount of customers you are losing. The lower the churn, the better customer retention percentage rate for business. If you churn too high in business, the company loses too much profit."

FIGURE 1

Top Priority for Leveraging Analytics Is Reducing Customer Churn to Promote Revenue Growth

Q. To what extent are the following top priorities for deploying business analytics?



Source: IDC, 2015

Reducing churn is followed by cross-selling or upselling, but there is also the task of balancing revenue growth while maintaining adequate margins and profitability. Reducing churn and upselling new services not only improve agility in responding to customer requirements but also foster long-term customer loyalty. The reductions in operating costs can also be enhanced through digital transformation, particularly analytics systems that can offer crucial business intelligence on usage and specific consumption patterns and the success of specific promotions and offers.

Develop an Omni-Channel Platform That Can Evolve with the Business

The telecom sector is at the heart of a dazzling array of new technology that is impacting society. Speedy broadband networking and amazing mobile devices have transformed the digital end-user experience. However, the telecom industry is still lagging in the provision of a compelling integrated omni-channel strategy that melds the customer experience across all channels with a seamless retail strategy. Some tier 1 CSPs have been successful in implementing an omni-channel strategy that integrates the online and retail store customer experience. However, most CSPs are still in the early stages of implementing a comprehensive platform that measures online activity, analyzes user preferences, and then tracks the retail transactions. One midtier CSP noted: "Ideally, we would be able to provide customers with contextual, real-time data about their services before they ask for it and provide a rich set of enhanced management data for more insight into service performance." This reinforces the notion that omni-channel extends beyond customer-facing channels and that a true omni-strategy includes accessing data from internal management and financial systems to ensure that the right services are delivered or offered to the right customers at the right price. This vision may be a ways off for most in the communications industry, though it is the key to long-term growth and profitability.

While most CSPs are still crafting their approach to omni-channel, one tier 1 wireless company interviewed is taking a leadership approach to omni-channel: "Our strategy is to present one consistent way of doing business not only to our customers but also [to] our business partners. We strongly advocate an aligned set of channels that present a single face." Such successful CSPs have integrated their channel strategy to move well beyond a simple online customer service presence. The best platforms are tightly integrated to provide the optimal feedback on customer interactions, intelligence on the customer experience, and physical retail interactions.

Implement a Digital IT Strategy That Addresses Legacy Transformation

Customer interactions can no longer be limited to establishing a simple online presence. CSPs should set a goal of migrating the majority of customer interactions to digital channels by 2020. The shift to digital will require the modernization and integration of disparate legacy and siloed software platforms and the consideration of an end-to-end platform that can be implemented in modular stages as company requirements evolve. However, the process of legacy system transformation in order to access data across channels will be long and complex.

Research revealed that the reason for the lack of omni-channel integration in the communications industry is that many CSPs are still burdened with legacy systems; therefore, the data exists in silos, which in some cases can't be accessed by newer digital technologies. Legacy systems also contribute to the elongated process of digital transformation across the industry. To realize the potential of analytics and digital, communications companies have to accelerate the transition from legacy systems to more agile, digital technologies.

Because of the complexity and potential disruptions to the business, most CSPs are taking a phased approach rather than a rip-and-replace approach. One CSP IT executive explained, "We are taking a multipath approach to solving managing and maintaining legacy systems along with the need to launch new digital businesses by consolidating like systems and determining which systems can be migrated with minimal impact." Several also mentioned running new digital technologies alongside legacy systems for a period of time until the new systems can be proven. This parallel process can be costly, but CSPs should start by transitioning one customer-facing business process such as customer service or sales. Evaluating packaged digital solutions with integrated analytics platforms can also help speed the transition to digital while helping reduce churn and expand sales.

Evaluate Integrated Digital IT Options to Help Speed Time to Market

There is no magic solution to digital transformation, and so most communications companies use a hybrid approach to digital technologies. This includes implementing a combination of in-house developed and packaged software along with professional services for planning or integration. Analytic software procurement is also a mixed approach. Not surprisingly, with large internal IT departments and scores of developers, large tier 1 CSPs depend much more on in-house development tailored to their specific requirements. Companies are also using a creative mashup of data generated via CRM tools and data analytics.

The challenge with this approach is that it elongates the already long process of digital transformation in a market where speed to market, agility, and efficiency are paramount. To gain that competitive advantage that speed can bring, especially in the rapidly changing world of mobile and cloud services, CSPs should explore integrated end-to-end IT solutions that combine predictive analytics with CEM that can be efficiently implemented and more quickly help realize business benefits. This can also be implemented in a modular method as business requirements evolve.

Essential Guidance for CSPs

Digital transformation is essential for the future survival of CSPs. Today's consumer is rapidly evolving into the digital consumer of the future. The process of understanding customer requirements and subsequent delivery of compelling services and quality customer experience requires a digital infrastructure.

CSPs have great network assets and have tremendous experience operating digital commerce portals. They can reap additional benefits by accelerating the transformation to digital through leveraging analytics and omni-channel integration to improve agility and retain customers while creating new opportunities to profitably grow market share. As CSPs continue – or begin – their digital transformation, the following guidance should be considered:

- Begin by determining key priorities to improve differentiation and competitive positioning. Interacting with the customer in a digital environment can enable personalized next-best interactions to drive cross-sell and upsell and proactively reduce churn as well as facilitate new opportunities that can have significant financial implications.
- Leverage customer insights through proactive CEM to keep customers happy and returning. Customer experience is directly related to customer loyalty, and statistics show that a positive experience minimizes churn, one of the primary challenges among CSPs. Delivering a seamless omni-channel experience will provide long-term dividends in establishing brand differentiation and loyalty. It can also improve agility and the speed of monetization of customer requirements.
- Because data silos and data that resides in legacy systems can inhibit the creation of an omni-channel environment, consider implementing an integrated prescriptive analytics platform. Packaged solutions can help overcome some of the hurdles of providing an analytics-based omni-channel experience and can speed time to market for providing CSPs with a competitive advantage.

Implementing a digital platform will facilitate multiple benefits, including more improved operating efficiencies and smarter customer segmentation and service development. Both can lead to a better customer experience while providing a more focused marketing strategy.

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