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A Fit for GrowthSM
Framework for
Telecom Operators
*Aligning Capabilities,
Costs, and Structure*

Contact Information

Beirut

Chady Smayra

Principal

+961-1-985-655

chady.smayra@booz.com

Madrid

José Arias

Partner

+34-91-411-5121

jose.arias@booz.com

Munich

Martin Reitenspiess

Partner

+49-89-54525-522

martin.reitenspiess@booz.com

São Paulo

Ivan de Souza

Senior Partner

+55-11-5501-6368

ivan.de.souza@booz.com

Berlin

Dr. Hannes Gmelin

Principal

+49-30-88705-881

hannes.gmelin@booz.com

José Antonio Tortosa

Partner

+34-91-563-7693

joseantonio.tortosa@booz.com

New York

Christopher Vollmer

Partner

+1-212-551-6794

christopher.vollmer@booz.com

Stuttgart

Christine Rupp

Partner

+49-711-34226-916

christine.rupp@booz.com

Buenos Aires

Ariel Fleichman

Partner

+54-11-4131-0432

ariel.fleichman@booz.com

Milan

Luigi Pugliese

Partner

+39-02-72-50-93-03

luigi.pugliese@booz.com

Paris

Pierre Péladeau

Partner

+33-1-44-34-3074

pierre.peladeau@booz.com

Tokyo

Toshiya Imai

Partner

+81-3-6757-8600

toshiya.imai@booz.com

Dubai

Karim Sabbagh

Senior Partner

+971-4-390-0260

karim.sabbagh@booz.com

Moscow

Steffen Leistner

Partner

+7-985-368-78-88

steffen.leistner@booz.com

Riyadh

Hilal Halaoui

Partner

+961-1-985-655

hilal.halaoui@booz.com

Vienna/New York

Klaus Hoelbling

Partner

+43-1-518-22-907

+1-917-284-3906

klaus.hoelbling@booz.com

Also contributing to this Perspective was Booz & Company senior partner Karim Sabbagh.

*Fit for Growth*SM is a concept developed by Booz & Company to help companies in a variety of industries become more strategically and organizationally effective while focusing expenses more coherently. For more information on this service offering, see www.booz.com/fitforgrowth or contact the people named in this Perspective.

EXECUTIVE SUMMARY

As their markets become increasingly saturated, operators in the telecommunications industry have been locked in a vicious cycle of repeated cost-cutting efforts to stabilize profits, satisfy shareholders, and invest for the future. These measures, however, are stifling growth opportunities. To succeed over the long term, operators must break out of this pattern and find a new way.

The Fit for GrowthSM approach developed by Booz & Company offers telecom operators a more effective path to growth and profitability. Using this framework, operators first determine a differentiated “way to play” (an articulation of the company’s strategic value proposition) through a careful examination of their current strengths and position in the marketplace. As part of this process, they determine the capabilities needed to seize the most appropriate market opportunities, imposing a cost-savings program on noncore activities to finance the buildup of capabilities, and reorganizing to maximize speed and flexibility in pursuing the new agenda.

The overall goal of this approach is for operators to focus their resources so they can lead from their strengths—whether that means network operations, service platforms, or customer experience. Telecom companies that do so can eliminate as much as 25 percent of their overall operating costs—money that can then be invested in supporting growth.

THE NEW TELECOM REALITY

Every telecommunications executive understands the challenges facing the industry. The primary revenue and profit pools—voice, messaging, and fixed broadband—are reaching a saturation point, resulting in stagnant markets. Margins are declining as high-value customers find it easier to migrate to better deals, searching for lower costs and higher data speeds, and even turn to over-the-top technologies such as Skype and WhatsApp for many of their telecom services. Major shifts in consumer behavior have rapidly increased the demand for

ever-larger amounts of data, both fixed and mobile. These shifts are forcing operators to keep investing in network technologies such as fiber, long-term evolution (LTE), and vectoring, as well as new services and more powerful IT systems. Yet despite this challenging environment, the capital markets continue to demand both top- and bottom-line growth.

In response, many operators have carried out one cost-cutting program after another. They typically employ blunt instruments, such as across-the-board reductions or deep surgical cuts concentrating on specific areas (for instance, customer service centers or sales efficiency). In doing so, they run the risk of cutting the good costs with the bad—and thus endangering the transformation efforts that could lead to sustainable growth. Moreover, with the obvious fat

already cut to the bone, operators are finding that their efforts to restructure are no longer having the desired effect.

Rather than continuing to try to cut their way to growth, operators can adopt a different, more effective approach. The *Fit for Growth*SM framework developed by Booz & Company offers telecom companies a structure for determining their future priorities, developing the capabilities needed to carry out the plan, redistributing their resources more strategically, and reorganizing to emphasize the new purpose—a process that has the potential to eliminate as much as 25 percent of overall costs. This, we believe, is the only path forward to renewed growth for operators caught in the current vicious cycle of restructuring.

CHOOSING A DIFFERENTIATING STRATEGY

Telecom operators each have strengths and weaknesses. Some excel at network operations, others at providing compelling customer experiences. But few operators lead from their strengths. Most look only to their markets in hopes of discovering areas where they might grow, whether or not they have the capabilities to do so. This is no way to build sustainable value.

Telecom operators need to understand better where their truly differentiating strengths lie and how they fit with their market potential. The best “way to play” will be the one that is most likely to build real value, that best leverages the operators’ most distinctive capabilities, and that is most attractive for the consumer population.

It’s not easy to meet all those needs at once, which is why developing a way to play needs to be an iterative process. Telecom operators should look for opportunities for growth by both assessing their markets (the market-back view) and evaluating their own current strengths (the capabilities-forward view). Both points of view are critical; if the two aren’t considered together, the result will likely be a capabilities system poorly aligned with market opportunities.

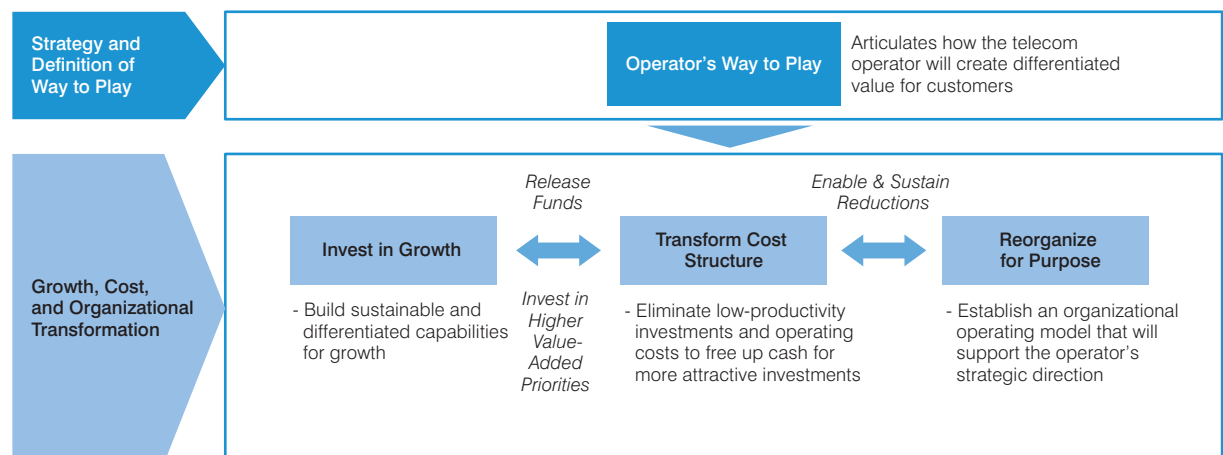
The capabilities-forward view seeks to find distinctive internal capabilities that can be leveraged in any number of ways: to grow into adjacent markets, to build innovative new services, or to increase network speed and capacity. But in all cases, they must align properly with the company’s chosen strategy.

The market-back view turns outward for market opportunities that might arise from new technologies or from opportunities that competitors might be overlooking or are not coherently pursuing. Taking this view may allow

an operator to see the potential for gaining a greater share of customers’ wallets, for fulfilling unmet customer needs, or for developing new services not yet being offered, or help it understand the implications of a new regulatory scheme. But again, if there is a mismatch between the capabilities needed to benefit from a perceived opportunity and an operator’s current capabilities, the operator should think long and hard about whether the opportunity fits its overall strategy, and then whether the opportunity is worth the investment needed to fill the capabilities gap—and whether building the capability is a realistic possibility.

The goal is to become coherent: to strike a balance so that the right product and service portfolio naturally thrives within a capabilities system consciously chosen and implemented. This supports the company’s deliberate way to play within a defined market—the overall strategy most likely to increase value for both the company and its customers (*see Exhibit 1*).

Exhibit 1
The Fit for GrowthSM Framework for Telecom Operators



Source: Booz & Company analysis

Some operators might already have full clarity about their way to play; others will require a strategic reassessment of their value proposition. In making this reassessment, telecom operators can start by considering several “puretone” ways to play—archetypes that provide a strategic starting point (but then get refined to meet particular circumstances). *Connectivity players*, for instance, represent one starting point. These operators must be able to offer differentiated connectivity to wholesale, business, and retail customers through leadership in network technology and coverage, and a truly competitive cost structure. In contrast, by building on their brand reputation and their ability to partner to create large ecosystems, *platform players* provide their customers with simple and reliable access to a large portfolio of services and apps from third parties. *Experience players* create value by offering customers the best possible customer experience through their large portfolio of exclusive, innovative products and services (see “*Building a Better Platform*”). There are many other potential ways to play, each involving a particular combination of strengths and market opportunities.

BUILDING A BETTER PLATFORM

Perhaps one of the most successful *experience players* to date is SK Planet, which was set up in 2011 by SK Telecom, Korea’s largest wireless operator, to offer multiple add-on experiences for both retail and business subscribers. They include the following:

- MelOn, already Korea’s largest music portal, with 17 million subscribers, has also been launched in Indonesia.
- 11st provides an e-commerce platform with related advertising and marketing intelligence services. It is now the country’s second-largest e-commerce platform and largest player in mobile commerce.
- “T ad” is a mobile ad platform that enables personalized ads on mobile apps running on smartphones and tablets.
- “T map,” a GPS-based navigation service platform with more than 10 million subscribers, also offers location-based services to businesses.

By consolidating a wide range of services under one roof, on top of its successful core wireless broadband business, SK Planet now offers perhaps one of the most compelling customer experiences of any operator worldwide.

INVESTING IN GROWTH

Once an operator decides on its way to play, it is ready to put the new strategy into practice by developing a capabilities system designed specifically to support it. The chosen way to play will determine where the operator should invest to support growth, and where to rationalize costs to free up the resources needed

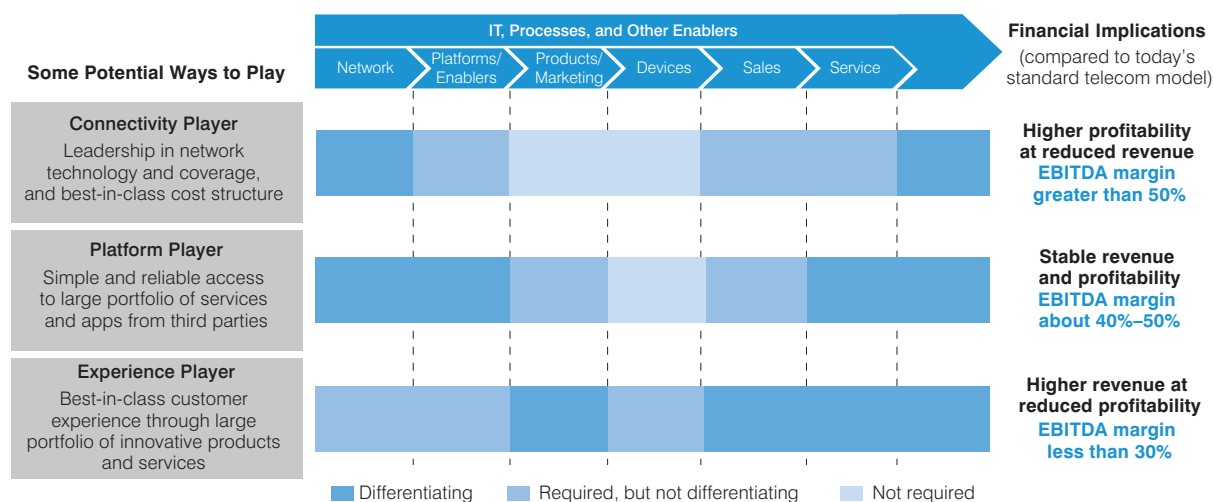
to make those investments. Imposing this view on the telecom value chain allows the operator to make the right choices about where to invest (see *Exhibit 2*).

For example, if an *experience player* is to build the capabilities needed to support its way to play—creating a compelling customer experience and offering the right set of products and services to the right set of customers—it will need to shift resources and ultimately costs

away from areas such as network operations and to one or more of the following areas in order to ensure its right to win.

- **World-class customer experience:** *Experience players* will probably need to put in place an aggressive plan to upgrade this capability, including revamping processes and product management, and boosting innovation. The IT investments required for a seamless customer experience across all channels—

Exhibit 2
Implications of Way to Play for the Telecom Value Chain



Source: Booz & Company analysis

especially when tailored to different market segments such as parents, the elderly, ethnically homogeneous groups, youth, and employees at work—generally require highly skilled personnel and considerable lead time. Operators will need to free up capital in other domains.

- **Strong customer analytics:** To provide customers with exactly the right products and services based on their actions and requests, *experience players* have to become fully responsive to the correct interpretations of their customers' behavior, often in real time. The ability, for instance, to offer access to medical information services could follow evidence of increased interest in healthcare. So investing in data analytics capabilities to respond to

customer data is a must. “Big data” offers much promise in this area, but it will require considerable investment.

- **Differentiating customer service:** A significant source of value for *experience players* will come from retaining and up-selling the existing customer base. For an operator to meet this goal, customer interactions will need to be highly professional at every touch point. Building out self-service features (through tailored mobile apps, for example) will be as important as training professional staff at retail outlets and maintaining a high level of availability in customer care centers. For *experience players*, outsourcing these capabilities will likely not be the way to go.

After clear priorities have been set—through the choice of a way to play, and the articulation of a capabilities system that supports it—the next step is to deploy costs to line up with those priorities. Companies that adopt a *Fit for Growth*SM approach are lean and deliberate in the way they spend money. They manage all their costs for effectiveness as well as efficiency, seeking long-term value in all their investments. This means continually pursuing the lowest-cost way to run operations, taking full advantage of economies of scale and scope. They do not see cost optimization as a single big bang-style event. Instead, they make it a continuous process, embedded in the daily fabric of business.

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TRANSFORMING THE COST STRUCTURE

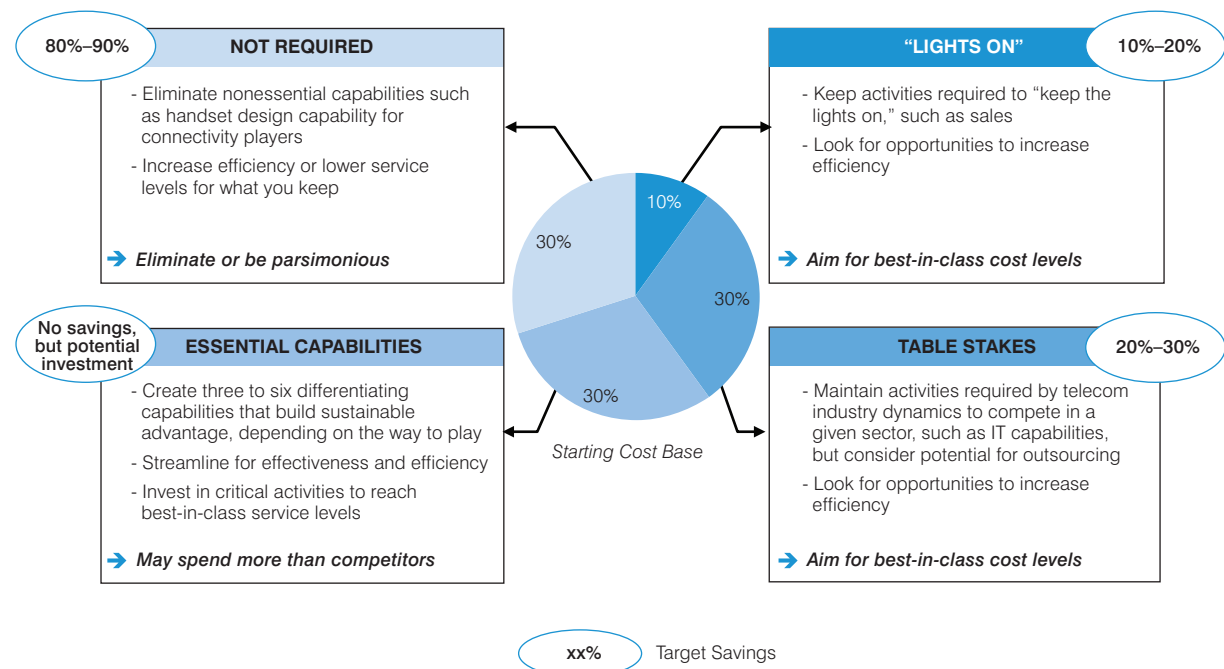
The link between growth and costs is a key aspect of the *Fit for Growth*SM framework. In this approach, rationalizing investment entails not simply cutting costs but, more important, linking costs to different types of capabilities and

using that linkage to determine the nature of each investment. Operators have a large menu of techniques, practices, and analyses to choose from—including optimizing the supply chain, rationalizing facilities, consolidating back-office and routine work, shifting IT platforms, improving processes, automating manual work, and instilling new collaborative practices. These methods include the kinds of continuous improvement associated with lean management, the efficiencies of scale that come from consolidating separate activities,

the savings that emerge from relocating non-differentiating work to lower-cost sources, and the value derived from strategic sourcing that reduces the costs of materials and components.

This is not conventional cost cutting, however. Whichever techniques you choose, depending on your circumstances and needs, the object is the same: to be deliberate in taking out costs, without cutting into the productive muscle. Exhibit 3 offers a template for how to structure a cost transformation

Exhibit 3
Reallocating Costs Depends on the Way to Play



Source: Booz & Company analysis

program that can eliminate as much as 25 percent of overall costs. This can be achieved by cutting 80 to 90 percent of the capabilities no longer required and increasing the efficiency of “table stakes” activities by 20 to 30 percent. In turn, this frees up funds that can then be invested in differentiating capabilities and growth opportunities.

Operators can boost efficiency and optimize costs by making careful trade-offs among what needs to be differentiating, what needs to be as efficient as possible, and what can be expunged entirely—all of which must be managed in light of the chosen way to play.

The typical operator currently devotes as much as 40 percent of its resources to non-differentiating competitive necessities and routine business activities, and 30 percent more to maintaining nonessential capabilities and other activities that may not be needed at all. The considerable savings that can be gained by optimizing these costs can then be invested in the capabilities that really are differentiating.

For example, many operators adopting an *experience play* are aggressively de-emphasizing their network activities and in some cases even carving out their entire access

network infrastructure—both passive and active. They can share these costly assets with competitors via network-sharing agreements, and then differentiate themselves through innovative products and services. In contrast, some recent mobile and fixed entrants in Europe and the Middle East have focused on deploying their own network infrastructure in order to become *connectivity* or *platform players*. Consequently, they have minimized their investments in customer-facing infrastructure, relying on an online presence for sales and deploying only flagship stores to serve as their bricks-and-mortar channel.

Operators can boost efficiency and optimize costs by making trade-offs among what needs to be differentiating, what needs to be as efficient as possible, and what can be expunged.

REORGANIZING FOR PURPOSE

In addition to setting priorities and transforming the cost structure, operators must rethink their organizational design. A well-designed organizational model is critical to enabling growth in two important ways. First, it sustains the cost reductions needed to support growth by sharing resources across businesses and functions, and by trimming management overhead. Second, it can fuel growth by empowering managers to act like owners of the business.

The new design will likely replace an old set of structures that were probably not fully designed in the first place. At many telecom operators, long-standing relationships have evolved in an ad hoc fashion among the business units (which may be aggregated by geography or by type of business), the functional and

technological services, and the core management hub. Local leaders may have too much power over functional activities (thus duplicating one another's efforts and promoting inconsistencies), or the central hub may be too controlling (which generates unnecessary work). In fact, most large telecom operators have gone through more than one reorganization in hopes of triggering growth or becoming more efficient. Yet such changes can be massively disruptive for employees if not managed well, and very few have ultimately added real value.

The solution typically involves redesigning the company to create more appropriate structures and spans of control. This may mean having more people report to each manager and reducing the number of hierarchical layers. Pay scales may

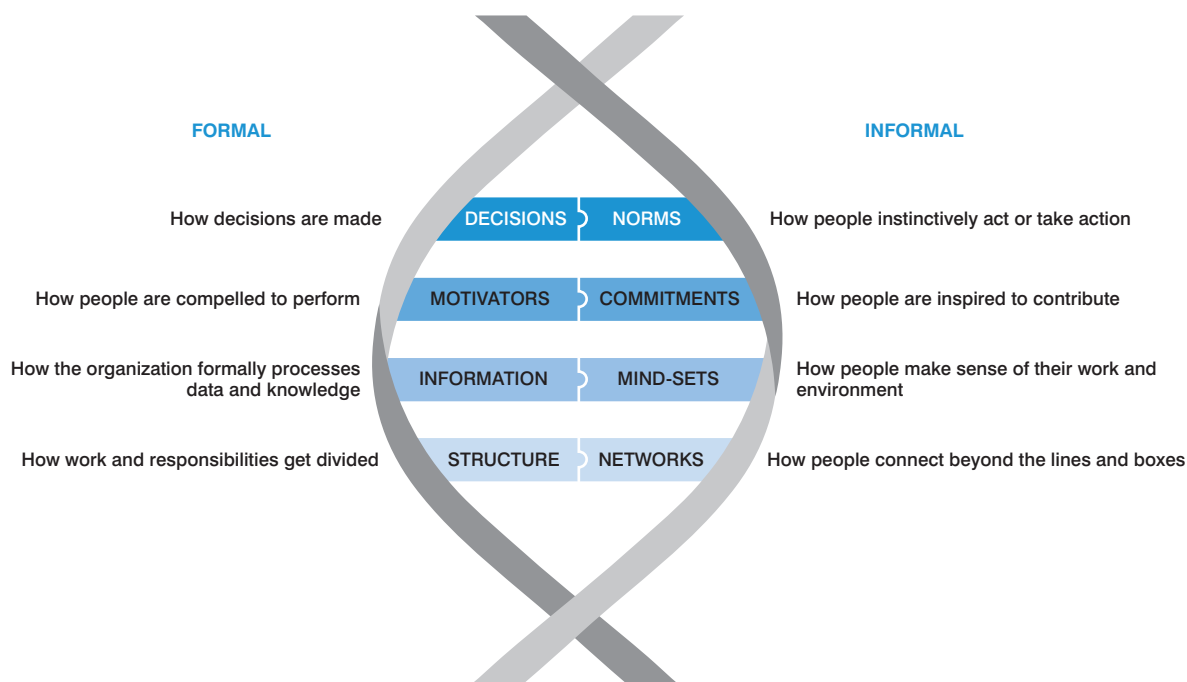
be rationalized so that compensation matches the complexity of the job performed, or the company may take more deliberate approaches to sharing resources and outsourcing less critical functions. When these measures are consistent and broadly understood,

they are usually supported by everyone at the company.

In developing the new design, an operator's leaders should deploy just a few changes at a time, but those changes should be significant and well

thought out. Research on organizing for essential advantage has identified eight critical levers—four formal, four informal—that operators can marshal and revamp to provide a new, more effective organizational design (see *Exhibit 4*).

Exhibit 4
Organizing for Essential Advantage



Source: Booz & Company analysis

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- **Decisions:** The formal statements, often set into roles, bylaws, or policies, that indicate who sets and approves budgets and who has final authority over which products to launch and how and where to make investments. Because success depends so critically on developing key capabilities and seizing growth opportunities, operators should never find themselves in situations where they cannot redirect funds quickly to important initiatives. They must ensure the presence of clear, formal decision-rights mechanisms for channeling funding to where it is needed most.
 - **Norms:** The informal, unwritten rules of “how we do things around here” that set expectations for the right types of behavior. At telecom operators, which are often descended from former public utilities, it is important to establish some

customer-facing norms in addition to the kinds of behavior associated with highly regulated enterprises.

- **Motivators:** Traditional incentives and formal employee-related mechanisms such as key performance indicators, bonuses, and career paths. Carrying out a way to play demands that executives and managers are held accountable to KPIs linked closely to specific strategic outcomes. The percentage of dropped calls may be critical for a *connectivity player*, whereas subscriber satisfaction with customer service will matter more for *experience players*.
- **Commitments:** The informal and unwritten aspirations that drive people to work harder for the organization and for themselves, including sources of pride and inspiration. FedEx’s promise,

“When it absolutely, positively has to be there overnight,” is a commitment. Vodafone recently changed its global marketing slogan to “Power to you,” in hopes of making clear its commitment to going beyond the typical operator’s deliberate approach to change and delivering to subscribers the best in mobile devices and services.

- **Information:** The formally organized flow of knowledge and insight throughout the company. At a telecom operator, this includes not just technological information, but also information about customers, practices, regulation, and the organization itself.
- **Mind-sets:** The shared values and attitudes that determine how people execute their jobs—a key element of the company’s culture. These should ideally be aligned tightly

with the company's chosen way to play and capabilities system. The mind-set befitting a *platform player*, for example, should support the partnering skills it needs to succeed, and will likely differ significantly from the technologically oriented mind-set of *connectivity players*. Like all aspects of culture, mind-sets are impossible to change quickly, but top executives can lead change by example, modifying their own behavior to encourage similar changes throughout the rest of the company.

- **Structure:** The “lines and boxes” of the organization chart, which can be rearranged to manage the work more effectively and efficiently. *Connectivity players*, for example, should consider grouping all of

their technology-related capabilities under a single entity that can help all the operating companies manage their technology needs. Similarly, *experience players* might redesign the hierarchy to put all their innovation-related functions in a single overarching unit.

- **Networks:** The informal connections through which people talk regularly, without preset agendas, to share information and ideas. Networks in telecom companies run the gamut from centers of expertise, which bring together individuals with a common technological need, to people who step outside together to smoke or go to lunch. Such networks work most effectively when they are not just informal, but also habitual,

as in when three employees from different functions decide to have lunch every few weeks to talk about a particular customer information problem they're all interested in.

There is no common formula for combining these elements, in telecom or any other industry. Instead, the best way to proceed is to pick three (or at most four) as basic starting points for change. Ideally, they should include at least one formal element (decisions, motivators, information, or structure) and at least one informal element (norms, commitments, mind-sets, or networks). Then adjust them in the direction of an organization that will better support your chosen way to play and the capabilities and investments needed to support it.

Top executives can lead change by example, modifying their own behavior to encourage similar changes throughout the rest of the company.

CONCLUSION

Adopting a *Fit for Growth*SM approach cannot happen overnight. It is a process that requires operators to take many inextricably intertwined steps: choosing the way to play, investing in growth through the chosen essential capabilities, realigning the cost structure, and reorganizing to maximize efficiency and sustain the change. The result will be a company that is much better prepared to win in the ever more competitive telecom markets of the future.

About the Authors

Martin Reitenspiess is a partner with Booz & Company based in Munich. He specializes in strategic transformations in the telecommunications and high-tech industries.

Christine Rupp is a partner with Booz & Company based in Stuttgart. She specializes in strategy-based transformation programs as well as sales and distribution in the telecommunications industry.

Dr. Hannes Gmelin is a principal with Booz & Company based in Berlin. Within the firm's communications, media, and technology practice, his focus is on large-scale transformations of telecommunication operators' sales and service functions.

Chady Smayra is a principal with Booz & Company based in Beirut. He specializes in mergers and acquisitions, investment strategy, business development, the CFO agenda, and strategy-based transformation in the communications, media, and technology industries.

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We believe passionately that essential advantage lies within and that a few differentiating capabilities drive any organization's identity and success. We work with our clients to discover and build those capabilities that give them the right to win in their chosen markets.

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