CUSTODIANS OF DIGITAL EXPERIENCE – AN EXCITING FUTURE FOR COMMUNICATIONS SERVICE PROVIDERS BECKONS
In the era of Business 4.0™, an all-digital era running at the speed of now, consumers are redefining the notion of customer experience. As this digital revolution ushers in an era of hyper-connectivity, triggering multi-dimensional information flow, communications service providers (CSPs) are in a unique position to become the singular agent of connectivity and digital engagement.

Thriving during this all-digital era requires rethinking of strategic priorities and adopting the right operating models. For CSPs, we see four dominant ‘avatars’ coming to the fore: smart connectivity provider, smart services provider, value aggregator, and value creator. The choice of an avatar will have a direct bearing on the value CSPs create for their stakeholders and the returns they extract out of the investments made.
Digital–Native Enterprises vs. CSPs: Eating Someone Else's Lunch

While the demand for wireless broadband and media consumption increases rapidly, realizing the potential opportunities to monetize digital engagement remains a challenge for CSPs, given the massive infrastructure investments and rapid technology obsolescence. The window of opportunity for pure-play connectivity providers is narrowing progressively. To add to the misery, digital–native enterprises and over-the-top (OTT) providers smartly ride on the network infrastructure investments CSPs have made, and are able to generate ever-growing revenues without needing to make larger scale capital investments to stand up network infrastructure.

As Figure 1 illustrates, there is a huge difference in the enterprise multiples, i.e. the ratio of Enterprise Value (EV) to EBITDA, of these two groups.

![EV/EBITA](image)

**Figure 1: Digital–Native Enterprises vs. CSPs – EV to EBITA Ratio**
(Source: TCS CMI Industry Advisory Research ¹)

In this digital driven economy, consumers not only need ‘connectivity to the internet’ but are also dependent on a reliable service – consumers will always need a connectivity provider. While CSPs are uniquely positioned to capture these opportunities, they continue to be challenged with revenue growth, given their focus on a network or product-centric approach rather than a customer experience or customer engagement-centric approach. Intense competition has further commoditized CSPs’ core service offerings, leading to a steady decline in the average revenue per user (ARPU).

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¹. A study of the financial data (for the period 2013 – 2017) of 46 publicly traded, global CSPs (Europe, North America, Latin America, and Australia). Their presence ranges from local and regional to global, with some of them operating in multiple countries.
The Four Strategic Choices ('Avatars')

CSPs can quickly establish themselves as the 'Custodians of Digital Experience' by orchestrating various digital marketplace offerings and products that customers 'consume' leveraging the high speed connectivity CSPs provide, into one unified experience (ala Apple Eco-system). To this end, there are four evolutionary stages or avatars that can enable CSPs to move from being pure-play connectivity providers to smart digital services providers, to marketplace orchestrators, and eventually to platform businesses. CSPs' strategic choice of one of these four stages, and the business model they adopt, will drive their transformation into future-ready digital service providers. The choice will depend on a CSP's readiness to adopt to the underlying business model and the organizational culture to embrace the change.

Figure 2. The Four Strategic Choices for CSPs to become Custodians of Digital Experience (Source: TCS CMI Industry Advisory Research)

**Smart Connectivity Providers**

As smart connectivity providers, CSPs must deliver network and connectivity services efficiently and at scale. In addition to uninterrupted connectivity to the internet, consumers also seek quality of service (QoS) and quality of experience (QoE). To succeed as a smart connectivity provider, CSPs will have to simplify legacy networks and move toward IP-centric ones, build next-gen networks on 5G and fiber, and digitize core systems to maximize operational efficiencies and improve business agility.
Achieving efficiency and agility as a ‘smart connectivity provider’ will be contingent on a CSP’s ability to simplify infrastructure, processes, products, and the organization at large.

At the core of this strategy is the paradigm of leveraging single customer, single process, and single asset. This avatar will also require CSPs to transform their operating models through enterprise-wide Agile adoption, coupled with the Machine First™ approach to operations. By being smart connectivity providers, CSPs will be able to linearize their cost structures from heavy, fixed cost structure to a revenue-linked variable costs of operations, enabling them to gain market share by diversifying into new market segments with different price points. This will in turn help in stemming revenue erosion and equipping the CSPs with all the resources they need to evolve into other avatars as the opportunity presents.

For instance, Elisa, a Finnish telecommunications, ICT, and digital services company, decided to harness its engineering skills to develop automation algorithms. Consequently, the company developed its own self-organizing network (SON), which can automatically resolve close to 90% of network incidents. In fact, Elisa is aiming to establish a ‘zero-touch’ NOC by 2020.

**Smart Services Providers**

CSPs that choose to move a step ahead must take an innovation-centric approach to invest in digital products – either developed in-house or through collaboration with partners – and bundle them with their core service offerings. This transformation into a smart services provider represents a shift in the business model toward non-linearity of revenues from digital services. A key point to note here is that these digital services need to be integrated to the digitized core in a seamless manner using standardized APIs.

As ‘smart services providers’, CSPs will begin to take the lead in enabling digital transformation of their enterprise customers – this will be achieved by complementing the enterprise solutions portfolio with domain-focused platform solutions spanning IoT, customer management, workplace solutions, and other such areas.

In the spirit of developing innovative digital products, Comcast has developed Xfinity xFi – a digital dashboard that personalizes user experience while managing WiFi network and connected homes. The offering also enables extending home WiFi coverage through XFi Pods.
Value Aggregators
The first two avatars essentially focus on unlocking the potential within an enterprise and its investments – a major part of what they offer to consumers is the result of capabilities intrinsic to the company. This is where the third avatar makes a drastic shift.

As ‘value aggregators,’ CSPs are responsible for sourcing and aggregating differentiated capabilities and services from the digital ecosystem, for the consumer and enterprise segments. With consumer-centricity being the focus, CSPs will need to differentiate themselves in the marketplace through superior consumer experience backed by hyper-personalization, omni-channel integration, and service innovation.

CSPs opting to play in this zone need to shift their gaze outward and harness the power of partnerships through service aggregation and integration. In essence, CSPs will be vying for the same set of customers with somewhat similar offerings.

To ensure profitable sustenance as value aggregators, CSPs will need to include solutions, services, and capabilities of third-party entities in their product portfolios, with the focus being on orchestrating a differentiated experience and offering the best value to consumers – regardless of the source of that value. Making it work seamlessly for consumers becomes the core value proposition of the CSP – not its own products, not its network assets.

Assuming the role of platform providers, Rogers Communications has launched a bank in Canada, Telefonica Germany has partnered with Fidor Bank to offer a digital banking service, and KPN has acquired Cam IT Solutions, a leading provider of IT services to the healthcare and public sector in the Netherlands.

Value Creators
As a ‘value creator’, although the CSP continues to be the sole channel of engagement for consumers, the goal is to create compelling and differentiated value in the marketplace that is not dependent on the CSP’s own channels for delivery to consumers. Though a CSP continues to be the sole channel of engagement for its consumers, stage four envisions the CSP creating compelling and differentiated value in the marketplace for consumers that is not dependent on a CSP’s own channels. As value creators, CSPs enter into a truly exciting zone, by developing software-centric platforms that other players in the ecosystem can build on. This radical shift will demand new operating models, skills, processes, and a change in the organizational culture.
Theory in Action: Some Enterprises are Already on the Path

The four avatars necessitate a radical reimagining of the digital enterprise. In becoming the custodians of digital experience, CSPs’ prime goal will be to provide differentiated experiences to consumers.

Our research leads us to believe that the CSPs that have redrawn their strategies with the four avatars in mind are experiencing dramatically successful results. Figure 3 depicts the ratio of Free Cash Flow (FCF) to Operating Cash Flow (OCF) – an indicator of available CAPEX.

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Adopting a customer-centric business strategy, Japanese carrier NTT Docomo is developing value-added offerings such as the ‘+d loyalty’ platform, besides investing in carrier billing and payments solutions. With ‘+d platform’, NTT has started a wide range of digital lifestyle offerings backed by strong partnerships, leading to a sustainable non-linear growth. As they embark on their respective growth journeys (linear or non-linear) to evolve into multi-sided platform model businesses, CSPs must have customer-centricity at the core of their business strategies.
As smart connectivity providers, CSPs’ continuous investment in networks will strain the headroom for non-network investments. The FCF:OCF ratio reflects the fact that CAPEX spend progressively decreases as we go along the four stages, that is, CSPs in the role of connectivity providers are bound to incur substantial CAPEX while the value creators will have considerable free cash flow, which will in turn reflected in their jaw-dropping margins.

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Figure 3. Ratio of ‘Free Cash Flow’ to ‘Operating Cash Flow,’ for major service providers within each avatar
(Source: TCS CMI Industry Advisory Research)

Note: The ratio is indexed to 100 and reflects the aggregate CAPEX available for each avatar

The Business 4.0™ Effect

The lack of customer experience focus among CSPs up until now has led to sub-optimal service delivery, creating significant churn in the market and paving the road for a new set of competitors – the digital-native enterprises – to disrupt business models and capture value. To compete with this new crop of players in an ‘anywhere, anytime, any device’ customer engagement environment, CSPs will need a paradigm shift in their overall business strategy.

While CSPs will naturally gravitate toward becoming smart connectivity and services providers, the maximum value lies in the value aggregator and value creator avatars. It is here that CSPs will truly be able to embrace risks and venture into newer, unexplored areas of play, thereby creating tremendous value for all stakeholders. Optimally leveraging the ecosystems to drive mass personalization will be the key for CSPs aiming to become custodians of digital experience. We envision this as the Business 4.0™ transformation for CSPs. It will require a strong leadership focus to balance the investments in core traditional business against those in technology and resources channeled toward new, non-linear business models. CSPs that achieve this fine balance are poised to experience exponential growth with customer satisfaction soaring higher than ever before.
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