



A new role for a new world

Communications Service Providers shifting priorities and strategies

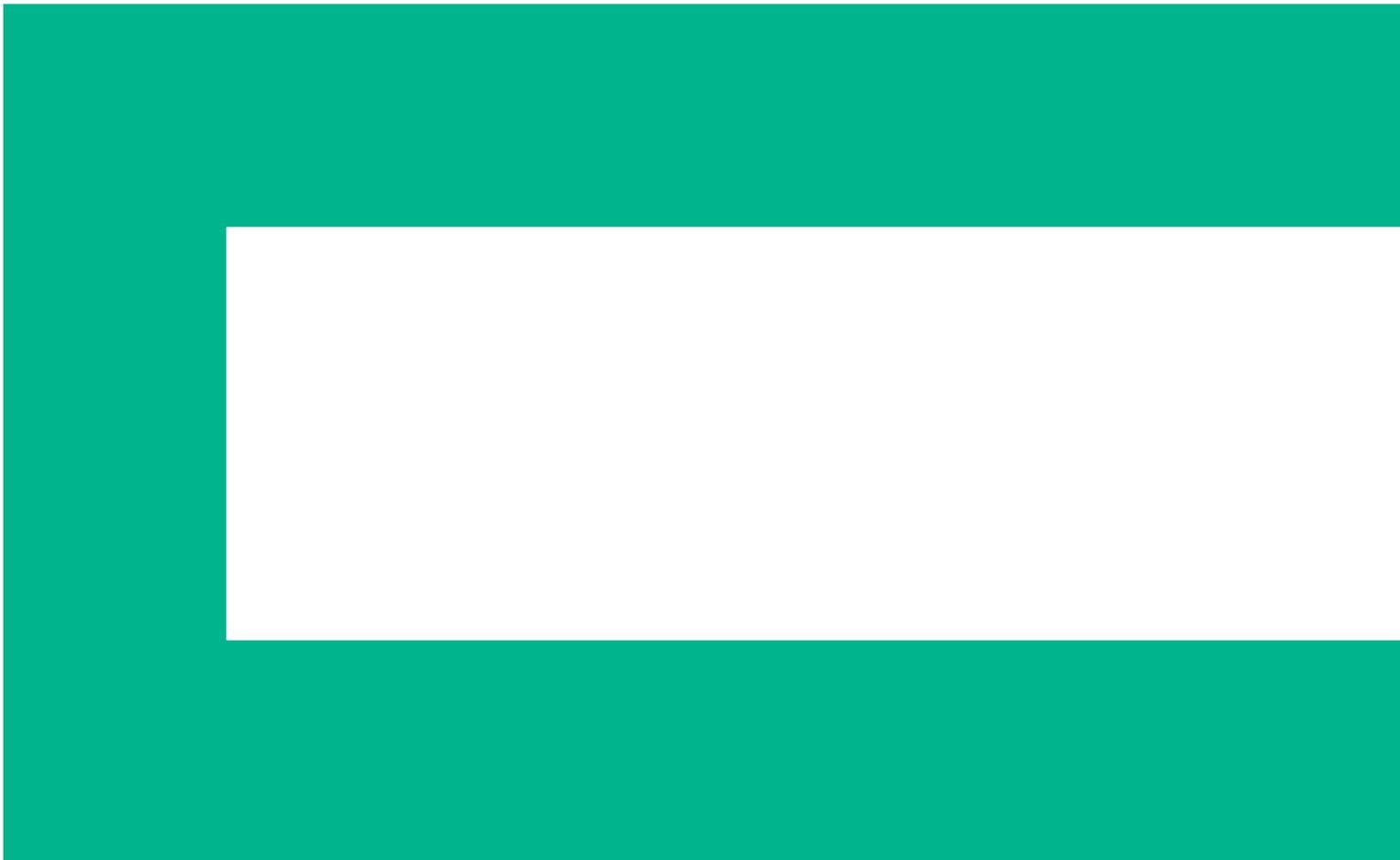


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Executive summary

Key findings from a global study of 134 Senior Decision Makers in IT and Line of Business in Communications Service Providers (CSPs) across the globe conducted June–July 2016 include:

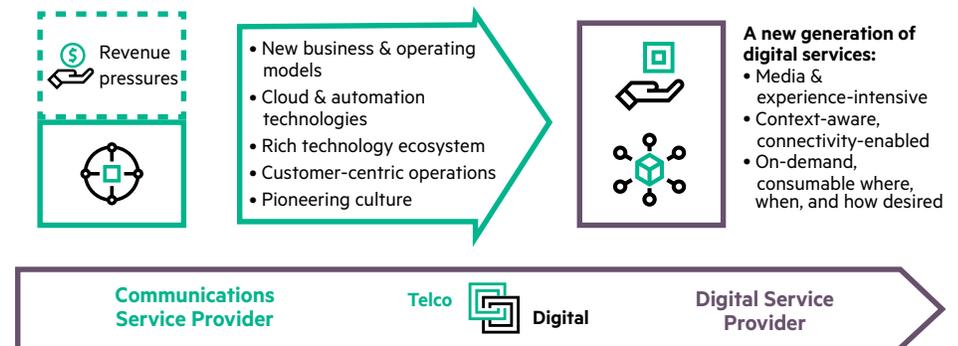
- Globally there is a high degree of **digital transformation** taking place as CSPs increasingly look to become Digital Service Providers (DSPs).
- Almost all CSPs have a defined DSP strategy (98%), but they differ in terms of when it will be implemented.
- This transformation is being driven in part by competitive pressures and by the desire to realize additional revenue. In most cases, it is a desire to grow, not to protect existing business, that is the main driver.
- Companies in all regions have high growth expectations, with new services expected to generate 25 percent additional revenues by 2020.
- A clear preference is seen for using IT players as key partners in 5G transformation across all regions.
- New digital entrants and software providers are expected to be the main challengers to Telcos in the DSP space.

An industry in Transformation

CSPs are facing challenges on multiple fronts—exploding network requirements, increasing customer expectations and a changing competitive landscape where over-the-top solution providers are eroding traditional CSP revenue streams and leveraging CSP network investments. This is leading to CSPs losing market, wallet and mind share to application service providers.

However, by leveraging their pervasive presence, their ability and reputation to deliver reliable service, and extensive customer intimacy, CSPs can pursue a wide range of new business opportunities. These include:

- **Improving Customer Experiences** by leveraging customer intelligence to optimize ARPUs and increase loyalty
- **Expanding Enterprise Services** by going beyond connectivity to provide infrastructure/platform services
- **Pursuing New Verticals** by targeting new markets with specialized capabilities and service models
- **Partnering with OTTs** to deliver new and improved services



To take advantage of these opportunities, CSPs are seeking to move beyond connectivity to become **Digital Service Providers**.

For CSPs, becoming a Digital Service Provider represents taking advantage of their unique position at the connectivity crossroads of the digital economy. For CSPs, becoming a Digital Service Provider means taking advantage of their unique opportunity to leverage new business and operating models, cloud and automation technologies, and a rich technology ecosystem to deliver a rich, on-demand, high-value customer experience built on context-awareness, core connectivity, and underlying digital services

So, how does a CSP go about becoming a Digital Service Provider? There are **five key strategies** that CSPs can pursue to drive the transformation to become DSPs. These objectives map to specific execution strategies aligned to leverage new technologies and operating models:

- **Digital Diversification:** Target new markets with specialized capabilities and service models
- **Business Agility:** New operating models, skills and digitization of processes
- **Customer Excellence:** Leverage customer intelligence to optimize ARPUs and increase loyalty
- **Platform Innovation:** Flexible service-creation capacity that increases revenue and brand relevance
- **Network Leadership:** Composable network solutions to accelerate TTM and reduce OPEX



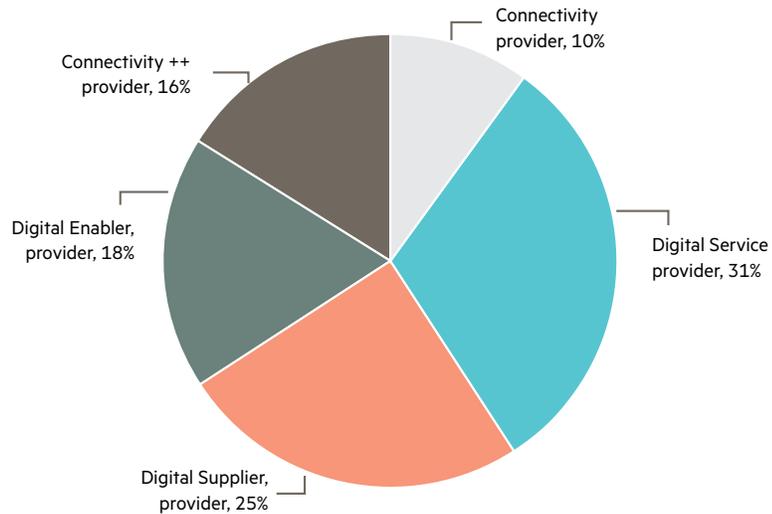
These strategies present CSPs a menu of pathways by which they can transform their business, operating, and infrastructure models. Some of the strategies require CSPs to embrace new technology approaches, while other require CSPs to evolve the way they develop and deliver new services and how they go about fostering a more agile, customer-centric culture to make all of the above possible.

To learn more about CSP's expectations, use cases and plan for transformation to DSP, HPE commissioned a detail survey of 134 Senior Decision Makers in IT and Line of Business in Communications Service Providers (CSPs) across the globe.

This paper summarizes the results of this research.

Main findings

Globally, there is a high degree of digital transformation taking place as **Communications Service Providers** increasingly look to become Digital Service Providers. The move to the DSP model is most evident in EMEA and APAC, while in NAM a greater focus on becoming Digital Suppliers and Enablers is seen. Few companies express a desire to remain exclusively Connectivity Providers, further illustrating the degree of strategic refocusing taking place and the desire to avoid becoming marginalized as strictly "pipe providers" in the new market landscape.



Base: All (134)

Figure 1. Strategic direction of organization

Almost all CSPs have a defined strategy for digital transformation (98 percent), but they differ in terms of when it will be implemented. A small minority have already implemented their strategy (16 percent), but the greatest activity will be seen within the next 12 months (41 percent) or after twelve months (23 percent).

The majority expect transformation within two years.

Most CSPs expect their strategic goals to be realized in the very near term, 49 percent within the next two years and 70 percent within the next three years. These timescales reflect a desire for quick, effective transformation to meet the rapidly changing needs of the industry, the need to avoid being marginalized and the desire to meet customer expectations and demands. A greater degree of immediacy is seen in NAM, with a longer development view more evident within APAC reflecting a less mature market in that region.

High expectations from the Digital Transformation

The majority of providers in all regions are embracing digital transformation as a means of generating additional revenue (73 percent), rather than it being a means to protect existing revenue (27 percent). This does differ by region, with a stronger growth focus seen within NAM and a greater protection focus seen in CALA, EMEA, and APAC. The predominant view, that growth is underpinning transformation, illustrates that traditional revenue streams are not yet being threatened by market changes, or CSPs need to focus on traditional revenues while the transformation takes place.

25 percent additional revenue generated by 2020.

The additional revenue expectations are not inconsiderable, with new services expected to generate an additional 25 percent of revenues by 2020, which is a vast sum based on current revenue streams. This expectation is similar across all regions, with companies in APAC having the highest expectations (27 percent).

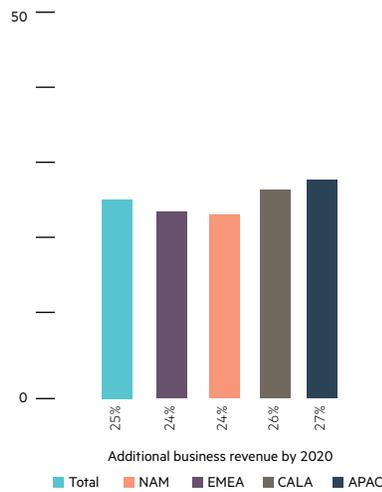


Figure 2. Additional revenue expectations (by 2020)

34 percent expected reduction in time to market.

Globally, CSPs expect a 34 percent reduction in time to market for new products or services once the strategic development to a DSP has been attained (ranging from a 31 percent improvement in EMEA to a 38 percent improvement in APAC). While APAC companies expect their strategy to be realized over a slightly longer period, they hope to gain the most by it.

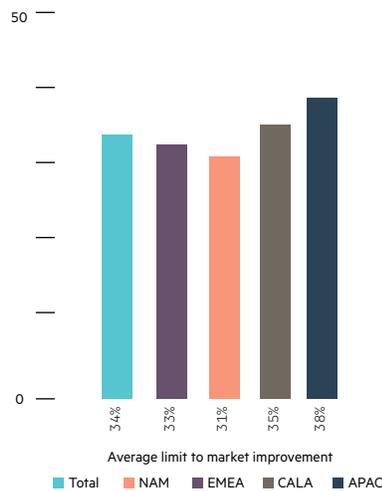
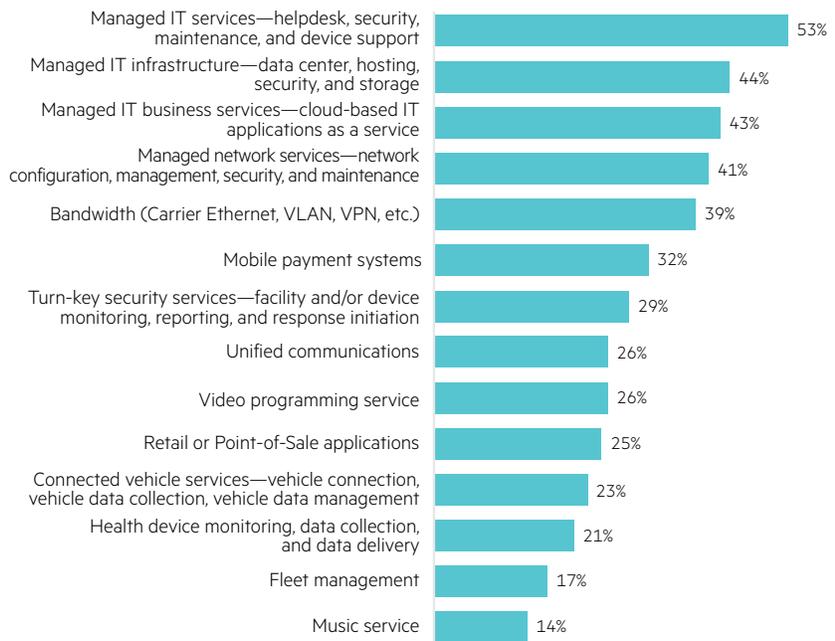


Figure 3. Expected saving in time to market (by 2020)

Digital transformation is wide ranging in its impact.

Transformation will significantly affect services

A wide range of digital services are being considered once the transition to a DSP has been made, with an overall emphasis on IT-related services for enterprises. All companies will be focused on providing some form of Managed IT services and infrastructure, with relatively fewer concentrating on fleet management and music services. The landscape will get even more competitive.



Base: All (134)

Figure 4. Future digital services

Network infrastructure is needed in all regions.

Fulfilling the Strategic Vision

Companies identify a number of requirements that need to be met in order to fulfil their strategic DSP vision, with the need to develop **network infrastructure** a priority across all regions. Talent management is a key issue for CSPs in some regions, particularly in APAC (retraining existing talent is also an issue in EMEA and attracting new talent in NAM).

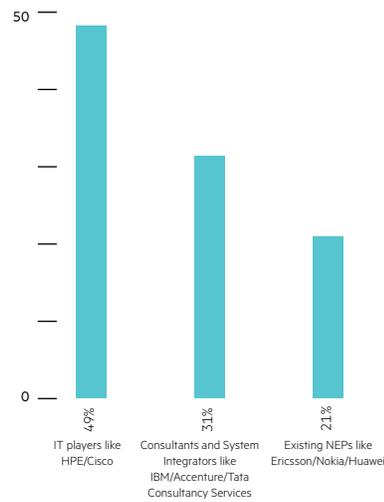


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Figure 5. Needs to meet development ambitions

IT players are the key transformation partners.

A clear preference is seen for using IT players as key partners in 5G transformation. This preference is consistent in all regions. APAC companies see existing network equipment providers (NEPs) as particularly important partners (36 percent), which is interesting considering they also see device manufacturers as very serious competitors. In NAM, it is more likely that IT players will be sought as partners (56 percent), while SIs have greater popularity in EMEA (38 percent).



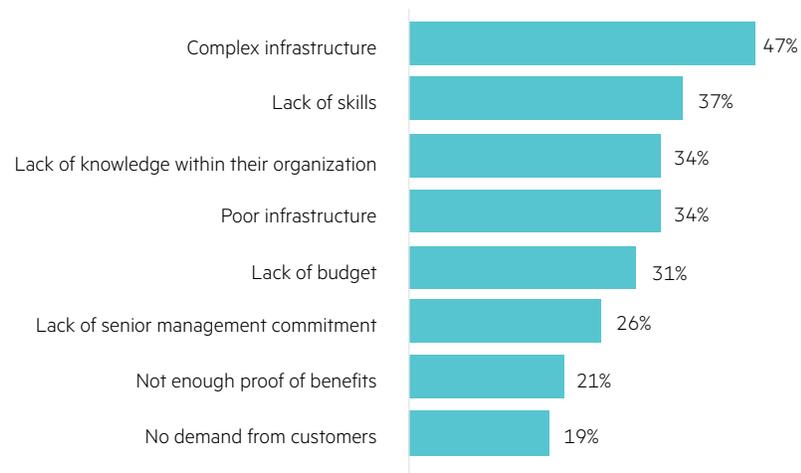
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Figure 6. Preferred 5G transformation partners

Both internal and external transition challenges need to be addressed.

Major transition obstacles

Organizational transition is rarely easy and one of the major obstacles identified in all regions is dealing with the complex underlying infrastructure that already exists within the CSPs. Skills (related to the need to recruit/re-train talent identified in the prior question) and budget shortages are more commonly perceived as obstacles within APAC companies, while lower customer demand is more often identified in CALA.

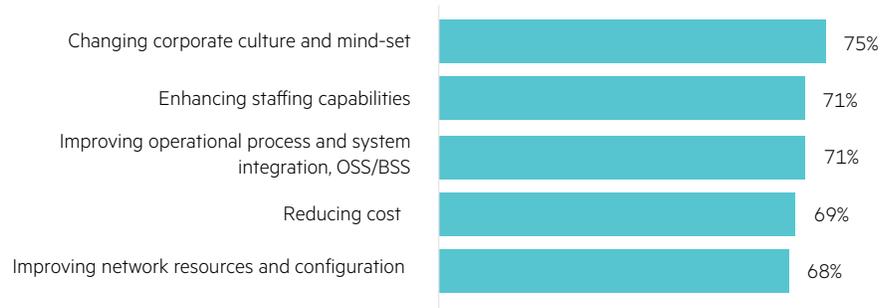


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Figure 7. Major obstacles to going digital right now

Changing mindsets is the main internal barrier globally.

CSPs are also struggling with internal issues, changing outdated corporate cultures and mind-sets that are out of step with the new technology and market demands being the most important aspect to address. Another issue common in all regions is the need to enhance staff capabilities, a recurring theme throughout the research.



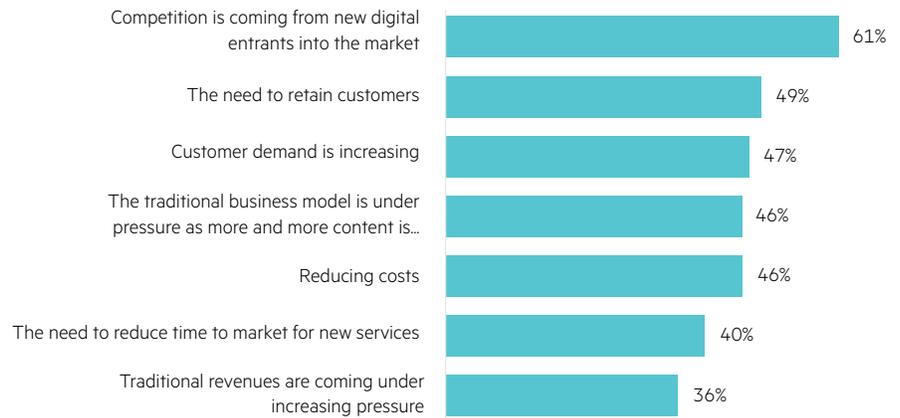
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Figure 8. Internal factors: Percentage rating factors as important or very important to address

Competitors both threaten revenue and raise customer expectations.

Increasing competition from Digital Entrants

The landscape is set to become even more competitive and competition from digital entrants is a challenge for CSPs due to digital entrants both taking customers and creating new demands from current customers. This is a concern for 61 percent of CSPs—far ahead of the need to retain customers or meeting changing customer demands.

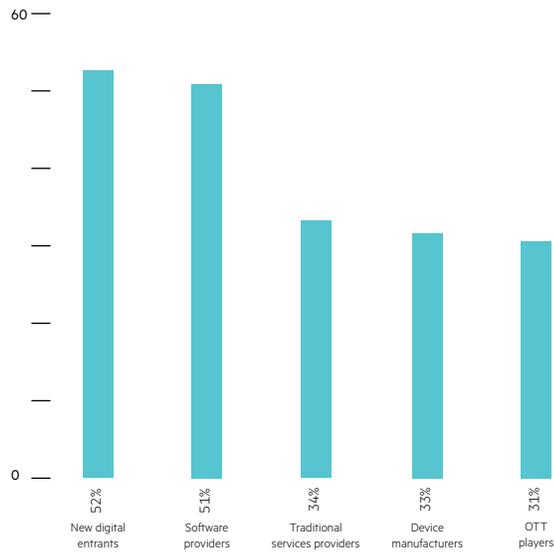


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Figure 9. Core challenges facing CSP

New digital entrants result in a highly competitive environment.

New digital entrants and software providers are expected to be the main challengers in the DSP space. Competition is expected to be particularly intense in APAC where device manufacturers are also seen as serious competitors. Interestingly, the OTT players are seen to offer the least competition in the DSP world.



Base: All (134)

Figure 10. Main competition in the DSP world

Conclusion

It is clear the market is in a stage of rapid transition as companies move towards greater Digital Service delivery in order to add additional revenues, avoid marginalization, maintain customers and also create a truly competitive position. Companies that are slow to embrace change now are likely to find themselves struggling to catch up as the pace of change will intensify. It is clear that digital transformation is not easy, with organizations facing a number of both internal and external challenges they have to conquer. However, the expected rewards in both significant additional revenues and reduced time to market for new services are considerable and powerful motivators.

To succeed, collaboration would also seem important and the need to develop strategic alliances with IT players, network equipment providers as well as OTT players seems essential for success. Talent will be scarce, so this will also drive the need for companies to collaborate to fill the inevitable skills gaps.

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