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## The Telco is My Shepherd: Funding Innovation

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2020 represented yet another banner year for start-up investments, with a record [\\$130 billion](#) flowing from venture capitalists (VCs) to start-up companies. This flood of capital did not, by any means, float all boats. In particular, the telecom sector continued the long drought of VC funding, with very few notable deals. It seems that telecom infrastructure start-ups have remained firmly out of favor with the VC crowd.



This is counterintuitive. The telecom sector is brimming with the promise of 5G, the focus on edge compute, the move to open radio access networks (O-RAN), and the disenfranchising of Chinese vendors in many networks. All this disruption should create plenty of opportunity for start-ups, so what gives?

Wannabe entrepreneurs with transformational ideas for telecom are knocking on VC doors for early-stage funding. The reticence for VCs to invest is linked to more than a decade of poor outcomes, with few start-ups ever making it to a marginally successful exit. In other words, the barriers to entry are held exceptionally high. Success is linked to winning big in a relatively small number of telcos, which are naturally cautious and move at a glacial pace. Revenue only flows after many years of proving a new technology, and the amount of investment necessary to see the first dollars of revenue can be measured in tens of millions of dollars even for software-only products. Over such an extended timeframe, most start-ups fall along the wayside, as sponsoring teams with the customer change jobs, priorities shift, innovation budgets are cut, incumbent vendors find ways of strangling new pretenders, and projects evaporate.

Many telcos have built their own VC practice with the express intent of driving innovation, but even they are reticent to invest in telecom infrastructure companies, instead placing their bets on start-ups that run on top of the network, rather than reinventing it. Recognizing this problem,

the GSMA created the “GSMA 100 Portfolio” to encourage and promote start-ups but, it has struggled to even find 100 companies to participate.

## Reinvigorating innovation

What can be done to reinvigorate such a moribund yet economically critical sector of our industry? The solution is certainly multi-part and turning back on the investment spigots will only happen when there is concerted industry-wide effort to sponsor and propel start-ups to meaningful projects and revenue.

To this end, several telcos, start-ups and industry analysts have banded together to dissect the problem and come up with best practices that a telco could reasonably follow to inject start-up technology into their networks. While not formally chartered, the [Telecom Ecosystem Group](#) has built a reasonable following through LinkedIn, where best practice ideas, feedback and support is exchanged. Ultimately, the aim is to have a best practice manual adopted by the major telcos, with a commitment to follow the practice in engagement with start-ups and smaller vendors.

Perhaps one of the more important practices to come out of the group is around shepherding start-ups through the hoops and hurdles of getting to deployment—if not lowering the barrier to entry, then at least coaching the start-up over it.

As a new vendor, the task of navigating your way through the labyrinthian and sometimes byzantine world inside a telco can feel herculean. Regardless of how well your technology and products are received, the path to deployment is long and hard. It is not unusual for large vendors to dedicate account teams of 30 to 40 people focused on one operator. The challenge then, for start-ups and small companies is two-fold. The first is institutional knowledge: how an approval process works; what steps are required to onboard as a vendor; and how long a particular activity will take. The second is people knowledge. Who do you go to for an escalation? How will a VP you’ve never met react when they have to approve a PO from a vendor they’ve never heard of? Who will fight against your technology to protect an incumbent vendor’s position?

Often small companies are left fending for themselves, becoming the proverbial lost sheep. Their deals and technologies flounder on the rocks of indifference; they are left not knowing where to turn to make progress. When this happens (and it happens repeatedly to many start-ups), innovation stalls and a heavy dependency on legacy products and vendors upsets the natural vendor tension that telcos need to maintain a healthy vendor ecosystem.

## The shepherd to success

What these start-ups so obviously need is internal support to help steer them to success—a shepherd of sorts to guide and protect them through the labyrinth. In my experience across many start-ups, it has only been when a shepherd leads that success follows. When the role is institutionalized (and not someone just volunteering to help because they believe in you and your products), the telco creates an internal pipeline for start-up success.

Sometimes this role is championed by the VC or corporate development groups; after all, they want to see their investment succeed. Other times it is the CTO or product teams that lead. Either way, when clearly defined, the role achieves a number of objectives:

### **Stakeholder buy-in**

Many different groups will need to be convinced that the new product or technology not just works, but will reach telco scale, can be operationalized, can generate revenue, will be supported if the start-up fails, and so on. When the easiest and safest thing to do is nothing, the value to each of these stakeholders must be spelled out while paying attention to stakeholders' own needs and wants. The role of the shepherd is to guide the start-up company through these groups, address issues early and help find answers to issues before the momentum of the project is lost.

### **Vendor onboarding**

This process alone can take six months or more, and there are often ways of accelerating deals if you know the right process and people to talk to. One telco I know has a "snap-out" agreement that allows them to transact deals under \$2 million without a master services agreement.

### **System deployment**

Just because the deal is done doesn't make deployment happen, and delays in the process caused by integration or service issues can kill a promising project. Getting ahead of these groups and what they need, how other vendors will react and be managed, and keeping a reporting cadence to hold groups accountable for progress might seem a typical role for an internal program manager, but it often needs higher-level support.

### **Executive visibility**

Ensuring that the management team knows about the start-up and the progress they are making is critical to success. Having an advocate who puts your company in front of executives with a regular cadence provides the coverage you will need when problems occur and when you really need that order to close.

It may sound like this shepherd role isn't really working for the telco at all, but that would be wrong. Innovation is the lifeblood of our industry and shepherds help level the playing field, protecting the flock of start-ups from the wolves of incumbent vendors. Best practices and best outcomes suggest that the role of shepherd should not be left to chance, but should be a dedicated role, with someone who has the institutional knowledge and internal political good will to guide.

This is by no means the only best practice to emerge. There are others, from a committed fund from each telco to drive telecom infrastructure investments through their VC groups; to

separating out new technologies from the omnibus-edition-style mega-RFPs that constitute the annual bidding cycle for capital equipment expenditure; to removing the “pay-to-play” model, where startups are obliged to run negative margins on their first deals to prove their fealty to the telco.

Ultimately, telcos don't operating in a vacuum, and while regulation and quasi-monopoly status provide a level of protection, the threats to business erosion from the hyperscale cloud companies, from private 5G, and from LEO satellites (to name just a few challenges) should push focus on innovation as the only way to grow. Returning this ecosystem to a healthy state is the responsibility for all of us who make our living connecting the world together.