



www.pipelinepub.com

Volume 19, Issue 8

Navigating the Telco-to-Techco Transition

By: [Angus Ward](#)

By strategic intent or by default, Communications Service Providers (CSPs) are making a choice between two pathways. The first (also the default option) is to focus purely on connectivity and to prepare for an increased sophistication in connectivity solutions with a move to consumption and outcome (such as including resilience and security) based models. Ultimately, it's a step to pivoting to network-as-a-service (NaaS) wrapping in all infrastructure elements and offering highly configurable virtual functions as services. NaaS brings new competitors including hyperscalers vying for a market in which communications and IT are converging.



The second recognizes the increased competition in connectivity and the risk this presents by deciding to build up an “engine 2” new source of revenue growth, average revenue per user (ARPU), address and routing parameter area (ARPA), and profits. This is most often badged as a “telco to techco” transformation. It reflects the reality that their B2B customers want to buy simple solutions to problems rather than source different, separate components from different vendors, stitch them together, and continuously upgrade them. For all but the very largest enterprises, this is not realistic. A telco to techco strategy takes advantage of the blurring of boundaries by offering to perfectly solve customer problems by orchestrating an ecosystem of partners to co-create perfect solutions for them. By becoming a solutions provider and giving customers exactly what they want, they are retaining B2B customer relationships and replacing connectivity revenues lost to competitors.

In short, engine 2 is to build a new business alongside connectivity and a pathway to retaining the customer. Whereas historically, innovation within CSPs has been driven from the technology side, a telco to techco transformation matches this with business-side innovation—based on

closer customer relationships and real insight into their problems—and new platform-based business models.

At this year's Mobile World Congress in Barcelona, many asked, "well, what's the point of 5G?" In fairness, it has struggled to live up to expectations. Some CSPs have spent too long twiddling thumbs and waiting for someone else to come up with the one 'killer' use case that will match the 5G technology innovation, but the reality is there won't be just one. Instead, it requires business-driven innovation to create a wide variety of new use cases, which will be defined by innovating with customers and partners based on clearly identified problems that need to be solved. It's no wonder there was a lot of talk in Barcelona about telco to techco.

Fundamentally, the traditional "sell to" business model is broken if CSPs want to be anything other than a wholesale of 5G and NaaS connectivity. For CSPs to capture the B2B opportunity, they must first shift their focus from technology-driven innovation resulting in standardized communication products. They must aim to match it with business-driven innovation to become a solutions provider that can leverage new generations of connectivity and bring phenomenal value-add to customers. Without this, there will be no 6G.

Willingness to adapt

Both pathways mean CSPs will have to build solutions around the customer and their needs. Telco to techco, however, goes much further into creating an "engine 2." With this strategy, CSPs are choosing to become the solution provider themselves rather than a wholesaler of connectivity services. It means transforming how they engage with their customers, market, and sell to create solutions that are easy for customers to try, buy, and consume as digital products. This minimizes the customer headaches that come with managing multiple technologies from a variety of providers when they simply don't have the technical expertise or economies of scale to do so.

Selling digital products is by no means easy stuff—it is breakthrough innovation that requires long-term leadership commitment to drive the desired organizational change. For those telcos remodeling themselves as techcos, it requires a very different business model. Digital products require a model that is more ecosystem partner- and platform-driven to bring the level of customer focus and breadth of capabilities for partners to jointly co-create and co-innovate solutions that CSP will orchestrate. We see CSPs follow different telco-to-techco paths. Some start with connectivity in pathway 1 and incrementally step out from their core. Others set themselves up as "IT factories" building any number of platforms and solutions. Another model is to focus on two to three industry verticals. Some CSPs see themselves as a venture fund acquiring software, while others create a 'Division X' to define new ways of working with partners and customers—a winning strategy may be a combination. What is clear, though, is that all models will require CSPs to move to selling online like the hyperscalers, moving from projects to selling sophisticated digital products. These will be discoverable, consumable, and configurable online with assisted sales journeys and ruthlessly automation of every step from shopping cart to ecosystem orchestration and monetization.

B2B customers are tech-savvy digital natives that not only want solutions to solve business problems, but also want strong guarantees of the successful business outcomes that a solution will deliver. It's less "trust me" and more "prove it to me." Through multi-sided or platform business models, hyperscalers have been successful in the B2B space. For CSPs to make a successful transition to techco, the next step will involve their willingness to adapt and mirror the success of the hyperscalers, selling and globalizing by building an operating model which enables rapid scaling of their own and partner solutions.

Restructuring as a platform-based organization

There are several broad themes that encompass the journey CSPs are on as they rebuild around platforms to become techcos, emulating the success of the hyperscalers. The first is the move to embracing platform-based "sell with and sell through" multi-sided business models. Traditional linear CSP business models centralize power and decision-making; it's a push sale mechanic whereby the organization sells standard products to the customer using commission sales and paid marketing or wholesale.

Platform-based business models are very different. From a business perspective, a platform has a multi-sided business model able to generate powerful network effects (think Amazon "fly-wheel"). This is where volume generates economies of scale and an expanding partner ecosystem delivers more choices for customers, attracting more customers into an online community and driving further volume and scale gains. As the hyperscalers have found, these models significantly reduce the cost of selling, creating huge value economics.

Multi-sided business models are also great for digital solutions—a sweet spot for B2B as discovered by the hyperscalers and digital startups. Digital services always start with a customer problem and work back from there. For that solution to offer a holistic view, or be 'perfect', it will require a much broader set of capabilities than any CSP can muster. Invariably this means co-creating solutions with specialist ecosystem technology partners. Not only does this shared specialism build knowledge of new markets and geographies for the techco but it is also more profitable to co-create than to sell another company's products.

How does techco change the role of the CSP?

There are four roles within a platform-based business model: a platform-owner (who orchestrates the value needed to perfectly solve the customer problem), who brings together producers (partners-owning capabilities), providers (partners owning customer relationships), and customers themselves. The role played by each actor may be one or many and will change from solution to solution. So, a platform owner may be a producer and a provider; or purely orchestrating the ecosystem to perfectly solve the customer problem. Overlaying the marketplace with this model is really about selling highly repeatable solutions online. This requires self-service, building volume, and providing choice and reduced prices with continuous customer engagement to build trust, a community, and network effects to remove paid

marketing, lower customer acquisition cost (CAC), and increase customer lifetime value with near-zero marginal costs of scaling. The whole process is automated end-to-end to manage complexity and partners, but your customers experience high value and seamless service.

So, a portfolio of capabilities onboarded to the marketplace can be rapidly combined with partner capabilities to create new solutions and address emerging business problems that customers need to solve. This is, in essence, what the techco is aiming to achieve, exploring new revenue-generating opportunities from different technologies across any number of industry verticals. And this is achievable through promoting collaboration and shared market knowledge to take a digital-first approach to technology solutions for customers.

Building a community

Once a marketplace has been established, CSPs can evolve the model to eventually compete and scale globally with partners to generate new and consistent revenue. This is key to the techco vision and being able to scale through new services and technology solutions that allow them to enter new markets. Digital marketplaces are an elegant means of addressing this opportunity. With the emergence of technologies including 5G, IoT, and Edge, techcos need to be mindful that notechology is standalone. The monetization potential lies in offering complete use cases for smart manufacturing, smart buildings, smart agriculture, and more. And for sellers to get the full benefit, they need to scale and grow from niche to multiple industry use cases.

Ensuring success starts by building a Minimum Viable Community of like-minded partners who can ideate and 'solutionize' customer challenges. Additionally, as more partners operate in the marketplace, it creates a network effect that naturally encourages more customers and businesses to join.

With this, CSPs can make use of product catalogs, APIs, multi-tenancy, and event hubs to develop highly composable solutions with high differentiation and customer value, such as pay as you go (PAYG) manufacturing. This marketplace allows the owner to connect the needs of the buyers and sellers and shift from being a digital reseller to an ecosystem orchestrator.

This is when partner ecosystem orchestration and management come into play, allowing players on a common business platform to easily and dynamically exchange, combine, and monetize their services; introduce new digital offerings at speed, sell joint offerings, and create new business models. It ensures automated orchestration and provisioning of all services across the ecosystem and facilitates the co-creation of marketplace solutions that perfectly solve customer needs, both now and in the future.

A successful digital marketplace centers on developing and selling solutions to meet specific business needs, rather than simply making multiple components and services available. It focuses on co-creation within an ecosystem to remove the complexity from the adoption of technologies that will drive improvements and solve real business problems.

As CSPs develop into techcos, they must understand—and this is a real mental hurdle—that they can't do it alone. Becoming a global marketplace requires a collaborative and a multi-sided business model, not the linear one they've traditionally relied upon. Working with an ecosystem of partners has extensive benefits, and if CSPs take the necessary steps now, they can frictionlessly develop in-demand capabilities and solutions across multiple industries in a global marketplace.