

# Telecoms operators and startups: Rethink and reinvent

*Harnessing the disruptive power of startups*



Telecoms operators around the world are already engaging with startups in an attempt to benefit from their agility, execution speed and disruptive power. However, realizing tangible benefits and value from these initiatives has been a persistent challenge. Fundamental changes to current approaches are required to truly harness the innovative power of startups, young companies and digital upstarts: operators must rethink their business and operating models, reinvent their engagement models, and refresh their processes, governance mechanisms and cultures.

## Telecoms operators need to innovate

It is no news that telecoms operators have faced disruptive competition across their traditional core businesses – voice, data, messaging, ICT services – from startups, digital players and cross-industry disruptors. Operators have long grappled with engagement approaches with such disruptors, ranging from co-creation, competition and investments to outright regulatory challenges. Meanwhile, young and ambitious companies have lived up to their own hype by becoming vehicles to drive innovation and disrupt the business models and value chains of traditional industries: the potential for riding this vehicle remains untapped in most operator engagement models we have seen.

## Telecoms operators seek startup collaboration...

When we asked senior executives of some of the main telecoms operators across the globe about the rationale for their association with startups, the dominant answers were “innovation”, “future” and “agility”, as well as “opportunity” and “partner”<sup>1</sup>. Corporates realize that engagement with startups needs to be carefully aligned with the overall strategy and executed meticulously to create value.

## ... yet telecoms operators are still far from being the partners of choice for startups

Over 90 percent of telecoms operators we spoke to in our last study considered innovation partnerships with startups and

established players relevant or highly relevant, but still, few telecoms operators felt capable of actually executing these kinds of partnerships<sup>2</sup>. Startups need specific sets of conditions to perform, especially under umbrellas of large telecoms or media companies, even in cases in which dedicated digital units or innovation arms exist.

Based on our work with leading telecommunication and media corporations worldwide, we see many struggling to capture the intended value of startup collaboration due to risk-averse cultures, slow decision-making, rigid processes and tight governance mechanisms, and lack of knowledge on how to internally collaborate with startups.

## Pragmatic approaches are available

Telecoms operators need to develop collaboration capabilities ranging from initiating interactions with startups, such as startup screening, valuation and selection, to managing long-term collaboration, such as internal and external collaboration steering. However, building up these capabilities might require long time commitments, and there are more pragmatic approaches available.

This requires collaboration with startups to be baked into a firm’s thinking rather than an afterthought or a “me-too” approach. This requires telecoms operators to:

1 Please refer to Match-Maker Ventures & Arthur D. Little, 2016: The Age of Collaboration: Startups and Corporates need each other

2 Please refer to Arthur D. Little, Match-Maker Ventures & The Telecom Council of Silicon Valley, 2016: Innovation Quest for Telecom Operators

1. Rethink current business and operating models to clarify their ecosystem propositions
2. Reinvent their startup engagement models to gain the best value from collaboration
3. Refresh processes, policies, procedures, governance mechanisms and corporate cultures

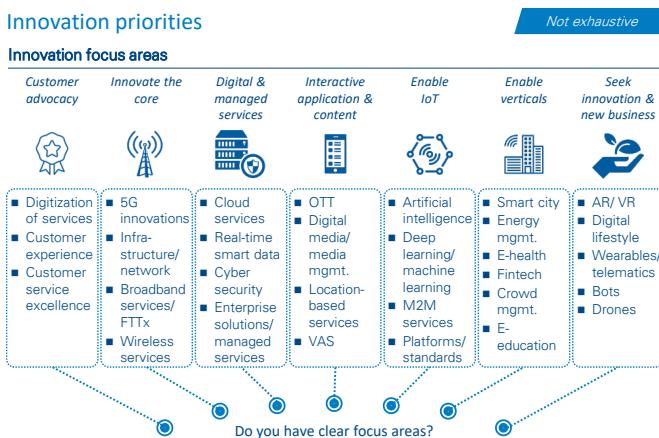
### Startup collaboration triad



Source: Arthur D. Little

### Rethink! your business & operating model

Innovation priorities of telecoms operators range from innovating and digitizing the core to increasing customer advocacy and generating new revenue pools from core, adjacent and non-core businesses. (See below figure)



Source: Company information of 25+ telecoms operators, Telecom Carrier Council Conference 2016, Arthur D. Little analysis

To become more innovative and even disruptive, telecoms operators must consider innovation opportunities across a wide range of areas and using different digital building blocks<sup>3</sup>. The “new kids on the block”, such as startups and digital players, can be future partners and potential vendors to help solve some of the growing challenges that telecoms operators are facing today.

Clear focus on the part of the operator is required to create impact and clarify the proposition to the startup ecosystem and

potential collaboration partners, such as innovative startups and young companies. A come-one, come-all approach may work in a marketing sense, but does not lead to a lasting positioning in the ecosystem.

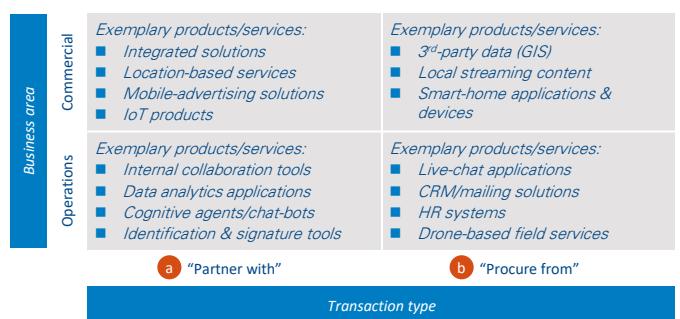
### Reinvent! your engagement models

Many telecoms operators struggle with launching innovations with the help of their startup investment activities and/or in their incubators and accelerator programs. Their focus is often too narrow, only on equity investments and “niche” parts of the value chain, i.e., new business models. However, the collaboration spectrum is broader than just partnering and entering new markets. Companies often forget that innovation happens across the whole organization – not only top-line-driven.

Some telecoms operators are already leveraging smart ways of working with startups, young companies, and digital disruptors beyond equity-based or partnership models. These operators have realized that their past efforts were too narrow, putting too much effort and time into partner search and governance and too little into the realization of innovative products and services.

We advocate a more pragmatic approach for startup collaboration: Corporates can choose either to a) “partner with” or to b) “procure from” startups or similar entities.

### Corporate-Startup Partner-Procure Matrix



Source: Arthur D. Little

#### a) Telecoms operators “partner with” startups

Many believe that telecoms operators need to expose capabilities to third parties and integrate third parties into their product portfolios in the current “age of collaboration” or “age of APIs”. Hence, the majority of engagements with startups are centered on creating innovative products, services and customer experience driven by marketing & sales. Telecoms operators open up their customer bases and partner portfolios for startups and young companies to use to pilot, commercialize and market their products and services.

However, the disruption potential within an operator’s internal operations is still often neglected. Telecoms operators have the

3 For more detailed information about Future of Operations building blocks please refer to Arthur D. Little, 2017: Reimagining Telecom Operations in a Hyper-Digital World

2 Telecoms operators and startups: Rethink and reinvent – Harnessing the disruptive power of startups

opportunity to reimagine their operations, leveraging innovative and digital technologies to compete with leaner and more agile competitors.

### b) Telecoms operators “procure from” startups

Supplier/vendor collaborations or partnerships have clear, pre-defined objectives, and therefore traditionally higher success rates<sup>4</sup>. However, certain enablers, such as governance models, processes, and organization and transformation roadmaps, need to be set up for value extraction. The value potential of this approach is often disregarded – AT&T was able to source radically new solutions by including new, smaller players in its existing processes and future initiatives<sup>5</sup>.

**Example:** AT&T was able to source radically new solutions through including startup and SME companies in its various sourcing programs and initiatives such as Foundry, Domain 2.0 and in its internal processes. Innovations such as deploying drones in the network-planning process, using them to provide enhanced LTE wireless coverage at packed venues, and using a self-optimization network solution from Intucell to reduce dropped calls all led to concrete improvements in the effectiveness and efficiency of the company's traditional operations. (Source: AT&T, Interviews)

Procurement can be the key enabler in digitization and startup collaboration. Today most telco organizations are not flexible enough in their policies, procedures, guidelines and cultures to grant startups access as suppliers to their portfolios. Their products and services might be fit for purpose, but startups and similar entities are not given the chance to prove themselves due to internal hurdles around procurement. Project sponsors and procurement leaders have to radically rethink their external engagement models to bring the best value to their organizations.

**Example:** KPN, the integrated incumbent operator of the Netherlands, fosters outside-in innovation through an integrated startup collaboration approach. The company facilitates contacts and knowledge exchange, joint product development, commercial and strategic cooperation, and financial investments among all relevant stakeholders in the ecosystem. In particular, KPN collaborates with startups, early-stage companies, universities and government bodies to develop innovative solutions in the areas of Internet of Things (IoT), smart home, digital healthcare, cloud services and cyber security. (Source: KPN Ventures, Interviews)

### **Refresh! your processes, governance mechanisms and cultures**

Telecoms operators' internal and external processes, governance mechanisms and corporate cultures are often not fit for purpose for startups and young companies. Procedures and policies are legacy, often coming from different monolithic corporate eras.

Startups or startup-like companies are rarely considered in tendering processes due to not fulfilling the formal criteria, e.g., number of years in business, reference clients, yearly revenue, specific certifications and so on. Telecoms operators need to be open to integrating innovative companies into their business models. Procurement can play an important part in supporting innovation – so strategic alignment and buy-in are key.

**Example:** Leading European operator Orange set up a “startup-friendly” procurement process to better embrace and include startup engagements. This process allows lower pre-qualification standards as well as shortened payment cycles (i.e., less than 30 days), exclusively operationalized by a dedicated team within the procurement department. This “flexibility in procurement” has made the company one of the most attractive partners for startups in the industry. (Source: Interviews)

Telecoms operators need to ensure that mechanisms to integrate, on-board and manage young, innovative companies are in place. Operators need to facilitate an easy and simple on-boarding process, which is key in today's digital era.

A more significant issue is the corporate culture, which, in most large organizations, is resistant to disruption and change and tends to focus on potential risks. Such risks include those associated with procuring products and services from startups due to the newness of the business and the potential absence of a large-scale proof of concept or existing customer base.

**Example:** The open and cooperative culture at one of the world's largest telecoms operators helped, in a joint effort with a highly innovative early-stage supplier, to customize and implement a radically new billing functionality: commented, real-time video bills make it easier for customers to understand their bills, reducing complaints and increasing customer satisfaction. (Source: Interviews)

4 Please refer to Arthur D. Little, Match-Maker Ventures & The Telecom Council of Silicon Valley, 2016: Innovation Quest for Telecom Operators  
5 AT&T Innovation Blog: <http://about.att.com/innovationblog> and press articles on Domain 2.0 program

Telecoms operators need to ensure that they empower and reward their employees, especially in business functions, for taking calculated risks in allowing startups and startup-like companies access to their supplier or partner portfolios – even if only with minimum-viable products. This requires leadership commitment and an adjustment in relevant KPIs, as well as employee training and enablement.

### Summary

Today, there is no doubt in executives' minds that working with startups is beneficial, but executives almost always are left with the burning question of how best to put this into practice.

**Rethink!**: Instead of diving headlong into collaboration for collaboration's sake, we recommend starting off by rethinking your business and operating models and the reinvention challenges accompanying the same: this lends the crucial element of focus and enables prioritization. It provides decision-makers with a better perspective of the full spectrum of possibilities in order to harness the speed and disruptive power of working with more nimble, agile startup companies that can help to support them in their transformation journeys.

**Reinvent!**: When it comes to choosing the right engagement model to extract maximum value from the operator-startup partnership, it is important to gravitate away from a marketing or investing approach (sponsorships and equity-based transactions) to sustainable joint value creation models. This requires operators to reconsider their entire collaboration journeys and internal readiness. Emerging approaches of telecommunications operators provide strong evidence that, with highly targeted "partner-with" and "procure-from" approaches, innovative solutions supporting both top- and bottom-line growth can be sourced effectively.

**Refresh!**: The key to successful joint value creation ultimately lies in developing a strong culture of collaboration supported by appropriate governance frameworks and processes, as well as empowered and dedicated employees at both ends. Telecoms operators need to embark on this corporate-culture change to truly harness the innovative power of startups, young companies and wider digital market players.

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### Arthur D. Little

Arthur D. Little has been at the forefront of innovation since 1886. We are an acknowledged thought leader in linking strategy, innovation and transformation in technology-intensive and converging industries. We navigate our clients through changing business ecosystems to uncover new growth opportunities. We enable our clients to build innovation capabilities and transform their organizations.

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