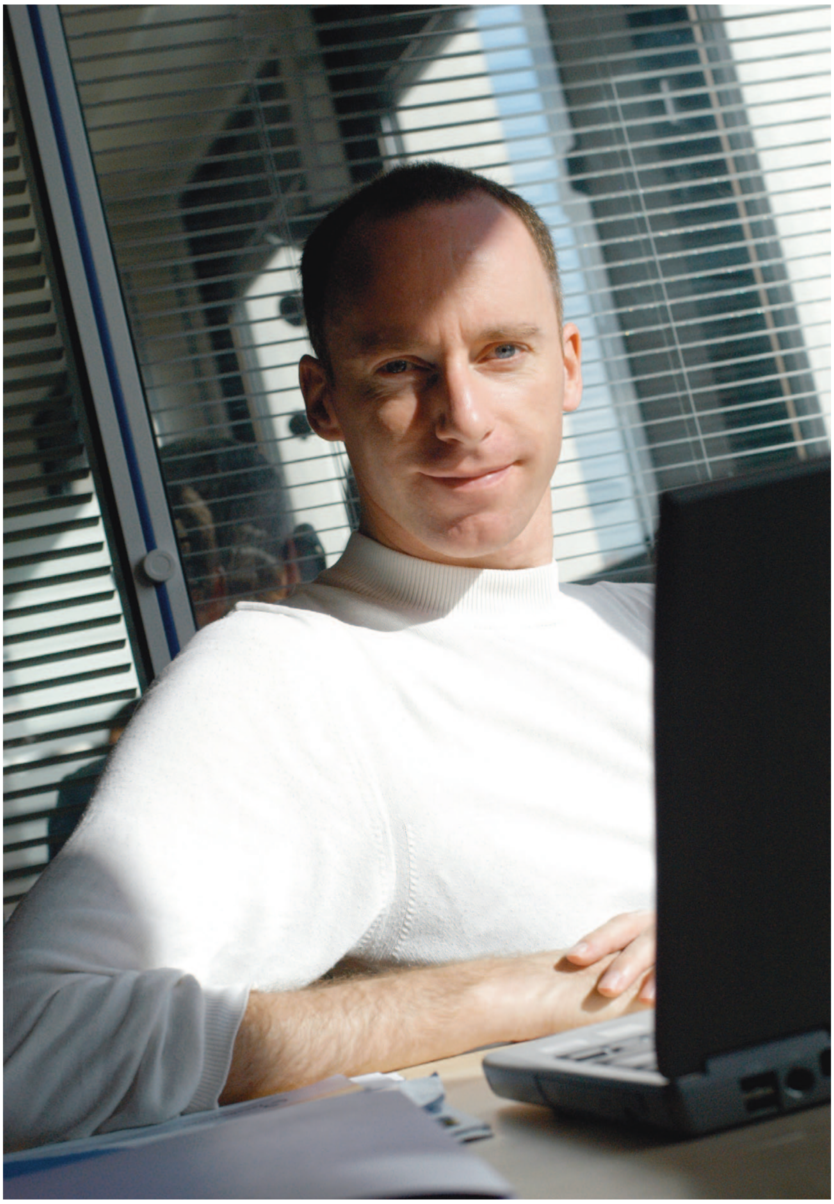
Telecoms operators often don't realise how admired they are in other industries for how well they have transformed their sector, says SAP's Fergus O'Reilly. They have huge potential selling those services to enterprises that are also going through the challenges of transformation

Transformed telcos can build business as other enterprises face transformation



Fergus O'Reilly: You'll be surprised how often I walk into companies that are going through changes, and one of the first things they say to me is: 'We want to be like a telco'

Telecoms operators have huge potential in working with wider industries, from healthcare to remote monitoring, in passing on the skills they have acquired in transforming their operations in the past few years.

Operators, using the best IT services such as business intelligence, customer relationship management and billing, have needed to transform themselves, says SAP's Fergus O'Reilly: and now they have the technology and the expertise to help other companies which are now facing similar pressures.

This opportunity comes just when the telecoms industry needs it, says O'Reilly, who is chief solution expert in SAP's Consume to Cash division, which focuses on next generation billing and customer management solutions.

Operators are running out of room to growing their current markets, he notes. "They have been getting their revenue from subscriber growth, and they have been so good at this that they are now running out of runway."

Markets are saturating, and operators must now look to develop new revenue streams and change their business models. Operators are cutting operational expenditure opex, helping customers take up new services, and developing machine-to-machine and other new services.

It's because of this that SAP is in a prime position to help operators recognise the business opportunities in other industries. SAP works with a large number of industries, including some that are facing similar challenges to those telcos are already well advanced in managing.

He lists industries from consumer electronics and high-technology to health care, tele-maintenance and monitoring of buildings — all examples of businesses that are changing their relationships with their end customers to a service model.

These enterprises are looking for help from companies that are being forced to change their business model. And, because they are also working in what he calls "a hyper-connected world", he is regularly seeing opportunities for telcos to offer their expertise and services.

Take some examples. The consumer goods industry, "your fridge to your washing machine to your television, have all typically been hardware-centric — based on product purchase — with a very low service component," says O'Reilly. Customers buy their equipment from a high street retailer but rarely have a direct relationship with the company that makes the goods.

The equipment makers are talking to SAP about how they can build their relationships with their end-users — and connectivity to the internet is playing a key role in the new business model.

Manufacturers are starting to offer service packages to their customers, "so you can detect problems with your TV set", he says. "If you can do some remote diagnosis you can cut down on the returns process."

And, as this develops, it is giving manufacturers an entirely new relationship with their customers — giving them access to a whole new depth of business intelligence. A vendor is now able to find out how customers are using a device — and that helps them see how it's behaving and how often it's used.

This business intelligence aids a manufacturer in planning future development of the product range — but it also allows a company to identify opportunities

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to create and sell new connected services that they can sell to customers.

"The internet-connected TV guys can sell gaming, they can sell video streaming, they can sell video on demand — another choice of where you can get content from," says O'Reilly.

Opportunities are not limited to the consumer sector, says O'Reilly. "Take construction and building design." That's not usually regarded as a sector providing opportunities for telecoms service providers, but O'Reilly has some intriguing insights from his cross-industry experience at SAP.

"Building used to be an old-style product-centric business where companies would sell components such as heating, air conditioning or lighting. That whole market has become very consolidated and companies are looking for growth now they've bought up their competitors and margins are going down."

As a result, vendors are now increasingly looking to provide service contracts, so instead of selling equipment to the company putting up the building, equipment that then requires the building owner to hire people to look after it, "the original manufacturers can offer a service contract, and it will employ people to manage this remotely with a performance contract, a service level agreement".

The contract can guarantee that the energy bill will be cut by a certain amount, and offer to share the gains. "Contracts like this are starting to appear in the US." The equipment maker is incentivised to put in the best possible equipment and to have the maximum possible environmental benefit.

"This is another good example of a traditional product-based business moving to become a service business. Many of these companies are engaging with their customers in ways they never had to before," says O'Reilly. "It's a huge amount of change for them in terms of business processes and their business model."

SAP is familiar with the challenges these companies are facing and knows that some are trying to face them on their own. "They can go out and acquire what they need, including a CRM system, to manage their consumer customers, and a billing system to account for the services being used." This means that they will need "a whole new business intelligence and analytics landscape, "to figure out what their customers are doing" and tailor the packages and the offers. And the companies have to hire new specialists to work with these systems. "This is quite different from how their businesses have been run traditionally."

Or, says O'Reilly, they can find other companies to handle this side of the operation for them. "Companies in transition see telecoms as having best practice for these types of business processes. They have scale, they have reliability, they know how to run service platforms, they know how to provision them, they have them up 24 by seven, and they know how to do micro-billing — how to aggregate transactions, run a billing process, run a collections process, do the analytics and manage large customer volumes."

Telecoms operators "do that better than any other service business", says O'Reilly. "They know how to run business intelligence, CRM provisioning, service quality management, billing and analytics — but, right now, these are primarily for selling their own services to their own customers."

He has already identified cases where telecoms operators can provide revenue-generating services to companies in the 25 industry sectors SAP works with. In order to take advantage of this opportunity, operators need to develop a platform, so a television set maker could come to a telco and say: "These are the customers I'd like to address. Manage them please, with your CRM systems and your billing systems. Produce the bills on my behalf and give me the analytics."

The operation would run in the telco's cloud, not the TV set maker's, because telcos have "some of the most reliable data centres in the world". The end-customers will see their relationship as being with the TV set maker, "but underneath all that will be the telco's system".

It may come as a surprise to many in the telecoms industry that they are, says O'Reilly, seen widely as successful exemplars of business transformation. "I don't think they recognise how good they've got it, how mature the industry really is in terms of its thinking and its processes," he says.

Many of the large operator groups are already working towards this area, though perhaps under a label that makes it less than clear. "It may be called the machine-to-machine group, for example," says O'Reilly. "Any machine-to-machine operation is already activating this business model, but under a different name." It's managing smart devices and their connectivity on behalf of enterprise customers — which may also have end users. So far these operations are still small, compared with the size of the telecoms industry as a whole. But most operators recognise the potential of machine-to-machine as a new driver of growth for the industry.

And if O'Reilly and SAP are right, telecoms operators have more, much more, to offer enterprise customers: their hard-won expertise in transforming their own businesses.

But, more significantly, telecoms operators that are facing saturation in their own markets can offer valuable services, based on their own networks and OSS/BSS facilities, to a wide range of enterprises that are striving to change into a service-based model.

In his work at SAP, Fergus O'Reilly meets executives in a wide variety of industries. "You'll be surprised how often I walk into companies that are going through changes, and one of the first things they say to me is: 'We want to be like a telco'." There's an important lesson there for the telcos that have been through the pain, have transformed their business models and have developed revenue-generating services: they can benefit from this lesson by developing new opportunities. And SAP is there to help bring them together. ■