TELECOM COMMONS

Opening organizations for faster product development, more innovative outputs, and diversified revenue streams

Media, Entertainment & Communications Perspective

NORTH HIGHLAND

THERE ISN'T ONE SPECIFIC WAY TO OPENNESS. IT CAN BE BOUGHT, BUILT, OR PARTNERED.

ORGANIZATIONS NEED TO LOOK ACROSS PEOPLE, PROCESS, TECHNOLOGY, AND CAPITAL WHEN CREATING PRODUCTS AND SERVICES.

The media, cable, and telecommunications (telecom) industries are in the midst of a major shake-up. Bolstered by the appointment of ex-Verizon lawyer Ajit Pai as chairman of the FCC in 2017, these industries are set up to see an influx of mergers and acquisitions (M&As) — deals that could open new markets and expand the footprints of existing organizations. There is a good business reason for the flurry of M&A activity in this space: Increased pressure on margins due to programs like unlimited data are causing organizations to scramble for other means to increase revenue. In addition, slowed subscriber growth, a flattening smartphone market, increased content costs, and pressure from new-entrant competitors are putting the squeeze on media, cable, and telecom companies and contributing to lagging revenue and cash flow.

Historically, the answer to these challenges has been to get bigger, stickier, and more self-sufficient. AT&T bought Cricket, DirecTV, and Time Warner. Verizon acquired a number of companies in the media space, including Intel Media, AOL, and Yahoo. Unfortunately, this approach is proving to be unsuccessful within the traditional media, cable, and telecom operational models. In the first quarter of 2017, AT&T reported its first-ever subscriber loss, and Verizon suffered its biggest subscriber loss in history (199,999 and 398,000 subscribers, respectively).[1,2]

Bigger organizations across media, cable, and telecom traditionally construct themselves around deep functional silos and heavy-handed hierarchies. Their operating models are associated with inflexible customer agreements and fewer content partnerships. They close in on themselves and, in turn, shut the door on the critical requirements of surviving and thriving in today's market. This will eventually shut them out of the market altogether.

Customers want and demand non-linear content and a comprehensive portfolio of services all in one place. They expect an app experience that is individualized and seamless, with search functions that are less prevalent and more predictive and personalized. Open services — marked by open-development architectures and free-flowing data — enable legacy media, cable, and telecom organizations to deliver on this consumer demand.

To give credit where it is due, companies in the space have made attempts at being more open. Telefónica has created crowdsourced programs and pioneered Weve, a cross-industry data analytics offering. Others have attempted to purchase their way into openness, as demonstrated by Verizon's acquisition of Yahoo. But these forms of openness have taken place on a small scale and under extreme stress. If and when pushback occurs or revenues decline, these forms of openness are quickly abandoned and companies revert to closed ways of working.

The shift to openness is not simple. It requires an acknowledgement that one organization alone can't innovate and get to market fast enough. It demands a philosophical transformation, one in which business objectives move from protecting assets to empowering others to create for your ecosystem. It thrives within a revenue model based on sharing content — not limiting it within proprietary channels — to maximize value. And it is based on customer-centric decision-making rooted in co-creation to add value, not fees.

The payoff of openness is sustained survival in a market swirling with disruption. Openness is a way of working that removes operational friction, allowing companies to easily pivot and transform. This long-view approach positions media, cable, and telecom companies to not just keep up now, but also to nimbly lead their industries through the next wave of consumer demands and market disruptions.

OPENNESS is the development of products and services that are:

- Enabled to integrate on the back-end with other internal/external products and services;
- Freely shared with other parties within a feedback loop to enhance learnings within the product offering; and/or
- Designed to encourage others to work with you on enhancing your product offerings.

OPENNESS 411: THE BENEFITS AND BARRIERS

The Benefits

For most media, cable, and telecom companies, openness runs directly counter to the traditional way of doing business. Traditionally, these companies ran an operational oligarchy in which success was defined by tightly controlled territories and assets. Remember how mobile mapping solutions were originally proprietary, with each company keeping a stranglehold on their respective white-label mapping technologies, all the while excluding outside input and resisting external advances in the technology? Then Google Maps entered the scene and took over the entire market. Only when enough market share was lost did the wireless carriers begin taking alternative mapping solutions seriously, and start looking to open up their platforms to the external community. By then it was too late.

Others, most notably Google, Apple, and Amazon, also stepped onto the court and defiantly refused to play by the legacy players' rules. They created their own app stores. They host and produce a growing catalog of content. They own much of the infrastructure carrying data, and they're starting to sell internet access. Other developments hint at how these giants plan to further rewrite the rules to winning at media, cable, and telecom.

Consider Google's Pixel phone as a future opportunity. The hardware is carrier-agnostic (though currently only available through Verizon) and easily enabled with Google's back-end technologies, including search, multiple radios, and split billing, which allows Google to divvy out transactions and federate bill pay. This combination of technologies, along with other Google technologies like AdWords, which instantaneously assigns search priority using an algorithm based broadly on ad spend, relevance, and usefulness, makes it theoretically possible for Google to radically flip the model, forcing carriers to bid on every data transaction. This massive shift in power — from carrier to Google and the consumer — would require legacy players to dramatically and instantaneously transform if it comes to fruition.

The objective of openness is not to predict disruptions like this theoretical one. Instead, it is intended to position a company to transform quickly and establish a wide network of contributors that can out-innovate individual competitors — even Google.

OPENNESS OFFERS

- Efficient scaling and innovation
- Successfully integrated experiences
- Increased speed to market
- Operational and resource efficiency
- Ownership of core assets without having to pump money into hardware/software development
- Flexibility to grow opportunities and market share

The Barriers

In addition to traditional media, cable, and telecom mindsets, it's important to acknowledge several significant barriers to entry for companies seeking a more open development platform.

First, there's cost. It's expensive to design and build an open architecture, and an open platform will likely require more people and time to maintain and manage.

Companies should assess current capabilities and expenses in order to gain a precise understanding of how resources can be diverted from legacy closed systems to support a new open architecture.

Another significant barrier is data ownership or, more specifically, the relinquishment of data ownership. Companies must be willing to release some level of data ownership to partners and co-creators. With that relinquishment comes increased security risks. Confidential data can create a better product; it can also put companies and their customers at risk. Before opening up their data, media, cable, and telecom companies must expand the reach of their data security to allow the right people access, in a manner that still protects customer data.

Finally, reduced control over product features and faster time to market requires that internal teams transform how they work. Sluggish bureaucratic systems will kill even the best innovations. In contrast, slow external development cycles will miss fleeting, though critical, consumer needs. Open organizations create systems to incentivize right-on-time external development cycles and nimble internal constructs that can get to market fast.

Openness: A spectrum, not an end state

Faced with these barriers to entry, many media, cable, and telecom companies we work with are in emerging states of openness, with variations depending on functional area or product/service line. Achieving openness is an incremental process, so companies must strategically identify openness targets based on marketplace conditions and the value openness would bring to a given product.

Openness is not a futuristic ideal, but instead a way of working that is here and now. We believe it's a critical component of survival in the rapidly shifting media, cable, and telecom market. North Highland has helped companies in the space prioritize openness product targets with a strategic foresight methodology that reveals new opportunities for openness, which will collectively pave a path to a new future state.

Recently, a client was considering how to respond to and incorporate key market trends, including 1+ Gbps speeds, 5G wireless options, seamless connectivity, disruptive networking technologies, collaborative consumption models, and increased internet of things adoption. These market trends — the same ones that nearly every organization in its space is considering — were initially seen by the client as a threat to market stability.

Through a series of engagements, North Highland set the stage for a more open system. We designed and initiated a new partnership approach, created a governance structure around innovation that encouraged cross-collaboration, created more open channels for customer feedback, and developed standards for the platform, devices, and apps.

As a result, the client is positioned to capitalize on partnerships as opposed to chasing incumbency, allowing them to benefit from market-disrupting technologies as opposed to being trampled by them.

OPEN CONCEPT: THE REQUIREMENTS OF OPENNESS

The harsh truth is that media, cable, and telecom organizations can't meet consumer demands on their own. Companies must open themselves up — to developers, partners, channels, and platforms — to offer the right products, features, and value. For instance, in video, cable companies must think beyond the (set-top) box to create content that is optimized to interact with external sources and open architecture platforms (including open data access, software development kits, and application program interfaces) to spur collaboration.

BlackBerry's history of inhibiting openness serves as a cautionary tale. Starting in 2009, BlackBerry watched its smartphone market share fall from 20 percent to 0.1 percent in 2016. Since February 2017, it's sold just 200,000 phones — a drop in the bucket amidst the 432 million phones sold overall in the same time period, officially tipping its market share to 0 percent.[3]

Apple's iPhone obviously played a critical role in BlackBerry's demise. However, in a 2015 interview Jim Balsillie, BlackBerry's former co-CEO admitted that the company's failure went beyond hardware. Balsillie claims that the proverbial nail in the coffin was BlackBerry's unwillingness to share the BlackBerry Messenger with the iPhone and Android smartphones.

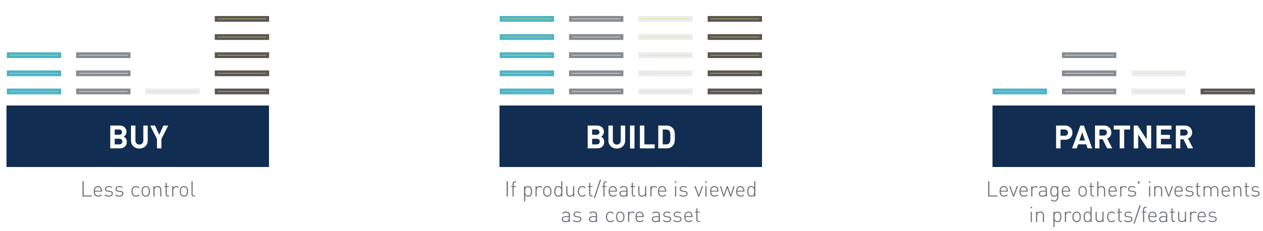
Now under the leadership of CEO John Chen, BlackBerry is inching back into the black and leaping out of the hardware business. It has embraced Android, and licensing deals now account for more than 20 percent of the company's total revenue.[4]

Today, as the rate of change grows exponentially in pace, most companies can't hope for a BlackBerry-esque turnaround tale. A failure to respond to disruption with openness, especially in the media, cable, and telecom industries, has the potential to result in immediate customer backlash and long-term financial harm. Companies must heed BlackBerry's cautionary tale and embrace a new way of working that employs the following principles of openness:

1. **Make openness part of your business culture.** Openness is a culture, and getting it right requires a top-down transformation in how people are measured and incentivized to encourage agility, risk-taking, and incremental improvement. In-depth capability assessments, targeted recruiting and retention strategies, and employee training and engagement programs — even at a product level — are necessary elements to achieving an open culture.

2. **Get comfortable with less control.** You can't own it all and keep the customer, too. Stop struggling to make software or hardware a core capability. Stop attempting to keep a contractual stranglehold on consumers. Stop further isolating yourself within proprietary platforms and channels. Instead, relinquish control and provide access to your data to open yourself up to faster product development, more innovative outputs, and diversified revenue streams. Apply a buy-build-partner methodology to "build" only the capabilities that are statistically most likely to turn current customers into brand loyalists and attract the next generation of high-value customers.

3. **Make customer satisfaction your core capability.** According to the American Customer Satisfaction Index, members of the telecom industry — specifically internet providers, subscription television providers, fixed-line telephone providers, and wireless telephone providers — took four of the top five "most-hated industry" spots in 2016.[5] The good news here is that there is plenty of room for organizations to improve. Get customer-centric and focus your efforts on delivering the best possible customer experience by any possible means.



Levels of investments in people, process, technology, and capital required with each of the three development options: buy, build, or partner.

People | Process | Technology | Capital

FROM INCUMBENCY TO AGILITY: SETTING THE STAGE FOR OPENNESS

There is no one answer to openness. Every organization will have a different solution, and that in itself is what makes openness so dynamically powerful and difficult to replicate.

For most organizations, getting started requires a simple acknowledgment: You can't do it on your own anymore. Organizations must partner – first and most significantly with their customers – in order to thrive. There may be more than one answer, but all organizations can effectively take the first step with robust and authentic customer feedback loops and an agreement to let the customer experience guide how openness shows up across products and portfolios.

ABOUT NORTH HIGHLAND

North Highland makes change happen, helping businesses transform by placing people at the heart of every decision. It's how lasting progress is made. With our blend of workforce, customer, and operational expertise, we're recognized as the world's leading transformation consultancy. We break new ground today, so tomorrow is easier to navigate.

Founded in 1992, North Highland is regularly named one of the best places to work. We are a proud member of Cordence Worldwide, a global network of truly connected consultancy firms with the ability to think and deliver together.

This means North Highland has more than 3,500 experts in 50+ offices around the globe on hand to partner with you.

For more information, visit www.northhighland.com or connect with us on LinkedIn, Twitter, and Facebook.

---

1 Verizon Reveals Huge Customer Losses Before Unlimited Data Plan, Fortune, April 20, 2017.

2 AT&T Weathers Record Loss of Wireless Users With Forecast Intact, Bloomberg Technology, April 25, 2017.

3 BlackBerry's fall Is Complete — It Now Has 0% of the Global Smartphone Market, Mashable, Feb. 15, 2017.

4 Is BlackBerry Making a Comeback?, CNN Money, Sept. 28, 2017.

5 American Customer Satisfaction Index, 2016.

NORTH HIGHLAND