



CloudBlue

CLOUDBLUE INSIGHTS

Digital services: The Opportunity for Telcos to drive ARPU

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CloudBlue
Technology enables
you to Cut through
Complexity

Introduction

This installment of the CloudBlue Insights series focuses on the telco industry. We explore the trends and challenges driving reinvention of the sector that is exploring new opportunities to keep their customer base and create new lines of revenue.

Our analysis is based on the study of telco players strategic plans, annual reports, and a number of other financial and corporate communication sources for eleven telcos across the globe. We selected the biggest and most representative telcos with a relatively even geographical split. It also includes information gathered in live conversations across different industry events like Connecta LATAM 2022 and MWC23 where we have validated these challenges, trends and strategic direction of the industry.

The findings and use cases were then also validated with a smaller sample of CloudBlue customers.

Companies

Telefonica
Vodafone
Orange
Telstra
Verizon
NTT

Freenet
Comcast
AMX
AT&T
Virgin Media

Market saturation: nowhere to grow?

Over the past decade or so, internet access has got faster. Due to the proliferation of smartphones, and the demand for faster broadband access for the domestic market the penetration levels have started to reach saturation. This means in practice that in some regions telcos cannot grow their customer base any further, essentially, there are no new customers. In most of the developed world, there are more mobile lines than people and broadband access has reached **almost 98% penetration**.

With this complex scenario, some growth options for telcos are:

- Enticing customers away from their competitors which is **not** a viable option because it means entering into a price war which lowers margins for all parties and damages the market in the short term.
- Following initiatives to increase ARPU (average revenue generated per user) generating more revenue from their existing customer base by adding a broader services and products portfolio, including digital solutions with recurrent revenue.
- Focussing on customer retention. The cost of new customer acquisitions is very high in terms of money and time. Telcos are running initiatives to decrease churn-rate, improve customer experience and customer satisfaction and with this to expand LTV (lifetime value) of existing customers.



Concentration and competition

This intense competition has led to considerable concentration over the past few years. Larger telcos are acquiring the smaller ones leaving three to four players per market thus consolidating their customer bases and avoiding cannibalization of margins which, as noted previously, impacts all players. As pointed out at the Mobile World Congress 2023, during the keynote session where Orange CEO Christel Heydemann cited a PwC study claiming:

“46 per cent of telecoms CEOs think their companies won’t make another decade”

A focus on customer retention

Customers are looking for a unified digital experience from a single trusted provider who can preferably offer core services along with value-added solutions. This is opening a great opportunity for providers to complement core services with digital services.

In the B2C space, telcos have been partnering with media companies like Netflix, Sky Sports and other entertainment platforms to offer connectivity and entertainment bundles. The customer is less likely to leave just because the effort it would take them to set up subscriptions with all of the vendors they can access via their mobile operator is greater than any dissatisfaction or price motivation that would encourage them to switch company.



In the B2B space the story is similar but the solutions are designed for supporting their business as opposed to entertainment. Since telcos are already services providers for connectivity and other core services, telcos can offer and bundle even more services on top. They are offering a new catalog of digital solutions based on cybersecurity, productivity, resources from public and private clouds, collaboration, and unified communications and business support solutions. A good example of this is [Telefonica Tech](#), who offers a Cyber Security business bundle, which includes a physical or virtual firewall, a cybersecurity SaaS solution, and professional setup services, all available to order through their marketplace as a single solution and delivered at a monthly recurring fee.

By offering these bundles they significantly simplify their SMB customers' operations, while increasing stickiness and ARPU. Moreover, the deeper telcos get into complex automation, the more personalization they will be able to offer through the automated deployment of packages, such as a complete Workplace as a Service.



The B2B opportunity through a digital services portfolio

There are three huge opportunities emerging in the B2B space.

Firstly, that of the global cybersecurity market. At an estimated value of \$376 Bn by 2029¹, secondly, the massive global cloud market estimated in 2022 at a value of \$545.8 Bn² and finally, the staggering global IoT market, estimated at \$478Bn in 2022³ –

- which includes connected devices, cars, watches – all of this previously “dumb” hardware that is becoming an integral part of our smart, connected world.

For telcos to capture even a part of this massive opportunity, they are focusing their attention on these core areas - **infrastructure, operational and financial efficiency, strategic partnerships, and/or acquisitions.**

As they consolidate activity in these areas they continue their evolution from traditional connectivity providers to Digital Service Providers (DSPs).

¹Fortune Business Insights

²Markets and Markets

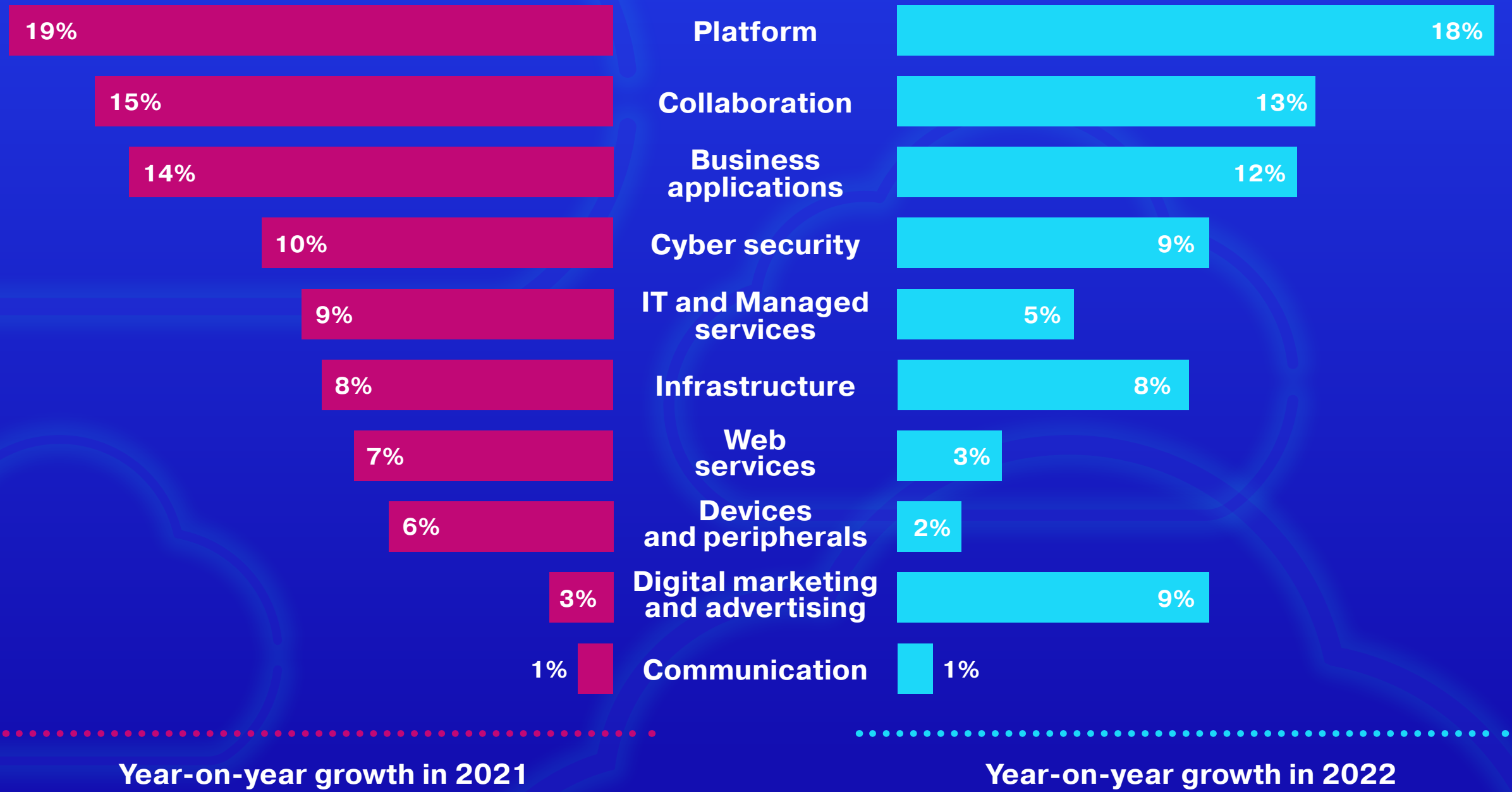
³Fortune Business Insights

The SMB opportunity

SMBs are a significant sub-segment of the B2B landscape. It's traditionally been a hugely challenging market to break into and serve. Digitalization and the as-a-service revolution opens up this market as the cost of entry and management of IT comes down and access to innovative solutions gets easier thanks to cloud marketplaces. As a result, SMB spending is expected to surpass USD1.5Tr by the end of 2023⁴ and cloud-based solutions are top priority.

⁴ [Analysys Mason](#)

Cloud-based solutions will account for the majority of future IT spending due to SMBs' digital transformation initiatives



More than 70% of small businesses are accelerating digitization to better engage with their customers

The companies we analyzed and spoke to recognize this huge opportunity and are building strategies to capture it.

As part of their overall transformation, telcos are finding that there are significant business operational challenges to consider. These include designing, defining the value proposition, and packaging-up offerings for SMBs. They must also train their salesforce not only on as-a-service vs. product or solution sales, but also and most critically for ARPU generating cross- and up-selling within existing accounts.



Vodafone New Zealand, for example, realized early on that they would face challenges upskilling and reassigning its existing sales and post-sales teams. They needed to keep pace with the aggressive expansion plans they had for the Business Marketplace so they included this in their planning.

Other telcos, who have launched packs where productivity software is bundled with connectivity and devices, have found customers simply have not activated the product, usually because they don't know they have it. It's a relatively simple solution to set up a program with a call center but it's a step that isn't always obvious.

Another potential hurdle is 'burning' the customer - different departments calling up the same customer with a range of different, unconnected offers. The keys are unification, bundling and adequate sales training.

The reinvention of telcos as Digital Service Providers

LAYING THE FOUNDATIONS

Across all the telcos we analyzed we saw a pattern of what could be considered 'retreat' or 'course correction'. They are selling non-core assets and abandoning lower focus markets, they are also embarking on the large-scale digitization of their operations.

They are also leaving non-core regions, or non-profitable markets. Take Telefonica for example, they are investing in infrastructure in Spain, Germany, UK and Brazil but leaving all other regions, including LATAM. Vodafone is concentrating on EMEA and Africa only.

It's interesting to note that, up to a couple of years ago many of these telcos were buying the media companies or becoming majority shareholders. Now, less than 2 years later, they are now selling these assets in favor of partnerships as they don't need to own the business - they just need to be able to sell subscriptions to their customers. Verizon, AT&T, whose acquisitions were widely publicized at the time are now selling their media concerns.



VERIZON

Verizon sold Verizon Media (Yahoo, AOL) in 2021 for \$5 billion and Huffington Post business in 2020. Selling off its media properties and **instead focusing on its wireless networks** and other internet provider businesses.

AT&T

AT&T spun off WarnerMedia to Discovery “to **focus its capital expenditure on building out its wireless network rather than spending on entertainment** content to compete with Netflix, Disney and other streaming services”.

AT&T

AT&T **sold Vrio**, their former pay-TV operations in Latin America **and other noncore assets** including Crunchyroll (anime business), Playdemic (mobile gaming business) and Xandr (programming advertising marketplace).

VODAFONE

Vodafone successfully IPO'd Vantage Towers to **free up 2.2Bn** (18.3% stake sold).

Vodafone had **19 M&A** transactions since FY19, for portfolio optimization.

TELEFÓNICA

Telefónica sold 60% of fibre subsidiary in Colombia to KKR. The operation is part of “active portfolio management policy” which is based on **divestment in non-strategic assets** to reduce leverage.

TELSTRA

Telstra divests Chief Entertainment to UK broadcast company.

ORANGE

Orange disposed of 1,500 non-strategic sites in Spain to Cellnex for €260 mn to maintain control of its strategic assets.

Through large-scale efficiency programs centered on digitization of their operations, telcos are simplifying, digitizing and standardizing their operations to make them more efficient thus reducing cost in manpower and operational costs. Telstra plans to **move 90% of applications** to the public cloud by FY25 and Vodafone has moved **more than half** of its core network functions to the cloud in Europe.

VODAFONE

Targets a total **net reduction** of Europe and Common Function operating expenses **of 20%** by FY23

Digital transformation initiatives have generated **savings of €0.5 billion** over the year

AT&T

Target to **achieve \$6bn cost savings** by 2023 by simplifying the business

TELSTRA

T25 strategy aims to **deliver \$366 million** of net cost reductions, cash conversion and generation

Leveraging investment in digitisation, plans to simplify products by **retiring more than 1,800 plans** and introducing 20 core plans that removes complexity and provides cost certainty.

ORANGE

Aims to reach **€1bn** net reduction target by 2023

INVESTING IN THE FUTURE AND MONETIZING 5G

As the operational and financial efficiency initiatives begin to bear fruit, telcos are using their freed-up cash on the 5G/Fiber optic, low-latency infrastructure which is optimized to be able to process a very high level of data with minimal delay. This is vital for an Internet of Things packed with connected devices.

Some telco players are taking this to the next level. They are monetizing the investments in 5G networks by creating new types of offers. 5G is opening a new world of possibility for smart solutions, IoT solutions, private networks, and connectivity.

Private networks are powering different smart solutions such as vehicle traffic management, public internet, and smart airports. These types of initiatives demand bundled solutions that include connectivity, SW applications, and access to network components with configuration and setup services included, such as Software-defined Wide Area Network (SD-WAN) solutions. Once more, these services may be bundled together and offered as a recurring subscription, providing Telco B2B customers access to sophisticated network offerings in a format that is affordable and aligned with the new way of consuming services.

By creating these kinds of bundles, telcos are making full use of their networks, monetizing investments in 5G infrastructure, and creating an environment of efficiency that leads to greater sustainability.

TELSTRA

Telstra targets **95% 5G** population coverage by mid-2025

BELL CANADA

Bell Canada to spend up to **\$1.2B** over two years on 5G, fiber

ORANGE

Orange sells 50% of new Orange Concessions for \$3.26b, company gathering its fiber assets, to be France's leading fiber operator network

AMERICA MOVIL

America Movil spun off its telecommunications towers in Latin America in 2021 to maximize the infrastructure's value. They plan to invest an additional **US\$1.8 billion** in 2022 to expand 5G network and capture the market potential

T-MOBILE

T-Mobile announces **\$3 bn** investment in mid-band 5G spectrum

As they transform their systems they are also transforming their business model. Through acquisitions they are becoming IT Service providers and behaving like MSPs.

Telstra; Etisalat, Telefonica and Orange, for example, are acquiring IoT, digital services and cybersecurity businesses.

ETISALAT

UAE telco Etisalat acquires **cyber security** firm Help AG

TELSTRA

Telstra Purple **acquires internet of things** specialists Alliance Automation, Aqura Technologies

ORANGE

Orange acquired **multiple cloud-based**, infrastructure and cybersecurity companies (Enovacom, Business & Decision, Basefarm, SecureData) as part of its digital revolution.

TELEFÓNICA TECH

Telefónica Tech acquires Cancom UK&I to build up a leader in cloud and digital services in Europe

CloudBlue technology enables you to Cut through Complexity

So how can CloudBlue's technology and ecosystem help accelerate and simplify this transformation from traditional telco to DSP?

How do we help telcos transform, get better customer retention rates and higher ARPU?

STEP 1

Creating a digital catalog



STEP 2

Launching a Multi-tier XaaS marketplace



STEP 3

Creating XaaS bundles



STEP 4

GTM Acceleration or transformation management



CREATING A DIGITAL CATALOG

The first step to selling, cross-selling and up-selling service solutions is to expand the catalog offering and integrate more third-party solutions productivity, cybersecurity, collaboration, and so on). However, managing an expanded portfolio manually drains time and increases costs.

CloudBlue's catalog gives you access to over 300 vendors with 400+ solutions you can add to your catalog to complement your own.



LAUNCHING A MULTI-TIER XAAS MARKETPLACE

The next step is to create a marketplace where you can publish this catalog so customers or branches in different locations can use it as a self-service storefront. The CloudBlue platform automates all ordering, fulfillment and billing processes.

Your local subsidiaries can also manage their quotes and regional catalogs and curate location-specific listings while the service provision is handled centrally. Scaling these processes through digitization is critical to reduce costs and free up resources.



CREATING XAAS BUNDLES

You are now a DSP and the more visibility you have of what your customers consume and what else they may need, the more innovative you can get with your offerings and the more your ARPU will grow.

Enter the XaaS bundle.

The CloudBlue platform can help you manage your own listings, onboard products, and services, and create tailored XaaS bundles for different markets and verticals.

You can also create and deliver:

- XaaS bundles of software and your services such as Cybersecurity, IoT, productivity and networking bundles for enterprise or SMB customers.
- Your own bundled offerings such as Workplace-as-a-Service and Cybersecurity-as-a-Service minimal overhead thanks to a complete ordering and fulfillment automation.
- Network based offers such as SD-WAN or Wi-Fi-as-a-Service that help you to monetize 5G investments.



TRANSFORMATION MANAGEMENT AND OPTIMIZATION

CloudBlue can also offer you GTM Acceleration Services which have been a central part of Vodafone New Zealand's go-to-market strategy.

They include:

- **Go-to-market planning:** Market research to help you Identify potential customers and develop compelling value propositions. You'll get engaging sales tools to get your teams started.
- **Assisted sales:** Avoid customer burn, cross- and up-sell more effectively with experienced inbound and outbound sales teams.
- **Customer support:** A welcome-to service that helps when you've bundled a software package with connectivity but the customer isn't using it.

It's a very exciting time for telcos as they effectively digitize the business landscape thanks to their powerful infrastructures and careful operational management. Our technology and ecosystem are well-placed to aid in this massive transformation. We make it possible for hundreds of customers to create, distribute and manage high-value XaaS bundles. Our technology cuts through the complexity of intricate multi-tier channels and countless subscription models to drive higher ARPU and greater customer retention for a new generation of Digital Service Providers.



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