

Organizing for a digital age: an operator's guide

The business landscape is being radically reshaped on a daily basis – and operators need to respond, rethink and above all, reorganize. However, creating set-ups **ready for the new digital paradigm** is only possible by mastering a series of key success factors.

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► **IT IS WELLESTABLISHED** that telecom operators are facing a major digital transformation; one that is reshaping not only the telecoms business but virtually all sectors of the economy.

For operators, this change started some time ago with the emergence of over-the-top (OTT) services such as WhatsApp and Skype. These types of services threatened revenues from operators' traditional voice and messaging offerings. Today, revenues from these offerings remain under pressure, and are in many cases rapidly declining.

On the flip side, new opportunities are emerging with the potential to enable operators to substitute revenues from traditional services. These include digital TV, Internet of Things, mobile money and more.

To succeed in exploiting these opportunities, a great strategy is important – yet it is not enough. For operators, building the right organizational setup for the digital paradigm is just as critical.

OPERATORS ARE STRUGGLING TO ADAPT

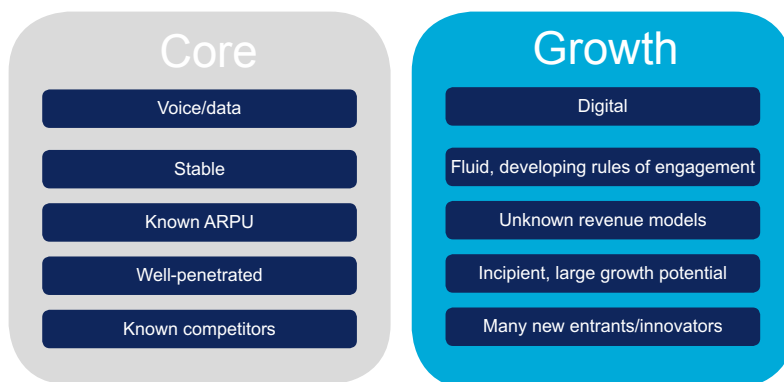
Many operators have so far been slow to adapt to this new paradigm. To be fair, the problem is not exclusive to operators. Most businesses struggle to move from old, proven business models to emerging ones. Large corporations in particular have shown a marked inability to adapt when paradigms have shifted [1], with the recent cases of Kodak [2] and Blockbuster [3] particularly well documented.

In general, operators (and all businesses for that matter) strive to successfully exploit their current market position whilst simultaneously exploring and developing emerging opportunities that will be sources of revenue in the future. This is what Stanford University Professor Charles O'Reilly has called “organizational ambidexterity” [4]. But without a doubt, many operators are finding it hard to implement this balance between exploitation and exploration in the digital era.

Meanwhile, operators are seeing the emergence of new rivals that are proving more adept at exploring digital opportunities. Historically, the competition to operators has mainly been limited to other operators. However, operators are now up against a wide range of digital businesses. These tend to be more agile when creating and developing digital products and services, and more comfortable with the risks and uncertainty that come with launching these new offerings.

Of course, this is partially due to the absence of incumbency – unlike operators, these businesses do not have core service revenues to preserve. But it is also a result of having the right

Figure 1: Telecom operator core and digital business operating models.



organization to address the fast-moving digital domain.

HOW CAN OPERATORS ORGANIZE FOR AMBIDEXTERITY?

First of all, it is important to recognize how digital services differ from traditional services. Digital services are still ‘in the making’; rules of engagement are nascent and revenue models uncertain. This, of course, is the complete opposite to traditional operator services in which everything is well established and for which operators have developed operational excellence to serve their customers with tremendous efficiency.

As Figure 1 summarizes, we are therefore looking at two different operating models. For operators, this requires an organizational structure that allows the two operating models to coexist. And there’s more. When developing a new digital business, the right people and culture, resources and capabilities, and systems and performance metrics that are suitable for the new operating model are all required. As Figure 2 shows, these components are interdependent and should not be managed in isolation when designing (or changing) an organization. In the following sections, we examine each of these components in more detail.

ORGANIZATIONAL STRUCTURE

Clearly, if it is a question of two different operating models, operators may find that setting up a separate unit to explore emerging digital

services can be an effective approach. A unit shielded from the day-to-day pressures of the core business can be more adept at experimenting with new technologies and business models. The digital unit can also be faster to adapt when things suddenly change and new opportunities (or competitors) arise. At the same time, operators can continue capitalizing on existing core businesses.

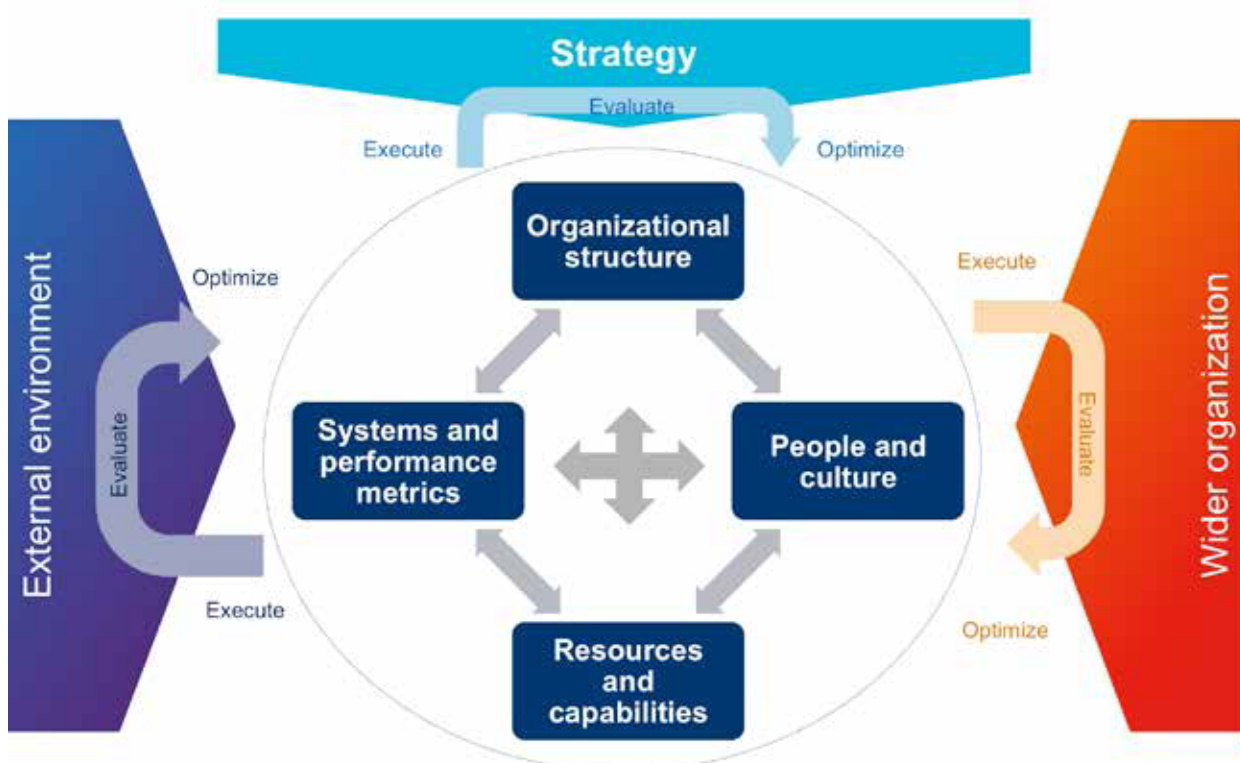
However, a completely separate unit can also have its pitfalls. Without the right connection to the core business, a separate unit can become alienated and unable to leverage the strengths of the core. For example, a unit launching a mobile money service might be very agile in developing and launching the service, but if it is unable to leverage the existing go-to-market and customer support capabilities of the core, the service may not be as successful as it could have been. In addition, the long-term ambition should be for the digital unit eventually to become part of the core business. But the shift from early-stage venture to a scalable business integrated within the core might fail if the unit has become too alien.

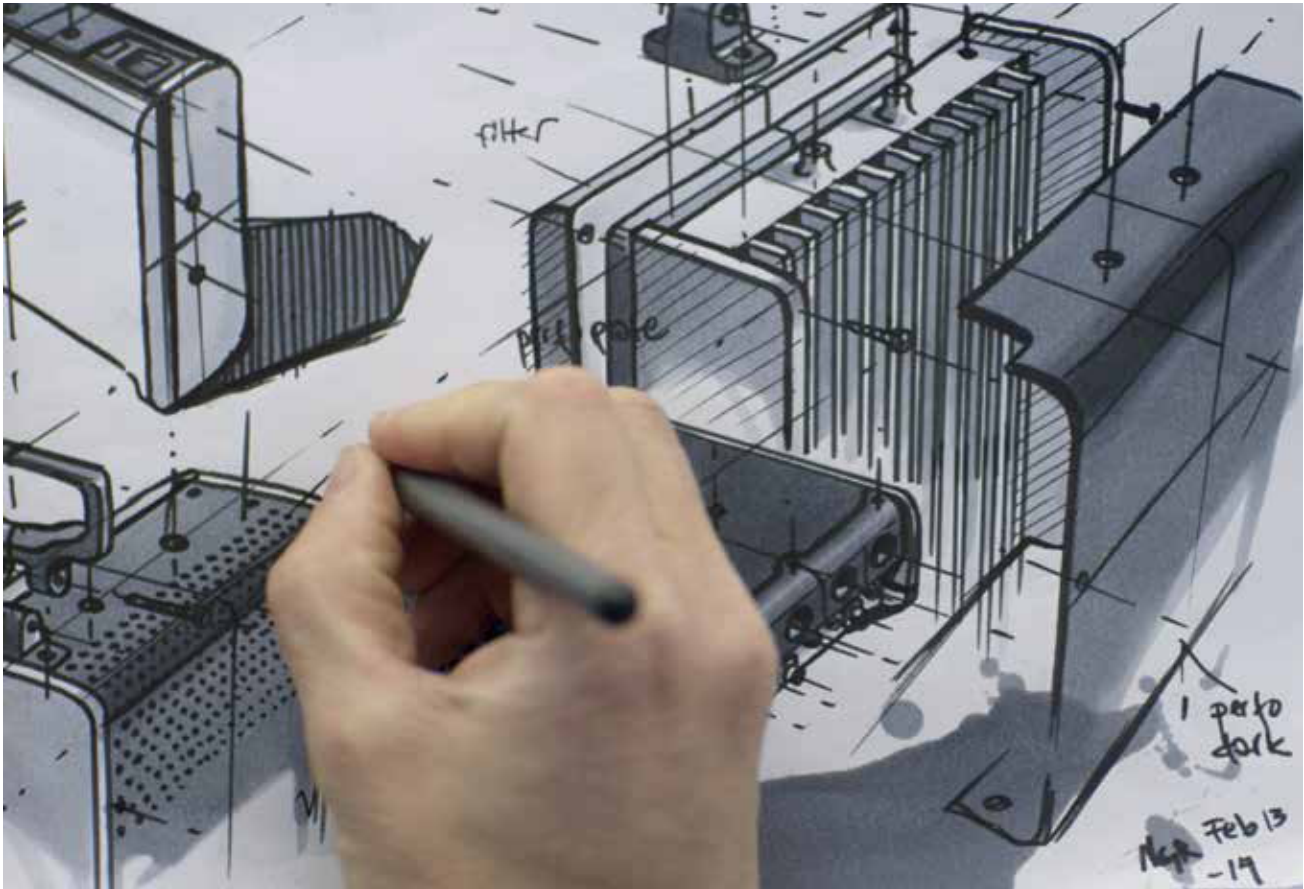
A balance between full separation and full integration must therefore be found. The digital unit should be separate enough to ensure the right insulation to try new things, but integrated enough to leverage the strengths of the core.

In order to define the level of separation of the digital unit, several aspects should be taken into account. These include the level of novelty of the

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Figure 2: The key components of a digital business.





digital opportunity (are we developing something completely new?), the criticality and timeframe (will we miss the train if we do not move fast?), and the scale of the initiative (what proportion of the overall business will the new initiative represent?).

PEOPLE AND CULTURE

Having established where the digital unit will sit within the overall company structure, people who will make things happen need to be carefully selected. In many respects, the people and behaviors needed to succeed in digital are different to those in a typical operator set-up.

The leader

Firstly, identifying the right leader is essential. The person leading the new digital venture will need to have an entrepreneurial mindset, show a keen interest in exploring new ideas and opportunities, and be comfortable with uncertainty and change. Digital savviness is certainly a desirable attribute.

However, a more important aspect to consider when identifying a digital leader is experience. As in any start-up, the new initiative will require an experienced leader who can provide guidance to the wider team and lift it up when things get tough. Indeed, failure to put the most experi-

enced talent in charge has been identified as one of the main reasons why new growth initiatives often fall short [5]. Moreover, as discussed above, the digital unit needs to leverage on capabilities that reside in the business core to improve the chances of success. An experienced leader from within the organization with a well-developed personal network will be better positioned to create the required links and leverage the necessary capabilities.

The team

Next, the people who will form the team need to be profiled to ensure they have the skills, experience and mindset required to generate the right culture for the new digital venture. Culture can be a nebulous concept, but for the sake of this discussion, it is defined as the behaviors consistently shown by people within an organization. Just as in the case of the leader, everybody across the team should support a culture of entrepreneurship and innovation.

One advantage of establishing a new digital unit is the prospect of starting from a blank canvas. Leaders therefore have the tools to establish the right culture – they can use recruitment, incentives, reporting structures and performance metrics that are closer to those of start-ups than of traditional operators.

RESOURCES AND CAPABILITIES

Clearly, the key reason to pursue new digital initiatives such as digital TV or Internet of Things is the potential for new revenue streams. Market potential is therefore essential. However, the effort spent looking at the external environment must be matched with an equal effort looking internally at the company's resources and capabilities. This is because hidden advantages can be overlooked, whereas others can be overstated. Today's advantages can also quickly become obsolete as the rules of engagement change.

As a result, a comprehensive assessment of the resources and capabilities needed to succeed in the new digital arena is crucial. Operators need to identify the key success factors in the target digital market and what these success factors signify for the organization. If, for example, an operator is looking to launch a smart-home service, it is likely that existing resources such as sales and distribution channels can help accelerate market entry. Similarly, advanced billing and call-centre capabilities can be sources of competitive advantage against smaller players who would find them hard to replicate. Conversely, the same operator is likely to require new capabilities in systems integration and customer support for such multi-vendor, multi-technology home systems.

Here, the key is to assess systematically the key success factors relevant to the new market, critically evaluate the strengths and weaknesses of the organization, and identify those resources and capabilities that will need to be developed internally (or acquired or outsourced) to complement existing ones. A plan then needs to be put in place to attain these resources and capabilities, including plans for internal development as well as spotting potential acquisitions and partners.

In some cases, this assessment can result in a decision to delay, refine or pivot to a different market opportunity due to excessive cost or complexity associated with attaining the required capabilities. Of course, this can sometimes be a cause of disappointment, but it represents a major part of the value of such an exercise.

SYSTEMS AND PERFORMANCE METRICS

Management systems and performance metrics relate to business planning and how success is measured within an organization. This includes sales and cost budgeting, product definition and development, and both financial and non-financial reporting.

Clearly, these must be suitable for each type of venture. As discussed above, new digital businesses are fundamentally different to the traditional operator business. New ventures are inherently uncertain and traditional planning methods, which rely on certainty and are based on past experience, may not be suitable. Further-

more, financial returns are unlikely to be substantial in the early stages.

As a result, management systems and performance metrics for digital initiatives must be defined with different objectives in mind. They should be designed not only to accelerate market entry but also to cultivate the right culture, attract the right people and allow for the right capabilities to be developed. Management systems and performance metrics are, in the end, essential levers to shape organizational culture.

Management systems

To address the specific requirements of new business ventures, a system such as the discovery-driven planning process can be very suitable. First proposed by Gunther and MacMillan in 1995, this involves: "a disciplinary process to systematically uncover, test and, if necessary, revise the assumptions behind your venture's plan" [6]. The idea is to develop a reverse income statement for the new venture, starting from the profitability required to make the new business worthwhile (e.g. five percent of corporate earnings in five years' time). Then, the revenues and cost levels that would deliver that profit are calculated. Next, the key drivers of those revenues and costs are defined (e.g. the number of trials, the number of customers on-boarded, headcount etc.). These then become KPIs that will be tracked periodically at predefined milestones in order to determine whether the venture still makes sense.

The power of the system is its simplicity and the fact that it focuses on driving activities that will contribute to the development of a fledging digital business, rather than just financial targets.

Ways of working

As suggested above, an explorative, entrepreneurial culture is needed for new digital ventures to thrive. The ways of working of a digital unit should therefore be closer to those of a start-up than of a mature operator. Setting up a separate digital unit and bringing in the right type of people will contribute to this culture. However, the right ways of working need to be put in place to close the circle.

Here, operators can take some ideas from the same digital businesses with which they are competing. Operators should adopt ways of working that put more emphasis on testing and adjusting digital business concepts (using methods such as minimum viable product) earlier in the development process, and which favor continuous experimentation and customer feedback over in-depth planning and major up-front product development. The guiding principle should be speed in taking a concept to market and getting customer feedback as early as possible.

In the end, operators are competing with agile players in the digital arena. Many of these are fast

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growing start-ups with big venture capital backing. Operators therefore need to set up their digital units in a way that enables them to compete in terms of agility while leveraging the strengths of the core – something that will not be available to the digital start-ups.

CONCLUSION

As we enter the digital age, entire industries are being disrupted by new digitally savvy businesses. For telecom operators this represents a major threat, but also opens opportunities to launch digital services. In order to pursue those opportunities, however, operators need to transform.

They require organizational structures that allow new digital initiatives to start up and thrive. At the same time, the structure should enable the operator to continue capitalizing on existing core businesses. In addition, operators need the people and culture, resources and capabilities, and systems and management performance metrics that are suitable for the digital marketplace.

However, it is not simply about trying to replicate start-up operational ways. Operators do have unique resources and capabilities that are difficult for other players to replicate, and these must be exploited. The sweet spot is definitely somewhere in between. ●

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