Adapt or Sink:

Will the Telecom Industry Evolve Before It's Too Late?

Examine the hull of any modern ship, and you can read a story born from disaster.

Along the side of the hull, you'll see that rivets or welded joints appear sparingly.

Move toward the bow and stern, and their density ticks up. Below the waterline, they are denser still. The keel and bottom sections bristle with rivets (or welds) placed seemingly at random.

Ships' hulls weren't always made this way.

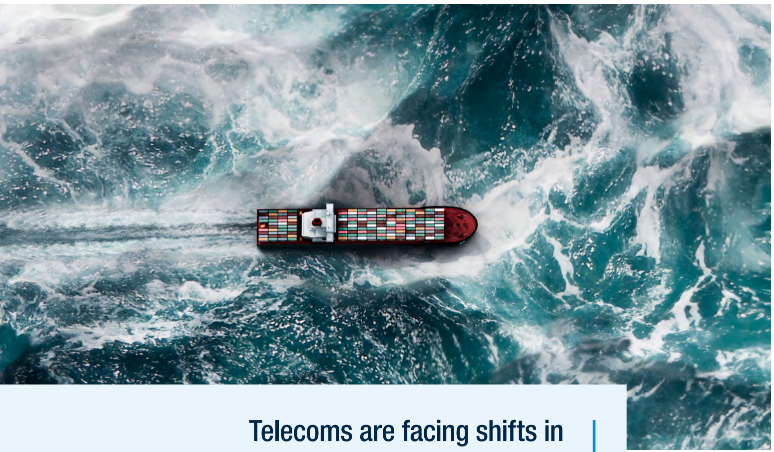
The Titanic's rivet patterns were *much* more orderly.

In its day, demand for transatlantic travel was exploding. The maritime industry was churning out vessels that could sail faster and carry more passengers in more luxury than at any time in history.

The Titanic was one of those entirely new kinds of ship.

Yet it went to sea on a hull built with a 50-year-old industry model: one rivet placed every two to three inches apart in *every* section.

Then it sank.



Telecoms are facing shifts in demand, competition and regulations

Telcos at sea

Companies across the telecommunications industry are making the same mistake — adhering to outdated models when they can least afford them:

Shifting demand

Once reliable income streams are drying up, forcing telcos into smaller demand pools with thinner margins than ever before. Areas of new demand involving software-based service models do not play to their strengths.

New competitors

New industry players, technology firms disrupting markets, changes in ownership structures, and the surge of M&A activity have considerably disrupted traditional industry dynamics.

Shifting regulation

Coverage and infrastructure requirements, competition policy and asymmetric regulation are increasing operators' costs while limiting their growth.

Not everyone appears concerned.

Some telco leaders seem certain "the-way-we've-always-done-it" will continue to safeguard their businesses. Thus, they persist in reinforcing their structures with the same models.

Old norms vs. new pressures

The most popular model is cutting costs in isolation.

The problem is that in current conditions, isolated cuts are a next-two-leagues fix on a 7,000-league journey. Unless cuts reinforce what's currently profitable *and* enable future growth, they will not alleviate pressures — they will only move them around.

Isolated cuts to the network maintenance budget, for instance, can lift the bottom line in the short term.

However, they also result in diminished network quality and reliability. Service outages and customer complaints increase, as do costs in customer support and emergency repairs. Customers leave due to poorer service and revenue declines, and the bottom line sags further.

Yet despite the warning signs, some leaders respond with more isolated cuts — their faith in current industry models is apparently unshaken.

Rather than invite catastrophe, they would be better served by learning from it.

The case for a new industry model: Strategic Reinforcement

The Titanic's sinking exposed the inadequacy of many long-held industry models, including those in hull design.

It revealed that some areas of the hull are more susceptible to failure under stress (an iceberg collision, for example) than others, which is why the model of uniform rivet placement failed so disastrously.

So the maritime industry adapted. It replaced the old model with the modern practice of *strategic reinforcement:* rivets and/or welds applied according to where pressures threaten ships' hulls most.

Telecommunications companies should follow suit. Otherwise, telcos operating with old models will sink in these new conditions.

We propose the model of isolated cuts be replaced with three "rivets" of **Strategic Reinforcement** — applied where current market pressures threaten telcos most:

Pressure Area	Strategic Reinforcement Rivets
Margins	**Product Profitability and Rationalization:** Optimize profitability by identifying high- and low-performing offerings, prioritizing investments and streamlining operations.
Growth	**Data-Driven Segmentation and Treatment:** Unlock growth while enabling efficiency gains through tailored go-to-market and customer support.
Costs	**Cost Management:** Lower costs and further improve profitability by reducing spend in nonstrategic areas.

Strategic Reinforcement gives operators the power to realign resources, better understand customer needs and streamline efficiencies to protect margins while — as we'll now explore through the first rivet — driving profitability.

(We'll expand on Rivets 2 and 3 in forthcoming articles.)

By leveraging the principles of Strategic Reinforcement, telcos can relieve pressure points while protecting margin and driving profitability

Rivet 1 – The Hidden Costs of Complexity: Product Profitability and Rationalization

Years before Verizon announced its intent to acquire, Frontier Communications followed one industry model all the way to bankruptcy: It had hundreds of pricing plans that customers could choose from.[1]

Post-bankruptcy, Frontier endeavored to enhance customers' experience and rebuild trust. So the company rationalized its product portfolio and emerged with a total of three leaner, *yet more profitable* bundles.[2] Customer confusion decreased, satisfaction increased, operational costs stabilized, and Frontier was positioned for growth.

Profitability is the first rivet of Strategic Reinforcement that we urge telcos to apply as soon as possible. Otherwise, they will not withstand current pressures on their revenue.

Frontier learned the hard way that it could expedite profitability or offer every possible product to its customers. It couldn't do both.

For leaders interested in achieving the former without first experiencing bankruptcy, we recommend the following product-specific, cost rationalization initiatives:

1. Pinpoint Activity-Based Cost Drivers

Activity-based costing (ABC) is analogous to an MRI because it shows how specific activities drive costs across different product families. Disaggregating costs and revenues at the product level gives leaders the visibility they need to know which product sets will improve margins and which will not. As well, leaders will have visibility into the activities that are driving these costs so that they can take corrective actions.

2. Align Financial Metrics

Aligning product strategies with profitability metrics makes it much more difficult to perform isolated cuts. By linking product-level costs to revenue drivers and financial line items (e.g., COGS, operational, and capital expenditures), telecommunications companies can build a clear fact-base for *holistic* rationalization. This approach also exposes otherwise hidden challenges such as loss leaders or product lifecycle inefficiencies, making clear which are the high and low performers, where to redirect investments, and how to optimize profitability.

3. Lead decision-making with insights

Data-driven insights formed by product-by-product analysis allow reconfiguration of resources to low or high performing offerings. This streamlines operations, reduces inefficiencies and drives long-term profitability, accelerating margin improvement.

1 Diana Goovaerts, "Frontier wants to become the 'un-cable' ISP," Fierce Network, November 14, 2022, https://www.fierce-network.com/broadband/frontier-wants-become-un-cable-isp.
2 Ibid.

By itself, the first rivet of Strategic Reinforcement can significantly increase telcos' resilience in hostile conditions. Combined with Rivets 2 and 3, it could make them unsinkable.

We recognize that bold actions are easier to recommend than execute. Sticking with what's always been done (like isolated cuts) may have drawbacks, but it's also less likely to rock the boat in the short term.

Telcos can no longer afford that luxury. Continuing to meet new pressures with old industry norms is a recipe for disaster.

Telcos will remain competitive in current conditions if they focus on strengthening key business segments rather than weakening their whole business in order to hit goals. Thoughtfully applying the rivets of Strategic Reinforcement will enable management to streamline the business while improving prospects for growth.

Still, adapting won't be easy — but neither is sinking.

Product-specific strategies, including cost rationalization, allow telcos to focus on driving profitable growth

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