BRIEF

Telcos lean on new tech and partnerships to drive sweeping cost efficiencies

Traditional streamlining efforts will continue but automation, Open RAN/vRAN, and network slicing alongside sharing and partnering with peers and cloud providers, respectively, hold key to growing telco profits

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Summary

Telcos worldwide are finally getting onboard the 5G bus, delivering high speeds with low-latency and seamless experience to enterprises and consumers. The latest connectivity standard presents growth and monetization opportunities for telcos with new services targeting a wide range of vertical markets. However, telcos' inability to convert these opportunities into major new revenue streams so far has held back industry growth.

One of the biggest concerns telcos face today is to keep profitability ticking amid the immense burden of investments, stagnating revenues, macro pressures worsened by Russia's invasion of Ukraine, and fierce competition from new-age operators. The success of telcos in the 5G era will depend on unlocking value and efficiencies through cost optimization measures, thus ensuring a continuous flow of investments and profitability. This is not new for telcos, as they have been able to deliver steady profitability margins amid flat to slight revenue growth environments for the past several years. To do this, they resorted to traditional means of cutting costs in the past mitigation cycles, efforts which have been narrow and tactical in nature. These included asset sell-offs, real-estate rationalization, repair and maintenance outsourcing, shared services models, etc.

With uncertain macro-factors at play, telcos will find it much harder to optimize costs through traditional tactics alone. To drive sweeping changes going forward, telcos will have to implement dramatic, strategic measures to optimize their cost structure in order to increase and sustain profitability. These strategic measures will be a mix of technology-enabled solutions and collaborations, some of which will transform the telco business model. Each of the cost optimization measures target multiple cost centers to deliver savings. Listed below are five key strategic cost optimization measures telcos will implement over the next 2-3 years:

- **Automation**: Automation will be a key enabler to achieve savings in cost areas such as networks (through automated fault detection and self-optimization systems, for instance), energy (dynamic shutdown of unused network elements during idle time), sales and marketing (virtual assistants for customer support and experience), and G&A (admin tasks automation).
- **Open RAN/vRAN**: Telcos could explore reducing multiple cost bases using open interface-based technology solutions such as Open RAN and vRAN. These may offer reduced network-related costs such as infrastructure rentals, RAN power consumption, repair and maintenance, etc.
- **Network sharing agreements**: Telcos for many years have turned to sharing network elements among them primarily to save costs. The most common form of network sharing has been the joint use of cell sites, towers, backhaul transport networks, etc., called passive infrastructure sharing. This evolved to sharing of active network components in the recent years that includes RAN components and spectrum. To achieve further cost savings in the 5G era, telcos are exploring the sharing of core network components and functionalities (called "core network sharing").
- **Partnerships with webscale cloud providers**: Through partnerships with cloud providers, telcos are reducing network costs by moving critical network functions and workloads to the cloud, saving energy costs by deploying custom-designed energy efficient hardware and architectures developed by cloud providers, and driving personalized marketing and customer experience by turning customer data into insights with cloud data and analytics.