

THE DIGITAL PRESSURES WEIGHING ON TELECOMS

Advances in communications devices and new business models are weakening the industry's hold on consumers, a survey of executives suggests.

by Jacques Bughin

Digitization is profoundly changing the competitive boundaries of the telecom industry. Core voice and messaging businesses have continued to shrink, in part because of regulatory pressures, but also because social media has opened new communications channels beyond traditional voice service.

Today, companies face another wave of change, from new digital devices and more robust models for delivering telecom services—a point confirmed by a recent survey of 254 executives from companies representing more than a third of global revenues in telecom, media, and technology.¹ We asked the respondents about three areas of industry disruption: new consumer touchpoints created by devices based on Internet of Things technologies, over-the-top (OTT) business models that disintermediate existing communications platforms and services, and the potential of these changes to commoditize the incumbents' brand positions (exhibit).

Over the near term, respondents note a pair of challenges that will affect these companies' ability to control consumer touchpoints. A range of technologies, including those embedded in watches, apparel, and glasses, are vying to occupy the interface with

telecom customers. Fortified with communications capabilities, these devices create new forms of engagement with consumers—beyond the forces unleashed by smartphones—offering location-based innovations from health monitoring to new ways of targeting ads and promotions.² Executives also foresee rising adoption levels for smart home technologies that measure energy usage, food consumption, the physical condition of appliances, and more, establishing new platforms for a range of services mediated by machines. Both sets of technologies open the door to new digital competitors that may take over the telecom players' direct relationships with their customers.

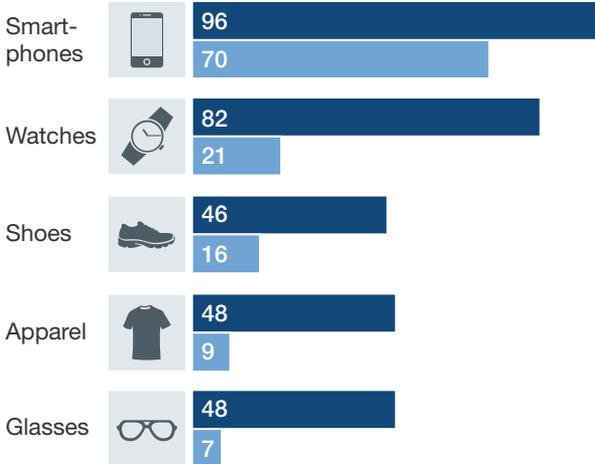
In parallel, survey respondents noted the continued growth of OTT business models. Sitting “atop” broadband and mobile platforms, OTT applications and software divert customers to new brands at the expense of the telecom operators. These OTT brands, such as Netflix, already garner twice the loyalty of their typical telecom counterparts (as measured by net promoter scores). Significantly, OTT could undercut the incumbents' profitable economics of bundling: single or multiple OTT apps bypass pay-TV packages and give consumers access to much longer tails

Leading executives in the telecom, media, and technology industries foresee disruption in consumer touchpoints— and beyond.

New touchpoints via smart devices

% of respondents (n = 254 executives)¹

- Will be mainstream by 2018
- Already mainstream in 2015



Additional sources of disruption, % saying will be mainstream by 2018

- 92%** Over-the-top (OTT) business models—eg, in communications
- 89%** Commoditization—eg, package-price decline for pay-TV
- 35%** Connected home applications

¹From companies representing more than a third of global revenues in telecom, media, and technology.

Source: 2015 McKinsey survey at telecom conferences in London and São Paulo

of supply. (For more on the removal of supply distortions, see “The economic essentials of digital strategy,” on McKinsey.com.)

For established companies, these developments suggest a potential for more commodified business models, with lower margins and rising customer churn. Ultimately, the borders of the core business space could shrink as digital competitors mass at the edges. That’s creating a new urgency for novel strategic directions. One possibility: entering the fray for digital offerings, beyond telecom, to capture fresh revenue streams from advertising, financial services, or providing networks to enable the Internet of Things.

A lot is up for grabs as the boundaries between telecom and information technology continue to blur. Our survey suggests that industry leaders are well attuned to the far-reaching implications of these shifts. How to counter—or, better yet, surpass—the attackers is a bigger challenge. [Q](#)

¹ Executives were surveyed in 2015 at telecom conferences in London and São Paulo.

² Also looming are nearly limitless virtual touchpoints, where digital headsets provide screenlike and 3-D interfaces mediated by hand and eye movements. See “TED 2016: Meta augmented reality headset demoed at TED,” February 2016, [bbc.com](#).

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