



Agile Strategy – How the COVID Pandemic Has Accelerated Strategic Thinking

Opinion and Case Study

Table of Contents

| | |
|--|----|
| Executive Summary | 3 |
| Introduction – the Position of Telco Operators in the Crisis | 4 |
| Strategy Review | 5 |
| Case Study | 10 |
| Lessons Learned | 12 |
| Authors | 13 |
| The Company | 14 |

Table of Figures

| | |
|--|----|
| Figure 1: Simplified Examples of Post-pandemic Customer Behavior Patterns..... | 6 |
| Figure 2: Mix of Traditional v. Digital Channels | 7 |
| Figure 3: Classification of Retail Channels..... | 8 |
| Figure 4: Example (Anonymized) of a Simplified Customer Impact Discussion..... | 12 |

Executive Summary

Telecom operators have the reputation of being huge, slow-moving behemoths. This is in part a carryover from their history as public telephone and telegraph companies, but derives as well from the perception of the way they do business as they continue to base their infrastructures on the presumption that cycles will last for decades.

In economic terms, telco operators have suffered relatively mild symptoms of the present COVID-19 crisis. Still, the drive toward a more digital world sparked by the pandemic is rapidly creating risks and opportunities for telcos: brick-and-mortar sales channels have been forced to close overnight, customers' businesses and related revenues have disappeared at a rapid pace, and big "over the top" players and hyperscalers such as Amazon, Google, and Microsoft have been substantially strengthened, completely reshaping the competitive landscape within a short time. Simultaneously, customers and politicians alike have been presented with stark evidence of just how valuable a good national communications infrastructure has become as it has a major impact on demand and the regulatory environment.

The consequence: many operators – just like organizations in more severely affected industries – have been forced to re-think many aspects of their strategy within an incredibly short time. While some of them had agile structures in place, others had to discover agility on the fly.

Substantial benefits can arise from a concerted, yet agile effort to review strategy during the crisis. **First**, an accelerated strategy can replicate normal strategy planning cycles more quickly and simply while simultaneously being open to the capture of greater opportunities. **Second**, the strategy tools can also be improved during a review, in particular by adopting tools that allow continuous strategizing. A continuous strategy review is not only beneficial during a once-in-a-century crisis. Its establishment is the foundation for fast responses to situations affecting individual business units or territories, whether routine incidents or more significant challenges. Attacks launched by competitors, changes in customer behavior, or shifts in regulatory focus can confront management with business issues of hitherto unexperienced magnitude.¹ Yet a continuous strategy review also aids in dealing with recurrent snags such as breaks in the added-value chain, in foreseeing opportunities, and in mitigating the impact of sudden political or regulatory decisions. Moreover, the direction of the course of business can be realigned quickly.

In one of the cases we studied, a telco group operating in multiple countries intuitively took a similar approach to its planning for a mid-term strategy review during the pandemic. Having resolved the immediate problem, however, they realized that most of the benefits of the strategy review were not directly related to the crisis. Indeed, the scope and depth of the results of the 7-day strategy review effort were not so far removed from those of a similar, but much longer, strategy review carried out in the past.

We believe that now is the time, more than ever before, to take advantage of the momentum generated by agile and timely strategy planning and its execution. We strongly urge companies to consider carefully the benefits that have accrued and to integrate what they have learned into their organizations so that they can resist the temptation to fall back into the well-worn rut of previous approaches when the sense of urgency from the pandemic wanes.

¹ There can be no question that this pandemic is affecting all of society and that there are many factors going far beyond the business issues discussed in this article. Most corporations prioritize social responsibility, and that represents the main challenge of this crisis.

Introduction – the Position of Telco Operators in the Crisis

How a swift response to the crisis can create lasting benefits for telcos

Telcos have mobilized in exemplary fashion to support communities while at the same time they have been rethinking their own future. The agility displayed in both areas is in contrast to the general perception of slow-moving, capex-intensive behemoths. Have they finally learned to be agile? How are they going to behave in the near future?

The effects of the current crisis on telco operators have been mild throughout the sector. Their various response actions have taken similar paths. We analyzed quarterly reports (Q1 & Q2 20)² published by a dozen operators around the globe. The reports were relatively consistent in their depiction of the material impact of the crisis on earnings and their official outlook for upcoming quarters.

Generally speaking, the short-term response coming from telcos has been absolutely remarkable; they have been able to maintain and even raise the level of connectivity among communities and businesses despite the enormous shifts in traffic patterns and huge increase in demand— a feat all the more impressive because it has been achieved by a sector known for being infrastructure-intensive and “commoditized.”

The reported results can be summarized as follows:

There have been both positive and negative aspects of the impact on business; they have more or less canceled one another out so that no trend, whether in the positive or negative direction, can be discerned.

Traffic patterns have changed drastically, but the infrastructure has apparently been able to cope. Many telcos are offering additional packages, services, or speed to their customers free of charge.

Sales have gone down for handsets, SMEs, and prepaid top-ups. On the other hand, sales for large B2B, landline internet, and upselling are going up.

Churn rates and portability are also down, but, as with roaming, net effects tend to remain neutral. The strengthening of customer loyalty could be a consequence of decreased commercial activity, but may also reflect appreciation of received benefits and perception of resilience.

The outlook for the upcoming quarters does not deviate significantly, and qualitatively appears to **vindicate the transformation strategies being pursued by telcos**. A few adaptations are being substantiated, especially with regard to delaying capex investments, slower retail operations, and prolonged effects on harder-hit segments (especially SME and prepaid).³ Trends apparently common to all telcos are the following:

² DT, KPN, Swisscom, Telefónica, Tigo, TIM, TMUS, Turkcell, Verizon, Vodafone, Orange, Altice

³ Large B2B are less affected in the short term independently of the sector due to better access to government support. However, larger projects for corporations are being put on hold, which may have an impact in the middle to long term.

Digitalization has obviously accelerated, opening the door to roll out pilot solutions in areas such as customer service/chats and payments that take advantage of their adoption by users in quarantine.

Recession will continue to impact more vulnerable segments, and downsized products are being offered for various reasons – to cater to customers with lower incomes, decrease default of payments, or in response to requests from regulators.

In general, telcos appear prepared to **maintain** their forecasts for this year, although they have become **more cautious**. Middle-term changes in strategy or more disruptive actions are evidently not yet in the cards, but **might begin to draw attention very soon**.

After the task forces had completed their tasks, many telcos started preparing for the next phase.

Strategy Review

The crisis seems to have confirmed the validity of telcos' strategy. Why do they need to review it?

“You may have to fight a battle more than once to win it”⁴

Telcos' position during the pandemic appears to be extraordinarily favorable; demands for service and the adoption of digital technologies are at extremely high levels. Add to these aspects a rather flexible regulatory environment, positive customer attitudes, and a relatively steady financial position, and many telcos are enjoying “peace of mind” (insofar as such a thing is even possible today) that gives them the breathing space to rethink the future. If the future should arrive earlier, however, what would their plan be?

Apparently, telcos are not yet using this “blank check” to substantially improve strategy and create disruption. As tempting as it may be to hold to a course of transformation that has proven its worth and been successful in the middle term, they can and must do more.

One might be inclined to say that being the “dumb pipe” is no longer the object of disdain it was in the past. This status is not permanent – previous predicaments may reappear very soon and business models will be challenged once again. One snag is that telcos' revenues remain unchanged while streaming services are signing up millions of customers. As happy as users may be that their unlimited connections are still working, they might be even happier with additional entertainment content.

Digital transformation is bringing about some changes in this respect. At the moment, however, it is delivering more in internal cost savings rather than really improving sales or supporting any shifts in the added-value chain. Carriers' efforts relating to the billing of services like Netflix, Amazon Prime, or Spotify are gaining ground; however, they are still not helping telcos to create added value by increasing margins significantly, serving rather to strengthen client

⁴ Margaret Thatcher

loyalty. In any case, such considerations may not encompass all the strategic questions facing telcos.

We see at least three main groups of drivers for a change in strategy: the alteration in customer behavior as they **migrate faster to online services**, the change in how companies **interact with customers**, and the opportunity to improve the culture with respect to the **strategy approach**.

Examples of elements to consider for strategy review⁵

Migration to online:

Customers from all sectors are actually quite accepting of a digital experience that is less than amazing. Companies do not necessarily need to surpass the expectations from the experience at a nicely designed brick-and-mortar store. Just doing the job suffices in most cases. While this breaks down the initial barrier to the adoption of digital channels, it can also backfire.

Despite the breakdown of some of the barriers, the trend may not continue unabated once the present crisis has passed. Three post-crisis scenarios for customer reactions are shown below:

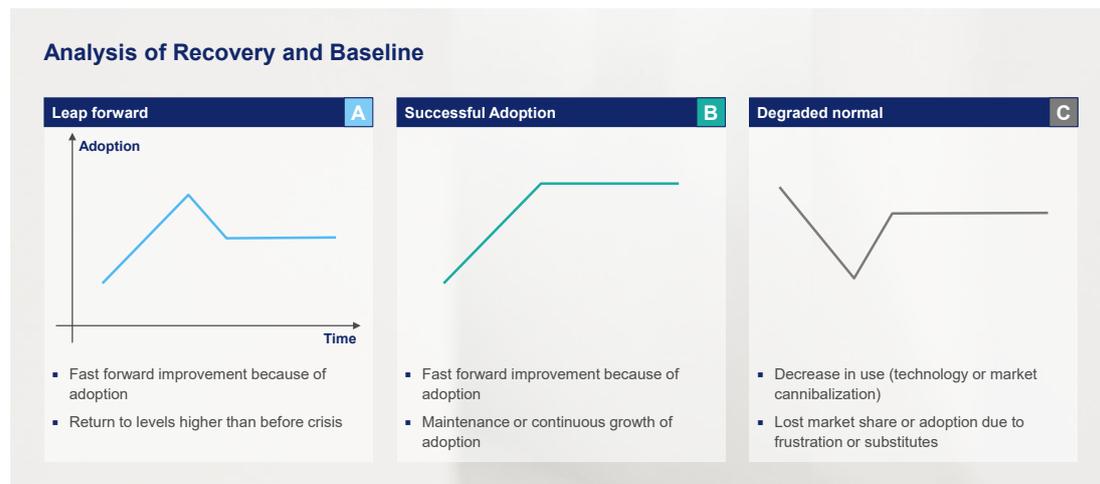


Figure 1: Simplified Examples of Post-pandemic Customer Behavior Patterns

The digital race is more active than ever before, and it is time for telcos to be bold. They will have the opportunity in the coming weeks and months to test many types of business models, ideas, and MVPs, provided that their financial position remains fundamentally solid.

A similar situation can be determined in the sector of e-sales, where customers have been forced to buy online and penetration has reached previously unknown heights. Newly-found confidence in the use of digital channels will increase e-sales and decrease the cost of attracting traditional customers and convincing them to utilize digital channels for the near future.

⁵ Even though telcos have the specific advantage of not having suffered major financial adversity, most recommendations could also be applied to other sectors.

Nevertheless, the shift is a costly one, requiring major e-marketing investments to push traffic to online stores. As companies compete for digital attention, the digital SAC (cost of acquiring a customer online) accelerates with volume, indicating that a conservative mix with traditional sales would be advantageous (**Figure 2**). In the post-pandemic world, part of the volume will naturally migrate to online services at lower cost, at which time a more aggressive mix with e-sales could be preferable. The retail footprint may shrink prematurely.

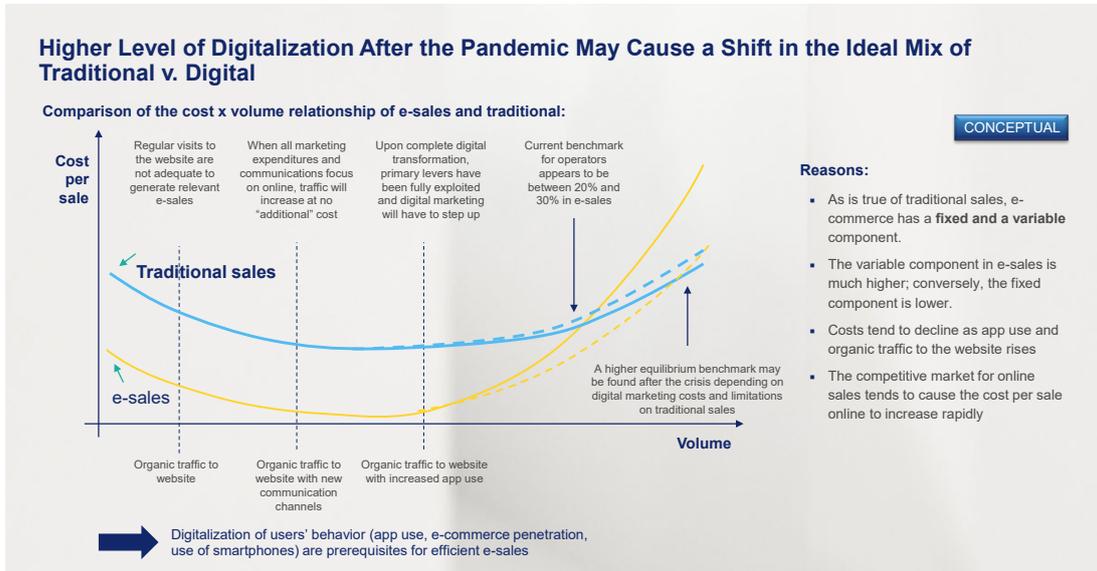


Figure 2: Mix of Traditional v. Digital Channels

Changes in customer interaction:

Customer interaction is probably one of the most immediately affected areas for telco operators in the middle term as it is confronted directly with some of the main challenges of the crisis: brick-and-mortar retail operations, working from home, and digitalization.

Extensive channel operations can be rather heterogeneous, and channel roles can be classified in a number of categories (**Figure 3**). The end of the crisis will have seen many of these categories as well as channel operations undergoing major transformation.

Classification of Retail Channels

| Variables | Range | Drivers of use/choice |
|---------------------|-------------------------|---|
| 1 Digitalization | ▪ Digital/Traditional | Preference of digital over traditional if quality of sales is adequate and lower costs are justified |
| 2 Self-service | ▪ Assisted/non-Assisted | Preference for self-service provided that transaction is not complex and can be solved without assistance |
| 3 Complexity | ▪ High/Low | Channel complexity follows transaction complexity; allocated complexity |
| 4 Control | ▪ Owned/Third parties | Third parties offer fast scalability; owned channels permit control of the experience |
| 5 Coverage | ▪ Large/Small | Large coverage channels whenever possible; small channels offer proximity, but marginal growth |
| 6 Accessibility | ▪ Easy/difficult | Mobile is the most accessible channels, but is dependent on capacity for resolution |

Figure 3: Classification of Retail Channels

The first change is that of digitalization. While interactions will be in digital form, the processes themselves will still be performed remotely by humans. Examples include chats with an agent, video calls, or emails, activities that are still based on human assistance.

The second stage, the move from assisted to non-assisted interactions, relates more to the costs of doing business and affects the companies themselves more than their customers. It is highly dependent on good process design and the adoption of advanced technology— robots and artificial intelligence are crucial to realization, but may prove to be extraordinarily sensitive to factors such as acceptance and efficiency.

A significant shift can also be expected in other categories of retail operations, including closing of stores, change in channel capabilities as digitalization increases, and volume transfers from certain channels to others. The roles of any channels where use has declined will have to be re-evaluated, certainly, but the establishment of new relationships (for example, with more resilient sectors as grocery stores and pharmacies and with larger presence in online retailers) will be an inevitable necessity.⁶

As for the stores themselves, their roles and operations may change notably as well, in particular in response to customer behavior and physical restrictions; store design will have to be optimized with an eye on creating a new “in-store” journey.

Change in strategy approach:

“When people are free to do as they please, they usually imitate each other.”⁷

⁶ In general, telcos have a more important presence in brick-and-mortar operations of third-party dealers than in their online operations. The significant development of sales in the direction of online transactions will force operators to focus more on their online operations in offering their products and services and limiting dependency on their own website.

⁷ Eric Hoffer (1902-1883), American philosopher

Just as we see happening with customer adaptation, corporate culture and the strategizing methods may improve or revert to previous models. There have been huge advances in the way telcos work in the past few years. Recent experience has demonstrated that they can move even faster – so they should take to heart what they have learned and continue to apply the conclusions from their lessons.

The question may arise as to whether these companies had previously established a corporate culture that made possible fast mobilization as well as agile and decisive strategizing.⁸ Or, when faced with an unprecedented situation, were they acting intuitively? Either way, it must be acknowledged that there is great value in acting more agilely that is not limited to the time of a pandemic, but is of equal importance for today's fast-moving business. Whether enterprises have only now learned of the benefits or have found their suppositions confirmed, they must now ensure that their conclusions are incorporated into business as usual – perhaps now in more formally structured form – to avoid reversion to a traditional operating mode once the crisis is over.

Implementation of a set of specific tools is helpful, but even more important is a cultural change in the perception of strategy, moving away from the restrictions of annual planning cycles and recognizing the virtues of pragmatic exercises. Strategizing can leave behind the rarefied realms of glossy presentations and engage in more down-to-earth discussions with more realistic chances of actually being implemented.

As soon as the response to the crisis has been set into motion, the same teams that worked together so fast and assertively will start on “Phase 2”, focusing on what lies ahead. Should they simply adapt to the so-called “new normal” or forget completely about what is normal and try to disrupt and innovate? How are they to respond to a competitor's decision?

There are plenty of clues. Demand for the core product – connectivity – is high, but revenues are not. Benefits come from the extended added-value chain of services that telcos can sell, but that do not turn a profit for them (streaming services are one example). Distribution models have been shattered, and the rates of their recovery will vary significantly. Should telcos also rethink their ecosystem?

Telcos might question the need to review the strategy as events have repeatedly confirmed the correctness of their past choices. But if they don't review it now, then when? A real case example is discussed next.

⁸ Telcos have always moved fast when reacting to commercial moves of their competitors and have even had processes in place for just this purpose. The difference now is that the reaction to the crisis has been more extensive and bolder.

Case Study

Heterogeneous corporation with operations in multiple countries reviewed its core 3-year strategy in one week. Lessons learned went far beyond the scope of the present crisis.

“If you are thinking about strategy, the future is a great place to start”⁹

One of our clients¹⁰ completed a strategy review within a 7-day period during the crisis. Carrying out a company-wide strategy campaign concluding with definite decisions in one and a half weeks is good work under any circumstances, but it is all the more remarkable when achieved in the midst of responding to a crisis and when management’s time is limited.

The approach and preparation:

The defined objective was to review strategy, concepts, and road map for the next two years with the focus on implementation within a period of no more than six months and excluding any short-term action.

The decision was made to take an approach of total immersion for a team of 30 executives, including C-level participants (who nevertheless remained involved in other crisis management tasks).

With only a few days or hours to spare for preparation, a precise agenda of meetings and contents was established, one with greater emphasis on strict time scheduling and general purpose than on the content itself. Several outlines were sketched out to facilitate the discussion and shared a couple of hours beforehand. The strict timing meant that the C-level executives would know what was under discussion and in what context at any given time. Knowing what was happening and when enabled them to move from one meeting to another at a moment’s notice, either because their presence had been requested or they themselves had a vested interest in the topic. The strict timetable did not permit any decisions to be tabled for the moment, and any relevant input from C-level executives had to be given immediate consideration.

Despite the time limitations and the dividing of attention between the crisis management and the review, the dedication and availability of top management and C-level executives were sufficient to generate creative solutions and make the difficult decisions that were required.

This method may have been new territory for the company, but efficiency in the decision-making processes was perceived to have been enhanced. Not only were meetings conducted in an agile mode (with dailies, etc.), but were also very “fluid” as exemplified in the following.

⁹ Mark Johnson (author of “Lead from the Future: How to Turn Visionary Thinking into Breakthrough Growth”, 2020)

¹⁰ Same conclusions from the case study have been observed in “Develop Agility That Outlasts the Pandemic”; HBR, May 2020.

The structure that had been created and the pace that had been set legitimized the stages of the discussions at middle to high management level occurring during the day and were a source of discipline for the team. A high level of pragmatism became the rule, and agile teams seemingly shared the same enthusiasm. Even better, the relevant ramifications of the identified problems were also structured, analyzed, and resolved the same day, sometimes within only a couple of hours.

The problem-solving methodology:

Despite the time pressure, accelerated preparation, and distractions related to the crisis management efforts, the team recognized the importance of the review and took several major steps back to set the stage for the new strategy. One might have argued that the context was already known and that participants could have gone straight to decision-making intuitively in view of the centuries of accumulated business experience represented in the virtual room. Quite the opposite happened – a careful scrutiny of the elements of frameworks, vision, and principles began with the same single-mindedness of someone who is on a week-long retreat and whose sole mission is a review of strategy.

The first three days of discussion (50 percent of the time scheduled for content) were invested in reviewing seemingly innocuous descriptions of the segments,¹¹ the “personas” (**Figure 4**), and the principles of the business unit strategy. Despite an apparent lack of orientation to decisions and its expansiveness, this exercise proved to be extremely useful for the subsequent discussions.

The remaining three days prior to the final review concentrated on making real-life decisions such as product design, offer structure, channel footprint, customer service strategies, and the new portfolio elements. Most decisions proved to be intuitive, and in the event of disparities or doubt, referring back to the newly established principles or “personas” profiles straightaway provided the answers.

Realized benefits were well beyond the planned objectives

Two-thirds of the team’s time was spent in discussions of overall strategy needs; these deliberations took place during the review of general structures and were not confined to the last three days of decision-making activities. These factors would be relevant even in a non-crisis situation and help the company to rethink the segment at times when the main focus was on determining a specific strategic response. Several strategic decisions were reviewed, confirmed, or modified substantially.

This case study illustrates that a review of strategy can in many cases result new benefits and can be achieved without having to embark on a tedious budget-review negotiation. It can also be done “on demand” or at much shorter cycles. Of course, many companies already utilize strategy methods that are agile, whether in whole or in part, or continuous reviews. Perhaps the point here is to confirm that every company can do so successfully without extensive preparation.

¹¹ Such as daily schedules, names and gaming preferences

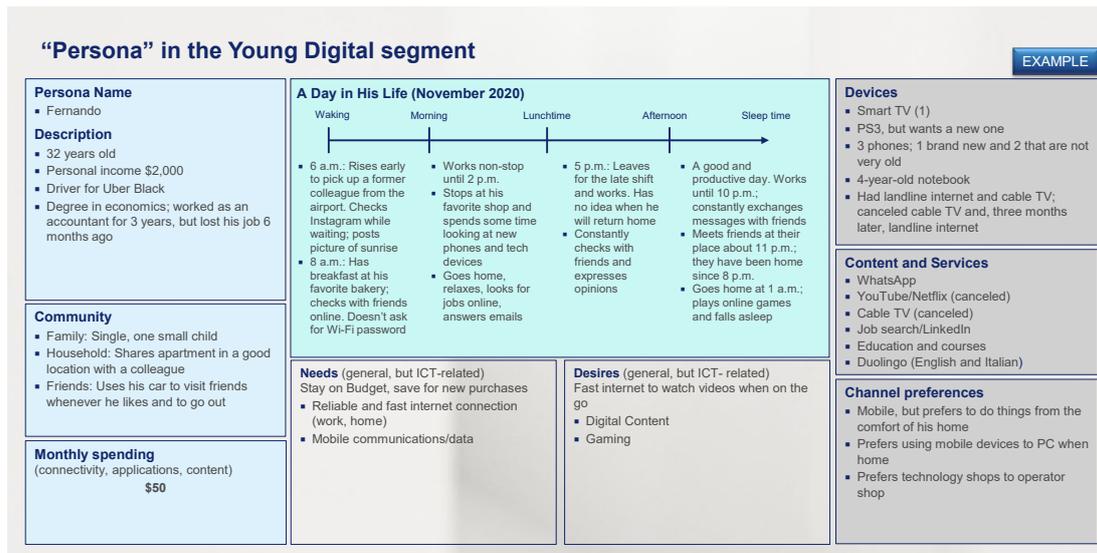


Figure 4: Example (Anonymized) of a Simplified Customer Impact Discussion

Lessons Learned

How telco operators and large corporations in other industries can respond to the crisis and improve how they think about strategy

Strategy is a continuous effort, not only in the context of constant change. Companies had to question past actions, and they were already embroiled in a tremendous transformation effort. The crisis showed them to be on the right path.

That is no less true even now. But is their strategy, having been thrust ahead by five years, still valid? Having hypothetically completed the transformation, what lies ahead? Of course, every telco is different, but are they seizing this opportunity to start thinking about what is coming in the future (that might come sooner than expected), and how should they act when every interaction is digital and the networks are all cloudified? Can their communities be leveraged to take the place of part of the broken distribution model? How can they not only be more digital, but also participate more fully in the digital ecosystem? What are their next challenges?

Is now the right time to think about these factors? At the very least, we should start asking questions, not only because it is a good practice and we have learned how to determine strategy using less costly procedures, but because the full length of the added-value chain will be impacted. A company that has not given any thought to its future may well discover that its competitors have taken a different tack. Players in other sectors (which have been hit hard) are not looking back and bracing for nothing less than disruption.

Maintaining agile and timely decision-making processes that maximize value even in the absence of acute crises is crucial for companies if they hope to retain their responsiveness to fast-changing market conditions. This can be achieved through continuous agile strategy reviews that are complementary to the traditional annual cycle. Avoiding a reversion to traditional operating modes requires companies to build step by step their own agile organization – by engaging with people and generating the right mindset, by instilling a sense of urgency for disruptions, and by developing a skill set through testing and learning. An agile organization can help companies to deal with disruptions and, in addition, to outperform their competitors by systematically anticipating the future and adapting their position in good time.

Authors

Volker Rieger

Volker Rieger is a managing partner at Detecon International GmbH, the management consulting subsidiary of Deutsche Telekom. He is responsible for Detecon's consulting offering in the areas of corporate & digital strategy. For almost twenty years he has been advising national and international clients in the industry sectors telecommunications and energy on coping with the digital transformation. Specific topics he has been focusing on recently include agile transformation of organizations, cultures and capabilities. Volker has authored numerous studies on data-centric business models, business ecosystems and digital change. Volker studied physics and holds a Ph.D. in quantum optics. Prior to joining Detecon he was a product manager in the Bosch group, responsible for connected car devices.

Fabio Kahil

Fabio Kahil is a managing consultant who has delivered over 50 projects in the fields of strategy and management during his 18 years of Telco-focused career. He holds an MBA from IESE and worked at companies like Telefonica, Strategy& and OC&C before joining Detecon. His current focus is in helping Telcos to execute their digital transformation strategies.

Amira Zayed

Amira Zayed is a senior consultant with focus on Digital Strategy. For the past five years she has worked with diverse clientele within different industries and has helped them to digitalize their businesses.

Merve Yildiz

Merve Yildiz has a business and technology background and works as a consultant for the CEO of Detecon International GmbH. She holds a M.Sc. in International Management from Northeastern University in Boston and DCU in Dublin.

The Company

Detecon is the leading, globally operating technology management consulting company with headquarters in Germany, which has been combining classic management consulting with high technological competence for over 40 years. The focus of its activities is on digital transformation: Detecon supports companies from all areas of business to adapt their business models and operational processes to the competitive conditions and customer requirements of the digitalized, globalized economy with state-of-the-art communication and information technology. Detecon's expertise bundles the knowledge from the successful conclusion of management and ICT consulting projects in over 160 countries.

Detecon is a subsidiary of T-Systems International, one of the world's leading vendor independent providers of digital services and subsidiary of Deutsche Telekom. Together with T-Systems Multimedia Solutions GmbH (MMS) and the digital areas of T-Systems Global Systems Integration (SI) the Detecon International GmbH forms one of the largest integrated digital providers in Germany as the portfolio unit "Digital Solutions".

As a member of this new alliance, Detecon is driving forward its consulting approach Beyond Consulting, a significant evolutionary step forward in traditional consulting methods adapted to meet the demands of digitalization today and in the future. The concept features top consulting that covers the entire spectrum from innovation to implementation. Groundbreaking digital consulting demands ever greater technology expertise and a high degree of agility that incorporates flexible, but precisely fitting networking of experts for complex, digital ecosystems in particular. At the same time, it is more and more important in digital consulting to accompany clients from innovation to prototyping to implementation.

This factor prompted Detecon to found the Digital Engineering Centers for Cyber Security, Analytical Intelligence, Co-Innovation, and Industrial IoT in Berlin in 2017 as facilities that extend the added-value chain of consulting and accelerate the realization of digital strategies and solutions by means of prototypes and proofs of concept.

Detecon International GmbH
Sternengasse 14 - 16
50676 Cologne
Phone: +49 221 9161 0
E-Mail: info@detecon.com
Internet: www.detecon.com

www.detecon.com