



Redefining resilience

**Harnessing opportunity
for growth**

Telecom CEO Outlook 2019

Promoting resilience, driving growth

As disruption continues to drive the industry, telecom providers enjoy a tremendous opportunity—if they are agile enough to take advantage of it. Most have spent the past few years adopting new products and services, and aligning with strategic partners to drive innovation. Yet some familiar challenges persist.

In today's climate, global telecom CEOs are realigning their operations to promote resilience, drive growth, and enhance the customer experience. They remain committed to blending product and service innovation with strategic acquisitions, leveraging organizational data more effectively, and optimizing their workforces to meet evolving industry challenges.

In KPMG's annual CEO survey, global telecom CEOs provide insight into how they are investing to promote organizational resilience and the customer experience, upskilling their workforces, and pursuing disruptive technologies—both organically and through mergers, acquisitions, and strategic alliances.

Key findings



Building for the next decade

Global telecom leaders are placing a stronger emphasis on organizational resilience and endurance, saying that success today requires innovation and the ability to react quickly, while also defending their current business from disruption. The majority of CEOs agree that acting with agility is a key, not only to market success, but perhaps even survival.



Addressing the talent challenge

As global telecom CEOs recognize the importance of enhancing organizational resilience, they acknowledge their current workforce may lack the required skills to meet tomorrow's challenges (particularly in high-demand areas such as data science and cyber security). More than half say their organization faces challenges finding the workers they need.



Cyber security – key to maintaining customer trust

Telecom CEOs believe protecting customer data is one of their most important responsibilities in enabling the organization to expand its customer base. Nearly two-thirds say a strong cyber strategy is critical to engendering trust with their company's key stakeholders, and 69 percent view information security as a source of competitive advantage.



CEOs partnering for growth

While organic growth remains key to achieving their companies' revenue objectives, more than half of the CEOs expect to deploy a combination of strategic alliances, joint ventures, and M&A. For many CEOs, M&A remains a consistent strategy for fostering top-line growth.



Notable risk factors

CEOs expressed a higher concern about environmental and climate-related risks, with more than three-quarters saying their organizations' growth will be determined by their ability to navigate a global shift to a low-carbon, clean technology economy. Climate risk joins traditional concerns including disruptive technologies, cyber security, and operational risk.



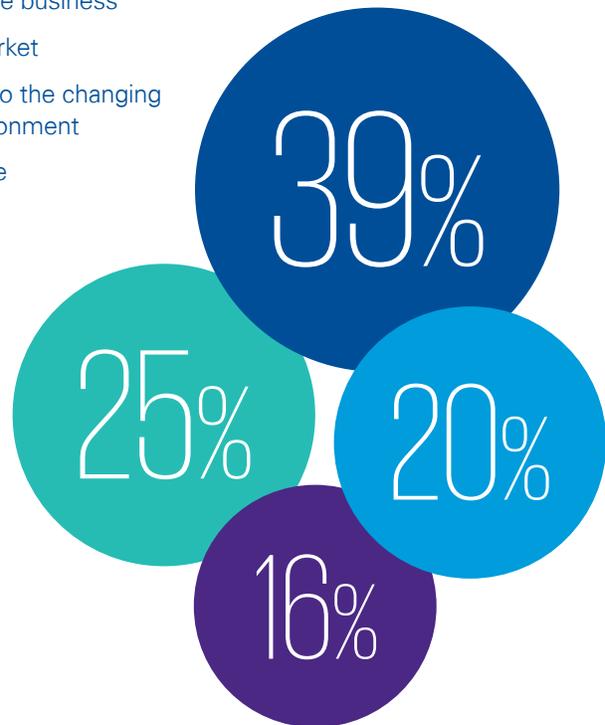
Building for the next decade

Global telecom leaders are placing a stronger emphasis on organizational resilience and endurance, saying success today requires innovation and the ability to react quickly, while also defending their current business from disruption. The majority of CEOs agree that acting with agility is a key, not only to market success, but perhaps even survival. Nearly three quarters believe that their organization's growth relies on its ability to disrupt any business norm, while also defending the company (and its markets) from external disruption.

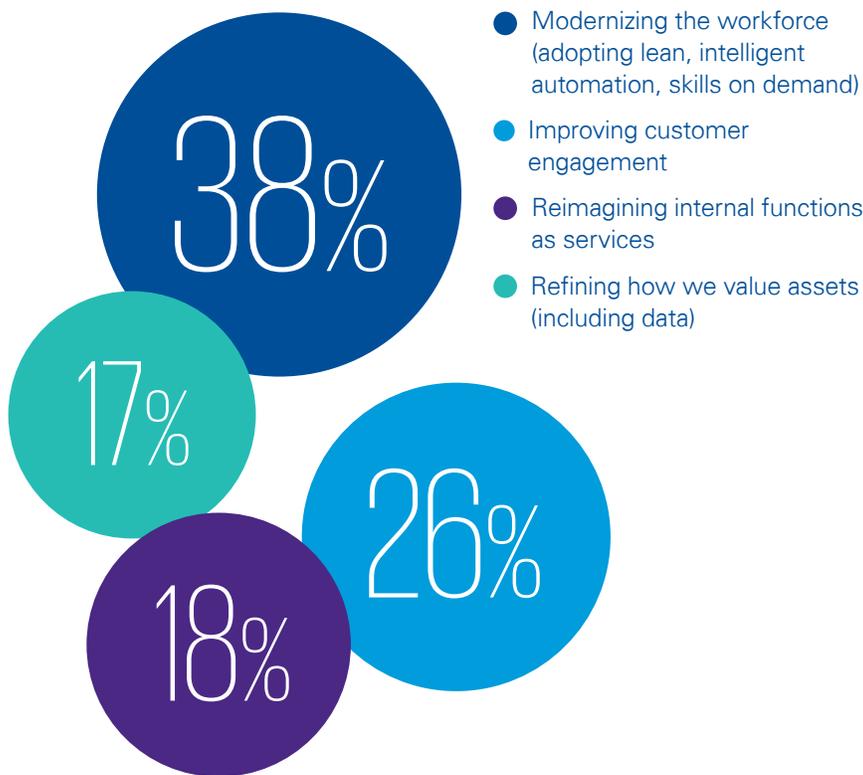
In this dynamic environment, achieving organizational resilience goes beyond excelling at one strong characteristic to include a combination of capabilities:

In an uncertain business climate, a truly resilient business can:

- Protect the core business
- Disrupt the market
- Adapt quickly to the changing business environment
- All of the above



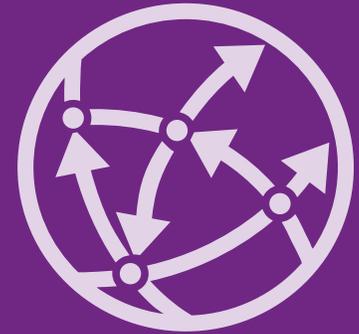
Which strategy are you most relying on to ensure your organization is future ready?



CEOs are positioning their firms to become more future ready by modernizing the workforce, improving customer engagement, and redefining how internal functions are performed.

Respondents indicate their personal approach to operational issues is also changing. Seventy-five percent say the importance of creating a seamless brand and customer experience means they need to take responsibility for ensuring the front office is connected seamlessly to the middle and back office, and 85 percent believe this integration is key to operational efficiency and market success.

CEOs remain optimistic their company and competitors will enjoy growth—although at lower levels than in recent surveys. Nearly all reported being very confident or confident about the growth prospects for the company and the broader industry, but there is a notable shift toward forecasts of slower growth.



“Telecom companies want to be more agile and deliver innovation rapidly. Most see a critical need for new talent, innovative thinking, and the ability for new initiatives to ramp up quickly. They want their employees to feel empowered to innovate, yet less than half of CEOs report that their organizations have a culture that supports a fail-fast mind-set. Bridging this disconnect and fostering an innovation culture are critical to the innovation process.”

— Sean Sullivan,
National Sector
Leader for KPMG’s
Telecommunications
practice



55% of the CEOs say their organization faces challenges finding the workers they need

26% say their company does not have talent-recruitment difficulties

Addressing the talent challenge

Telecom CEOs responded positively when asked about the effectiveness of their current workforce across a number of skill sets, yet as they turn their attention to the importance of enhancing organizational resilience, they acknowledge their current workforce may lack the required skills to meet tomorrow's challenges (particularly in high-demand areas such as data science and cyber security).

More than half (55 percent) of the CEOs say their organization faces challenges finding the workers they need, with only 26 percent saying their company does not have talent-recruitment difficulties.

Almost half (41 percent) plan to upgrade their current workforce's capabilities to address evolving talent needs. Forty-five percent say they plan to upskill at least half of their employees. Overall, nearly 8 in 10 respondents plan to upskill at least 41 percent of the existing workforce.

As a result, adding these skills will come with minimal increase to the workforce in the near term. CEOs expect only modest growth in their companies' headcounts, with 58 percent saying they plan to expand the workforce less than 5 percent, and 26 percent calling for growth between 6 percent and 10 percent.

Overall, more than 60 percent of CEOs say they are waiting to achieve certain growth targets before hiring to bring in new skills.

On balance, 68 percent are prioritizing investments in technology over people, as they strive to make their organizations more resilient. Additionally, the percentage of global telecom CEOs who believe artificial intelligence (AI) and robotics technologies will create more jobs than they eliminate increased 5.1 points, from 53 percent in 2018 to 58 percent in 2019.

Cyber security - key to maintaining customer trust

With more telecom providers pursuing growth strategies based on data-fueled services and entertainment, the volume and types of personal data that consumers are trusting providers to maintain are increasing exponentially. Nearly two-thirds (64 percent) of telecom CEOs say a strong cyber strategy is critical to engendering trust with their company's key stakeholders, and 69 percent view information security as a source of competitive advantage.

Given the significance of cyber security, 62 percent of telecom CEOs believe protecting customer data is one of their most important responsibilities in enabling the organization to expand its customer base in the future.

Recognizing that their companies and data are compelling targets for hackers, 56 percent of CEOs view being victimized by a cyber attack more as a matter of "when" than "if." More encouragingly, though, 67 percent say they are either very well prepared or well prepared for a future attack.



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“ To keep pace with current demand and prepare for 5G use cases, the telecom infrastructure sector continues its build-out using M&A for scale, efficiencies, and growth capital. ”

Ty Singh,
Deal Advisory Telecom
Leader, KPMG LLP

CEOs partnering for growth

In addition to top-line growth, organizations, particularly those in the infrastructure space, are increasingly focused on M&A for scale and efficiencies. Organic growth (cited by 36 percent as their most important strategy) remains key, along with joint ventures (18 percent), strategic alliances (12 percent), and M&A (13 percent).

For many CEOs, M&A remains a consistent strategy for fostering top-line growth. Nine in 10 CEOs describe their organization’s M&A appetite as either moderate (57 percent) or high (33 percent), with primary drivers including (at right):

These results suggest CEOs expect the consolidation and transformation that have characterized the industry recently to continue at least for the next three years—and likely beyond.

Primary drivers for your organization’s M&A appetite over the next 3 years:



Multiple responses allowed

Does your organization intend to undertake any of the following actions over the next 3 years to help in pursuing your growth objectives?

- 67% Corporate venturing
- 63% Increase investment in disruption detection and innovation processes
- 62% Join industry consortia focused on development of innovative technologies
- 62% Set up accelerator or incubator programs for start-up firms
- 62% Make products and services available via an online platform provider
- 55% Partner with third-party data providers
- 53% Collaborate with innovative start-ups (e.g., FinTech, InsurTech, HealthTech firms)
- 41% Partner with third-party cloud technology providers

Multiple responses allowed

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Notable risk factors

Given the sector's reliance on innovation, emerging/disruptive technology remains a significant risk factor for telecom companies.

CEOs feel pressure to maintain innovation leadership and to stay ahead of competitors—both from within and outside the sector's traditional boundaries.

Encouragingly, nearly all (95 percent) of the respondents see technological disruption as more of an opportunity than a threat, perhaps reflecting the digital services that telecom companies are delivering to help promote revenue growth.

More than three-quarters of the CEOs who cited technology as a risk factor said cyber security (discussed earlier) represented a cause of their concern.

While most of the risks listed above have appeared in previous surveys, the growth in CEO concern about environmental and climate-related risks (up 10 percentage points since last year) is notable. Examining the climate question in more detail, 76 percent of respondents say their organizations' growth will be determined by their ability to navigate a global shift to a low-carbon, clean technology economy.



Which of the following risks pose the greatest threat to your organization's growth? (% who agree)



Climate risk is a significant challenge for companies in most industries, but the tremendous technological infrastructure undermining the telecom sector may make green-related risks especially acute for carriers. Climate-

related considerations, for instance, can affect investment decisions such as the location of cell towers or budgeting for extensive network repairs in the aftermath of a severe weather event.

Takeaways



Build for the next decade

Becoming a true market disruptor is crucial to achieving resiliency. Telecom leaders must continue to transform their business models and develop significant—not incremental—new revenue sources. As the need to drive industry change accelerates, providers that maintain the current state and hope to weather the storm aren't going to win. Resiliency requires the ability to be nimble and pivot quickly, redefining the organization to capture emerging opportunities, revenue streams, and market leadership.



Optimize workforce with human and digital labor

Winning the war for talent requires competing for highly specialized employees, particularly in high-demand areas such as data science and cyber security, and upskilling the existing workforce to succeed in a digital-first environment. Optimizing today's workforce involves blending human and digital labor effectively, and requires investment in automation such as robotic process automation and AI to build future ready capabilities.



Protect data to maintain customer trust

Most CEOs already recognize the need to protect customer data against the inevitability of cyber attacks, and they have well-developed response plans in place. But, in order to build and maintain customer trust, telecom companies must also be good stewards of the increasing amount of data they collect. Customers need to feel confident that providers are not only committed to protecting their privacy—they are also using their data responsibly.



Partner effectively for growth

While organic growth remains key to achieving their companies' revenue objectives, more than half of the CEOs expect to deploy strategic alliances, joint ventures, and M&A. Successful companies understand that combining assets or working together isn't enough; they also need to create new business models that will lead to new revenue sources. Having a governance structure in place that allows each partner to benefit from establishing a holistic ecosystem that fosters cooperation and integration will also lead to new growth.



Keep an eye on the future

Preparing for the next evolution of the 5G network provides great opportunity and great risk for telecom providers. The buildout of 5G infrastructure is massively capital intensive, and the opportunities to accelerate ROI are unclear. Telecom companies need to carefully consider how to transform their business models to gain a greater share of the value that will be created by 5G technology. It's time to move past the current average revenue per user (ARPU) model and determine the model that will lead to revenue creation, and not just the commoditization of the 5G pipe.

Demographics and Methodology

The data in this report was compiled through a web-based survey of 76 CEOs in the global telecommunications industry. All of the CEOs represented organizations with at least \$500 million in revenue, with 76 percent reporting revenue of \$1 billion or more. Seventy-five percent of the CEOs have been in their current position for four years or more.

Please note that, due to rounding, the numbers presented in this report may not add up exactly to the totals provided, and percentages may not reflect the absolute figures precisely.

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