B2B2X: the next frontier for CSPs to accelerate growth opportunities

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Contents

01 The growing opportunity

Over the recent years, communication service providers (CSPs) across the globe are witnessing stagnation of traditional revenue streams in their core services despite the enormous growth in usage.

To escape the revenue stagnation and profit margin erosion in traditional revenue streams, CSPs are in the process of transforming into Digital Service Providers (DSPs). The CSPs plan to achieve this by innovating their service offerings, focusing on end-customer experience and by adopting agile go-to-market (GTM) business models that empower consumers and enterprises to go beyond traditional connectivity.

Therefore, CSPs are targeting new segments that help in maximizing revenues, including the B2B2X segment which is a promising and a growing opportunity for CSPs to grow and create new revenue streams.

B2B2X is an emerging business model that is seen as a natural extension of existing business models, wherein CSPs can integrate traditional telecom and technology services into a new breed of service offerings used by enterprises to provide services to any type of end customer.

While global technology players continue to support technological evolution, CSPs are in a better position to emerge successfully in the B2B2X market due to its exclusive inherent strengths, which cannot be replicated by other players in the market. These strengths include an established customer base and existing sales reach, the ability to invest in long-term and capital-intensive projects, experience in large-scale infrastructure deployment, and recognized brand in the market.This article explains the key B2B2X market trends, associated business models and challenges, and key recommendations for CSPs to be successful in the B2B2X market.
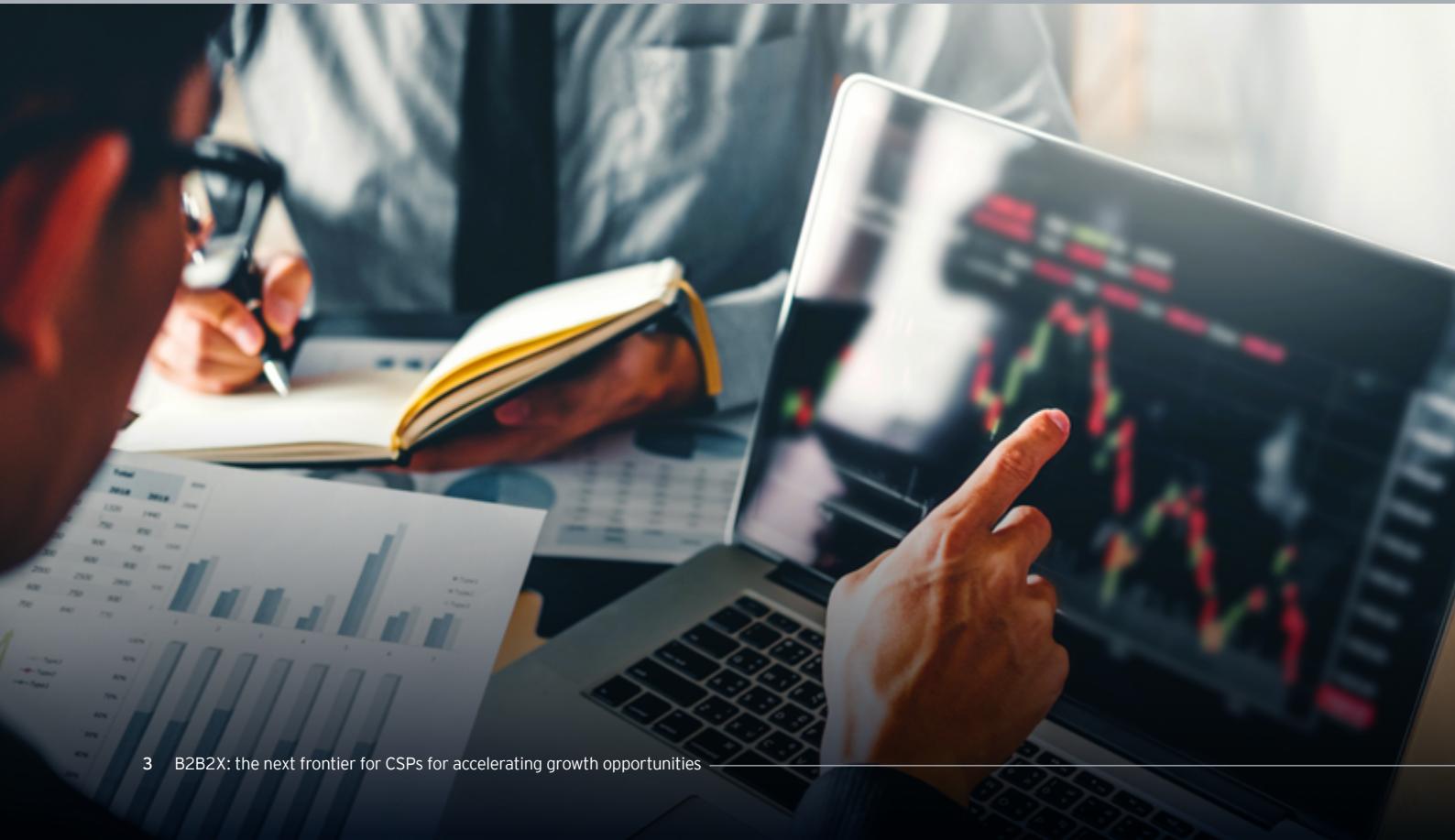
02 B2B2X business models

The ongoing digitalization wave brings technologies like such as cloud, 5G and Internet of Things (IoT) into play that can be leveraged by CSPs to create differentiated services. These technologies offer CSPs the chance to step beyond being a delivery system and position themselves as an enabler.

As per industry experts, CSPs can realize significant savings in capital expenditures (capex) by moving to virtualized, cloud-based architectures. Also, by leveraging cloud, CSPs can build a new operating model to generate new businesses by offering novel horizontal services and commercial bundles. They can compete in the new software-enabled and platform-based ecosystem, using 5G and IoT technologies to create new services for enterprises and vertical opportunities, where ultra-low latency, faster gigabit speed and high density are critical.[1]

As per the Nokia report, CSPs can generate 60% of their new revenues from B2B2X models compared to traditional business-to-consumer (B2C) or business-to-business (B2B) models.[2] To this end, the top five growth verticals that CSPs are focusing on are smart cities, industry 4.0, telehealth, connected vehicles and entertainment.

While many different B2B models have been implemented, there are three key business models observed in the B2B2X ecosystem:

1. **End-to-end provider model**

   In this model, CSPs develop all the required capabilities and offerings in-house to provide an end-to-end solution. To be successful in this model, CSPs should have deep knowledge across the value chain and should invest more in innovation, and research and development (R&D).

2. **Connectivity owner and lead ecosystem partner model**

   In this model, CSPs partner with manufacturers and professional service providers to develop solutions and lead all customer touch points for solution or service delivery. CSPs leverage their strong relationships and understanding of the market to develop solutions for small and medium-sized enterprises (SMEs), local large enterprises and government entities.

3. **Solution owner and lead ecosystem partner model**

   In this model, CSPs develop a specific skill set around an enterprise sector in a specific domain and scale it to market across various geographies through partnerships. They leverage their niche, domain-specific knowledge, capabilities and credentials to develop sector-specific solutions.

1. The tech-driven telco: Unlocking growth beyond connectivity through an open digital architecture
2. The path to successful 5G monetization: Operator insight report

03 B2B2X business model trends

I. Global trends

### 1. Partnerships with technology firms to develop solutions using emerging technology

CSPs have been partnering with technology firms to enable the usage of emerging technology to develop solutions that serve the needs of the end consumers. These kinds of partnerships enable CSPs to leverage their tech-related capabilities to deploy or integrate the required technology effectively, enabling them to offer a variety of services in addition to their traditional connectivity services.

A leading European CSP has partnered with a leading end-to-end multi-cloud technology solutions company to transform its multinational customers' cloud services.

2. Partnerships with sector-specific players to develop vertical-specific solutions

In addition, CSPs have been partnering with sector-specific players to develop custom sector-specific solutions. These kinds of partnerships enable CSPs to leverage the players' sector-specific domain skill set and capabilities to develop innovative solutions. It will also help them expand their service offerings and reach out to different audiences.

A leading South Asian telecommunications player has partnered with a multinational health care company to develop an innovative, 5G-powered medical service as an initial step to establish a 5G-smart hospital. The telecommunications player built an enterprise-dedicated 5G network and the health care company utilized its health sector capabilities to provide smart health services such as digital diagnostic pathology and an autonomous robot for an operating room.

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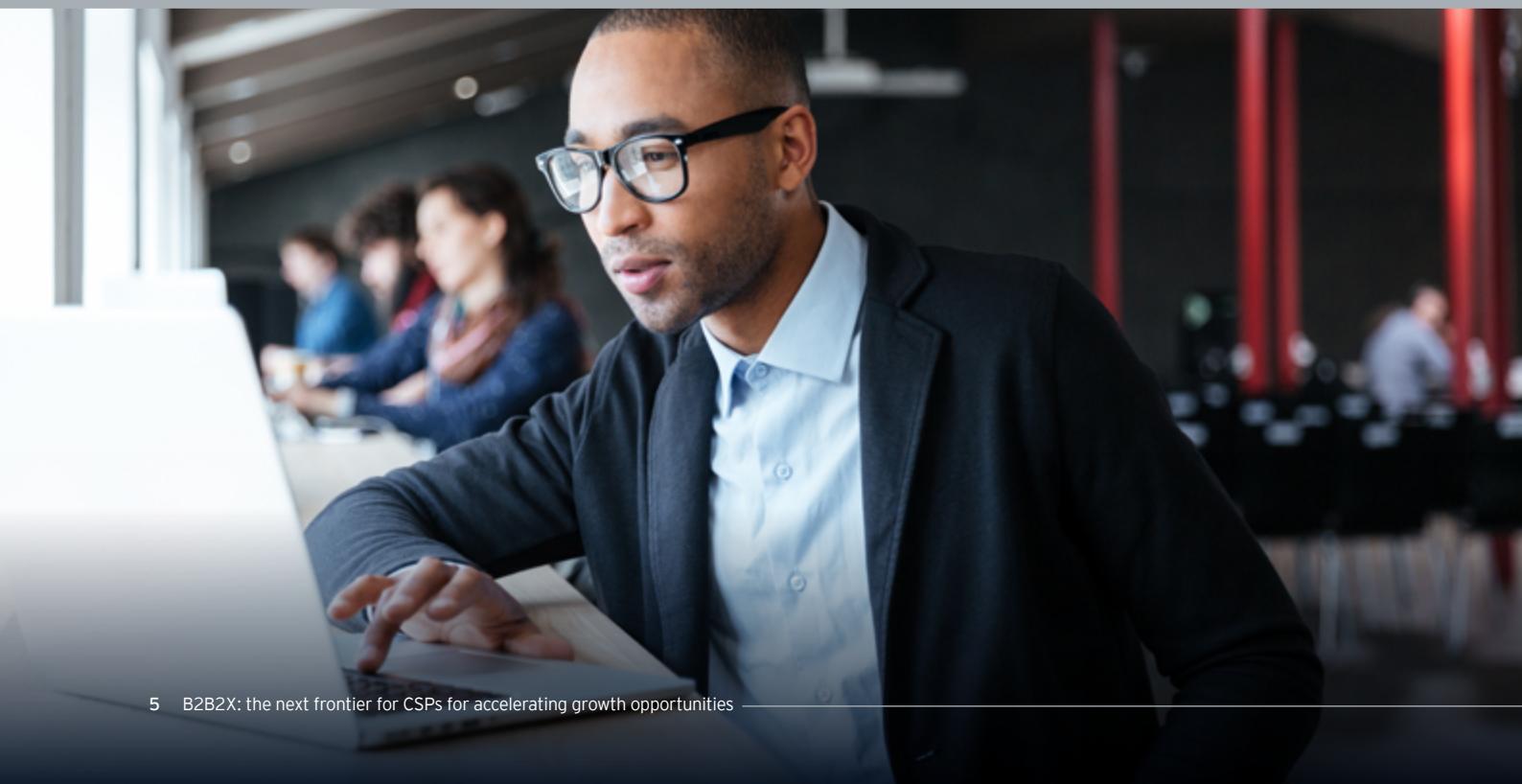
3. **Investing in developing in-house applications or platforms**

CSPs are also developing their own in-house applications or platforms that could be used to deliver services. These in-house developed solutions may enable the CSPs to create its own end-to-end solutions or collaborate with different partners to develop solutions that meet end-users' needs. Either way, this has led to an expansion of revenue streams for the CSPs by providing multiple B2B2X opportunities to further expand their market share. One of the world's largest CSPs has created an in-house IoT development platform that enables developers to collect, analyze and share connected device data. This helps them focus on building machine-to-machine (M2M) applications to bolster their business' competitive advantage. This kind of a platform could provide an opportunity for businesses to create unique solutions to serve their customers. It also helps the CSP to partner with businesses to develop IoT solutions or to build its end-to-end IoT solution, thus opening doors to B2B2X opportunities.

4. **Investing in end-to-end service provisioning platforms**

Furthermore, CSPs are developing end-to-end service provisioning platforms for accessing the. entire value chain. These kinds of solutions help CSPs to capitalize on the B2B2X opportunities better and expand their revenue streams.

A leading American CSP developed an IoT platform that provides services such as connectivity and device management, along with application development. It also serves as a marketplace for its ecosystem partners, thereby providing an end-to-end solution to its customers.

II. MENA regional trends

Within the MENA region, a few CSPs have already taken the lead on capitalizing the B2B2X opportunities. They have formed strategic partnerships with technology players, sector-specific players and government entities to offer a new breed of service offerings. Based on the regional market trends, it is observed that the MENA-based CSPs are keen on penetrating into sectors such as banking and finance, and government and public services.

CSPs in MENA are shifting to an open architecture to enhance their flexibility and agility to deliver B2B2X solutions. This also enables them to incorporate sophisticated product bundling and provide an industry standard configuration, price and quote framework. Further, CSPs are also adopting agile delivery models, where they bring together a delivery team with industry competence and leverage DevOps and design thinking. In addition, CSPs in the MENA region are adopting new pricing models that fit the partnerships. Pricing models such as value-based, pay-per-use (PPU) or pay- per-time, along with new charging criteria such as flat, usage and burstable, are being increasingly adopted by CSPs to maximize the value capture from B2B2X opportunities.

04 Key challenges for CSPs in the B2B2X ecosystem

B2B2X, as a market segment that is still in its early stages, presents a variety of challenges to CSPs attempting to capitalize on new opportunities. CSPs should be cognizant of these potential challenges as they prepare to harness B2B2X market opportunities.

I. Existing assets and capabilities are not flexible enough to develop custom solutions in the B2B2X ecosystem

The B2B2X ecosystem demands finding and establishing the right profitable partnerships. This would be through the ability to experiment, agility to form partnerships, and the flexibility to collaborate in different ways with different partners. In addition, this also requires flexible assets and capabilities to innovate solutions.

II. Current pricing models restraining innovation in B2B2X value proposition

CSPs would collaborate with various partners and service providers in a B2B2X ecosystem. Depending on the kind of partnership agreements and the services provided, operators may need to bill on their behalf for the whole B2B2X chain. This will require to have systems in place to charge for any type of metric or pricing model to avoid constraining innovation. The challenge is therefore to provide an integrated, end-to-end environment, with service and billing transparency for the whole B2B2X chain.

III. Security concerns associated with 5G networks being used in the ecosystem

With 5G being one of the main drivers in the B2B2X ecosystem, there are several security risks that come along with using the network. Some of them being personal data collection, user privacy, device vulnerability, the number of connected devices and diverse networks.

IV. Becoming susceptible to sector-specific risks

One of the main themes of the B2B2X ecosystem is that CSPs are expected to develop sector-specific capabilities to develop customized solutions. This will not only accentuate traditional risks like security risks but will also expose CSPs to a new set of risks associated with the sectors or verticals they play in.

V. Adapting to the B2B2X ecosystem requires adjusting to changing ecosystem dynamics

In the past, ecosystems were simpler, often pulling together offerings from vendors and reselling them. In the B2B2X ecosystem, CSPs need to support and embrace a cultural and technological shift toward true co-creation via partnering with different players across the ecosystem. This can help create differentiated vertical solutions across various segments.

05 Recommendations: what CSPs should do to be successful in the B2B2X market

In order to make the most of the B2B2X opportunities, CSPs need to identify and adopt the right business model based on their strengths and market context. CSPs need to choose a business model that builds on their existing customer base and assets. They must focus on the required capabilities and the expected returns.

When choosing the right business model, CSPs should consider factors such as the value proposition, geographical coverage, operating model, dependency on assets, scalability of platforms and partnerships.

To emerge successful in the B2B2X market, CSPs should brace themselves for a holistic transformation across various dimensions of their business and operating model, as described below:

1. **Set up GTM models that are clearly built on strengths**

   CSPs should select a suitable GTM model that capitalizes on their existing customer base and data assets while also focusing on their required capabilities and expected returns.

2. **Build a clear value proposition through the identification of verticals or use cases**

   CSPs should focus and differentiate their offerings based on their inherent strengths such as brand equity with consumers and businesses, proximity and relationships with customers (government, enterprise, and consumers), sector or use-case attractiveness in the markets of focus, a defined business model and ability to play in the sectors or use cases of choice.

3. **Set up the right financial strategy to maximize enterprise value and Return On Invested Capital (ROIC)**

   CSPs must identify the best sources of funding for their expansion plans and put in place the appropriate procedures to guarantee that expenses are controlled efficiently. To effectively capture value in B2B2X solutions, they should also consider new pricing models such as value-based, PPU or pay-per-time.

4. **Define an organization to deliver on the value proposition with the right form of governance and supporting key performance indicators (KPIs)**

   To maximize operational efficiency and to ensure the success of the value proposition, CSPs should determine the best operating model. To do so, they must assess whether a stand-alone B2B2X business or an integrated organization is appropriate. They must make certain that the top-down governance fosters collaboration, capitalizes on conventional company strengths, and manages the risks that come with it.

5. **Acquire the capabilities to enable success and set up an agile and innovative culture**

   CSPs should develop the right capabilities and integrate them across the organization in line with the needs of the business model, value proposition and asset strategy, including the factors such as vertical specialization, telecom proficiency and consultative sales approach. CSPs should ensure that the culture is conducive to collaboration, constant change and drives innovation.

6. **Build adaptable and scalable platforms that can be leveraged for a variety of use cases**

   By embracing cloud native, open application programming interfaces (APIs), distributed architecture and other techniques, CSPs can ensure that their platforms are as adaptable and scalable as possible to meet the ever-changing needs of their customers.

7. **Identify the right partners and integrate them**

   CSPs must develop partnerships to ensure that there is a win-win value proposition for all parties. Especially in matters such as developing adequate commercial models and bringing in clarity of objectives and roles distribution among partners. It is essential to have a clear collaborative governance that drives efficiency and minimizes conflict.

8. **Engage and collaborate with regulators**

   CSPs work closely with government entities. CSPs are regarded as strategic partners for large-scale government projects such as smart cities. CSPs should leverage their relationship with government entities to engage and collaborate with regulators to develop regulatory controls in the B2B2X ecosystem. This can be done by taking into account the factors such as evolving business models, geographical coverage, value proposition, telecom or technology for the new jurisdictions in which they operate and sector or vertical-specific regulators (e.g., health care, manufacturing, and transportation).

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