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Report Highlights: Reinventing Core Communications

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Highlights

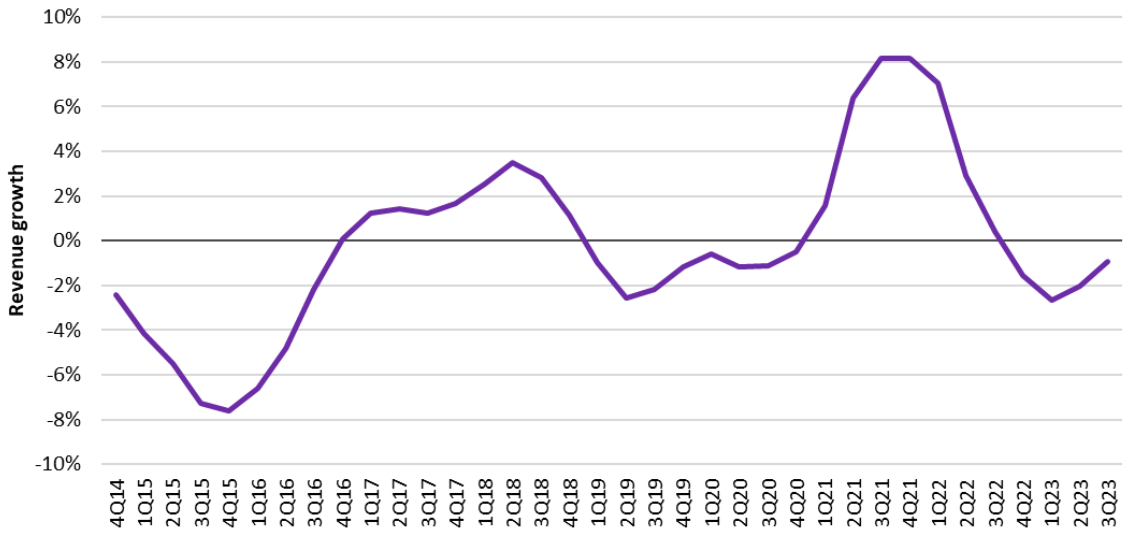
Telco revenue has stagnated over the last decade as traditional approaches to growth have faltered. Globally, annual telco revenue was $1.99tn in 2014, but declined slightly to $1.98tn by the end of 2022. Service providers have adopted transformation strategies centered on fiber and 5G to find revenue growth. While investment in these areas has increased network throughput, it is prompting questions about business models, as these efforts so far have failed to meet expectations for increased revenue and reduced operational expenditure.

In service providers' search for revenue growth and efficiencies, voice and unified communications (UC) – including enterprise chat, video collaboration, and application integration capabilities (we will refer to these collectively as "core communications") – have largely been ignored. Most telcos see these services as reliable workhorses rather than opportunities for innovation. Although Omdia forecasts a steady decline in PSTN subscribers, we believe that PSTN voice will linger for years due to regulatory requirements. Business communications, however, is becoming increasingly competitive. Prominent vendors dominate the large enterprise segment, and cloud-only providers deliver services over the internet to the mid-market, eroding what had been a reliable core telecom service. Maintaining aging core communications infrastructure deep in telco networks or at customer premises, coupled with dwindling voice engineering skill sets, expose providers to increased risk and costs.

Investment in network technology failed to deliver desired opex reduction

The consistent lack of revenue growth over the last decade has created a significant challenge for operators. While there have been times of low-to-moderate revenue growth during this period, for the most part, performance has been consistently mediocre. Globally, the industry recognized roughly the same revenue in 2022 as it did in 2014 (see **Figure 1**).

Figure 1: Telecoms' 12-month rolling total revenue growth, global (4Q14–3Q23)



Source: Omdia

Providers have focused investment on 5G and fiber build-outs to reverse these declines, emphasizing development of managed security services, SASE-infused SD-WAN secure networking services, private networks, and managed multicloud services, as well as emerging artificial intelligence (AI)-based B2B services.

However, one domain that is frequently overlooked and rarely benefits from any significant focus is voice (residential and business) and unified communications. This portfolio requires careful management, but Omdia research indicates that many providers have yet to address the risks involved in maintaining legacy services, nor have they actively looked for opportunities to innovate in this service area.

Core communications: Is there an opportunity for growth and innovation?

Telcos have been delivering voice services largely in their current forms for decades. They now face the challenge of managing a declining residential voice business alongside business communications services that are growing modestly but reliably. Omdia research finds that revenue from fixed voice services is expected to drop 50% from 2020 to 2028, with ARPU declining more than 40% for the same period. Similarly, ARPU for unified communications as a service (UCaaS) is expected to fall, but this decline is expected to be offset by a steady increase in the demand for seats that should keep UCaaS revenue on a positive track.

Are core communications services candidates for significant innovation to maximize this potential? While AI is seen as a potent balm for operational efficiency challenges, few in the telecom industry think of core communications as an opportunity for innovation. If service providers "face forward" when it comes to core communications, we believe they can find opportunities for innovation in delivery, customer experience, and building margin by enhancing core telephony with AI for applications such as sentiment analysis or sales effectiveness.

Rethinking voice and UC delivery models

The market for traditional business voice services is shifting as adoption of mobile and messaging solutions grows. But a substantial base of legacy voice customers remains, and there is opportunity for growth from B2B communications services. To optimize revenue and growth from both segments, service providers must rethink how these services are managed, delivered, and enhanced.

For decades, large service providers have operated their voice infrastructure, which is now fully depreciated and still works. Furthermore, there may be regulatory requirements that make it difficult to quickly decommission these platforms. Providers may not see a compelling reason to migrate away from this infrastructure until the costs or risks of maintaining the status quo reach a tipping point or crisis. In addition, service providers often operate more current platforms alongside this legacy infrastructure, creating a siloed environment that increases operational costs and limits the ability to innovate and tailor solutions to meet customer needs.

This market environment supports the rationale for a full-stack, cloud-based core communications solution with flexibility in creating and delivering services over a single, integrated platform. This type of platform reduces the need to manage multiple vendors, allowing service providers to focus on improving their go-to-market and customer experience strategies. Service providers can harness technologies such as AI to gain insights about customers and monetize those insights, potentially creating new revenue streams, reducing costs, and enabling innovation.

The cost of doing nothing

There are qualitative risks for a service provider maintaining its own core communications infrastructure, but it is also critical to understand the importance of measuring the cost in quantitative terms. How can service providers determine if moving to the cloud will help them manage, deliver, and monetize core communications services more efficiently?

Understanding the cost of maintaining the existing estate can be challenging, and hidden costs are among the factors that should be assessed. They include the opportunity cost of valuable IT and engineering teams, facilities, power, marketing and sales support for legacy services, training and education security, risk management, multiple vendor management, and regulatory compliance. The risk of critical equipment failure and need to source and stock spare components for aging equipment should also be considered.

Balancing a focus on cost savings against differentiation

Service providers can continue to manage their own core communications estates, but an increasing number will migrate to vendor-hosted models, whether following the passive sell-through or integrated sell-through models, or even a mix of both (see **Table 1**).

Table 1: Passive sell-through versus integrated sell-through models

Approach	Benefits	Potential drawbacks
Passive sell-through	Offload platform responsibility	Loss of brand equity
(Examples include RingCentral, Cisco Webex, and Microsoft Teams)	Pre-packaged/well-established feature tiers	Less pricing flexibility and lower margins
	Ease of implementation	Licensing complexity
	Some opportunities to differentiate (integration with campus systems, support, analytics/dashboards, automation/self-service)	Not necessarily a single platform (different and uncertain vendor legacy platform roadmaps)
	Appeal to higher-tier B2B segments that request specific vendors	Platforms focused on unified communications do not offer the full range of traditional telecom services, including residential
Integrated sell-through	Service provider retains brand equity	May not be designed for large enterprises or any B2B customer requesting a specific vendor solution
(Examples include Alianza)	Offloads platform responsibility	
	Ease of implementation	Requires full integration into native service stacks to effectively monetize
	More opportunity to differentiate (as above, plus pricing, packaging, and even feature sets)	High degree of trust essential, as vendor brand not prominent
	Some ability to influence feature development/develop "on top" – integration with other offers/seamless customer experience	
	Often a single platform with little legacy baggage	

Source: Omdia

Several telcos interviewed by Omdia for this research stressed the importance of continued investment in core communications portfolios, even after migration of their core communications services to the cloud. These decisions were driven by the need to leverage their core strengths and customer relationships, as well as to stand out from competitors – especially as the functionality of major vendor UCaaS suites has become largely undifferentiated.

New paths to innovation

When considering service innovation, operators are often stymied by the status quo. The traditional approach is usually about adding or enhancing features to differentiate based on functionality. Beyond that, innovation is not usually linked with voice and unified communications, and it may seem counter-intuitive to consider the role of innovation in a thoroughly mature domain.

Despite changing methods of delivery and management, Omdia believes there always will be a need for voice, whether in key public safety or infrastructure scenarios, or for any other application where human-to-human interaction is a necessity. Given the expected lifecycle of voice in the coming years and the move to new models for communications, telcos must face forward and devise ways to make the most of their core communications heritage and expertise.

Service providers can look to several areas to find opportunities for innovation: operational innovation, AI-based innovation, service innovation, go-to-market innovation, employee transformation, and risk reduction and containment.

Moving telco IT and OT stacks to the cloud

Several providers cited the need to consider modernization and cloudification of their IT and OT stacks to fully benefit from cloudification of core communications. In planning a modernization strategy, service providers have options: they can transform OSS/BSS and core communications

simultaneously; or they can take a phased approach, where core communications are transitioned first, and BSS/OSS modernization takes place at a later time.

Regardless of the service providers' approach to network and IT cloudification, the benefits of migrating core communications to the cloud, whether in the straight or integrated sell-through model, can be realized via APIs from the vendor platform to their own systems. Telcos should assure themselves of support for this model as they select core communications vendor partners.

Market prospects and key conclusions

Margins will further erode as maintenance of the status quo for core communications portfolios becomes more risky and costly, and as consumer voice revenue continues to decline while business UC revenue slowly grows. In many geographies, the impending sunsetting of the copper network will force the hand of reluctant operators. The pool of employees with the relevant voice network skill sets will continue to dwindle. Telcos that have invested heavily in fiber and 5G networks will be increasingly judged on how effectively these assets have been monetized: the prospect is that in five years, many will fail the test when it comes to financial market analysis.

Some operators will find a path to growing their opportunities in core communications. Our research has shown the shape of this potential future and how to achieve it.

- Leading operators will assess the true cost and risk associated with the status quo. These include not only associated capex and opex, but the inherent risk in being highly dependent on vendor support for legacy platforms approaching end of life, as well as diminishing access to relevant maintenance and service skills.

- The shift to vendor-hosted clouds for communications will continue: the logic is inexorable. Many operators will opt to relieve themselves of the risk and overhead related to legacy voice infrastructure, but some will redirect investment to associated AI-driven operational and customer-focused improvements.

- Voice in general will continue to decline, but we will witness innovation in business communications, with customer sentiment analysis, business mobile convergence, and workspace AI (e.g., transcription, note taking, and meeting action automation) all dependent on modern voice platforms.

- Cloud will also enable some telcos to make positive changes to their go-to-market approaches, monetizing fiber and 5G investments with voice as an enhancement to access services tightly bundled in marketing, sales, and customer experience motions.

Development of ancillary features and services will enable visionary providers to differentiate their communications solutions to enterprises. In the SMB segment, these providers will lean into their capillarity and presence to strengthen their brand, primarily through the integrated sell-through model. A single platform provider may extend its own-branded service into the large enterprise segment, but even where it adopts the straight sell-through model, differentiation and brand building can be achieved through related professional and secure networking services.

Appendix

Methodology

Omdia has well-established tracking and analyses of the consumer and business voice, unified communications, and telecom cloud markets. Omdia's Service Provider Network Evolution research tracks telco group capex and opex annually. These research services regularly publish market updates and forecasts on voice, unified communications, and telco cloud, as well as telco network expenditure and horizontal SoHo/SME-specific segment requirements. Building on that foundation, the team of authors conducted an additional survey of 45 mostly North American operators on the challenges and priorities for their communications services portfolios. We also conducted 10-plus interviews with large telcos, consultants, and vendors to understand their strategies, roadmaps, and current market conditions.

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