

COVID-19 Crisis Response for Telcos

Point of View
March 2020

KEARNEY



Executive Summary

COVID-19 is a black swan event disrupting social and business activities across the world with unknown consequences and duration

Protecting employees, customers and operations is the first and foremost business responsibility, which requires necessary protective measures to be taken, **rigorously and immediately**

Scenario Planning is critical – wait and watch is not an option, your business needs to be prepared for the worst, while exploring the opportunities presented by this crisis

Now more than ever before, **Telcos are central to the lives of consumers and businesses** and need to lead from the **front socially, commercially and strategically**

- **Show solidarity and generosity** – the society expects that of you
- **Explore upside commercial opportunities** as consumers and businesses rapidly adopt new digital ways of operating unlike ever before
- **Act strategically** to position themselves beyond connectivity and to use the situation as a impetus to transform operating model

Telcos need a “**crisis response team**” which is not only protective and ensures operational and financial stability, but also triggers action to be social as well as commercially and strategically forward looking

As known, the COVID-19 pandemic has led to major disruptions in peoples' lives and business operations.

Impact of Covid19 on people's lives



Lockdown of social activities



Work from home as new normal



Disruption of business activities



We see Telcos tackle COVID 19 across 3 dimensions – all now, all immediately.

Move Immediately

Employee Protection & Safety

Business Continuity Planning

Operational Fire-Fighting

Cash & Liquidity management

External relations management

1

Read the Signs

Achieve clarity on impact on business for next 6,9,12 months

Develop potential scenarios and respective impact of each scenario

Define respective triggers to launch

Capture opportunities in the crisis

2

Prepare & Act

Identify downside risks and upside opportunities

Address the operational hurdles

Be socially responsibility

Plan for the medium-term commercial impact

Define the long-term strategic implications

3

Drive relentless execution through instant response organization

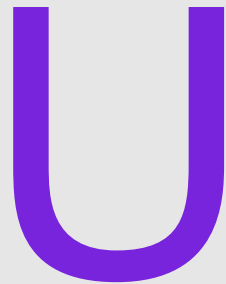
3 plausible scenarios could play out in 2020 and beyond.

2



The V-Shape – Quick Recovery

- | | |
|---|--|
| <ul style="list-style-type: none"> – What you believe: – Firm reaction across countries leads to effective containment – Seasonality of virus impact – Peak impact coming soon | <ul style="list-style-type: none"> – What it means: – Short-term business disturbance until April/May 2020 – Strong recovery thereafter – Global trade flows picking up quickly |
|---|--|



The U-Shape – 2020 is Gone, but it'll be fine

- | | |
|--|---|
| <ul style="list-style-type: none"> – What you believe: – Public reaction not effective to stop spreading of the virus – Seasonality of virus impact longer – Medical treatment still in 2020 possible | <ul style="list-style-type: none"> – What it means: – Business disturbance will remain through Q2 and Q3 2020 – Slow recovery as of Q4 2020 – Growth to be expected as of 2021 |
|--|---|



The L-Shape – 18 Months Downturn / Recession

- | | |
|--|--|
| <ul style="list-style-type: none"> – What you believe: – There will be a second outbreak – COVID 19 triggers a sustained global recession – Volatility and insecurity on capital markets remain | <ul style="list-style-type: none"> – What it means: – Short term disturbances lead to longer market correction – Insecurity leads to substantially lower investments |
|--|--|

Regular Scenario Planning Adjust 2020 Forecast Regularly

As the crisis – COVID 19, commodity, global recession - further evolves, regular updates needed, as the overall scenarios might change as well as the respective impact on the business

Bi-weekly review and adjustment of parameters currently seems appropriate

Determination and integration of mitigation actions respective to relevant scenario

Determination of current and future cash position vis-à-vis existing credit lines; integration of counter – measures respective to relevant scenario (e.g. CAPEX management, working capital management)

The crisis creates both downside risks and upside opportunities for Telcos.

2



Downside

However...

Upside



<p>1 Enterprise Sales teams unable to engage clients face to face due to meeting restrictions</p>	<p>6 Increase in virtual meetings and remote work arrangements, travel replaced by international calls & video conferencing</p>
<p>2 Prolonged impact affects purchasing power, business sentiment, late payments/bad debt; lack of content (e.g. sports) lead to churn</p>	<p>7 Consumer uptake of services given lockdown – esp. bandwidth/data plans, video, cloud gaming & online delivery</p>
<p>3 Local consumer movement leading to lower footfall and sales, lower international travel to lower roaming</p>	<p>8 Consumer movement restrictions lead to adoption of digital sales & service model</p>
<p>4 Device manufacturing hit by supply chain disruptions; esp. smaller operators hit by availability issues</p>	<p>9 Negative market sentiment may drive ‘irrational’ decision making and drive sourcing opportunities</p>
<p>5 NW maintenance & rollout hampered by restricted crew movement, productivity drop due to A/B teaming</p>	<p>10 Larger rollout projects delayed (5G, Fiber) with short-term positive cash flow impact</p>

Telcos should lead from the front along three dimensions: **Social, Commercial and Strategic.**

3

Social



How can Telcos support their communities through this crisis?

Show **solidarity** to the heroes of the crisis (e.g. health workers)

Show **generosity** to heightened demand from consumers and distressed customers

Give to society where you can help to ease the pain (e.g. education programs)

**Com-
mercial**



How can Telcos best monetize the dramatic increase in the consumption of telecommunications services?

Provide **solutions** to support new ways of working and new forms of diversion

Make customers accustomed to new services, usage patterns and new (digital) forms of customer interaction

**Strate-
gic**



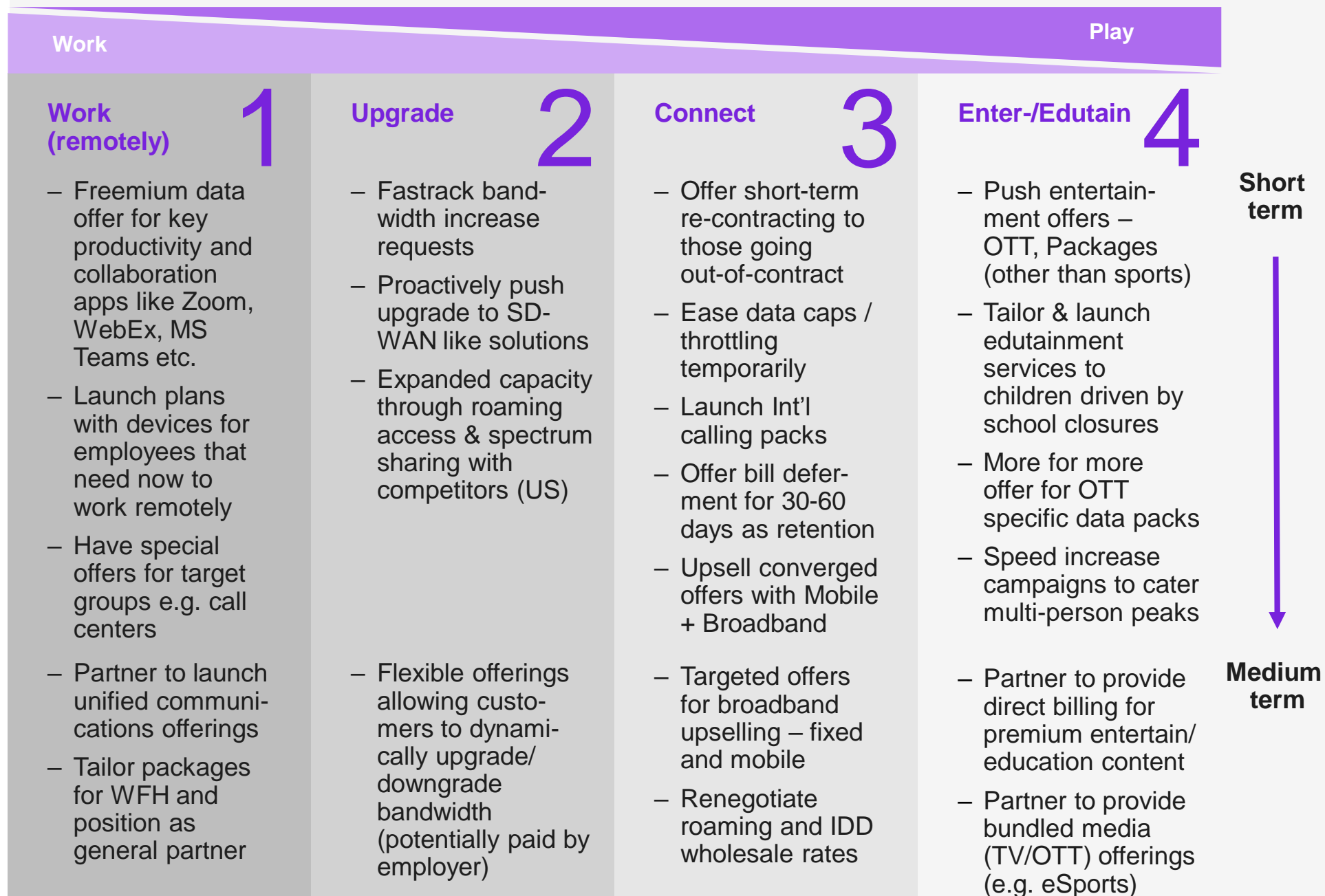
How can Telcos use the crisis to reconfigure the way they do business?

Become a partner for customers **beyond connectivity**
Form new **partnerships** & acquisitions to provide new services (also to enterprises)

Shift substantially to **digital** interaction

Change internal **ways of working**

COMMERCIAL:
Changes in customer demand means new business opportunities in both Business and Consumer segments.



COMMERCIAL:
Telcos can now use the opportunity to go digital in customer interaction at full throttle.



Accelerate shift to digital across sales & service:
Double-down

Unprecedented opportunity requiring management to...

- Accelerate ongoing programs
- Focus resources
- Reprioritize & shift budgets



Attune customers to the new way of selling in app & web while offline remains closed

- Any promo & freebie (esp. Covid19 benefits) need to be activated in the app or on the web incl. a GDPR-conform opt-in
- Push retention & handset upgrades to digital – no one wants to pick up a phone in a store anyway



Self-service: ye who uses the app is self-sufficient, no need to pick up the phone!

- Utilize time in handset & on the web combined with reduced physical (incl. telesales) availability with strong FAQ & support push
- Proactive push communication of typical network issues in time of increased usage

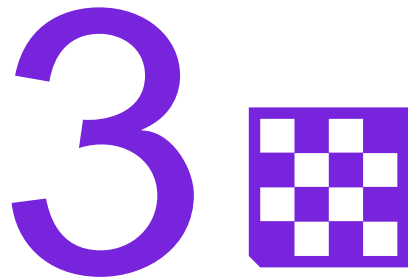


Finally find the courage to shift media budgets to where customers are now more than ever

- Prioritize organic search optimization over paid traffic through analytics based micro-optimization
- Push mail based campaigns to drive organic online visits
- Position original social media content (incl. link to current crisis) to drive traffic



**STRATEGIC:
Telcos can leverage the current situation to strategically position themselves within and across industries post-recovery.**



Explore partnerships & acquisitions for business

Acquisitions and partnerships enable Telcos to pivot into new spaces in response to shifts in customer demand e.g.:

- SMART Home solutions providers (e.g. Samsung, HomeSeer, Soundeye)
- OTT communications partnerships for “business continuity” packages (e.g. Slack, Pivotal Tracker, Jira, Zoom)
- Full solution provider for certain type of workspaces (e.g. call centers) leveraging VAS

Promote entertainment and information services hub

Potential to capitalize on stay at home policies to expand presence in entertainment space:

- Aggressive product bundling with partners (e.g. Netflix, Disney+, Tencent)
- Integrated entry offers to entice customer base coupled with aggressive retention offers (e.g. Sky Italy’s low price promotion of Sky Entertainment + Netflix bundle with Fiber installation)
- Aggressive positioning of new genres such as e-sports and cloud gaming

Switch 100% to Digital in Customer Interaction

Social distancing and stay at home policies opens the opportunity to drive customer adoption of digital channels

- Customers can be redirected to digital self service channels to troubleshoot issues effectively in lieu of usual channels
- Free media content can be made available via digital platforms (e.g. Telekom Slovenia - free TV channels for fixed-line users activated through user portal / mobile application)

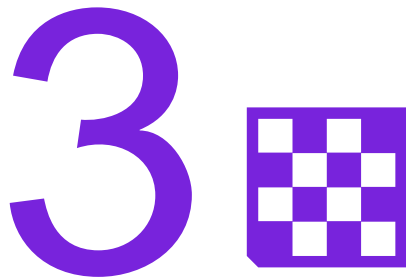
Deepen Industry 4.0 and 5G Capabilities

Disruption of supply chains highlight need for localization and automation:

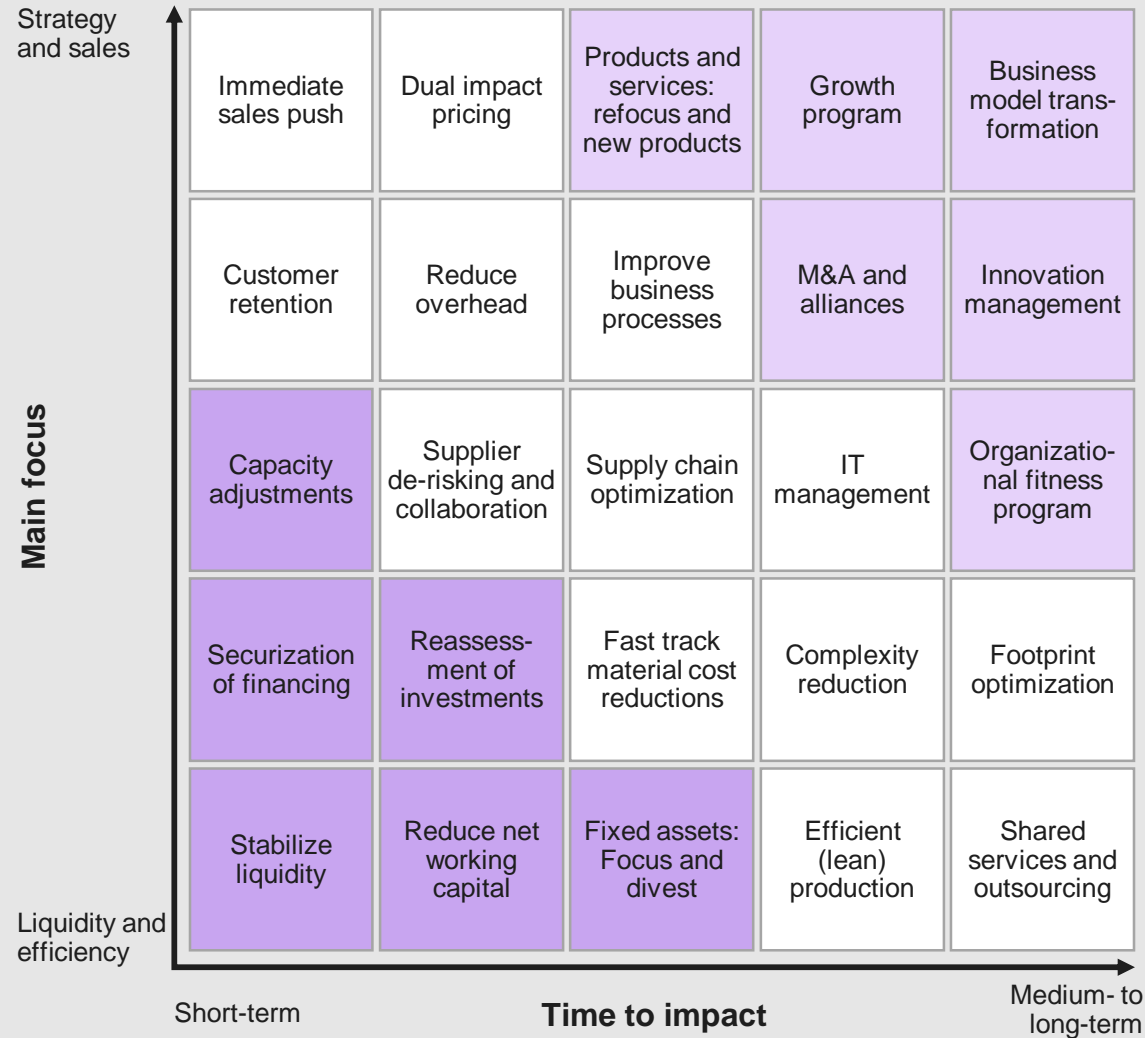
- Smart supply chains can quickly adjust manufacturing priorities according to new info (e.g. blockchain for food traceability in F&B)
- Connected devices and robots reduce reliance on human labor (e.g. Audi modular assembly line, automated port management)
- Telcos as enabler for automation to make local production cost competitive

STRATEGIC:
Telcos need to act quickly and decisively – main focus are actions with short term-impact on liquidity and efficiency.

Prepare & Act – now



Improvement measures range from hands-on to complex



Measures aimed at improving: ■ Liquidity ■ Profitability ■ Strategy

Source: Kearney analysis

Considering the magnitude of the current crisis, **companies need to act quickly and decisively.**

As such, the focus should be on efficiency and cost cutting **measures with immediate or short-term impact on liquidity and efficiency**

Thank you

Legal context

The situation surrounding COVID-19 is dynamic and rapidly evolving, on a daily basis. Although we have taken great care prior to producing this document, it represents Kearney's view at a given point in time. This document is not intended to: (i) constitute medical or safety advice; nor (ii) be seen as a formal endorsement or recommendation of a particular response. As such you are advised to make your own assessment as to the appropriate course of action to take. Please carefully consider local laws and guidance in your area, particularly the most recent advice issued by your local (and national) health authorities, before making any decision.

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