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How can an industry incumbent respond to competition from “digital vampires” whose offerings shrink industry revenues and profits?

Over-the-top (OTT) digital services providers like WhatsApp use telecom operators’ physical telecommunications infrastructure to deliver services that reduce the demand for voice calls and instant messaging, leading to flat or falling revenues for incumbents. At the same time, telcos have to make large additional investments to keep up with the growing demand for mobile data, which they are unable to monetize because of competition from OTT providers. This combination of stagnant revenues and high ongoing investment requirements is threatening the viability of telecommunication companies worldwide.

Turkcell, Turkey’s largest mobile communications provider, decided to address this challenge by transforming itself from a network operator selling undifferentiated data and voice services into an experience provider offering messaging, music, TV, search and other services to its customers. It decided to compete head-on with the OTT service providers rather than adopting a passive strategy.

What changes would Turkcell need to make to transform itself into a digital experience provider? Would this transformation be sufficient to address the revenue and profitability challenges that it faced?

At a glance

- » Turkcell faced the challenge of flagging revenues due to competition from digital disruptors like WhatsApp and other over-the-top service providers (OTTs), combined with the need to invest heavily in its telecom network.
- » This posed a long-term threat to the company’s viability.
- » It decided to transform itself into a digital experience provider – developing digital services, changing its organization and culture, improving customer experience and digitalizing the company.
- » As a result, Turkcell successfully saw off the threat from digital disruptors to become one of the fastest-growing and most profitable telcos in the world.

THE BROADER ISSUE

Digital disruption is a reality in most industries and geographies. Established players are up against new competitors that use asset-light digital business models to compete very effectively with them. These new competitors exploit one or more of three sources of value: cost value, whereby they offer the customer lower costs; experience value, whereby they offer the customer a better experience; and platform value, whereby they create network effects that benefit customers.

The most formidable competitors are those that exploit all three of these. WhatsApp, for example, offers lower costs since its service is essentially free; it provides a superior experience compared to the instant messaging provided by telecom operators; and it becomes more valuable to customers as the number of people adopting it increases.

Established players need to comprehensively transform themselves to remain competitive, but often they hold back because it is difficult to do and they fear cannibalizing their existing businesses. They tinker at the margins instead of making the root and branch changes that are needed. While this may benefit revenues and margins in the short term, it allows the new players to grow stronger, making it even more difficult to defeat them in the longer term.

BECOMING AN EXPERIENCE PROVIDER

Turkcell decided to position itself as a digital experience provider rather than a supplier of network services, allowing it to differentiate itself from the other telecom operators in Turkey – Turk Telecom and Vodafone. This required it to compete head-on with global OTT companies like WhatsApp, Spotify and Netflix in Turkey. In its suite of digital services, the company emphasized local content and built in features that it could offer as a telco, but which the global OTTs could not emulate.

To encourage subscribers to use its digital services, Turkcell structured its service packages so that the mobile data used for this purpose was essentially free. In contrast, subscribers needed to pay for

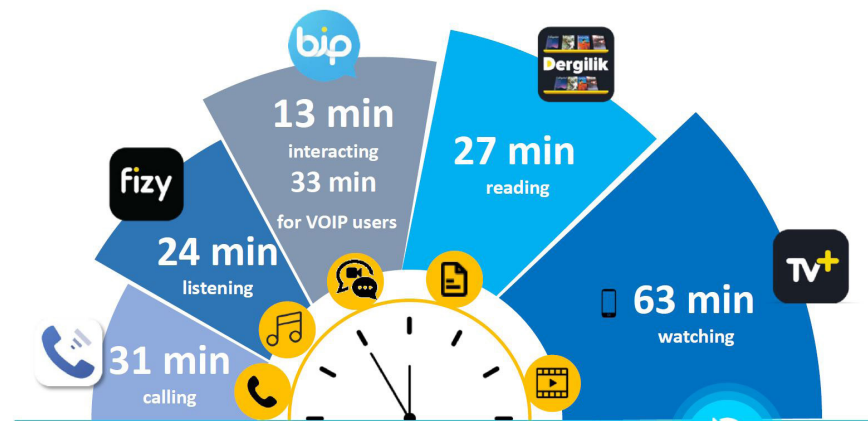
mobile data if they wanted to use services like WhatsApp and Spotify.

The initial take-up rates for Turkcell's digital services have been encouraging. For example, BiP, the company's instant messaging platform, had 11.5 million active users by the fourth quarter of 2018.

CHANGING THE ORGANIZATIONAL STRUCTURE AND CORPORATE CULTURE

In the first month of its transformation journey, Turkcell moved from an asset-class organization, with separate fixed and mobile telecommunications subsidiaries, to a unified functional organization where each executive vice-president had responsibility for both mobile and fixed telecoms. This made it easier for the company to implement strategies to exploit the increasing convergence in telecoms.

Turkcell also started the process of changing the company's culture to emphasize collaboration and employee empowerment. One key initiative was to start using self-managed, cross-functional agile teams, first in IT but later throughout the organization.



Turkcell enhanced digital services with a telco's capabilities to become customers' digital companion throughout the day.

IMPROVING CUSTOMER SERVICE

Turkcell bid aggressively in Turkey's 4.5G auction, securing much more spectrum than other telecom companies, and made the investments needed to roll out 4.5G across the country rapidly. As a result, its network quality was significantly better than that of its competitors. This was an important differentiator, especially when customers were viewing video, where speed is vital.

It also transformed its retail sales channels by reducing the number of outlets, investing to improve the look and feel of the remaining outlets, and providing retail sales staff with training and technology support so they could serve customers better.

DIGITALIZING THE COMPANY

Turkcell created a digital dashboard that covered the key performance indicators (KPIs) for each corporate function and for essential projects. By 2019, it monitored more than 4,000 metrics on a real-time basis. This had become a critical tool and had changed the culture of the company. Everyone had access to accurate, real-time information, so there were no issues with the manipulation of data. The discussion changed from whether the numbers were correct to how to improve them.



Redesigned stores enhanced the shopping experience; everywhere the customer looked, digital was emphasized.

DID IT WORK?

Turkcell successfully transformed itself from a telecom operator into a digital operator. As a result, the company is among the fastest-growing telcos in the world, with revenue growth of 23% in 2017 and 21% in 2018. The company's profitability has also improved, with the group's EBITDA margin increasing from 32% in 2015 to 41% in 2018. Operational indicators were also pointing in the right direction, with growing mobile average revenue per user (ARPU) and declining mobile churn rates.

Turkcell planned to continue revenue growth by increasing smartphone penetration among subscribers, monetizing its digital services



We changed the shop layout so that customers feel that this is a digital company; this is a place where I can buy digital stuff. We introduced certification for the staff and we provide a lot of benefits for them such as health and life insurance. As a result, staff turnover dropped from 72% to 28%. They stay with the company, their knowledge is higher, they treat the customer better. We digitalized all the sales processes and gave tablets to the salespersons, so they can go through the sales journey with the customer and everything is transparent.

Murat Erkan | CEO, formerly Executive Vice-President, Sales

platform by selling advertising and launching mobile payments, growing sales to corporate and government customers, and franchising the digital operator model to telcos globally.

TAKEAWAYS

Turkcell's success in countering digital disruptors in its industry offers lessons for other companies confronting a similar situation:

- **Bold thinking and actions are needed.** When faced with digital disruption, most companies tinker at the margins instead of making the transformational changes that are required. As a result, they fail. Turkcell's willingness to fundamentally transform itself was key to its success.

- **More than digital is required.** Turkcell addressed the digital dimension by significantly improving its digital services and digitalizing the company. But it went beyond this to transform its organization and culture and invest in improving customer experience.
- **Competing creatively is key.** Turkcell competed with the global OTT service providers by emphasizing its sources of competitive advantage – its ability to secure local content and its status as a telco – rather than by adopting a me-too strategy.
- **Digital disruption does not have to result in weaker finances.** By taking bold steps, Turkcell was able to counter the challenge from digital disruptors, while improving revenue growth and profitability.



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