

Episode 29
Best of 2021: Meet Digital Telco Yaqoot
Released November 16, 2021

Speaker 0 00:00:00 I'm Danielle Royston, and this is Telco in 20.

Speaker 0 00:00:15 For this episode, we wanted to revisit one of our favorite and most beloved episodes of the year. This episode has been shared around the world with people writing in to tell us how much they've enjoyed it, even going as far as to mention how they are building new digital brands, based on the ideas we discuss. How cool is that? The episode first aired on May 4th and our guests was Juha Korhonen, who is a former executive from Zain group, and who has recently taken a position with Gardner as senior director in their research and advisory group. In this killer episode, Juha talks about digital transformation and shares his experience successfully launching a digital mobile operator in the Middle East. So sit back, relax and listen to Telco in 20's Best of 2021.

Speaker 0 00:01:08 I'm Daniel Royston and this is Telco in 20. Today. We have a great episode for you. You know, me, I'm constantly evangelizing the use of public cloud in telco, but for anyone who decides to embark on this journey, it will inevitably come with the need to do some sort of significant transformation in the business. Using the public cloud is not just about running workloads in a different location. It really is a state of mind. It's a completely new way of building and managing software. If you do a great job, you can get results you never thought possible. Remember our conversation with Jim Abolt way back in episode one, where we talked about how you can't be a disruptor, who's wrong, a DW, you have to be a disruptive that's right, a DR. But transformation is super hard. Lots of projects fail. I think one of the biggest reasons they fail is leaders forget to think through all the different constituencies involved in the change.

Speaker 0 00:02:00 It's not just about the technology you're implementing or why it's good for the business. You really have to get the people aligned around why this change will be good for them as individuals too. It has to be a win-win. I am super excited that today my guest is a telco executive who has successfully implemented a significant transformation project. He had a crazy idea. You can reinvent the consumer experience, lower your costs, and achieve massive growth. And at the same time, add 10 to 20 points of EBITDA by building a digital brand. Today on the podcast we have Juha Korhonen, who's going to talk to us about the work he did with Zain Group in Saudi Arabia and their new digital brand, Yaqoot. Juha is a telecom industry veteran and former head of innovation and digital services at Zain Group, where he was instrumental in launching Yaqoot as a digital mobile operator in the middle East. Welcome, Juha.

Speaker 2 00:03:02 Great. Thank you. Thank you for having me.

Speaker 0 00:03:04 Yeah, I think it's going to be really, really great conversation. So today we are mixing it up and talking about digital transformation. It's everywhere in our industry, in your opinion, why is it so hard to do and why do businesses fail?

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Speaker 2 00:03:18 I think for telcos, we are so used to doing things a certain way and with a very safe structure in place if you look at the organization or how we are using technology. And we are also very big businesses. So if you are suddenly trying to get 7,000 people or 10,000 people to behave differently and use new tools and new technologies and new ways of doing things, I think it's just generally a very, very difficult problem. And that's also why I feel that maybe it's better to practice it first and figure out how you can do it.

Speaker 0 00:03:48 Yeah. And I love that you bring the people side into it. Cause I think that's a big, big, big part of transformation being successful, is really getting the people excited about the change. And I think it's something that's really neglected. And so kind of moving on, you've had a long career in telco. You've worked at companies all over the world, but three years ago, Zain challenge you to reinvent the consumer experience in telco. What was your initial vision for this?

Speaker 2 00:04:15 So I was very curious about how you can actually reinvent the business. I had been running the commercial side of the telecom operator, and the sales and the marketing, and the customer experience, and building them in a traditional way for a very long time. And at the same time, you saw all of these new technologies and these new capabilities coming in place. And you saw that all the innovation in telecommunication was done by somebody else. It was the handset guy. It was the internet guys. But it was not the telcos. So how much can you actually do to reinvent it and what would be the key RAs to look at it? So what was really interesting about this project was that it was basically starting from an empty space. So we said, okay, there's a total freedom on the technology. There's a freedom in the organization. There is a freedom of the product and services. Of course, it's still a telco product, but nothing in a sense is locked in. Let's see where it goes. So I really liked the approach and it was a very cool thing to do. Yeah.

Speaker 0 00:05:09 Yeah. And so it sounds like you really sort of started with a blank piece of paper instead of starting with inside a very large telco. You're like, let's start small and let's really rethink all the different areas.

Speaker 2 00:05:21 The company had done a couple of traditional transformation projects where you basically are trying to transform all the functions at the same time. And it becomes, "let's try to reinvent everything at the same time" and they really struggled doing those. And they were not generally seen as very successful ones. So this one, literally I was working at the group level and on day one, there was just two of us saying, "okay, how are we going to do this? And where are we going to go with this?" So it was really literally an empty piece of paper.

Speaker 0 00:05:50 Yeah. And so it sounds like you evaluated a couple different choices in your approach, everything from a group level project, all the way to starting something new. And so what were the choices that you thought about and which approach did you pick?

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Speaker 2 00:06:04 So the first project I had for us to look at, could we do a digital offering across the whole operating company? So looking at the eight different countries and how could we do that? Should we build the full business case? We built the organization, we talked about the products and services. We talked about how to structure it. How much money would we need? So building the whole thing, and people liked it, they liked the concept, but it was maybe a little bit too big for them. So then the whole project people did from saying that, okay, maybe we shouldn't build it ourselves. Maybe we should find somebody that we could do a joint venture with. So then there was a second phase where we basically went through all the different companies that we could find in the world that we could do a joint venture or we could invest into, or we could bring into our market. And then the third phase that the local CEO had decided that, "Hey, I'm going to do this digital." And then I said, "Hey, you, you already have been looking into this for two years." So then I will select it and set up, "Hey, why don't you go and help these guys out on our site and see how we can actually build it up from ground up."

Speaker 0 00:07:05 Awesome. So you've decided to go with a smaller B brand, start it from scratch. And so besides the goal of reinventing the consumer experience with the customer experience, were there other business benefits impacts that you thought would come from this project besides just as good for the consumers?

Speaker 2 00:07:23 Well, the operators, they are constantly looking for your new growth. So if you look at the last five years, telcos are not exactly growing, they're more stagnated or maybe even slightly negative. So the growth was important from the company's overall management point of view. But what I really wanted to see is that I wanted to understand the cost structure of a new way of doing things versus old way of doing things. So at the group level, we were looking at a lot of the KPIs, comparing the different operating companies, trying to see what works better, trying to do knowledge transfer between the companies. But here you had an opportunity of re-inventing the cost structure of a telecom operator by doing it in a new way. So let's go to maximum on cloud technologies. Let's go to maximum on what we can do on HR. Let's go to maximum of what is the new product and services. Let's go to maximum on digitalization and see how far we can actually take it on this market with this case. And then try to do a comparison between the existing business and the new business. The impact for the core business is less than actually doing it in the core business. So for me, always the end goal should be what you actually do that the mother company ... the mother company has tens of millions of customers ... so obviously if you can do something over there as a transformation, the impact of that would be bigger for everybody. Yeah.

Speaker 0 00:08:38 And so I think you found that you could really impact those cost structures in a significant way with this maximum approach. And so do you have some numbers of even just the back of the envelope of what you thought you could do going into the project from a reduction of cost or profitability?

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Speaker 2 00:08:55 I always had a feeling that you have an opportunity to have a 10 to 20% EBITDA level impact on the commercial side of the business, at least. (So excluding the network, the network is a bit of a different animal.) And if you look at the structure of cost of sales, of typical operator or structure of OPEX, of the typical operator, they are quite similar. So it felt like that you have to work on all of those elements. At the same time, you can find these pockets where you have a sizable amount of cost that you can put out of the business. And at the same time, you can change it from this, "let's sell a SIM card to our existing customers today," to "let's have a digital differentiated offering that I can give you an actual real opportunity for the growth when it comes to the number of customers and revenue." So you kind of working on all of them at the same time. Yeah.

Speaker 0 00:09:38 A lot of people think when you cut costs that somehow the customer experience is going to suffer or the business will not be as good. And I think what's so exciting about this project and talking to you about your approach here was that you found you could improve the customer experience, have great growth and reduce costs. And so it would be more profitable, which is super exciting. And so breaking down kind of that 10 to 20 points of EBITDA improvement, let's kind of walk through some of this math. The other day, you know, me, I'm constantly thinking about telcos, right? I was looking at the different big cost drivers of a telco ... on average traditional telcos spend about six to seven points of revenue on sales commission. It's like a pretty big chunk. And I think one of your ideas was to approach this in a different way. And so can you talk to me about your approach to sales and sales commission?

Speaker 2 00:10:29 Sure. So I used to be chief commercial officer on these operators for a number of years, and I was quite used to looking at the commission structures. So if you look at, from the investment that we, as an operator do for growth, there are two big buckets of money. So there's the advertising cost. And then there is a commissioning cost. Somehow the advertising cost, I think because of lack of growth, has becoming more of a cost driver, not the growth driver. And when I was looking our ratios of advertising cost versus commissioning cost, we spend three times more money on commissioning that we spent on advertising. So the commissioning amount itself eats a really significant pool of money. And once you start to digitize that, then you set up, "okay, let's have a digital experience for the customer acquisition." So a customer comes to your website or customer comes to your app and you have a journey that is fully digitized on online.

Speaker 2 00:11:16 Everybody has a smart phone right now and honest to God, if they don't have a smartphone, maybe you don't want them to be your customer, right? Why are you trying to do this? Right? So customer already has a tool to do it and start from there. And then you actually don't need much of a commissioning. So the permission in itself becomes more of a fulfillment cost. You are sending a SIM card one way or another. So you have an opportunity of really moving the commissions all the way to zero, when it comes to sales, okay. Maybe payment commissions, you need something for the payment case and the credit card companies, but that's about it. Yeah. And then the other big thing that happens is that on digital marketing side, you suddenly have a full linkage of the marketing actions

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you are doing linking into the customer acquisition. So you know, which campaign or which activity or which action that you did on advertising side actually brought you the customer, which means that you can start to commission your marketing expenses. So you kind of get both of these and that becomes your growth driver.

Speaker 0 00:12:18 That's amazing. I think what I heard there was almost a complete elimination of sales commission, which if it's six or seven points of revenue, is huge. And so I think another big expense at a traditional telco is the cost of customer care, which again, I think is typically around seven points of revenue. And obviously you have to have a customer care function, but what did you do here in terms of your approach of being a digital telco and re-imagining that experience, which I think most companies really struggle with providing a really great experience

Speaker 2 00:12:52 I really never understood why anybody on their right mind would want to talk to their operators, customer care. It is a painful experience. Why would anybody want to do that? So the reason why it's happening of course, is because something is going wrong, there's an issue. So if you think about, what kind of call center does Google run? Or, what type of call center does Facebook run? These companies have billions of customers across all the countries of the world. And somehow they don't need a call center and they are offering products and services and they are selling stuff to you at least. Right? So there has to be a better way. So I think it has two elements. So first of all, on the self-care side, you really have to enable the self-care so that the customers can do it themselves. What they want to do, help themselves.

Speaker 2 00:13:35 When there is an issue or problems, they can actually resolve them. We actually spent quite a lot of time also looking at the product. So there is a number of things that drive customers asking question from you. So I think you should be mindful about removing the things that are very painful for customers. Giving an example, roaming expenses. Roaming is traditionally something that can cause shock, or throw your balance very quickly. So I think you should look at how you can move it in the model that this cannot happen. And then of course, on the care side, so care side call centers are not necessarily the most effective way of talking to your customer. So just by moving from calling to chatting, you have an opportunity of four times efficiency. So the same person can chat with four people, but can only talk with one person.

Speaker 2 00:14:19 So by test changing it while you're chatting, you have an opportunity. And one of the decisions we did was that we never launched a call center. So yes, there was a care on social media, email care, or you're chatting care, but don't have a call center. That alone increases your efficiency over that. You do have to learn how to do it differently though, because one of the challenges is that if you're offering a specialist, social media care, you might end up running customer care, do your advertising actions because everybody can reach to you on social media, not only your customers, right? Everyone can see it and you can't afford to do that.

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Speaker 0 00:14:51 And how much do you think you saved by approaching it this way? Like I said, I think typically you're spending seven. Did you take it down by 50%?

Speaker 2 00:14:59 There's another impact that is as important if not more so ... by digitizing it and being always able to see what part of the product is causing the customer care queries, you actually can very, very quickly and actively work on eliminating the reasons why customers are moving into that. So what we also found is that the original headcount that we would need when the customer base is growing also was less.

Speaker 0 00:15:26 You did not need to scale linearly the call center team with the growth in a subscriber base. Yeah. Awesome. And then you mentioned that your third big idea was around the technology and the systems. And again, I think OpEx and CapEx is around 10 points. And so I think you had a really good idea here in terms of how you approach the systems and the technology.

Speaker 2 00:15:49 Yeah. So we got lucky in a sense that the mother company didn't put any limitations on the technology. So we were free to choose what we wanted to do. And of course it makes sense to go to the maximum that you can when it comes to utilization of cloud services and utilization of SaaS services and see how could you build it different. Also some other decisions, like for example, try to really avoid product customization, try to avoid system integration, use products as products. Don't try to make them your own solutions because suddenly your cost structure gets totally different and build it up from there. Yeah.

Speaker 0 00:16:22 So that's awesome. And so how much do you think you saved with that approach on the systems? Do you think it was about 50% less of OPEX and CapEx from 10 points down to five?

Speaker 2 00:16:33 Yeah. And I think CapEx is even less. So we started originally as a full cloud solution. So the first version was actually built fully on cloud, but then because of the country, we had to move it to an on-prem later. But if you are able to do it as a cloud, I think you are very close to zero CapEx because the only CapEx that you have is maybe you will capitalize your development expenses, but you don't need to buy hardware. There's no need for that. And then the cost of the cloud services versus the on-prem because clouds scaled dynamically. And why am I telling you about this? You know, it better than I do. You don't need to reinvest into it.

Speaker 0 00:17:07 Yeah. And so if I think back through the things you said, you know, eliminating commissions, 50% less at least maybe more on call center, and then half of your CapEx, and you're kind of left with your OPEX. I think that takes you to your 10 to 20% EBITDA.

Speaker 2 00:17:26 Yeah. And the huge thing on the OPEX is the cost of headcount. So I think traditionally operator headcount cost can be, you know, up to 20% of your OPEX and so on. But when I

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asked the chief commercial officer on this operator, I had a staff about 600 people and we had an additional, maybe 700 people that work on retail and so forth. And now we are suddenly running the same business where the internal team is only about 30 to 40 people. And the external team is about 15 people.

Speaker 0 00:17:54 You're 1% of the head count that you were running, now it's like 50 people.

Speaker 2 00:17:59 Yeah, absolutely. Absolutely. Yeah. So it's a huge change. And not only that, but if you look at the skillset of the people, the skills had also changed because we suddenly had people who were doing customer journey mapping. We had designer people looking at what is the experience, whether we had the technical people who actually are running the system, we didn't have to do procurement process to do change requests because we didn't have change requests. There was a lot less business casing needed for approvals because what are we going to approve? Because we are not doing the change request, right? So much more of the work is just happening inside of the team, which means that you're also much faster, you are much more agile. You are able to do the things that would take a much, much longer time on the traditional organization structure and with less cost, less people.

Speaker 0 00:18:40 Yeah. And so your org structure has really changed. It's not a typical org structure, just smaller. It literally is different teams in different sizes just don't need procurement. And you don't have all this project management, and consultants and change management just goes away. It kind of sounds almost like a software company, not like a telco.

Speaker 2 00:19:00 I fully agree.

Speaker 0 00:19:01 That's amazing. And so talk a little bit about kind of just going back to the cloud approach. You mentioned it's located in Saudi Arabia. They traditionally have tough data regulations. There's no hyperscaler in the country. You mentioned that you wanted to use public cloud and you started that way, but then you had to switch. I think that happens to people around the world. And how did you keep it as I'm going to use air quotes as "cloudy" as possible, but yet you're installing on premise and I guess a private cloud, maybe.

Speaker 2 00:19:33 Yeah. So first of all, to give Saudi Arabia as a country some credit, their country actually has a quite strong cloud strategy. So they want to have a cloud services over there. So the country itself did not really have an issue with the cloud, but what regulation said is that the services have to be inside of the country premises. So things have to be inside of the country. But other than that, cloud is a fair game and it's actually almost encouraged. But the challenge was that there was no hyperscalers available. None of them were operating in the country at the time. I think Amazon was building data center in Bahrain. So that was close by, but still country next door. So we couldn't do that. So what we ended up doing was basically that we have to do it on premises and basically it's just having to buy the hardware, what we need. But what we did too, is that we maintained the cloud native approach on top of the hardware. So you are still doing the containers, keeping it as close to that, as you

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can be, is what I was hoping for. And what is also happening is that once the cloud providers become available, then you basically would be able to move it back to them.

Speaker 0 00:20:32 And I think that's a really smart thing to do, is design it in a way, like, if you can't right now, bet on the future, be like, well, in the future, this will change. And so for example, I think Google announced maybe six months ago that they're going to do a data center in Saudi Arabia. And so if you designed your private cloud in a way that you can shift it and you can start to move it and start to take advantage of the public cloud, then it's as a stepping stone. And so I think it sounds like that's what you guys were doing. Like this is a temporary solution. We want to move forward when a hyperscaler becomes available, we can take advantage of it when it's in country and we're able to. Absolutely. So it sounds like if I just had to summarize, because I think this is just such an awesome little case study, right? Which is you have a super small team you're using as cloudy software as possible, dramatically higher profit, right. 10 to 20 points more and a great new brand. And you mentioned earlier, you're like we really wanted to get growth. And you mentioned that there was lower acquisition cost. So can you talk about the growth side of it and what you found? Was it just a little bit of growth or was it really amazing? Did the results match?

Speaker 2 00:21:40 Yeah, so, like I said, I was used to running the commercial side before, to having this more or less plus minus 5% type of numbers that you are seeing on your growth and every year is more or less the same and we are planning for the growth and then trying to chase it. And typically most of the time you're not getting it. So what ended up happening over here was that, first of all, it was a new team. It was a new IT stack, we had a totally separated IT stack. We are reusing the operator's network, but we are not using any of their IT systems. So we have our own IT stack. We had our own team. So we are not using their organization, only support services like HR and so forth. But we have our own team. We had our own marketing organization.

Speaker 2 00:22:17 Speaker 2 (21:23): We have our own brand that had never been introduced to the market. Right. So a lot of things that we had to shore it up. So it took about maybe three, four months for that to really start to come together and us to start to be able to operate more efficiently. But ever since that, you started to see that it's on an exponential growth path and on very early stages, you start to see that, Oh my God, it's actually really starting to pick up. And it took a while for people to start to actually believe it. And I remember having these discussions with some of the, my senior management saying that, "I believe that we can actually start to see the success." And if I look up the whole next year, it was exponential growth. It was growth on growth. It grew to eight X in a single year on its customer base and its revenue. So you saw it going from hundreds of thousands to millions and from millions to tens of millions. So I really, really, really enjoyed the growth path. And at this part of my duties was I was actually head of the growth team. So I was physically running the people who are doing the growth and what kind of campaigns we are doing and how we are managing it. So I really, really enjoyed it. And it's a good story. Yeah. Yeah. And I hope that they continue it.

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Speaker 0 00:23:23 People are afraid of digital transformation. They're afraid of, "how can I make this move to digital? I've had this, a traditional sales channel. I can't disrupt it. It won't work." And then you have this story where you're like, let's just think very open-mindedly with a blank piece of paper, let's design it from scratch with the tools of today, look at the internet giants and how they're doing it and adopt those practices. And it shows just such courage and foresight. And it's really awesome. And so I think my last question for you is after this amazing experience that you've been through, right ... it's one of those great career stories that you love to tell over and over again ... my podcast is for a telco execs. And so for the other telco execs that are like, "I want this for my business," that want to follow in your footsteps ... what would your advice be?

Speaker 2 00:24:09 I think one of the very important topics is that you have to get the learnings inside of your organization. It is not same as your core business. And you have to recognize the fact that there is maybe 30 years off, let's do it this way-type of culture in your organization. And I very strongly believe that we as humans, a big part of our learnings comes from doing something. So you actually have to do it. And I think as an operator, you probably have to be mindful about also many things, your risks. So I'm not a big believer of a huge transformation projects. They are very complex. They are very difficult. I am not a big believer of "let us do an RFP where we get a full digital stack. And then we move out 10 million customers for the stack." This is also very difficult. It's almost impossible to do your risks cost maximum.

Speaker 2 00:24:54 So my recommendation would be that. Hey, think about something that is small enough, that you can control it. Something that you can actually get to the learnings into that. But then also have a plan. How are you going to move that new way of working or that new technologies that you are utilizing on your core business side? Because that's fundamentally where your biggest benefit is going to be. So start small because then you also can try out things. It doesn't matter, even if it doesn't work, that your risk is so much reduced, but then have a very quick plan, how to move the core business. Also, on the new technologies and those human skills, they are super important. They are super important because it's people who transform, not the companies, right.

Speaker 0 00:25: People transform, right. Not the business. And I think that's how you started our conversation. And it's nice that we're wrapping up with it, which is you really got to connect the change to the individual. I mean, obviously it's great for the business, better profits, higher growth. It's a fantastic success story, but you've got to connect it to the individual of why should they help you and why should they work hard? And why should they change the behaviors? And if you can do that, I think you have a chance to have a successful transformation project. So I could talk to you forever about this because I love this story, but I've really appreciated our conversation today. And so thank you so much for coming onto the podcast. Stick around because we're ending each podcast with a Telco in 20 takeaway. I have 20 seconds to tell you something you need to know.

I think a lot of people in telco think you can't do great things for the customer without hurting your business. Juha and Zain Group, and the team at Yaqoot prove that's not true. You can reinvent the customer experience, have exponential growth and have high profitability by building a digital telco. And

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the reason you can do this even easier today is because of the enabling technology of the public cloud. You have to be willing to reinvent your business, which is hella hard, but if you approach it like you have to and radically rethink every area of the telco, it can be done. You got to get your people aligned. You've got to rethink your user journeys. You've got to redo your organizational structure and you have to resize your workforce. It's a completely new way of thinking. It starts by putting your subscribers and not your network at the center of your business. After all, they're the ones that pay the bills. Thanks again to Juha Korhonen for being a great guest. And if you're a telco exec out there being a maverick, rethinking the customer experience, driving big transformational change, I'd love to have you on the podcast. Text me at 925-TelcoDR. Don't forget to hit that subscribe button, share our podcast with your colleagues. And if you liked what you heard, leave us a review. Let's connect on LinkedIn and on Twitter @TelcoDR. Please sign up for our awesome email newsletter on TelcoDR.com, where we are sharing all the juicy details about the plan for CLOUD CITY at MWC, and as always, can't wait to see you in Barcelona

Later, nerds.