



DEUTSCHE TELEKOM 2020: LEADING THE DIGITAL TRANSFORMATION

I think for Deutsche Telekom, it's not that easy to simplify everything down to one word. But if you bring it all together, if everybody in their discipline thinks about one thing, they should think about digitization.

— Tim Höttges, CEO, Deutsche Telekom¹

Tim Höttges clicked on the last slide of his address to 1,000 of Deutsche Telekom's (DT) top managers at the company's annual Telekom Management Team Meeting (TMTM) in Bonn, Germany on Wednesday, January 29, 2020. In his presentation, Höttges had touched upon a quarter century of achievements at DT, beginning with the privatization of the state-owned monopoly, Deutsche Bundespost in 1995, up to the company's position in 2020, when the state's shareholding was 31.9 percent. DT had become one of the world's leading integrated telecommunications companies, earning €80.5 billion in revenue (2019), and employing 210,500 people worldwide. DT ranked 30th in market capitalization amongst global tech giants and first amongst European telcos (**Exhibit 1: DT's Market Capitalization in Relation to Tech Giants and E.U. Peers; Exhibit 2: DT Structure, Organization and Selected Executive Leadership; and Exhibit 3: Contribution of the Segments to Adjusted Group EBITDA AL 2018-2019**).

¹All quotations in this case are taken from the authors' interviews with company executives between January and August, 2020. Interviewees from DT are listed in Exhibit 2: DT Structure, Organization and Selected Executive Leadership.

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Höttges had been with the company for two decades, spending the last six years as CEO, and prior to that, serving as CFO for René Obermann for a handful of years. During the initial years of his tenure as CEO, Höttges dubbed himself the company's Chief Ambiguity Officer, resolving issues that arose while DT was in the midst of a realignment needed to transform the company. The core of DT's mission, to become the leading European telco, had been in place since 2016. Höttges outlined the company's ambition:

We want to make DT the leading European telecommunications provider by having the best network, the best products, the best service, and the best customer experience that is most trusted by consumers and business customers for safely sharing content.

The experienced, diverse executive team Höttges had built over the previous four years was focused on executing on a growth strategy based on 3 pillars: leadership in customer experience, technology, and business productivity. All were dependent on a foundation of targeted growth investments and a continuous pursuit of organizational excellence (**Exhibit 4: Deutsche Telekom's Strategy**).

Since 2016, Höttges had broadened the idea of connectivity to include "connecting to the opportunities of now." As his talk at the TMTM drew to a close Höttges left a one-word imperative on the vast screen: Digitize. The implications of digitization were central to each of four major areas Höttges identified where DT needed to think and act strategically. These concerned: (1) the evolution of network technologies to cloud-centric production models, (2) attractive products and services as well as customer interaction through digital channels, synergies, and efficiency levers in internal processes, (3) the battle with the hyperscalers, and (4) the resolution of the fiber-to-the-home (FTTH) challenge in Germany.

ACHIEVEMENTS IN 2020 RELATIVE TO THE 2016 VISION²

Best Customer Experience: Best Network, Products, and Service

Deutsche Telekom strove to offer customers the best network in terms of quality, coverage, and seamless (convergent) experience at all times. In 2016, Höttges' emphasis had been on transforming the company from being technology-oriented to being customer-oriented in three areas: network, products, and customer service. DT had made strides in each area.

Across Europe, DT had progressed in fixed-mobile convergence (FMC) in order to provide its customers with a truly seamless and technology-neutral telecommunications experience by marketing fixed-network and mobile communication in convergent products. For example, Magenta One provided residential customers with one overarching tariff for communications and

² For further information, see "Deutsche Telekom in 2016: Driving Disruption from within the Industry," GSB No. SM-255.

entertainment services across DT's European footprint.³ In 2020, DT offered FMC products in every European market in its footprint, giving the telco access to customers on the move and at home, exemplifying the strategic north star of "best connected."

Business to Consumer

The goal was to provide seamless, integrated access across fixed and mobile, regardless of whether customers were using desktops, laptops, smartphones, tablets, or other devices. The company invested heavily in broadband build-out and in its pan-European network, while migrating its network to all-IP⁴ and away from its legacy network. The strategy also involved spending heavily in spectrum auctions to ensure the best and widest mobile coverage.

Höttges described the results gained over four years:

The convergence strategy played out pretty well. We are now, in Europe, in every market converged, and we gained leadership in all of our markets with these super investments we took—we invested massively in the all-IP migration and in Germany it was finalized by the end of 2019.⁵ We now have created a foundation on which we can successfully implement further technological innovations in the future. In parallel, we now have more than 50 percent of our own B2C postpaid customer base in convergent products.

This gives us access to customers on the move and at home—exactly what our idea of always best connected is about. So this strategy is paying off very well, and this is a billion-euro business. This is really relevant.

For Höttges, the next step forward was the development of richer convergent products: ones that would meet customers' needs at home and on the go seamlessly, as did DT's over-the-top⁶ (OTT) offering for its TV product, Magenta TV, launched in 2018 (described in more detail below).⁷

The first benefit consumers saw with the converged offering was a rebate if they signed on for a mobile and fixed line together, billed in one invoice. Christian Illek, CFO, commented on the impact:

³ Deutsche Telekom, "Magenta ONE Europe-wide," <https://www.telekom.com/en/company/details/magenta-one-europe-wide-363356> (October 23, 2020).

⁴ Internet Protocol (IP) is a network protocol whereby computers can be grouped together in a network and addressed directly by using the IP addresses employed in an IP network.

⁵ By the end of 2019 DT had migrated 24.8 million retail and wholesale lines to IP, bringing the total migration level to 99 percent of all lines in Germany.

⁶ Google, Facebook, Apple, and Amazon were companies that provided services to consumers over the top of the telecommunications value chain. In this instance, DT provided an OTT service to its subscribers.

⁷ Stewart Clarke, "Deutsche Telekom Launches MagentaTV as German OTT Market Heats Up," *Variety*, October 24, 2018, <https://variety.com/2018/tv/news/deutsche-telekom-launches-magenta-tv-german-ott-heats-up-1202991915/> (October 23, 2020).