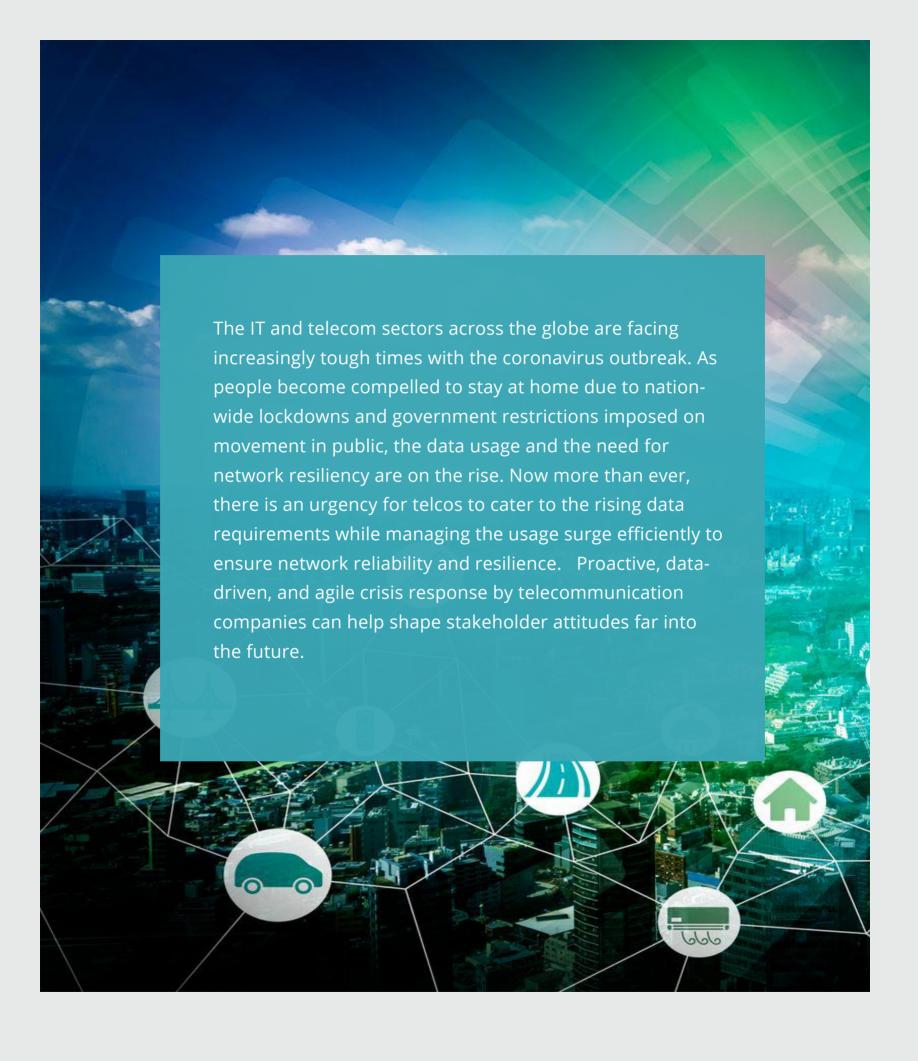


COVID-19 IMPACT ANALYSIS FOR THE IT & TELECOM SECTOR

What It Means for Supply Chains, Region-Wise Impact, And Rebound Strategies







COVID-19 impact on industry supply chains



During the coronavirus crisis, remote working and video conferencing have quickly emerged as critical enablers for business operations across industries. This new trend, however, has had some significant negative impact on the supply chains of telecom companies.

Disruption in equipment transportation

As remote working or work from home is becoming a norm due to the pandemic, there has been a massive spike in orders for laptops and related hardware during the past few months. However, the supply of components is quickly drying up due to disruptions in the transportation of goods.

Limited availability of raw materials sourced from China

The COVID-19 outbreak has resulted in a supply shortage, which has driven the Chinese vendors to increase the components price by 2%–3%. This has increased the pressure on several top IT & telecom brands that depend on China for raw materials and product components. The reduced number of flights to and from China has also impacted air cargo capacity, further impacting supply chains.

Increase in IT spending on servers and networks

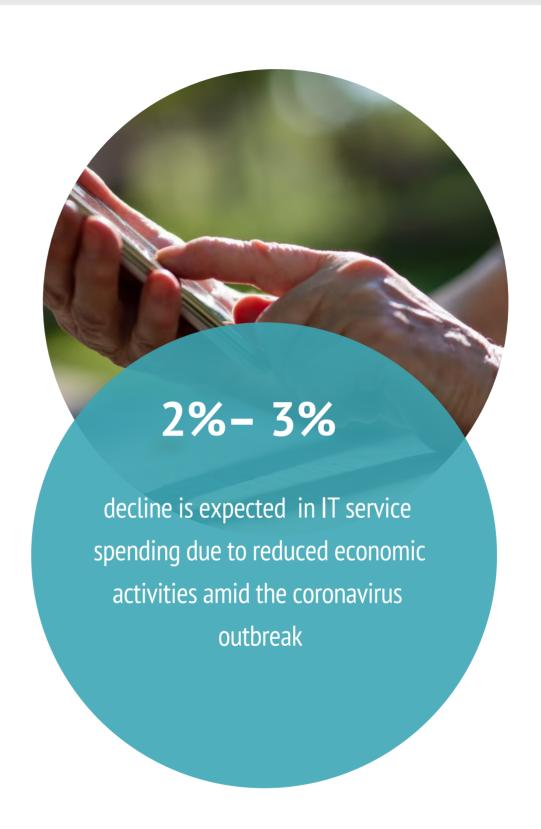
To ensure employee productivity despite lockdowns, organizations are shifting to the 'work-from-home' culture. As a result, videoconferencing and remote access are witnessing high demand to support seamless workflow. Globally, IT software spending is expected to increase by approximately 2% in 2020 due to the rapid adoption of public cloud and automation. There is also a significant growth in spending on specialized software for remote operations such as video conferencing tools and cloud-based security tools.

Closure of telecom retail stores

Approximately 50% of retail stores of top telecom operators in the US have been closed, leading to a limited number of new customer addition for the company. For agile telecom operators that have rapidly adapted to changing market trends, the increased adoption of digital sales platforms due to store shutdowns is expected to accelerate retail rationalization and improve margins.

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Impact of COVID-19 on Europe and North America

Impact on telecom industry

The unswerving need for reliable Wi-Fi broadband network connectivity and data requirements are leading to growth in robust network supply by telecom vendors. In the UK, Vodafone and few other network vendors have increased their network charges by 2.2%–2.7%. They are investing in building new masts or towers and increasing network capacity to enhance the customer experience. 5G network launch will be delayed in Europe and the US to unload data (especially video) traffic due to congested 4G-LTE networks and growing preference for broadband and Wi-Fi compared to mobile networks.

Impact on IT industry

The US tech industry is expected to face severe disruptions due to its dependency on China for product procurement. Furthermore, the ICT infrastructure supply chain is being disrupted by factory shutdowns, which could limit the availability of components for 5G RAN and optical equipment. As a result of production slowdowns and closures across the globe, leading suppliers of components and raw materials to IT companies in the US and North America have recorded millions of dollars in losses in the Q1 of 2020 alone. Want more information with data-backed insights and market trends? **Get in touch with an industry expert.**



Impact of COVID-19 on Asia-Pacific

Impact on telecom industry

As the demand for data and network requirements skyrocket, a common trend observed in Asia-Pacific countries is the customers switching to telecom operators that offer services at a more economical rate. Post the COVID-19 outbreak, China's telecom operators have been reporting a loss of more than 8 million users over January and February 2020. According to a recent report, China Telecom Corp. lost 5.6 million users, while China Unicom Hong Kong Ltd.'s subscriber base fell by 1.2 million users in January 2020. In India, Reliance Jio is offering prepaid plans at a lower and economical rate when compared to their counterparts in the market. To cater to these demands and thrive, Reliance Jio and Vodafone Idea have increased their per day internet data limit within the existing prepaid plan.

Impact on IT industry

The ongoing crisis has profoundly impacted the IT sector in the Asia-pacific region. Foxconn Technology Group, a manufacturer and supplier of Apple components, incurred a profit declined of 90% in Q1 2020 due to supply chain disruptions in China. Its net profit for the first three months in 2020 fell by 89% compared to the same time period in the previous year (Q1 2019). Huawei, China's largest tech company, has experienced a fall of 15% in its mobile phone production.





Strategies adopted by companies to streamline their supply chain



Strategies adopted by telecom companies

The COVID-19 pandemic has rapidly and sharply reduced new customer sign-ups and increased customer attrition for telcos, unexpectedly pausing and altering typical quarterly dynamics. The key to rebound is to understand each customer segment's value, customize products and services, and redesign decision-making processes to prioritize impact on consumers. Here's what players in the telecom sector are doing to revive business:

- \cdot Many telecom companies such as Vodafone idea and Comcast have planned to diversify their supply chains. For instance, due to transportation restrictions, especially in China, Vodafone Idea and Bharti Airtel have to buy key items such as 4G switches, radio equipment, and MIMO systems from the European suppliers. This can increase network gear procurement costs by 10%-15%
- · In the Netherlands, Ericsson is working along with operators to ensure proper network management. Owing to the presence of multiple production sites across the world, companies supply chain had very less impact amid COVID-
- · Verizon Media decided to extend its planning cycle from three months to six months to deal with supply chain disruptions
- · Comcast is strengthening relationships with vendors and identifying potential subcontractors to increase diversity at all levels across the supply chain
- · Telstra is using cognitive technology from IBM for efficient distribution of spares and other materials needed to maintain its network.

Recommendation by Infiniti's industry experts: Companies that have significant suppliers in the impacted region of China, such as Vodafone Idea, Comcast, and Ericsson should move to identify alternative suppliers in less-affected areas. Several telecom vendors are also increasing their investment in network infrastructure and network capacity expansion to meet demand and ensure uninterrupted mobile/broadband connectivity. Increasing network capacity will help in the growth of customer base as well as retain the existing telecom customers. Further, experts at Infiniti Research conclude that investing in emerging network technologies will help telecom vendors such as Vodafone Idea to be prepared for 5G launch across countries.



Strategies adopted by IT companies

The effects of COVID-19 are having a significant impact on the technology sector, affecting raw materials supply, disrupting the electronics value chain, and causing an inflationary risk on products. Companies such as Vodafone Idea, Ericsson, IBM, and Lenovo are focusing on making changes in their supply chain process to mitigate risks related to COVID-19. Here's a look at what some of the market players are doing to cope with market disruptions:

- · Lenovo has made three major changes across the supply chain, developed a connected logistics network, made changes to contractual terms, commitments, and transparency, and implemented the digitalization of logistics to drive greater efficiency and visibility.
- · Apple redesigned its supply chain system and plans to use blockchain technology, which will provide backup capacity in case of supply, production, and distribution outages.
- · Nokia has established a global command center to manage supply chain challenges owing to the outbreak. It continues to work closely with customers to ensure proper network management.
- · IBM is using Artificial Intelligence (AI) to predict disruptions and vulnerabilities to ensure proper management of the supply chain. With AI, supply chain professionals can optimize orders based on factors such as inventory reallocation and prioritization. This will enhance the order intake, delivery time, and offer complete visibility on the overall supply chain system.

Recommendation by Infiniti's industry experts: Companies should incorporate artificial intelligence or machine learning in their supply chain to identify bottlenecks and optimize supply chain planning. This will help ensure business continuity amid the disruption and uncertainty caused by COVID-19. With AI, supply chain professionals can optimize orders based on factors such as inventory reallocation and prioritization. This will allow teams to work efficiently and provide better output. Due to decline or delay in order delivery, IT and telecom companies should have better visibility over the status of the inventory at the supplier location and production schedules to maximize supply chain performance during the crisis.

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