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Cable vs. Telco: Winning the Battle Amidst an Economic Meltdown

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Deregulation's failures have been in the headlines lately. Most stories revolve around banking, but the aftermath of telecom's undulating deregulation has pitted cable operators against telcos in today's market. The Internet bubble's burst can be traced, at least in part, directly to establishment and subsequent manipulation of the 1996 telecom act. That act aimed to create a competitive telco environment in which it was believed CLECs would lead the charge in reducing telecommunications costs and driving broadband adoption. That is, until the CLEC market had the rug pulled out from under it.

RBOCs, led in particular by SBC with career lobbyist and former commerce secretary Bill Daley at the helm, convinced Congress to change the rules around loop unbundling and UNE-P. This turned the tables on many funded CLECs who'd planned to kick start their businesses on resale and shift over time to various infrastructure-building strategies. What we have today is one end result of a set of compromised regulatory goals. Telcos and cable operators have invaded each other's turf and are engaged in escalating price wars in a battle for wallet-share.

The battle really ought to be for market share based on who can deliver more value. It's true that consumers and businesses are looking to cut costs any way they can, but because communications are critical and central to every day life and business, what customers really need is more value for their money. Telcos and cable operators both face resource and budget constraints that will necessarily limit how much they can throw at each other in the coming year. Prices can only be cut so far before lose-lose propositions dominate.

The battle for customers continues, however, which means that CSPs can't afford to dial back investments too far. There's plenty of fat to trim – skunk works projects, shadow organizations, and lab experiments that may look promising down the road but contribute nothing today to the top line and eat away at the bottom line. It is definitely high time to do more with less.

Same Old Services

Telcos and cable operators have made significant investments in advanced network infrastructures. They have multi-year roadmaps in place to drive more advanced set top boxes and SIP-based infrastructure into their networks. As these companies begin to feel the squeeze from an economy that may be even worse than anticipated, questions revolve around where budgets can be trimmed and where new investment should be focused. If roll outs are going to be throttled back, it makes sense to invest in systems that cut the clearest path to new revenue and recognize the economy's impact on end users.

A simple example takes us to the center of the cable versus telco frontlines. Cable companies have put a large dent in the consumer telephony market with low cost, all-you-can-eat services. While this pricing model has impacted the market, there's little that's new or different about the service offering. Cable operators offering VoIP-based consumer voice services aren't taking things to the next level. SIP, a key enabler for a range of premium features and applications, isn't remotely prevalent. By replicating TDM voice in an IP package, cable operators have enjoyed some early success with nicely priced bundles, but they haven't forced telcos to abandon the massive economies of scale they enjoy with legacy TDM networks. Bringing SIP-based services online in the near term makes sense, especially as it can open doors to small and medium business markets while setting the stage for future dominance in consumer telephony.

Also at the center of the conflict are premium television offerings where telcos are still the new entrant. Services like Verizon's FiOS offer attractive packages and highly functional set-tops that are in some cases better than what the local cable providers offer. Flip on the tube, however, and its DirecTV, the satellite-based, redheaded stepchild, that may provide a better value proposition.

DirecTV is promoting its remote DVR capabilities heavily. This allows customers to program their home DVRs from a mobile phone or PC. In fairness to FiOS, its marketers are touting its ability to share DVR content with any set-top in the house. There is some incremental value here, but only because it puts double-dipping bean counters, who'd like every customer to pay a premium to have DVR service throughout the household, in their place.

The skirmish over premium DVR business is interesting, but it is not and should not be the main engagement in the cable versus telco battle. Every consumer that didn't get rich at everyone else's expense is considering ways to cut their monthly expenses. The threat to telcos and cable operators alike isn't necessarily that subscribers will cancel their TV services en masse. The issue is that the gains they've made in selling premium, add-on services, like movie channel and sports packages, will retreat because they're easy to axe from any household budget. This is where the first steps toward more personalization become relevant to existing offerings that don't rely on massive investments in new set-top deployments.

A la Carte Means Personalization

There's been talk for several years regarding a la carte TV services, but they haven't come to fruition. Congress has threatened to mandate such offerings, but folks on Capitol Hill are a bit busy these days inventing schemes to fund their pet projects while appearing to rescue the U.S. economy. It makes sense for telcos and cable operators to step up now and bring these offerings to market, especially before Congress decides to get involved.

There's a big gap between basic cable and many of the add-on packages offered now. TV offerings are not far from being all-or-nothing propositions. In an environment where consumers need to make conservative spending decisions, nothing is better than all, particularly when "a little something" isn't even an option. Do we need to pay for seven HBO channels if we just want to watch "Big Love" and "True Blood?" Do we need to pay for the local Milwaukee sports desk if we just want college hoops on ESPN U? No. We can live with live score updates and video streams online if it means saving even $15 or $30 a month. Most consumers would prefer to watch what they want, when they want, on the screen they want, as long as the price is reasonable.

The thing is, providers of TV services are perfectly capable of delivering a la carte services today. There isn't anything in the network or set-tops that should prevent them from doing it. If they lack the service fulfillment or billing tools to deliver, there's a clear business case for making an incremental investment in them. If they lack the process definitions and use case scenarios needed to accelerate such offerings to market, OSS suppliers have the knowledge they need. The big investments in network infrastructure have already been made.

The smart move in this resource-constrained environment is to hold off on more major capital investments. Instead, it's a good time to make smaller investments in tools that help them generate more revenue, and deliver more value, from the major capital investments they've already made. The players that do this now can build a lead in the market that can provide modest advantages in the immediate future, and major dividends if and when the market takes off again and everyone else is playing catch up.

Battling for Business Markets

So far, major telcos and cable operators haven't done much that's exciting in small and medium business markets. Customers in these markets rely on communications to conduct business, but are desperate to squeeze every extraneous dollar out of their budgets. It's also in their best interests to be loyal once they sign on with a communications provider. For these customers, voice and Internet lines are business lifelines to customers, suppliers, and revenue. Those competitive telcos that remain today do well in this space because they can provide personal attention and are able to tailor services to suit these businesses. The major telcos have never made these markets a focus, which means they've left a certain amount of revenue on the table. Cable operators are eyeing entry into these markets, but have a lot to learn to do it right.

From the small or medium business customer's perspective, there's value in offerings that go beyond key systems, CENTREX, on-site PBXs, and raw T-1s. What SMBs need, however, aren't packages that are either slightly puffed up versions of consumer offerings or scaled down yet still overblown versions of large business offerings. Different businesses—from hospital and schools, law and medical offices, retail shops and car dealerships to plumbers, electricians and exterminators—have different needs to which cable operators and telcos must cater.

Businesses such as auto glass and mirror shops, or any service company that has most of its folks out on the road, can't afford to pay too many order takers these days. If folks on the road – like the manager who's driving from car dealership to insurance agent to hold onto his business – can field overflow call volume during the midday busy hours from his cell phone, he's not losing that order for the $500 windshield.

Similarly, consider the hospital that's faced with laying off half its nursing staff because of skyrocketing costs and insurance companies w refuse to pay for common procedures. That hospital should be replacing its costly old CENTREX system with a lower cost, hosted, IP-based solution. It's tough for the infrastructure manager to take that risk when the solution is only offered by a company its administrators have never encountered before.

Customers, like hospitals, fire departments, police forces, and schools in particular, need absolute reliability. They are likely to have requirements for redundancy and disaster recovery that any provider must meet in order to win their business. They also have specific functional needs that require a broad range of configurable feature sets coupled with self-administration tools. For example, more local governments and campuses require emergency alert services that can warn of weather events or other immediate dangers to public safety. Hospitals have complex communications requirements that assign different devices and varying levels of access to voice and data features to different professionals based on their specialty, on-call status, and rank. These kinds of requirements emphasize the need for back office system that put web-based tools in administrators' hands while squeezing all available functionality out of network equipment and application platforms.

Turning network and application capabilities into tailored packages that suit the range of small and medium businesses is a service fulfillment challenge. It's not a matter of re-architecting the network or creating new, redundant business units. It's not even about having automated service delivery, though that's part of the equation. What telcos and cable operators should expect from their suppliers are solutions that help them bring well defined services to market quickly. These should incorporate business processes that are proven to work; packages and feature sets that are pre-defined; and technology that cuts integration and implementation time and cost to a minimum because what's in the network and the back office is supported on day one.

In the end the onus is on technology providers, like OSS and BSS suppliers, to help cable operators and telcos attune their offerings to new market opportunities and better leverage the assets they deploy in the network. That's the answer to coming out on the other side of this economic meltdown in a position to grow and win.