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CSP Independence Through M2M

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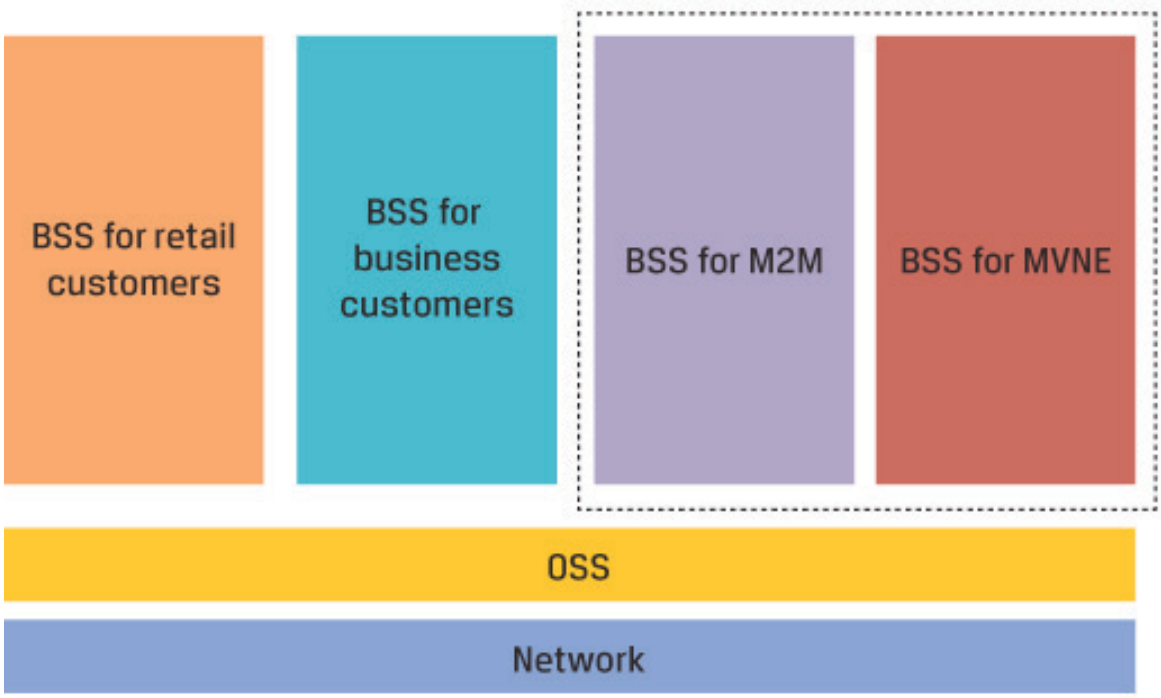
The M2M market is bound to be growing, according to the research of leading analyst companies. Currently the market is still relatively small but its potential is huge. In the long run it will become a strategic segment for many communication service providers. Therefore, good strategic decisions related to M2M are of great importance - telecom operators must be prepared for market growth and protect their competitive positions. This is why independence and ability to compete as well as customer ownership are essential factors for those service providers that want to win on the M2M market.

What constitutes an M2M platform for service providers?

In order to run the M2M business, service providers must have a stack of applications such as CRM, billing, SIM management, logistics management, AAA, monitoring, mediation, provisioning, device management, self-care, application integration infrastructure and sometimes even more. That set of applications, integrated together with other systems as well as some network elements, forms a complete M2M platform for communication service providers.

When all silos consolidate, why will M2M not follow?

Many operators have already invested a lot of effort in eliminating multiple IT architecture silos for various reasons – including optimizing costs or operational



Separate M2M and MVNE silos in the overall BSS architecture

efficiency. A recent example is the consolidation of fixed and mobile silos into one. This is being executed on the organizational and technical level at telecom operator's organizations and is often still in progress for most companies.

When entering a new market – M2M – an important question arises: is it possible to fit this new business line into existing silos or is there a need for a new one (which is not in line with the consolidation strategies)?

The answer is far from being simple, but so far the majority of operators create separate organizational units for running the M2M business (sometimes even on the group level) and decide to create a separated silo for this part of their activity, at least for the BSS aspect of M2M.

The first reason to create a separate organization for M2M lies in the differences between the traditional telecom business and the M2M activity. These differences apply to the type of partners and ways to cooperate with them, various verticals served, complex logistic processes, integrations and more. A separate organization mostly entails a separated software stack (the so called M2M platform). All this comes from the simple fact that it would be difficult to achieve a scale effect when the M2M business line would be added to the existing BSS platform, because of the difference in configurations and business processes (comparing to traditional B2C or B2B telecommunications).

The second and most important reason for building a separate "silo" for the M2M business is related to costs. In USA the ARPU from traditional telecom services is about 50 USD, while the costs of network

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management, customer management and acquisition are at about 20-30 USD. When we compare it to M2M we have respectively an ARPU of 3 USD and costs at about 1.4-1.6 USD. This means that systems supporting M2M must be very cheap in maintenance and operations. That includes the number of people needed to maintain them, the costs of licenses and the general complexity of all processes.

This is why the majority of operators decide to run the M2M business on a separate silo. Their existing systems are probably capable of supporting the new business line but the return on investment may pose a big challenge.

How to choose the best M2M platform delivery model?

When looking at the process of developing the software stack for controlling an M2M business, a lot of operators (in Europe) started form platforms developed in-house. This ensured low start-up costs and high flexibility, at least at the beginning. After a

while they started facing problems related to the high costs of software development and lack of scale effect.

So they moved on to the next step and started looking for more advanced M2M software. And a new question arose: what is the best delivery model for an M2M platform — outsourcing, partnership approach or a licensed platform? The decision must be made based on two things: the strategy of approaching the M2M market and the amount of independence for the operator in running the M2M business. "Independence" means the freedom of the operator to execute its own vision and strategy, as opposite to operators who depend on what a potential vendor or partner is able to provide or is interested to do.

Partnership approach or outsourcing means using platforms delivered by vendors in the Software as a Service (SaaS) model. It can also mean using a platform of other operators, within advanced partnership programs, where the M2M platform is part of a bigger cooperation program, related to international roaming and accessing M2M applications for particular verticals.

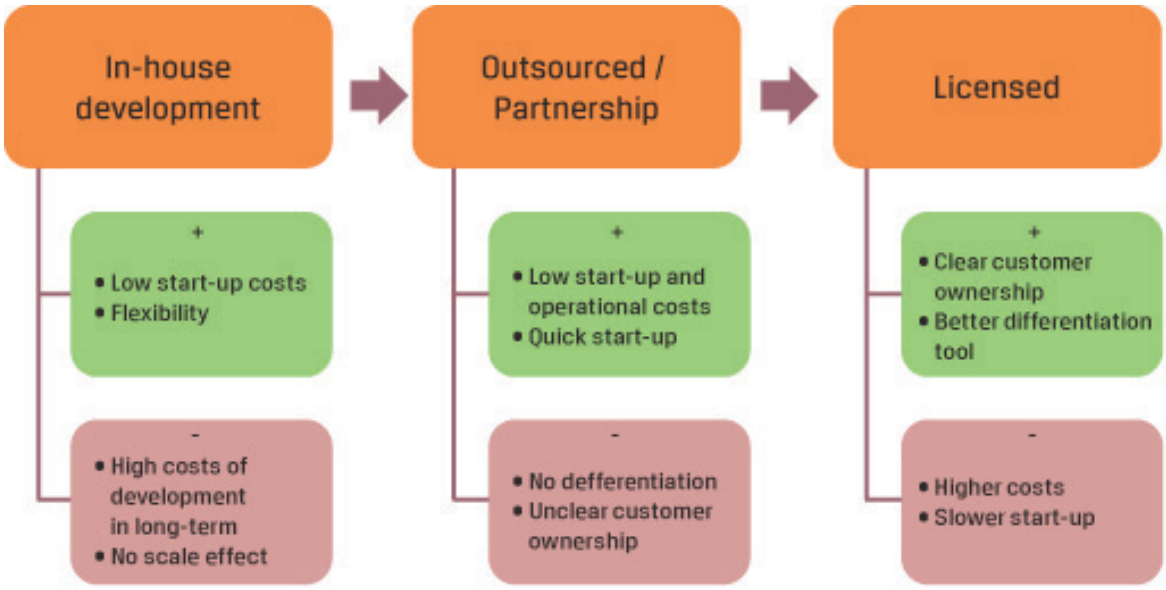
The advantages of such approach lie in low start-up and operational costs and potential quick launch. From the cost perspective it is more an OPEX-oriented approach. But it also has its disadvantages, such as problems with differentiation (all operators using the same SaaS platform or all within one partnership have the same capabilities), and, what is most important, the issue of unclear customer ownership. The latter means that M2M customer ownership is shared between the operator and the platform provider. For many operators, looking at M2M as an important part of their business, such an approach is very often unacceptable. However, if an operator does not perceive M2M as a strategic market, this approach may work as it uses proven business models and thus poses low risks.

It is very likely, that the global development of M2M will lead communication service providers to part with the independence approach when formulating their market entrance strategies.

Why independence and the licensed platform model are the best choice?

The vision of independence in the M2M business is reflected by the licensed platform model. This approach makes the telecom operator a full owner of the platform. One of the biggest advantages of such an approach is related to clear customer ownership – the service provider fully owns all M2M customers. It can also potentially provide much more flexibility than SaaS platforms.

Of course, this model also has its disadvantages, such as higher costs and slower business launch, but these problems can be limited by using COTS products as



The pros and cons of various M2M platform deivery models

components of the platform, managed services and dedicated hosting services. Such an approach provides telecom operators with the highest possible level of independence in the M2M business and can also limit problems typically encountered in the case of licensed software.

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