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Is The Goose Golden... Or Cooked?

The possibilities of new CSP business models

By Tim Young, Editor-in-Chief

Recently, I was introduced to AMC's interesting and utterly entertaining series Mad Men. For those of you unfamiliar with the series, it's set in the early 1960s in a world that is rapidly changing. The program's anti-hero, the amoral Don Draper, is the brains behind a Madison Avenue ad agency filled with relics of the Eisenhower era.

Misogyny, whiskey, and cigarettes abound.

However, the writers also drop in occasional references to the goings-on of the era, and one such nugget occurs early in the first season as

> "Some of these geese are golden, providing immense promise and possibility? Some of the geese are cooked."

Don is having dinner with his wife Betty. "I saw an interesting thing in the Journal American," he says. "Apparently, the phone company wants to start charging people for unlisted numbers."

Naturally, double entendres ensue, but the line struck me as interesting as it relates to the topics of alternative revenue sources for communications service providers (CSPs).

In that era of relative monopoly and sky-high profits, telcos were still well aware of the value of privacy and saw the margin in monetizing that valuable item.

Likewise, in today's market there are those service providers who see opportunity around every corner for new revenue streams to replace revenue that can no longer be depended upon. Meanwhile, there are those CSPs who don't see their place in the industry changing, and see a shift in strategy as an admission of defeat, it seems.

More than ever, it's important for CSPs to take a look at the changing business models that are

being presented to them as geese. Some of these geese are golden, providing immense promise and possibility? Some of the geese are cooked. Overcooked, in fact.

Granted, there's no one-size-fits-all formula for what business models works and what business models don't. I spoke to Nancee Ruzicka, Senior Analyst in Stratecast's (a division of Frost & Sullivan) OSS Competitive Strategies service, and asked her if there were some CSPs who "get it" more than others. "Circumstances for CSPs are different around the globe and to 'get it' means that there is some well-defined "it" to get."

Indeed, depending on the specific niche a service provider wishes to fill, their strategy for filling that role may vary. However, bearing in mind that there is a push by many service providers to look to the future and consider how their roles may change down the road, it's sensible to look at different strategies that may benefit providers looking to diversify.

Value in the Pipe

One innovative business model that has come up is based around the idea that CSPs provide a valuable service by delivering content to the consumer, and rather than avoiding being relegated to being just a carrier for third party content, CSPs have the opportunity to embrace this "bitpipe" status. "CSPs continue to rail against their relegation to commodity pipe provider status," said Barbara Lancaster, President of CEO of LTC International, an analysis and consulting firm in the communications technology space. " We think that there is 'gold in them thar hills', and thought for a few brief months... that CSPs might actually embrace their core networks as the nest egg after all."

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Anyone who has attended a keynote or roundtable discussion at a telecom event, at least in the US or Western Europe, in the last few years has certainly heard this point being hammered home by CSPs. As over-the-top services continue to challenge the traditional service provider business lines, providers shift on whether or not they see possibility or doom in playing the role of the noble bitpipe.

However, the role of a service enabler could be an increasingly valuable—and lucrative—one, said Lancaster. "Enabling Services remain, in our view, the kind of thing that will enable CSPs to stay relevant (in fact, indispensible) if only they would focus some enthusiasm and attention."

After all, the CSP has tighter control over and more direct access to the network than other entities can manage. "Enabling Services are tied tightly to the network and provide CSPs with an opportunity to differentiate themselves from other carriers," said Lancaster. And there's benefit for network users, as well, as allowing the CSPs to handle these services can "take away burdensome and 'unnatural' acts from users of the network and add real value to companies and consumers," Lancaster said. Specific enabling services she mentions as being possible candidates for CSP enablement include Security, Authentication, Billing, Revenue Settlement, and Performance Management.

Along similar lines, Ruzicka asserts that "network-based applications for businesses are the unexploited revenue opportunity". As the network has become increasingly depended-upon by just about every major business out there, Ruzicka asserts that "it's important to realize that there are applications that don't work well across the internet and are best suited to running directly on the network," pointing, like Lancaster, to security, and also noting collaboration, and machine-to-machine telemetry. "Machine-to-machine network and IT services are a specialized area of business services that CSPs can exploit if they sell it correctly," said Ruzicka. "Most businesses admit that CSPs are the preferred partners for implementing the infrastructure for M2M applications and CSPs need to start focusing on that business."

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> "I think that CSPs have mostly missed the opportunity to provide information about users of their networks."

Controlling the Content

However, just as specializing in knowing the network and delivering external content can be a strong play for some CSPs, others realize the value in complete ownership of that content from top to bottom.

"For a service provider, they need to do everything themselves," said Dan Baker, Technology Research Institute's principal market synthesizer and co-founder. "I think that outsourcing is not really the name of the game. Every supplier out there is a conspiracy against you surviving."

Focusing this idea specifically on the communications space, Baker used the example of Verizon diligently attempting to unseat cablecos with their FiOS service. "Meanwhile," Baker said, "Comcast has NBC, they have ball teams, they have several content assets that they own." In other words, Verizon is plugging away at getting a chance to deliver content only to have their competitor finding a way to own the very content they're striving to deliver. " If they really want to compete against those guys," said Baker, "they need to diversify and become more than just a communications service provider."

So, in addition to doubling-down on being a better service provider for external content, CSPs have the option of attempting to expand their reach into content creation, as well.

There are more options for expanded business models, as well.

Back to the Clouds

We've spent a fair amount of time, recently, talking about the potential value that lies within the realm of cloud computing. That is, of course, because there is a definite push by service providers to monetize these services

"Some of the hosted/managed/cloud (call them what you like) offerings that CSPs are rolling out to businesses, especially small/medium businesses, are or should be good revenue generators," said Ruzicka. "I say 'should be' because if the B/OSS isn't multi-tenant, automated, and integrated there are no economies of scale and the services are

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less profitable." However, closer attention to these services could be accompanied by a great deal of revenue potential.

Mobile Payments

In addition, some operators around the world have started to see the value in doing more of the things that they are very good at in a slightly different context. Charging, for example, is something that most CSPs are quite adept at, and that talent is being leveraged, increasingly, for the purpose of enabling mobile payments.

Providers like NTT DoCoMo have been on top of mobile wallet services for years, and now a number of US providers are finally bringing their companies deeper into the mobile financial services space. (For more on this, see this story from our NewsWire: www.pipelinepub.com/pipelinednn/static/NewsArticle.aspx?ItemID=207).

And user information?

However, one of the oft-trumpeted channels for increased CSP revenue may be too far gone. "I think that CSPs have mostly missed the opportunity to provide information about users of their networks," said Lancaster. "By moving too slowly to embrace as exciting anything to do with the core network, CSPs have lost this revenue opportunity to the companies that monitor what we do on the internet."

> "CSPs need a big overhaul and maybe the pain isn't great enough yet for that to happen."

However, just as in Don Draper's era, privacy is a potential revenue generator.

"The the flip side of selling information about customer usage," Lancaster notes," is to sell customers protection against sale of their usage information. Privacy services could well be the golden egg."

Depends on the Player

Ultimately, however, there isn't a single answer for all CSPs when it comes to what business models will bring success and what business models will bring only pain. "There's no magic bullet," said Baker, "You've just got to be excellent at what you do."

And it's easy to fall prey to the urge to compare CSPs to other companies in other areas. "There

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are a lot of personas that CSPs can assume and many different ways to be successful," said Ruzicka. We, the journalists, should remind ourselves that not every CSP can be compared to a company like Google. "Google is successful in what they want to be successful at," said Ruzicka. "I would argue that AT&T and Verizon and Orange are successful at what they want to be successful at."

And that's the rub, really. These are successful companies. They're profitable and capable and full of smart people who know the space and are thinking of the long-term and short-term possibilities. However, they, too, are capable of myopia in spite of... or even because of their charmed past and gifted staff. "Examples like IBM that overcame the 'big iron' stigma to grow into an amazing services business or Ford that remade itself into the right kind of company for the economy that they're in," said Ruzicka. So, too, can CSPs shoulder a massive overhaul.

But will they? "CSPs need a big overhaul and maybe the pain isn't great enough yet for that to happen," said Ruzicka.

And that may be what it comes down to. Just a wait for the pain to increase before service providers begin to explore alternative business models with more urgency. However, the most daring among them may just have a head-start when that day arrives.

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