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Staying Agile Amidst Shifting Revenue

By Tim Young

Let us consider the state of the contemporary communications service provider (CSP).

After decades of being the go-to sources for specialized services (voice from telcos, video from cablecos, etc.), CSPs are in a place of being expected to do more (triple-play options and beyond) or, in many cases, not do much of anything at all.

The rise of the over-the-top provider has created, as we all well know, a situation in which traditional revenue lines are shrinking for CSPs, and those same providers are expecting to carry the bits and bytes of the Huluses and Vonages and Googles of the world.

That's a potentially serious problem for the CSP bottom line.

However, where some see problems, others see opportunities. CSPs are in a position (albeit an uncomfortable one, for many) to capitalize upon a wide variety of revenue streams that reside in a realm somewhat outside of their traditional wheelhouse. These strategies for alternative monetization may, in fact, represent the next stage of the evolution of the modern CSP.



Background:

So why, first of all, is it necessary for service providers to develop alternative strategies at all? "The urgency we are seeing around alternative lines of revenue is being driven by two factors," said Jonathan Downey, director of product marketing at Openet, a vendor that provides CSPs with cutting-edge transactional intelligence solutions. The first, he said, is survival. "Regulatory action and the advent of broadband has seen operator environments become much more open and competitive, reducing operators' ability to control and monetize end-to-end service." Downey draws particular attention to a recent Financial Times article that stated that by 2012, 40% of all voice traffic in Russia will be carried by VoIP. That sort of massive customer defection is enough to lead an unprepared CSP down a path to collapse.

(The specific FT article Downey mentioned also called attention to the fact that many within the Russian business community are calling for Skype, Icq, and other programs that offer free VoIP calls be regulated as a threat to national security. That tells us all something about the stakes many CSPs have in this discussion.)

"The market is fundamentally shifting, and simple communications of moving bits from place to place is currently commoditizing," said Grant Lenahan, Vice President, Chief Strategy Office, for Telcordia. "There are multiple players for voice and for data, and there will be more as technologies mature and build-outs occur." Lenahan points out that FiOS and U-Verse and broadband wireless technologies have yet to be fully rolled out, so there's a whole horizon of competitive reality that's yet to be crested. "It's going to get worse, not better," said Lenahan.



Rebecca Prudhomme, Director Product & Solutions Marketing for Amdocs Interactive, agrees that voice is hardly the cash cow it used to be. "It's a common known industry fact that voice revenue is declining and that SPs must continue to carve out a position in the value chain that spans beyond voice," said Prudhomme. "They must be able to sell, provision, and bill for new bundles of digital apps, physical goods and phone service plans across any channel."

Alternatives:

So, what fate awaits the CSPs? Are they destined to become empty, brainless pipelines for external content? "Alcatel-Lucent does not believe that telcos and cablecos are necessarily destined to only

become 'bitpipes,'" said Johanne Mayer, Director of Communication, Systems and Applications Integration at Alcatel-Lucent. "We believe that CSPs can leverage their network asset and work with third parties to create new and innovative services to offer to their end users."

Mayer points to norms that are being put into place in Singapore and New Zealand, and elsewhere, in which the government has created an open access wholesale services. "These wholesale services will be sold by a NetCo to network service providers (NSPs), also called Operator Companies (OpCos)," said Mayer, "who will use them as a building block for providing retail services to end-users." NetCos provide no end services, but, rather, to the network and local backhaul. "In that scenario, we believe that the NetCo can be a profitable "bitpipe" operator as it can focus on building a high leverage agile IP based network with complete B2B automation with the Operators Companies," said Mayer.

"Operators today are facing a business reality," said Bohdan Zabawskyj, CTO of Redknee, a vendor of real-time converged billing, customer care and unified rating & charging solutions. "They're operating in an increasingly augmented and varied environment. What is important in that environment is service agility."



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Zabawskyj provides an example of a service provider striking a deal with an external provider like Amazon for the ability to "change the bitpipe on the fly," creating the ability for end users to have modified bandwidth experiences in exchange for special consideration from Amazon.

Likewise, Zabawskyj mentions the example of mobile operators being able to see if their customers are attempting to engage in high-bandwidth activities, like viewing streaming online video. A provider with the right degree of awareness and the charging know-how could contact the end user and offer a one-time bandwidth upgrade for a small fee.

Openet's Downey also sees the current model as less-than-effective at providing the needs of the modern consumer and the modern provider, alike. "Today, the reality is that most operators would be happy to just stop retailing a bitpipe," he said. "Current data access business models frequently fail to align user behavior with the costs of this behavior. For example, flat-rate plans have seen the cost-per-bit served rising while limiting the scope for increasing the revenue per bit."

End-user expectations in areas in which bandwidth has been relatively cheap for years and charging models erred toward the "all you can eat" variety, there is a generally diminishing ROI as end users consume more without picking up the tab for the increased use. Downey sees potential for a great deal more through "innovation around business models, greater use of latent assets and the power of tight partnerships with third-parties. These elements have the power to transform operators' businesses because the know-how is hard to commoditize."

"Telecom companies of all stripes have always been in the business of facilitating communications," said Lenahan. "As communications change, they need to change with it. The demands of a web plan are very different from the demands of a nineteenth-century voice environment. It's not at all unrealistic to say you move your core competencies of authentication and authorization and billing and call session control into the new world."

However, that new world is not without new demands. "We need a smart pipe instead of a dumb pipe," said Lenahan.

Limitations:

However, in an era in which the world is changing for CSPs, they must be vigilant in retaining customer trust while also seeking new revenue. The area of real-time, targeted advertising is raising privacy concerns among many end-users, and it is and should be incumbent upon carriers to provide safeguards against the misuse of private information gleaned from network activity.

"Right now, telcos have the public's trust," said Downey, "and that is because they have earned it by not violating subscribers' privacy or exploiting this information." Therefore, Downey surmises, the responsibility is theirs to preserve that trust if they want to preserve their level of access.

This will continue to be a growing concern. "Offering paying subscribers the opportunity to opt out is key in protecting subscriber privacy," said Prudhomme, "but subscriber incentives like free-content can help drive acceptance of ad-supported business models."

Mayer agrees, citing a specific example of a project Alcatel-Lucent is working on in Spain with Telefonica "to enable TV viewers to use their remote controls to access interactive content linked to a specific consumer brand product." This, in theory, makes the TV viewing experience more compelling for end users and far more precise and targeted for advertisers.

Over-caution is a problem for CSPs, however. Lenahan mentions that in the realm of advertising, many CSPs are just "taking the direct-mail model that the third screen media and other over-the-top players are using and maybe adding some location information. There's so much more that they could offer, as advertising is very contextual, and CSPs can and should move away from the nineteenth century model of advertising ". It's not enough to "put a banner on a printing press, cut it in four and send it out" said Lenahan, and CSPs should begin to use readily available information for the benefit of the end consumer and the potential advertiser. A US mobile customer lands in Paris and turns on their mobile. CSPs know that the consumer is roaming internationally. Perhaps that end user needs goods and services that could be offered by advertisers. A smart CSP could capitalize upon that without ever sharing private information with an external party.

Possibilities:

Ultimately, CSPs are in a place in which overall revenue may fall, but smart, innovative providers can survive and thrive. There are shifting models taking shape as we speak all over the globe. However, with so much information being sought by so many people, worldwide, there is ample money to be made. That may require some creativity and some vision, but if CSPs can't be counted on to provide such vision, they don't stand much of a chance against over-the-top providers for whom innovation is paramount.

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