

Pipeline

Knowledge Is Power

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On Telcos, On and Airplane

By Barbara Lancaster and Trevor Hayes

In this piece, we hear from Pipeline contributing editors Barbara Lancaster and Trevor Hayes on what two weary travelers have learned from the companies that transmit people through the from point to point that they can pass onto the companies who transmit our bits and bytes from point to point.

Here I am on an airplane trying to write an article for Pipeline about alternative ways for communications service providers to make money. That reminds me that, much like telecommunications, air transportation is also a capital-intensive business: subject to fickle customer sentiments, constantly searching for ways to increase revenues and/or reduce costs, and often successful in annoying their customers in the process.

Yes, the core business of airlines is cramming people into steel and aluminum cylinders that are hurled through the air from A to B so that the people can be transported safely from where they are (A) to where they want to get too (hopefully, B). For this, the people pay the airlines money. While perhaps a little over-simplified, that's the essential business the airlines are in.



Now, from time to time, executives in the airlines ponder that key question: "What can we do to get some alternative sources of revenue?" After all, this moving-people-about game is getting a bit tight on margins and those customers can get so picky. There must be an easier way to make money, preferably without having to employ too many smart (read: expensive) people.

So over the years, they've come up with some cool ideas, like arranging hotels and resorts and entire vacation experiences for their passengers. Fair enough. Or like charging their passengers for low-def movies and years-old TV shows. Or charging me for a Bloody Mary whenever my points upgrade doesn't come through. (If you plan to annoy a customer, it makes sense to annoy one who's already irritated, because that has less impact on the customer survey statistics.)

Come to think of it, the airlines have been pretty unimaginative about these "alternative" services. Why no in-flight cabaret? Where are the poker tables? In-flight medical procedures for very busy executives?

On the other hand, the phone companies have come up with some really good ideas, focusing on content, and entertainment, and social networking, and cloud computing: an impressive list of cool things that are made possible by the amazing new networks that the telcos are building just as fast as they can. (According to figures published by speedtest.net, the US has dropped to number 28 in the list of countries ranked by average Internet connection speeds.)

One slight challenge for the telcos here: none of the novel services that telcos would like to offer is new. None of those services really needs a telco to do much more than to carry the bits, reliably and fast. And lots of other companies are already putting them in place, some of them are doing passably well, and in a few cases actually making money from them.

Let's just think about all these over-the-top services in terms of their strategic fit for telcos. (And it's not just content and media services. We should include voice/video calling too, because these are just applications, after all.) Do these services provide telcos with any unique competitive differentiation or edge? No, because lots of companies are already in these businesses. Are telcos best placed to resist competition because of a high barrier to entry? No. Are these services likely to command premium margins well into the foreseeable future? Mostly, no. Do telcos have special skills that make them especially well-equipped to deliver these services?



Let's ask the same questions about the traditional core business of telcos: bit-carrying. As a reminder, the core business of airlines is cramming bits into glass, copper and electronics that then hurl the bits from A to B so that the bits can be transported safely from where they are (A) to where they people who asked for the bits are waiting for them (hopefully, at point B). For this, the people pay the telcos money. That's the essential business the telcos are in, perhaps a little over-simplified.

So, what would our answers to those five questions be in relation to the strategic fit of bit-carrying? Yes, yes, yes, yes, yes. Not a crowded market, with a high barrier to entry, should allow decent margins to be maintained for a while to come. Last but not least, telcos are actually pretty good at bit-carrying. They've been doing it successfully for some time.

In summary, telcos are very well placed to continue to dominate the market in access and transport, as bit-carriers. However they are not in a particularly good position to lead the market in any of these new over-the-top areas. They can run alongside the rest of the field, but there is really no sense in which telcos *necessarily* must play, and there is no sense in which they *deserve* any special position in these markets by virtue of their responsibility for carrying the bits.

What would be our reaction to an airline executive who suggested that, since oil company executives use planes a lot, it would be logical for the airline to get into the oil business? Or, absent the skills and knowledge to actually become an oil company, charge the oil companies more for their seats?

I talk to airline people now and then. ("Yes please. A refill on the Bloody Mary please. And just what do you think your airline should do to increase profitability and customer loyalty?") Airline people at all levels still understand that carrying people is at the core of their business, and they spend most of their working time focusing on that core: delivering service, building the infrastructure, managing the schedules, selling and marketing seats. Some do it well, some not so well, but they don't often forget what their core activities should be.

In the telecom industry, the past few years have been characterized by the phenomenon of a proportion (not all, but a lot) of telco executives spending their days plotting, planning, lobbying, holding meetings and giving speeches about everything other than their core business: how *not* to be a mere bit-carrier; how to reach into the content layer; how to get a slice of Google's business. (Only occasionally do we hear smart telco people wondering out loud how they can *collaborate* with over-the-top service providers to mutual benefit. And last time I heard one do that, with insight and real passion, his company wouldn't release the slide pack.)

So here's the suggestion. If you, the telcos, think you can do some of that fun stuff - content, cloud services, social networks, storage - better than the others in the market, by all means give it a try. But don't give up the day job: please keep carrying the bits.