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Value Innovation: How Service Providers Monetize Their Networks for Years to Come

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In 2005, W. Chan Kim and Renée Mauborgne wrote an international bestseller called "Blue Ocean Strategy: How to Create Uncontested Market Space and Make the Competition Irrelevant." The business-strategy book details how tomorrow's leading companies will succeed not by battling competitors, but by creating uncontested market space that is ripe for growth. The key to creating this uncontested space is the concept of "value innovation," generating powerful leaps in value for a company and its buyers, and its partners.

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The book cites numerous examples of value innovation in the computer industry, from the first IBM and DEC (Digital Equipment Corporation) personal computers to Apple's entry into the market, offering an all-in-one design in a plastic casing—including a keyboard, power supply, and graphics—that was easy to use and revolutionized the value of home computing.

Of course, Apple continues to drive value innovation with its iPod, iPhone, and more recently iPad. Now, when one thinks of innovation, Apple comes immediately to mind; its brand is inextricably linked to the concept. Apple stores are filled with Apple products as well as others that were spawned from Apple's value innovation. The Apple App Store and iTunes are further examples of how Apple created its own uncontested market space.

Communications service providers (CSPs) stand at a nexus in creating their own value innovation. Despite the worst economy in 70 years, smartphone sales continue to skyrocket. IDC predicts a 49 percent increase in

smart phone sales in 2011, for a total of 450 million units. Consumers are also snapping up tablets at an explosive rate; Forrester Research predicts that tablet sales will total 195 million units by 2015, outselling netbooks and accounting for nearly a quarter of all PC sales.

For telcos, MSOs and wireless carriers, the proliferation of smartphones and tablets adds up to opportunities and problems. On the one hand, the trend toward all-IP networks will make it even easier for over-the-top (OTT) providers (e.g. Apple, Google, NetFlix, etc.) and other third parties to sell directly to customers. Service providers fear that trend because it marginalizes them, forcing them to subsist on monthly access fees rather than sharing in the revenue third-party OTT services generate. Owning the network and owning the customer do not always equate. Service providers can add value, however, for both third parties and their customers.

What's Past is Future

It helps to go back 11 years to NTT DoCoMo's i-mode wireless data service launch to envision a lucrative path forward. At the time, the debate over customer ownership was already raging in wireless. NTT DoCoMo sidestepped it by establishing a middle ground. The operator knew that I- mode would need a broad, deep selection of innovative services to be successful. It knew that developing those services wasn't its core competency. Rather than trying to tightly control i mode to avoid becoming a dumb pipe, NTT DoCoMo instead made the service as friendly as possible for developers and content providers.

When third parties charged for their i-mode services, NTT DoCoMo added those fees to customers' phone bills in exchange for a nine-percent royalty. This approach freed content providers from the cost and hassle of billing users directly. Plus, most charges were so small that credit card fees would have eaten up the third parties' profit margins, making NTT DoCoMo's billing-on-behalf-of model even more attractive.

"It's very difficult for content providers to sell news on the Internet," Keiichi Enoki, NTT DoCoMo senior vice president in charge of i-mode, said in an October 2000 Wireless Review interview. "We told them that they could charge ¥100 to ¥300 on i-mode, and they were interested in it. Each of these news agencies now has about 100,000 subscribers. DoCoMo, (with) its own fee-collection system, is very attractive to these content providers because they can depend on it."

In its first 18 months, i-mode attracted nearly 20,000 third-party content providers. That selection attracted 10 million subscribers, which was roughly one-third of NTT DoCoMo's customer base at the time. This strategy remains viable today because of innovations in OSS and BSS.

Adding Value through Innovation

In regards to adding value, self-service is not a minor benefit. Compare the world's two largest service providers: AT&T and NTT. In 2009, AT&T had 282,720 employees and Đ85.8 billion in revenue, for total revenue per employee of Đ303,480.48. NTT had 195,000 employees and Đ80.5 billion in revenue, for Đ412,820.51 per employee. NTTs advantage, on similar revenue to AT&T, of more than Đ109,000.00 per employee is largely the result of operating with 87,000 fewer employees. This significant advantage in the company's financial performance comes as a result, in part, of its OSS/BSS efficiency, including its ability to leverage a master catalog to deliver its own services and to create a friendly environment for third parties.

The master catalog's intent should be to make it easier, faster and less expensive for third parties to reach their target customers.

A master catalog can be a key component of next-generation BSS/OSS architecture. It is a highly flexible ordering and fulfillment platform. It provides a central repository that enables third parties to deploy their services to the service provider's customers. The master catalog can provide self-service for both customers and

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third parties, so the service provider avoids the overhead cost of staff dedicated to deploying those services and fielding customer orders.

The master catalog's intent should be to make it easier, faster and less expensive for third parties to reach their target customers. It should effectively free those value chain partners from reinventing the wheel, by allowing them to leverage the service provider's OSS/BSS to deploy, sell and provision services. In doing so, the service provider can exercise value innovation.

A master catalog can, for example, enable consumer and business customers to order services from a Web portal rather than through more expensive and less efficient means, like voice or paper channels. The savings and time-to-market benefits of leveraging the service provider's OSS/BSS provide incentives for third parties to share revenue. Compare that scenario to today, where it's tough for a service provider to convince OTT providers to share revenue when all the service provider is supplying is a fast but dumb pipe.

It's shortsighted to assume that OTT video providers and other third parties will dismiss service providers as unnecessary middlemen. NTT DoCoMo's i-mode proves that many companies are more than willing to pay a royalty to a service provider that reduces the cost and time to reach customers. Apple's App Store is a more recent example; tens of thousands of developers are willing to share 30 percent of their sales because the App Store provides them with a convenient, cost-effective marketplace. Think of the master catalog as a service provider app store, but one that isn't limited to a single network, device, technology or operating system.

Capitalizing on Fragmentation

Until recently, consumers bought video services from a single source – their MSO, satellite operator or telco TV provider – and watched those services on a single device: their TV. Consumers are now buying video services from multiple sources and watching them on multiple devices. The Netflix and Hulu+ apps for the iPad and smartphones are two examples of this trend in device fragmentation, which a master catalog can help service providers to capitalize on.

A master catalog puts service providers in a better position to follow their customers across a variety of devices, including ones that the service provider does not sell. It can also give OTT providers and other third parties a single, convenient way to deliver their services to consumers and business users across a variety of devices and networks. Again, the master catalog can add value for those third parties, which gives them added incentive to share revenue.

Ultimately, the master catalog concept is all about giving service providers a powerful way to deliver value innovation and create competitive app- and bundle-driven markets for themselves that can generate billions of dollars in revenue; eliminate "dumb pipe" marginalization risks; drive positive experiences that attract partners and reduce customer churn; and create a strong foothold in the mobile value chain for years to come.