

# Trend Watch: What's Driving Next-Generation Services in 2008

## EXECUTIVE SUMMARY

- Service providers have an unprecedented opportunity to offer a broader range of value-added services
- Recently launched services demonstrate the underpinning demand for these new services
- Providers must adopt new business models to maximize revenues and stay competitive
- Technically, providers will need real-time capabilities to deliver new services
- The key to success requires rapid service development and deployment and flexible systems to enable these services

## INTRODUCTION: WHY SERVICE PROVIDER BUSINESS MODELS MUST CHANGE

As services and networks converge, service providers have an unprecedented opportunity to offer a broad range of value-added services to existing subscribers and to extend their reach into new markets. However, the ability to discover and apply the most appropriate business models to a service will make or break a company's success in this competitive environment.

This paper reviews the trends underpinning the demand for new services, describes recently launched services and their associated business models and discusses the implications for operators who hope to profit from these converged services.

With the arrival of IP networks, today's wireline, wireless and cable carriers—regardless of size or region served—are facing disruption of their core business. As a result, they are looking to new services for revenue growth and as a source of differentiation.

More than ever, consumers and business users are relying on the Internet for information, communications,

collaboration and entertainment. This is changing the structure of the telecommunications market and blurring the boundaries between content, devices and service providers. For example, when people watch a Fox television show downloaded from iTunes on their phones, which company has the relationship?

Service providers that want to provide subscribers with more than high-speed data connections are introducing new and exciting data, messaging, location and infotainment services. While some of these services are well known, many are just emerging and have yet to be launched.

However, what is already clear is that service providers need to apply a myriad of business models to commercialize these services. Some of these models are familiar and well understood—such as subscription and prepaid—and others that are less common, such as advertising, revenue sharing or ad hoc payment.

With service providers betting on non-voice and value-added services to drive revenue growth, this paper outlines what those services might be and explores how they might be commercialized.

## MARKET FORCES DEMAND NEW BUSINESS MODELS

The role of the service provider is changing. This change is being driven by technology, by growing demand for new Internet-based services and by the availability of sophisticated, powerful and intuitive devices.

Today, service providers' revenues are generated by providing connectivity, based on a direct, one-to-one relationship with the customer, where the provider exercises a strong degree of control over the relationship and decides how to deliver value. As technologies converge around an IP network core, the value of connectivity becomes more of a commodity as wireless, wireline, cable and Virtual Network Operators offer and compete on many of the same basic services.

One of the benefits of IP-based networks is that it allows individuals with a fixed or wireless broadband connection to communicate in any way they choose. This shift, towards IP-based services can result in operators becoming invisible in the relationship, as the most visible connection is with the device manufacturer or the content provider.

As the market evolves from an era of bundled packages of voice, video and data services toward services such as peer-to-peer capabilities, mobile commerce, and community-centric services, it will become important for carriers to ensure that they continue to differentiate their role and remain relevant to their customer base.

To do this, the business has to evolve and innovate to create the new revenue models necessary for success. For example, wireless customers are used to paying for text messaging, but wireline customers would not consider paying directly for each email sent. However, most wireline customers do not object to viewing advertisements, which help pay for many consumer webmail services. Innovation around the business model can overcome entrenched consumer behaviors and impact the service description.

So, what are service providers to do? Successful service providers—those who maintain low churn rates and succeed in growing service revenues—are, from a strategic perspective, considering two options: one is to extend existing services into new markets and the other is to extend new services into its existing base.

### NEW SERVICE AND MARKET OPPORTUNITIES

There has been a lot of hype around new revenue-generating services, and it looks like service providers are starting to define the various commercial models those services will use.

Service providers are looking to monetize far beyond the simple models that have become somewhat stagnant for voice. Operators are looking for services that will generate new revenue, and to a large extent that new business is going to come from transactional revenue. Meaning there will be more reliance on ad hoc purchases, sponsored content, revenue sharing and premium rated numbers as opposed to subscription-based revenue.

Among the emerging services currently coming to market (i.e. value added services that are available in a limited number of markets today) no one service dominates. Similar to the development of the Internet, it is envisaged that there will be many services that will appeal to different market segments.

Looking across different geographies in the Americas, Europe and Asia Pacific, the following new services and business models are emerging, with the potential for universal adoption:

**Parental controls:** While a new wave of services offers unprecedented freedom, they also present risks in terms of child safety and expenditure over-runs. As such, parental controls can provide a direct revenue source as a subscription service. More importantly, such controls present an opportunity to sell more services by providing peace of mind. Giving customers the ability to set limits, such as a limit on service usage, acts as an enabler, leading consumers to sign-up for new services they might otherwise have avoided.

**Corporate controls on services:** As devices paid for by corporations proliferate and more mobile enterprise applications become available, so too does the possibility of abuse. A study by analysis firm Osterman Research shows that as of mid-2007, 15 percent of the workforce in mid-size and large organizations in North America had an employer-supplied mobile device, and growth of employer-supplier mobile devices is expected to be strong through 2009. As new services become available, the fear is that the corporate monthly phone bill may grow wildly. The importance of controlling employee usage, for example limiting employees to certain services or allowing them to pre-pay for some services personally, enables corporations to control corporate phone bills helping corporations to reduce or avoid employee abuse of a service.

**Convergent devices:** The mass market has yet to beckon for mobile data services. With the emergence of intuitive, high-powered devices (such as the Apple iPhone, Sony PlayStation Portable and Microsoft Xbox 360), operators have the chance to introduce new data services to a large and new audience. These devices are enablers that represent an opportunity to facilitate a new service mix. Furthermore, the creative bundling of existing services will provide a platform for the upselling and cross-selling of existing services in such ways as has not been possible before. However, adopting a pure subscription model limits the commercial appeal of certain services. The ability to designate services as prepaid and others as postpaid will play an important role in encouraging the adoption of new services. Some services might lend themselves to new models such as advertising sponsorships and revenue sharing. For example, a mobile video service subscriber might be offered free access to a video if they are willing to sit through a 30 second commercial first. The commercial could be sold based on typical audience demographics, content of the video or some other parameter.

**Social Networking:** An increasing number of new applications and emergence of Web 2.0 technology and Web sites are changing the way people collaborate and interact. However, making money from user-generated mobile

content is a challenge. To date, service providers have made money from social networking subscribers simply based on the increased Internet adoption and usage. Innovative operators are looking at new business models such as engaging in revenue sharing to encourage users to post content and charging nominal amounts to download content, to attract online users. Operators have the opportunity to upsell and cross-sell existing offerings and capabilities, in support of services such as YouTube or Facebook, and gain additional revenue from the user-generated content associated with those services. To support these services, providers will need to be able to scale to handle a vast number of transactions. For instance, social networking via services like MySpace, Facebook, and YouTube is hugely popular on the Web. However, only 3.5 percent of United States mobile phone users access a social networking site at least once a month, according to the mobile market research firm M:Metrics. As mobile data services and devices become more popular, analysts believe users will carry out much of their Web usage on these devices representing a huge growth opportunity, if managed correctly.

**Location-based Services:** Despite some initial problems, location-based services (LBS) finally seem to be on track to become mass market offerings. The business models behind these services are varied, involving a mix of subscription, once-off payments and advertising-based revenues. Mobile local search looks to be the low-hanging fruit for the mobile operator community. For example, there will likely be growing demand for location services that enable vacationers to find local attractions and business travelers to locate hotels and restaurants, when traveling.

**IPTV:** The way people watch television is going to change. Specifically, IPTV (Internet Protocol Television) will make subscribers more active consumers of video content. As such, IPTV represents an opportunity for service providers to recapture the revenue generated by many of the Internet-based services that have bypassed them while traveling through their broadband pipes. In the past few years, both cable and telco network operators have watched as Internet start-ups such as Google's YouTube, News Corp's MySpace and social networking services such as Facebook have built huge audiences. With IPTV, service providers can re-take the initiative with new interactive services that are based on advertising inserts or audience participation (such as voting) or enabling customers to use video telephony to talk face-to-face while watching programs.

In addition to the above, other new services with poten-

tial include financial transactions such as mobile banking and loyalty programs in which operators provide bonus offers such as free minutes or coupons/vouchers to reward subscribers for loyalty.

Service providers now have a need to support a range of business models. To effectively deliver new, revenue-generating services, operators need to track usage and the ability to monetize these new and emerging business and revenue models.

## OPERATOR REQUIREMENTS FOR AN EVOLVING MARKETPLACE

The path to success for operators wanting to manage these new services requires that they have the capabilities necessary to be able to identify subscribers and their associated service requests, authorize service delivery, manage third-party transactions, guarantee service performance and ensure their services are accurately charged.

With more and more services being introduced into the network the ability to quickly launch, modify and where necessary retire services is becoming a source of competitive differentiation. The most successful model for launching new services is proving to be market-led, using marketing researching and trialing several options to decide what to sell and how to price it. Inflexible systems can often result in the technology dictating the pace of change by, for example, making changes dependent on a vendor's release cycles.

The ability to self-sufficiently modify charging reduces the length of time required to launch a new service. It also makes it easier to accommodate changes to network components and support changes needed to maintain or improve services.

As customers demand more high capacity, latency-sensitive, IP-based services, a prerequisite for delivering these advanced services is application awareness and control. This enables operators to identify and authorize the different types of content and services being requested by a subscriber at the most granular level. This requires the ability to query subscriber profiles and balances to deliver application aware capabilities for both post-paid and prepaid services. The challenge here is that this must be done at the scale and low latency demanded by Policy Enforcement hardware.

With operators having more services to support and networks becoming more open to applications and third-party content, service providers require more transparency and control over network transactions. This control is important to ensure the service is both seamlessly delivered and that all transactions are transparently handled. The capability to authorize and secure payment in real-time becomes important, especially as the service provider has a responsibility to charge subscribers correctly and to

honor the contractual terms of its partner agreements.

Finally, as services proliferate, the networks themselves will have to become increasingly transactional to provide transparency of services' costs, to avoid billing surprises and to ensure they deliver a satisfying user experience by, for example, eliminating double charges if a service is requested but not delivered satisfactorily.

Going forward, capabilities such as providing Advice of Charge notices prior to service delivery, enforcing a spending limit or simply authorizing a prepaid transaction, will enable service providers to have a real-time element to many of their services. These capabilities must come with the associated low latency and high availability requisite to meet customer demands.

As service providers look to address the challenges of creating and delivering new services, they are turning to Openet to help them monetize their next-generation services and manage the large number of services that are being deployed. These elements are essential to drive growth. Working with Openet enables operators to apply charging capabilities across services. Additionally, Openet supports service providers' efforts to apply an intuitive and ultimately effective business model to their services.

#### **OPENET AS YOUR TECHNOLOGY PARTNER**

Established in 1999, Openet is a worldwide provider of active billing mediation, real-time charging and rating solutions within the telecommunications OSS/BSS sector. The company's FusionWorks platform serves next-generation wireless, wireline and cable markets, where operators are rolling out new network infrastructures in order to deliver IP-based, value-

added services.

Openet is known in the industry for its usage-related transaction management and event processing capabilities to handle charging, mediation, rating balance management and policy controls. However, customers partner with Openet to solve business issues.

The transactional intelligence of Openet's solutions extracts increased value from diverse service provider networks, enabling the rapid introduction of new services and allows for the reliable, cost-effective management of existing services. The company is focused on delivering best-in-class network edge solutions and specialized engagement processes that create business value from network activity.

Openet is the network edge solution expert. Its solutions are used by more than 60 service providers including Verizon Wireless, BT, OmniTel, Orange, AT&T and others around the world to leverage transactional intelligence and extract value from the activity on their networks.

Currently, Openet solutions process more than eight billion events and transactions every day and bill more than \$9 billion in revenues each month.

At the heart of its offerings is FusionWorks, a platform for transaction processing and event management. It is used by more of the world's leading Operators than any other real-time transaction processing and event processing OSS supplier. FusionWorks is a modular software platform that delivers the performance, scalability and

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