

Operators see Skype, Google and other over-the-top companies as threats — yet they should also learn from the way they have developed and won customer loyalty

Skype and Google have lessons for operators in how to compete



Scott Stonham, CommuniGate: The worry is that large numbers of subscribers are choosing to use third party applications instead of those offered by the network operators

Telecoms operators the world over are terrified about the long-term impact of Skype, the over-the-top internet company that offers free voice and video calls the world over between Skype customers, and cut-price calls to regular phone numbers.

Trouble is, for Skype-to-Skype calls the word “customer” doesn’t really apply, as the software is free to download and use: all the customer needs is a broadband service. Skype gets nothing, but neither does the broadband provider.

Skype customers do pay for two optional features: a phone number where ordinary callers can reach them — calls are diverted to their Skype service — and a feature called SkypeOut, by which they can call standard fixed or mobile numbers around the world, at rates from €0.019 a minute upwards or less with a monthly account.

But at the same time many operators the world over are working closely with Skype to offer integrated services, including Verizon in the US and KDDI in Japan.

Verizon Wireless announced at Mobile World Congress in February 2010 that its customers would be able to make and receive free calls to other Skype customers across the world.

Customers can also use SkypeOut service to call regular phone numbers at a fraction the cost charged by regular operators, including Verizon Wireless itself.

The only proviso that Verizon Wireless — 45% owned by Vodafone — made was that customers taking up the offer should have a data plan for their smartphones.

Verizon Wireless chief marketing officer John Strattons said at the time: “We’re effectively giving

customers with smartphones and data plans the option to extend their unlimited calling community to hundreds of millions of Skype users around the globe.”

Innovative Japanese mobile operator KDDI said in October that it would start offering Skype on its Android phones from November.

Deeper integration

The VoIP services will initially be made available on two smartphones in the au range, the IS01 and IS03, but the operator says in plans “deeper integration on a range of au Android devices” and other devices in 2011.

Users of the service would be able to make unlimited Skype-to-Skype voice calls without being charged against their monthly minute allowance or data plan.

Takashi Tanaka, a senior vice president and board member at KDDI, said: “Skype on au is a breakthrough in giving customers in Japan unlimited, global communications options, while expanding their calling community to hundreds of millions of Skype users worldwide”.

Skype’s CFO Adrian Dillon — acting CEO until new CEO Tony Bates was able to start — said: “KDDI’s position as a leading network provider in Japan that offers a wide range of communications services makes it a natural partner for Skype given our vision to make Skype available everywhere and enable users to take their Skype conversations with them wherever they go.”

Hutchison’s Three has been offering Skype services to customers for a number of years and the company claims that its users have already made a billion minutes of calls.

The deals haven’t brought Hutchison down; on the other hand they haven’t pushed Hutch to the number one position in any of its mobile markets either — so perhaps Skype is not the threat that many think.

Meanwhile the industry is starting to worry about another potential threat, this time from Google. For years the company has been running Gmail chat, an add-on to its email system that allows users to have voice and video chats free of charge — as does Microsoft for its Hotmail customers.

From August 2010 Google added a feature that allowed US customers of Gmail to be able to call telephones directly from their email. The search engine company said it would provide free calls to the US and Canadian phones from Gmail for the rest of 2010 and charge low rates for calls made to other countries. Calls from the US to the UK, France, Germany, China and Japan were priced at \$0.02 a minute.

The service is available only to Gmail users in the US



Adrian Dillon, Skype: KDDI is a natural partner for Skype, enabling users to take their Skype conversations with them wherever they go

— just like Google Voice, the company's existing phone offer, which has also been limited to US customers.

Conference calls

Google Voice is a sophisticated system that allows customers to set up a new US phone number which can ring existing office, mobile or home phones simultaneously — or call one or two of them, based on features such as time of day or where the call is coming from. And conference calls are easier to set up than with conventional wired phones.

So far, though, it's limited to the US. Anyone from outside who tries to sign up — or even express interest, is told: "Thanks for visiting Google Voice. We're not yet open for users outside the US, but are planning to expand our service to additional countries in the future." No details, though.

Skype did it the other way round: it was created by a Swede, Niklas Zennström, and a Dane, Janus Friis, with software from a group of Estonians — and the team had a world view from day one. The service was launched in 2003 and Skype is now the biggest consumer of international telecoms minutes and its annual revenue is now running at around \$800 million.

So where does this leave conventional telecoms operators, faced with competition from these "cloud" operators? They have a number of options: they can watch Skype and Google provide innovative services to customers while they get almost no revenue apart from charging for a fixed or mobile data service; they can make deals with Skype, as Hutchison, KDDI and Verizon Wireless; or they can compete by providing advanced services.

Competitive dynamic

Telecoms consultant Martin Geddes pointed out the quandary in an article in *Global Telecoms Business* earlier in 2010. "Communications in the cloud is a paradigm shift in which power moves from ownership of data networks to control of software platform," he wrote. It sets up a new competitive dynamic between the IT and telecoms industries — and their respective ecosystems — to supply the capabilities that fill the gap."

Scott Stonham, vice president of marketing at CommuniGate Systems, has also written extensively about the challenge of voice over IP services such as Skype in *Global Telecoms Business*. "While we

thought the competition was about voice revenues; that hasn't turned out to be the case," he says. "The real threat comes from brand erosion and the costs operators have to bear in maintaining a network to support the service and data delivery of third party applications from over-the-top providers, such as Google, Skype, Facebook and many others."

The effect of those services is far more acute than simple loss of voice revenue. A smartphone user consumes between considerably more bandwidth than the average voice subscriber — see the latest analysis on page 55.

Figures show that consumption of data bandwidth at AT&T, which markets the iPhone exclusively in the US, has grown 50-fold while its data revenues have increased only 250%. Meanwhile, the operators — AT&T, Telefónica and others — have to build and maintain networks to support that growth.

Recent research from TeleGeography says that international Skype traffic amounted to 54 billion minutes in 2009. While the number of minutes is substantial, the revenue generated by Skype and consequently lost to operators has not, to date, confirmed the worst fears of early predictions.

For the first half of 2010, Skype reported a profit of just \$13 million — almost insignificant on \$406 million of revenue, 87% of which was generated through SkypeOut credit sales.

With the remaining 13%, or \$52 million of its total revenues, being attributed to its other services, such as conferencing, SkypeIn and voicemail, what is all the worry about?

Impact on operators

Stonham warns: "The worry is that large numbers of subscribers are choosing to use third party applications instead of those offered by the network operators, and this in turn impacts the operators in a plethora of ways, of which only one is revenue."

Google Voice is an example, he says: "Google Voice gives users one number that is portable across any network, mobile, VoIP or fixed line; inserting a layer between the subscriber and the operator that, when supplied with the other network-agnostic features it offers, such as voicemail, call history, conference calling, call screening and blocking and voice transcription of voicemail messages, completely decouples the subscriber from the network."

As a result the subscriber associates value with the Google applications, not with the underlying network. "In fact, with Google's positioning, in the eyes of the subscriber, the network provider becomes simply a cost rather than a value-add," notes Stonham. "Once a user associates Google as its voice, messaging, data, email and apps provider the role of the carrier beyond being the commoditised provider of a broadband connection or a SIM card looks significantly threatened."

So the message is clear: carriers have to move beyond being just bit-transporters. That means offering their paying customers services that they will value — and pay for. Operators should learn from Skype, Google and the other over-the-top players — not just by doing something of what they do, but also by creating the same sort of customer loyalty shown by those people who spend hours at a time logged into Facebook. ■