



EXPERT OPINION:

Operators can retake the initiative and get back in the game

Scott Stonham explains how operators can combat the OTT threat by making use of their existing winning attributes.



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Communications service providers of all types face a range of threats to their business. They have to contend with the commoditisation of core revenue streams from traditional voice and data services. They must also invest in improved network capacity to cope with the massive increase in video and other data traffic, while deriving little, if any, additional revenue from such services. Providers of over the top services such as Google, YouTube and Facebook are using their networks to deliver bandwidth intensive services but operators are being cut out of the revenue chain while simultaneously being required to support such offerings.

Consulting firm Cap Gemini recently researched the impact of increased bandwidth consumption on the earnings before interest and taxation (EBIT) of a sample European broadband operator for the period 2009-2012. The analysis found that for customers with 1GB of average use per month, EBIT margin declines from 50% to 20%, for users with 1.6GB of average usage per month, EBIT declines from 45% to around 10% and for users with 2.4GB per month, EBIT falls from 35% to minus 10%. Stack that against typical industry figures suggesting that Facebook accounts for 40 to 60% of mobile network traffic and the scale of the problem is laid bare.

"Telcos have to decide the strategy they want to pursue into the future," Ulrich Hammerschmidt, a vice president in the innovation group of Deutsche Telekom ICSS, told a CommuniGate Systems user conference in Bodrum, Turkey, last year. "Do they want to continue providing just commercial products or do they want to move up higher in the

value chain in order to compete against companies such as Facebook or Skype?"

The obvious answer to that question is yes, but operators are not only engaged in competing with those companies. At the same time, new threats such as Mobile VoIP (mVoIP) are coming to market that will impact mobile operators in particular by encouraging users to switch to VoIP when roaming thereby killing the traditional operator cash cow of voice roaming charges. The compound affect is nothing short of spectacular. Analyst firm In-Stat has revealed that a mobile VoIP user could talk for 22,222 minutes before exceeding a 5gigabyte/\$30 mobile data cap – there are only about 43,000 minutes in a month. In addition, the firm predicts that by 2013, mobile VoIP apps will generate revenues of \$32.2bn pa, with more than 278m registered users. At the same time, operators will bear the full burden of carrying this traffic. Juniper Research predicts the number of mVoIP minutes carried annually on 3G and 4G networks will rise from 15bn in 2010 to 470.6bn in 2015.

Operators are aware of the problem. "Mobile VoIP has been growing at an exponential rate and will continue to grow," Cengiz Öztelcan, director of international investments and business development at Türk Telekom, said at the CommuniGate Systems event. "We believe that offering better value for money is the key and the new technologies such as VoIP and high definition voice are going to be the key differentiators."

However, to date operators in general have broadly failed to carve out a strong position ►



for themselves in the mobile applications and services value chain. Initiative after initiative has failed as operators have tried to impose their business models on a user base that has changed forever and companies such as Apple, Amazon and Google have made relevant propositions with attractive delivery models to the market. Operators have been left behind, vainly trying to engage the market with walled garden content ecosystems and other proprietary offerings.

“There are a lot of threats coming from companies that are providing free services, such as Skype and Google,” Khaled Nuseibeh, who leads mobile data and broadband marketing for Zain in Jordan, acknowledged to the Bodrum summit the challenges of providing services that are similar to the free services but offer greater value. “Customers see that as a priced versus a free service and it’s not easy to compete.”

The battle operators now face is not so much with their traditional competitors as with these new providers of applications and services. In the past, AT&T would have battled with Verizon for market share, Vodafone would have battled with Telefónica or Bharti Airtel would have fought with Aircel and that competition will continue. However, in some respects that intra-industry competition has left operators behind in the new applications and services arena. They’ve focused too hard on bringing services and offerings to market that they felt enabled them to compete in the old telecoms market with telecoms-related offerings and, while their attention has been occupied with doing that, the lean and the lithe, unencumbered by the burden of network operation and investment, have entered the market with propositions that consumers that are sold in ways that consumers enjoy buying them.

“The communications market is moving toward mobile devices, mobile VoIP, and mobile unified communications, and the opportunities for revenue and first mover advantage are significant,” Brent Kelly, senior analyst and partner at Wainhouse Research, commented recently.

The fight back starts here

These factors strung together paint an extraordinarily gloomy picture of a future for operators as a provider of a commoditised, fat but dumb connection. The situation is now so acute that commentators predict that typical operators will reach the end of profitability by 2015 if continued erosion of traditional revenues continues and nothing emerges to replace them. That may turn out to be the case but we have not reached the point at which it is game over for operators. They have to do things better, faster and cheaper than ever before but they still have a range of attributes that can aid them to get back in the game. Voice revenues might not be fully replaced by 2015 but the attributes listed below provide a foundation for the operator sector to be far more than a dumb pipe and highly profitable again by 2020.

- Operators’ trusted relationship with their customers
- Operators’ billing relationship for charging for new services
- Operators’ ability to do complex things at great scale
- Operators’ expertise in voice
- Operators haven’t made the most of their position in the market
- Operators own more of the end to end delivery network than anyone else
- Operators are typically more in touch with their local markets than the OTTs
- Operators own the numbering pools for telephone numbers

These factors mean operators are still very much in the game and, although they are late to the field of competition, they have a very realistic prospect of turning the situation to their advantage if they now play to their strengths instead of replicating the confused strategies of the past.

CommuniGate Systems is hosting a Summit in Berlin on 25-27 May designed to help carriers address these questions and collaborate with each other to build innovative products and future strategies. For further information visit:

<http://www.communigate.com/Berlin> 

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This article is an abridged version of a CommuniGate Systems whitepaper, which can be viewed in full at: www.communigate.com/OTT