



Towards The Flexible Operator Era?

THE TELECOM WORLD IS undergoing dramatic changes. We are finally seeing some real competition for customers, the emergence of true global telecom brands, alternative operators and entrenched carriers obliged to treat voice as a no cost application rather than the cash cow. Some carriers have even begun to understand the strategic value of proactive customer service.

In the beginning we had a monopoly environment – the original telecom business that was primarily state owned or influenced.

Carriers cared about infrastructure, there was no need for branding or a customer focus and service quality was “what it was”. Prices were set based on negotiations between the carrier and regulators or governments. Innovation was less important and services were limited to Voice, Telex (and eventually Fax).

Tek Elements calls the current state of the Telecom Sector “Telecom 2.0”. We have generally controlled or limited competition with some improvement in customer choice. Although generally the “network is still the thing...”, connectivity is becoming a commodity and applications often drive service provider selection.

Effectively this means that revenue from the voice services cash cow is decreasing rapidly. In the wireline business, voice is basically free while wireless carriers are finding it almost impossible to show a profit per subscriber without a data plan.

Operators of all stripes around the world are finding their margins being squeezed and their revenue model changing dramatically. Telecom 2.0 Operators have been slow at developing alternate revenue sources. They remained fixated on switched voice and network connectivity for far too long. Telecom organizations built around technology silos, not service areas, found it very difficult to deliver a quality customer service experience.

Mobile providers are no better. Although they offer “entertainment” (data services), they want to control everything and hate sharing revenue. The “Walled Garden” and “Direct Bill” approaches may have disappeared for now, but their spirit exists in custom AppStores and exclusive handset deals.

The truth is that ALL carriers face operational challenges. How do they fill the revenue gap while extending CLV at the same time? This combined with the persistent risk of becoming a dumb pipe must keep executives awake at night.

Tek Elements believes that financial and operational pressures are driving a new services era, “Telecom 3.0” – the age of the flexible player. We have seen competitive global players begin emerge. FT/Orange, Telefonica O2, Vodafone, Telenor, America Movil, SingTel, China Mobile, Google and Apple are the best examples of those moving towards the Telecom 3.0 paradigm.

Hallmarks of the new Telecom 3.0 operating environment are:



- ➔ Global brands with local and international presence;
- ➔ Obligatory economies of scale (acquire or partner);
- ➔ The network is a pipe, and connectivity (access) is the basic service;
- ➔ The introduction and marketing of multiple applications and services beyond just voice and data access;
- ➔ Services pricing redesigned to reflect perceived value to the customer;
- ➔ Efficient customer service and desirable applications are the key differentiator.

In the Telecom 3.0 operating model services, not technologies, drive the business. Although the network will remain a valuable commodity, access-independent services will become pervasive.

The current industry consolidation will accelerate and international operators will trade on their brand reach to attract customers. Customer service, partnering, and revenue sharing will be the key operating paradigms that accompany this shift. The successful operators will understand these changes and move quickly to capture the high (and profitable) ground.

The financial risk/reward matrix is significant. **Tek Elements** estimates that the potential average revenue per user per month available for telecom and entertainment services maxes out at around US\$200 in developed economies. Voice revenues, which have hovered at around 20% of this, are now decreasing rapidly. What is more, customers are already beginning to “cherry pick” in advanced markets. Carriers that do

nothing risk everything!

The ancient Chinese said “...may you live in interesting times...” was the worst that you could wish on someone. We think many Telecom Operators might agree.

ABOUT TEK ELEMENTS:

We are a highly nimble consulting firm serving telecommunications and information technology clients from our offices in Silicon Valley California and Johannesburg South Africa. Since our foundation in 2005, we have been helping clients looking for assistance with Go to Market, Marketing, Competitive Analysis, Partnering, Sales Readiness and Emerging Market strategies & tactics. Our advice is both analytical and actionable, leading to a high degree of implementation success.

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