



**2009**

# **Telecommunications Industry Issues Index**

Prepared by

**J Arnold & Associates**

**J ARNOLD  
& ASSOCIATES**

---

IP COMMUNICATIONS  
RESEARCH & ANALYSIS

In collaboration with

**JAJAH Inc.**

## Research Overview

This edition of the Index serves to update our benchmark research from Q2 2008. Building on the learning from this benchmark, several themes were updated for the 2009 Index, while newer themes were added.

Similar to the benchmark research, the research process was based on 1:1 interviews with C-level service provider executives, as well as senior consultants with extensive carrier histories. In-depth interviews were conducted by telephone between November 2008 and January 2009. The research sample covered a range of operators – Tier 1, Tier 2, wireline, wireless, and cable – and included perspectives from both the U.S. and the E.U.

As with the benchmark research, the results herein are qualitative by nature and must be viewed as directional rather than comprehensive. We believe the research is both a timely and reasonable barometer of the general state of telecom in early 2009.

This 2009 Index was compiled by an industry analyst firm, [J Arnold & Associates](#), which has extensive experience in market research, particularly in the communications sector. Having the research done by a third party provided an independent perspective that adds depth and enhances the credibility of the findings.

## **Executive Summary**

Several of the key concerns identified by carriers in the benchmark research (Q2, 2008) remain relevant in 2009. In particular, the continuing loss of landline revenues and the increasing threat of Internet-based competitors are ongoing.

The current economic climate provides added pressure for service providers, with the most notable being how subscribers have become more cost-conscious, and the difficulty of garnering Capex to invest in network expansion/upgrades.

In this environment, Internet-based competitors have a distinct advantage over capital-intensive incumbents, and to counter this, carriers need to become more agile in bringing innovative services to market.

With voice becoming a commodity, service providers need a more diversified set of offerings, and with that they need to embrace new business models to capture the revenue potential associated with them.

Carriers recognize that service innovation is not their strong suit, and are increasingly receptive to partnering, especially with solutions that scale across their customer base, and can deliver carrier-grade quality on their networks.

Service providers are not hanging their hopes on a “killer app” to save them. Instead, they seek partners that will enable them to leverage their networks to bring a steady stream of service innovation to market and keep their value proposition fresh and strong for subscribers.

## **Industry Threats**

The dominant threat continues to be the erosion of landline business, coupled with making the transition from fixed to wireless services. Landline is also expensive to operate, so to cut costs, service providers are shifting to mobile.

Subscribers communicate differently now – voice is no longer the sole or even central mode used. Telephony must now compete with other modes, many of which are not first nature to service providers.

Related to this is the growing threat posed by competitors from outside the telecom sector, such as Google and Skype, who are not network-centric and lack the costly overheads of conventional telcos.

Subscriber behaviours are changing, and their loyalties are becoming based more on the devices and applications than the service providers and their networks. This threat has become much more real since the launch of the 3G iPhone in Q3 2008.

Incumbent carriers may have most of the subscribers, but they are largely missing out on where the new revenue opportunities are being created. These are coming from the new services and business models based on the Internet and IP communications – and not telephony.

## **Industry Challenges**

Tier 1 telcos are not nimble enough to quickly adapt to these threats, and they recognize the need to be open to anything that will help change this. There is also recognition that they have not been successful developing new services, and lack a culture of innovation.

With IP-based networks, every service provider can offer everything, and telecom is quickly being reduced to a commodity with decreasing margins. Increased competition leads to price cutting, and to survive long-term, telcos need to differentiate in other ways, particularly in terms of services innovation and network quality. Most service providers are very good at providing POTS, and they understand how today's market is moving beyond a one-size-fits-all model.

Regarding networks, Capex is being reduced in the current economy, and it is more difficult now to make capital investments for upgrades. This limits the ability for conventional telcos to differentiate on network quality.

Aside from needing to bring more innovative services to market, carriers face the challenge of time-to-market. With Internet-based competitors, they need to develop new services more quickly as well as find ways to monetize them.

There is a more mainstream segment of the market that is very cost-conscious now. They are happy to use free services, but not so much for the newer value-added services. There is also an element of complexity that keeps them in their comfort zone of POTS and basic connectivity. Challenge is getting these subscribers to see value in newer services and finding the right business models to support them. For mainstream subscribers, this process will take longer than with the more Internet-savvy early adopters.

### **Strategic Priorities for Service Providers**

With so much competition, customer retention is the leading priority for carriers, more so than acquiring new subscribers. As such, carriers are focused on finding the right mix of services that reduces churn and creates enough differentiation to keep competitors at bay.

Some carriers feel that the best way to leverage their networks for growth would be to offer network-based services such as storage, security, backup, hosting and content distribution. To some extent, Google is doing this with cloud-based services, and carriers could be doing this with their networks. This represents a natural advantage carriers would have over many other competitors.

For Tier 1 carriers, there is the related priority of keeping investors happy. The market very much understands the factors hurting share prices and earnings, and to counter this, carriers know how important it is drive up ARPU. This places added pressure on creating value-added services more quickly, and on a regular basis.

### **Role of Innovation**

Carriers are quick to recognize the importance of service innovation, but concede it is not a core competence. If they cannot be the drivers of their own innovation, the next best strategy is to provide an environment in their network to enable services innovation from external partners.

For some carriers, innovation around business models is just as important as innovation around services. Carriers who develop innovative business models can succeed with limited service innovation. As such, innovation built around creating the greatest number of services possible is no guarantee of success; a balance in both areas is a better path to take.

### **Value of Partnering/Outsourcing**

Carriers consistently stated they were receptive to partnering and outsourcing, especially in areas outside their core competence. There is a

preference to do as much as possible internally, but carriers recognize their operating constraints and market pressures, and will embrace partnering where it is strategic.

One approach would be to work with multiple partners to develop a strong roster of value-added services. Carriers could then offer a basic connectivity bundle where subscribers could personalize their own mix of services.

Service providers typically hold a network-centric view towards partnering. They believe that they can provide the best customer experience when the services offered work well on their network. For larger operators, this means they will only work with partners who can provide carrier-grade, scalable services, and of course services that will make them money. Partnering to develop free services will come later, only once the business models to support them are in place.

At this point, carriers see partnering being focused on value added services. Many of these new services are social in nature, and extend into social networking environments. These communities have substantial potential value to carriers, but are not yet viewed as a driver for partnering. We expect this will change during 2009 as the adoption of mobile broadband, smartphones and open platforms like Android continues to proliferate.

### **Strategic Focus on IP Services**

In terms of the overall importance of IP, service providers feel they have a clear strategic focus. However, they are less certain about the extent to which services will become cloud-based. To mitigate against this threat, their IP strategy calls for ongoing investment in both the network and the services. The network may be their core asset, but the services keep their brand strong. Together, this creates a superior value proposition against the cloud.

IP services is a different model than conventional telephony, and while carriers state that they have a strong focus here, their confidence lies more around creating the right network infrastructure. They are less certain about IP service creation strategies and the execution to successfully bring these services into the marketplace. This is where they need the most help with partners, and are not averse to working with anyone who can help their strategies succeed.

There is a strong consensus that carriers are not looking for a single “killer app” to win back the market and solve their problems. Their IP strategies are based more around solutions that leverage their networks and enable ongoing service creation to retain subscribers and grow ARPU.

The service provider market is not homogeneous, and we see two distinct tiers - early adopters and fast followers:

- For early adopters, IP strategies will focus on leading edge service innovation that appeals to the most tech-savvy subscribers. These carriers will be further along in their transition to IP networks, and typically have a higher proportion of early adopters in their mix of subscribers. We expect they will rely extensively on partners to help them create and sustain competitive advantage based on service differentiation.
- Fast followers are service providers with less IP in their network DNA, and more of a mainstream subscriber base. They would typically be in less competitive environments, and face less pressure than early adopters to bring value added services to market. In time, though, their needs will be no different than early adopters, and at that point will become fast followers, adopting IP strategies as needed to keep subscribers happy.

## About the Author

[J Arnold & Associates](#), an independent telecom/technology analyst consultancy, collaborated with JAJAH to produce this report. The contents herein reflect the conclusions drawn from confidential in-depth interviews conducted on JAJAH's behalf with leading service providers in the U.S. and Europe. For more information, please contact us by email: [jon@jarnoldassociates.com](mailto:jon@jarnoldassociates.com).

For more information please visit [www.jajah.com](http://www.jajah.com)

Or contact us at:

JAJAH Inc.

Email: [press@jajah.com](mailto:press@jajah.com)

Phone: +1 (650) 963-4847

[www.jajah.com/press/](http://www.jajah.com/press/)