Communications Industry Group

Communications Industry Trajectory: On Track for High Performance?

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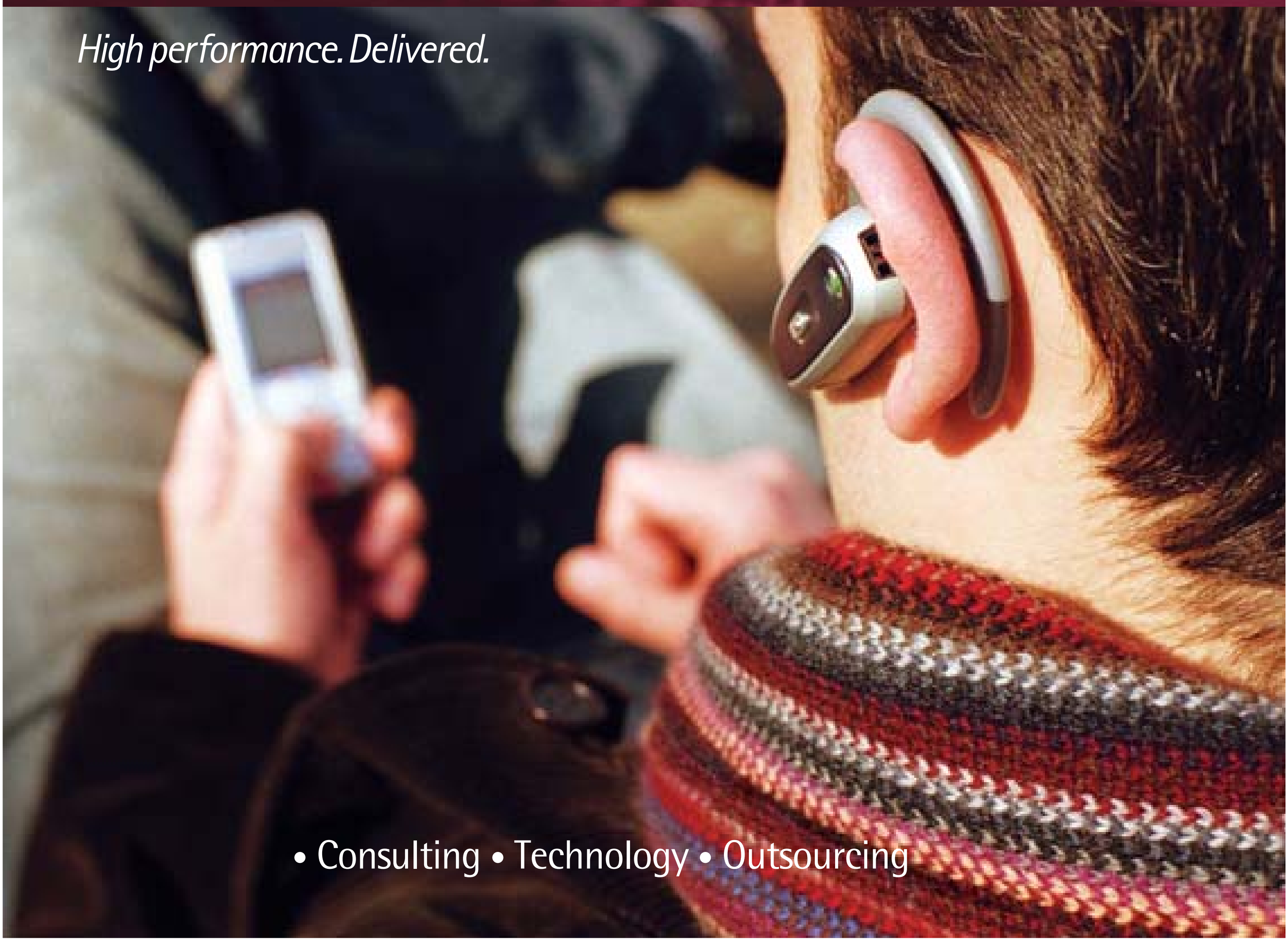

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Research Methodology

In association with an independent research company, Accenture conducted a qualitative research study exploring the competitive future of the communications industry over the next decade.

The key objectives of the research were to determine the most important strategic issues that the telecommunications industry will need to address over the next decade, and to understand how carriers view their competitive capabilities in comparison to how they are viewed by their partners and collaborators from the software, high-tech and media/content industries.

The research consisted of 12 in-depth, hour-long telephone interviews completed in late 2007 with U.S. executives representing carriers, software providers and media/content companies. Analysis of the results was then conducted by Accenture executives with the respective research groups. The hypotheses extracted from these conversations were tested among technology savvy consumers, as part of a large scale, global, quantitative study conducted by Accenture Research in June-July 2008.

Accenture Research Study: The future of the telecommunications industry

The boundaries of the telecommunications industry continue to blur and blend as technology, business and consumer trends redefine the digital services marketplace. Long talked about, convergence is now an accurate description of the current business model of the communications services industry. Carriers, software companies, high-tech firms, media enterprises, entertainment conglomerates—all may find themselves collaborating and partnering one day and competing against each other the next.

How do these different convergent players view the future of the telecommunications industry and their own place in that industry in light of the increasingly complicated relationship they have with each other? This was the dominant question behind a research study commissioned by Accenture (for research methodology, see opposite page).

Based on in-depth conversations with senior executives from major communications service providers, data centers, high-tech firms and content/media companies, the Accenture study reveals a steady sense of confidence about the future, while highlighting several strategic blind spots that have the potential to hinder companies' ability to compete, especially in the face of increased competition and the decline of the legacy wireline voice business.

Several technology and content company executives point to a number of potential weaknesses in the carriers' current approach: lack of a powerful vision for managing the customer experience, some softness in overall brand value, and an inadequate support structure for planning and managing the collaborative and partnering relationships necessary to spur innovation and improve time to market.

Carriers have traditionally seen themselves in charge of the entire user experience of their customers. However, as the industry undergoes radical transformation, becoming more complex and involving more players, carriers must take a more collaborative approach as they seek to find their optimal place in the overall value chain of communications and content services.

None of these potential weaknesses in the positioning of communications service providers is insurmountable. Yet each challenge will need to be addressed in a comprehensive way if these companies expect to achieve and sustain high performance in the next decade.

Key insights from the Accenture research study

Carriers are confident, but their vision may be insufficiently transformative

While acknowledging that the decline in some traditional sources of revenue is permanent, service providers remain confident in their long-term prospects. Carriers continue to look for ways to supplant declining revenue streams that have historically come from wireline voice services. They know that, with the abundance of new wireline and wireless providers (i.e., cable, IP phone services and newly deployed wireless technologies such as WiMAX), there are continued competitive pressures that will result in declining prices for voice services.

Nevertheless, in transforming their business models for success in an IP world, carriers seem confident in the progress they have made to date and believe themselves well-positioned to overcome the technical challenges in migrating to IP. They do not believe they are fated to become "dumb pipe" providers. In describing their future roles, carriers tend to view themselves as exerting more control over content and services than the technology/content partners will. As one carrier executive put it, the future is not one of dumb pipes but of "intelligent networks." "The pipe will continue to embody a lot of intelligence," said this executive. "We will be delivering and controlling a great deal of multimedia, and we will be asked to make sure that it is delivered in a timely fashion."

In the face of this overall confidence, however, are some concerns about carriers expressed by technology and content partners—specifically, that carriers are not thinking about the future in a sufficiently transformative way. As one tech company executive bluntly put it, "I don't think the carriers are on top of IP transformation."

If true, what are some possible causes of a vision that is not transformative enough? One is economic. For a time, carriers can still reap financial benefits by continuing to sell legacy services, especially given the "sunk costs" for their existing communications infrastructure. To a great extent, holding onto the past for too long creates inertia among carriers and impedes the transformation process.

Another possible concern is that the forces of technology change are too great for existing carrier strategies. Another high-tech executive compared today's situation to the fate of middleware in the evolving Internet era. "There was a huge role for middleware in the early days of the Internet because companies were trying to figure out how to interface older enterprise systems with the Web. Now those companies are taking out the middleware and going direct. The same thing will happen in networking. There will be a need for 'glue' in the early days, but at the end of the day every point will be a node on the network and the nodes will be able to communicate with each other without going up to a super node and coming back down."

The potential stifling effect of legacy business models and cultures is another obstacle to be addressed by the carriers. One high-tech executive noted, "I'm still seeing an enormous cultural hold over from the old days of a monolithic monopoly. Carriers are making some progress, but they don't show enough agility and flexibility in keeping up with the changes and what customers are demanding."

An executive from a device manufacturer pointed to a likely path forward: "To survive, carriers need some type of value proposition that deals with content itself so then it becomes more of a brand play—delivering the content that consumers value across different platforms."

Seamless delivery across multiple platforms

This theme of delivery of content across multiple platforms rose to the top in multiple conversations with executives. It's what Accenture calls "trivergence":

the interoperability of devices, data and controls over a network.

With the transformation from switched to IP-based networks and the convergence of wireless and wireline communications, the industry in general needs interfacing technologies to work as transparently as possible from the standpoint of consumers and business customers. The future world depicted by several executives with whom we spoke is one where consumers will expect to maintain a connection as they pick up their phone, walk out of their office building and get into their car. Similarly, consumers will want access to information or portals wherever they are, free of the constraints of any particular device, whether it be a desktop computer, television or phone.

While many respondents agreed that the trivergence trend will continue on a steep trajectory, too few companies have developed a set of well-formed strategies about the growing plethora of networked devices. Concerns seem to be more tactically focused at this stage: Will more bandwidth be required? Will more databases be needed? There is some recognition that greater network intelligence will be required for routing, billing and utilization of bandwidth.

Other implications include increased need for efficient wireless protocols and the ability to manage huge amounts of short data bursts coming from multiple devices. Carriers need to have a more efficient way to get large content files across a network. One device maker executive put it like this: “The greatest opportunities for carriers are in creating a virtual storage room where one can grab data from anywhere in the world through any type of device." Providers are doing that to a certain extent; content delivery networks such as Akamai are one way to do this, as well, but such an approach is currently costing carriers a great deal of money.

Accenture agrees that carriers must consider the value of their brand, and their ability to bundle add-on services to existing customer relationships. This is key to avoiding the commoditization inherent in becoming simply the provider of connectivity and the pipes by which services flow. High-performance carriers in the future will be those with the capabilities to sell, support and deliver/connect devices and services, supported by a strong brand. At the same time, the carrier's brand must complement rather than replace the brand of the service or device. Current efforts to "white label" offerings such as security, conferencing and other applications are not where the primary opportunities lie. By analogy, carriers should think of their value as providing a designer garment at a high-end store, not a store-labeled garment at a big-box retailer.

Service providers would not necessarily agree that their vision is insufficient. This carrier executive's assessment certainly captures the transformative dimension of today's environment: "In the future, communications will be originated from devices other than phones—screens, address books, applications, PCs, mobile devices or whatever. This change in usage means a radically different commercial model and channel strategy for carriers.”

Taking the customer's perspective is one key to coming together on a common vision for the future. As a high-tech company executive put it, "You have to look at it from a home environment perspective. Data is going to be there when you want it while you want it, and it is going to be connected to the phone system. All that data is going to be centralized somehow. At the end of the day we don’t have pipelines; we have content and then we have devices, hardware and software that support whatever consumers need to do. There needs to be a real coming together to provide the best service that we can for the consumer."

Other ecosystem players are looking to leverage the distinctive strengths of service providers

There were no indications from our study that technology companies want to compete with carriers from the standpoint of building and managing infrastructure, nor do they want to be responsible for their own separate provisioning, billing and customer care functions. High-tech and content companies want to partner with carriers and are willing to share revenue with them for value-added content and services. Some respondents also pointed to the value of the carrier managing a growing number of customer databases and being able to leverage identity management services.

As one technology company executive put it, "Carriers have a huge infrastructure in place; they are not just a fly-by-night single data center. We are talking about a very sophisticated system that accesses a lot of bandwidth and goes through a lot of trouble for its customers."

Up to now, most technology and content companies have found it expedient to "go over the top" of carrier networks -- that is by-passing network-embedded services in favor of services residing at network points. The carriers have simply been slow to develop and market value-added offerings that appeal to this group of prospective customers. However, there are now indications that things are changing, with both carriers and technology companies seeing opportunities for collaboration.

This collaborative mindset was mentioned in numerous interviews by participating industry executives. For example, one high-tech company executive said, “We don’t want to have the customer set up an account with us so that we collect the money and then pay part of it back to the carrier. That is a lot more arduous than using the billing relationship that the carrier already has established. Any time a company already has a good relationship with its customers, we try to leverage that.”

And, of course, the value of such partnerships between carriers and technology/content providers goes both directions. As another high-tech executive noted, “I think the financial opportunities for the carriers lie in unique partnerships where they can get content, special products, offerings or rewards—something that delivers unique and exclusive value rather than a 'me-too' proposition."

Accenture believes, however, that this sense of partnering for mutual benefit is a window that will not remain open to carriers forever. Carriers have many assets that other players in the digital ecosystem would like to tap into: billing, customer care, user data, location, presence and so forth. At the same time, high-tech and media players are rapidly developing carrier-independent resources in these areas. The time for carriers to act, by opening their systems to external collaborators, is now.

One concern about these partnering or collaborating relationships expressed by some executives, however, was about a lack of clarity, as well as a lack of a consistent view of the strategic framework for these partnerships. As one carrier executive put it, "The main thing that needs to happen is a clear strategic framework for the partnership—understanding what we as carriers want to keep as our assets, what we are happy to share and what we would like to obtain from the partners. Application providers need to be clear about who owns what in the relationship, particularly in terms of customer data, customer experience and customer support."

In an environment where carriers, technology firms and content companies are collaborating and competing at the same time, however, potential areas of conflict must be managed. For example, with the transformation to IP, software providers are developing IP PBX, IP Centrex and unified communications solutions that can be integrated into the existing enterprise network. These efforts by software providers directly compete with legacy and new IP services provided by the carriers and other telecom equipment providers. To counter this threat, carriers are now striving to develop the capabilities required to be managed service providers or value-added resellers. In these areas the carriers and technology companies can potentially become partners rather than competitors.

Another potential area of conflict is that technology and media partners envision the carrier as responsible for further development of the network infrastructure. Software companies and device manufacturers count on a future with faster, more available bandwidth and ready access to consumers and their mobile devices. Carriers, however, must work to preserve their assets and maintain sufficient profitability to continue reinvesting in an evolving infrastructure to keep it current.

Carrier executives are well aware, of course, of the financial burden of the continued network investments that are necessary to achieve high performance in the long term. As one executive put it, "For every device that a customer adds to the network, it basically triples the amount of bandwidth they start using. By adding an MP3 player, for example, they are going from one megabyte to four megabytes. Then, if they start adding file sharing and different services like that, a great deal of equipment needs to be added in the back end. That equipment is transparent to the end user but it is a huge capital investment for us, one that is really affecting our business model."

Carriers must learn to use their brand in the right way

Carriers feel strongly that they can leverage their brand as a provider who can "bring it all together" in a complex world and deliver distinctive value to the consumer. As one carrier executive put it, "The whole world of providing communications, information, IP collaboration and entertainment to end users is complex and it is going to remain complex for end users in the future. So there is value in establishing your brand as a kind of beacon—a company that can bring it all together. I think carriers will reclaim very strong value in the eyes of customers as the place to go to make it all happen for them, and to simplify a complex set of value propositions."

According to some of our other survey respondents, however, carriers must be careful not to overestimate their brand strength. Although they benefit from high brand recognition today, they cannot assume they can rely on retaining a well-defined brand image and will likely have to redefine their brands in concert with their redefined roles and relationships with partnering companies. Carriers are not viewed as "media companies," and will be challenged to leverage the brands of their media partners in ways that will strengthen rather than diminish their own identity.

Support for open innovation and collaboration is critical to achieving high performance

The idea of "open" technologies and networks is a highly charged topic today. Openness is generally regarded as a positive. As one high-tech executive put it, "The more open the networks get, the more business can be done."

However, our research found the potential for conflict with regard to exactly how open the network should be. Carriers and partners acknowledge that the most evolved platforms and most rewarding consumer experiences will come from a ubiquitous and open network. They perceive that consumers will be demanding greater sophistication in the range and types of data that they will exchange.

Yet, carriers struggle with their desire to retain significant control and continue with "business as usual." Some carrier strategists acknowledge that engaging outside companies will be necessary for them to succeed in the future marketplace. This became apparent when carrier executives speculated about the development of a next-generation wireless platform.

In this context, the executives with whom we spoke affirmed the value of service delivery platforms as a key tool in an open-platform environment, bringing carriers, software firms and content companies together to encourage innovation and speed time to market for new services.

As one carrier executive put it, "We see value in the integration of multiple supplier sources of smaller lightweight pieces of software that plug into an application. We need a third-party application developer program that gets the best out of developers and delivers a customer experience that delights our customers."

Conclusion

Competition will be fierce; few if any companies operating in this broad eco-system of digital services will look quite the same in 10 years as they look today.

Finding a place in the value chain

The seismic changes currently under way in the communications, high-tech and media industries are virtually unprecedented. It is not clear that any other broad industry groupings have ever faced such shifting competitive and economic changes in such a short time span.

However, the executives with whom we spoke affirmed this era of the communications industry as exhilarating in its possibilities. Competition will be fierce; few, if any, companies operating in this broad ecosystem of digital services will look quite the same in ten years as they look today. It is likely that significant mergers, acquisitions and alliances are on the horizon that will change the terms of the playing field in dramatic ways. Yet there is a sense of the "undiscovered country" here that only true pioneers understand or can use successfully.

The new world will not be one dominated by any one company. The value chain is in flux. Carriers can continue to fight that trend by building walled gardens, but that strategy now looks more and more questionable. Instead, a better path forward involves something like a multimodal architecture, where companies put together a variety of alliances—some deep and longer term, and others made just for a specific need at one point in time.

What can unite the different players at this time of hypercompetition is ultimately the customer. Convergence as a technological phenomenon has happened and will continue to intensify. What has yet to happen, however, is for all the players to converge themselves on the customer experience—delivering a compelling user experience that is easy to understand and simple to use. Communications service providers that find their rightful place in the overall value chain, and that can remain agile enough to serve customers' needs in a way customers can readily understand, are the ones more likely to achieve and sustain high performance.

About the Author

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About Accenture

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