

Communications & High Tech

How to drive revenue growth and high performance from broadband investments

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The communications industry is at the start of one of the largest investment cycles in its history. Around the world, providers are poised to invest more than \$1 trillion over the next 10 years in high-speed broadband networks, driven by consumer demand, government support, competitive dynamics and potential cost savings.

Given this unparalleled investment, the key question in the industry is this: Who is going to pay? It's a troublesome question, especially for an industry with a mixed record in driving solid returns on investments for shareholders.

The evidence so far is that broadband networks will be difficult to monetize, in part because customers are unwilling to pay a significant premium for additional speeds. In Japan and Korea, for example, which have been in the vanguard of high-speed broadband deployments, companies have generally been unable to raise prices to consumers due to increased competition that continues to drive subscription costs lower. Consumers expect to get more and pay less.

Accenture believes that communications companies must leverage a combination of monetization strategies to recoup their network investment, including government involvement, retail service innovation and wholesale business models.

Broadband network deployment is likely to be painful for many companies, and achieving adequate returns will take time. But there is every reason to believe that the massive investments in network infrastructures will pay off over time, with the right strategies and guidance.

Three models for broadband monetization

If communications companies are to recoup their investments in broadband networks and establish a technical foundation for a new era of services, they must pursue a combination of three business models: Leveraging government support or subsidies; driving retail service innovation on the foundation of the broadband network; and creating wholesale service models.

Governments as a source of funding

Most governments desire the public policy benefits of fast broadband, ubiquitous availability and low cost. They are aware of the productivity gains to be achieved at a national level from a broadband infrastructure.

Some parts of the world have already benefited from government involvement in network building. Such support can take several forms. Direct investment in broadband infrastructure is one. The Australian government, for example, is investing US\$36 billion (A\$44 billion) in creating a government-owned entity to drive fiber-to-the-home (FTTH) deployment. In Malaysia, the government's National Broadband Plan to promote universal access to broadband Internet includes a US\$4.3 billion investment (MYR 12.5 billion). Regulatory holidays or indirect stimulation is another form of support. In Japan, for example, tax incentives and DSL regulation have encouraged FTTH investments.

Because of the importance of government subsidies and other forms of support, communications companies must continue to improve their ability

to influence government activity.

Generating revenues from network-based retail service innovations

High-speed broadband networks will accelerate innovations in the communications industry, and these constitute a strong opportunity to drive the kinds of revenues that will make network investments pay off.

Broadband alters the dynamics for numerous kinds of services and applications. New voice services will present more compelling value propositions to consumers and enterprises. For example, integrating voice conferencing with TV services will allow users to comment to one another about a sporting event in progress.

The ability to stream high-definition video through broadband networks will lead to the growth of both free and paid-for entertainment and video-conferencing based services. Online gaming will also continue to benefit from high-capacity bandwidth.

New enterprise applications will be enabled. The use of high-capacity data links will support innovation in industries such as health care, and utilities companies will be able to leverage applications like smart metering. Availability of higher bandwidth will also enable software-as-a-service and related business models, including the provision of virtual storage and cloud computing.

In the consumer space, broadband networks will enable other kinds of service innovations such as presence- and location-based products. Network overlays will provide a greater range of presence information about customers, for example, allowing services to be created that identify which household members are available at any given time. Opt-in services that identify a user's location will open up more tailored advertising opportunities.

These innovations will drive an increase in network-centric services that will be one important component in meeting the business case for broadband network investments.

Driving value from new wholesale business models

Profiting as a wholesale provider is another important dimension of broadband network monetization. Given the market structures that regulators are setting to guide broadband network investments,

there is likely to be a renaissance in the wholesale market for services.

Operators considering a wholesale strategy should consider six likely market entrants that they will have the opportunity to service:

- **Low-cost providers:** Provide cost-effective, reliable services by focusing on distribution and customer service.
- **Home entertainment providers:** Work as content owners or aggregators of content to provide packages of home entertainment to individual households. Key success factors will be the range and excellence of content a company can provide, as well as opportunities for improving the user experience through interactivity and creative use of electronic programming guides.
- **Business providers:** Connect businesses and their employees through the network, which will make environments such as distributed call centers more efficient by enabling employees to work from home. Success factors will involve going beyond basic connectivity to provide highly valuable and high-quality services to businesses.
- **Device providers:** Bundle broadband connectivity with big-ticket items such as HDTVs, to develop an ongoing relationship with customers and offer them new broadband-based services on a regular basis.
- **Utility providers:** Provide communications services as part of a utility bundle. This has been an accepted business model in the past, and we expect to see it reappearing as barriers to entry, such as high set-up and running costs, diminish. Closer cooperation between the utilities and communications industries can benefit both sides. As operators lay down new fiber, they can share costs with utility providers using the same pathways to upgrade their own infrastructure.
- **Integrated communications providers:** Expand network coverage by owning the customer premises equipment and placing femto-cell technology in homes. The increased bandwidth that comes with broadband networks may help reduce mobile operators' long-term access and backhaul costs.

Conclusion

Monetizing broadband network investments will be challenging, to be sure. That being said, a number of market, regulatory and competitive dynamics are increasing the urgency of the situation, so communications companies need to plot

their monetization strategy quickly.

Cable providers constitute a growing threat as they migrate to their own high-speed infrastructure. Mobile is also proving to be a viable alternative to fixed-line broadband, so investments by communications companies will be needed just to hold a competitive position.

Urgency is also being fueled by demand. Usage has increased so much that network operators will soon reach capacity on their existing networks.

The outlook is not all grim. There are substantial savings to an operator's bottom line in moving to a broadband network architecture. And, as noted earlier, governments strongly desire the public-policy outcomes of high-speed, low-cost network connectivity. They believe broadband can support a country's competitive advantage in the global marketplace.

The successful monetization of broadband networks in the communications industry will rest on a combination of government subsidy, new retail services and a variety of wholesale models. Operators prepared to innovate and extend their business models, customer agenda and network strategies will have the opportunity to achieve high performance.

Outlook Point of View
September 2009, No. 2
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