

Remodeling Revenue

By Monica Ricci

The telco's future success depends on their ability to evolve from service provider to service enabler, and to do this CSPs must exploit the vital advantages they offer to both the creators and the consumers of content.

Cast your mind back a decade or so, to a time when telcos were preoccupied with identifying and profiting from the next "killer app." In retrospect, a telco "killer app" never emerged, and now that traditional revenue streams are eroding, you could make the case that voice and messaging were the "killer app" of the last decade. But now, still at the onset of the current decade, that voice and data killer app has lost its luster: a larger share of the customer's spending goes toward a range of digital content. Network capacity is increasingly consumed by streaming music and video, media downloads, games, social networking, productivity apps, and even new forms of IP voice and messaging, but telcos, thus far, have derived relatively little share of the spending on these services. A lion's share of this content revenue goes to "over-the-top" (OTT) providers.

Should--or even can--telcos lay claim to a larger part of this revenue pool? At the heart of the debate is the telco's position in the overall value chain. The telco adds clear value--without the network, the



content doesn't get delivered. But larger questions remain about this value--how to quantify it; how to measure it; and ultimately, who compensates the telco for it? The customer? The content provider?

CSPs are currently investing in better defining their role in the content value chain. Their strategies vary from focusing purely on the carriage--being an efficient but "dumb pipe"--to competing directly with the "over-the-top" players by creating and distributing unique content through unique channels. While these are two extremes of the competitive spectrum, there is increasing recognition of the CSP's vital role in the middle of the value chain, as a digital services aggregator, retailer or enabler. The CSP can enhance digital services by incorporating delivery guarantees

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and value-added services in its position between the consumer and third-party providers of content and services.

Within the past year, some of the world's most successful telco brands have created separate business units with the objective of enabling connections between content consumers and the third-party providers of content and digital services: Telefonica created the Telefonica Digital business unit (September 2011); Verizon created Verizon Digital Media Services (July 2011) and SingTel launched its "Digital Life" business unit (March 2012). These new business units are focused on the CSP's role in the digital services value chain and, in Verizon's words, are "game changers," for not only the content players they enable but for the CSPs themselves.

The barriers for a CSP expanding its role in the content arena can be daunting. These barriers include:

- **Inexperience in the content creation process.** Unless they have the resources of Comcast, which acquired NBC for access to its content CSPs are best advised to leave content creation to the experts and partner with them instead.
- **Organizational inflexibility in adapting to new competitors, changing consumer demands, and new business models.** New business units from Verizon, Telefonica, and SingTel reflect the reality that managing the attributes of the digital world requires a complete break from the legacy telco's organization.
- **Cultural differences between telcos and the typically more agile, innovative and creative content organizations.** Recent studies indicate that both telcos and their third-party partners regard organizational limitations as the number one barrier to the success of upstream organizations working with telcos.

All is not doom and gloom, however. CSPs have considerable assets to bring to bear on their enabling role in the value chain. Several key assets are increasingly being recognized by the content providers as being of value:

- **Consumer closeness.** CSPs are differentiated by their proximity to the consumer. They have a long history of interacting with their customers on a regular basis across multiple touch points including bills, payments and technical/customer support. Because of this intimacy, Nielsen Research in 2010 determined that users' trust in their CSPs was second only to their trust in their banks.

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- **Local knowledge.** Market-specific expertise has long been exploited by many CSPs who target unique services and applications to their consumers. Singapore's SingTel, for example, has developed specific Singaporean apps targeted at the demographics of its customer base, such as a shopping app that finds local deals. Local knowledge, not only in cultural terms, but of regulatory requirements, taxation and DRM, coupled with access to niche third party developers, put the CSP in the best position to deliver and optimize content for a particular market.
- **Customer intelligence and consumer preferences.** Processing huge volumes of current and historical customer data, CSPs are strongly positioned to share that data, (made suitably anonymous or aggregated to protect consumers' privacy), or provide marketing services to third parties. Understanding the behaviors and market trends is especially important to content developers seeking to expand their market reach, particularly to under-served or under-represented segments like women or older consumers.
- **Bundling and personalized packaging.** The CSP is uniquely positioned to bundle content from multiple sources, and package it with other telecommunications services allowing each customer to personalize a simple package of services to suit his requirements and budget.
- **Quality of Service.** The CSP can enable third parties to bundle QoS as part of their offer, a feature that will become increasingly important in the growing segment consuming corporate and industry-specific applications and content. A video conferencing provider, for example, will be able to differentiate its offering by enabling enhanced call quality, for a price. And the CSP, as the enabler and guarantor of that quality of service, can charge both the third party and the consumer for the role that it plays.

- **Fulfillment and service delivery excellence.** Historically, these are table stakes for any CSP, and are valuable assets to others in the content value chain. The CSP can expose these capabilities to third parties and should be compensated for their role in service assurance.
- **Diverse billing and payment options,** and a wide variety of pricing models including subscriptions, “freemium” models, volume-based charging, capped usage packages, and entitlements. These options are important to third parties and valued by consumers. When the CSP delivers a consolidated view of the customer’s balance across a whole portfolio of applications, digital content and services, the customer has a complete view of his spending and can both review and plan his budget. Having an accurate and timely view of spending and budget not only minimizes the risk of “bill shock,” but stimulates spending by customers who feel more in control of their finances.
- **Customer care, sales and marketing expertise** and the investment that has been made in these areas, is an enviable CSP asset. CSPs set the standards for self-care and call center-based care, and consumers have come to expect the same service levels in all their commerce transactions. Unfortunately, even today, OTT players cannot provide the same range of customer service, so the CSP has an opportunity to step in to pick up the slack.
- **Partner management.** CSPs have always dealt with third parties, ranging from interconnected network partners and international voice carriers, to outsourced field service and more. With their experience in dealing with third parties, the CSP is well positioned to be central to revenue-sharing models between a growing number of digital content players, acting as an aggregator and distribution/settlement hub. With timely and accurate revenue share and settlement models, and web-based partner self-care, CSPs can attract and retain the third parties within the digital content ecosystem and provide them with the highest quality experience.

Leading CSPs like Telefonica, SingTel, Verizon and others are illuminating the path for other telco brands to transform their organizations, reflecting a commitment to become enablers for third parties in the digital services value chain. Offering demonstrable value by offering a complete suite of digital service enablers sets the stage for a profitable commercial relationship. It is not beyond the reach of other telcos to make use of their considerable assets to do the same. The time has come to exploit these assets before the opportunity passes you by.

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