

## Newswatch

By Jesse Cryderman

### Show Me the Money

If investors were betting that LTE buildouts would drive big gains across the infrastructure segment, this month was a wake up call. Quarterly earnings reports are beginning to roll in, and, among other trends, they reveal a steady increase in mobile data revenue for communications service providers (CSPs) and challenging market conditions for telecommunications infrastructure vendors. On one hand, Verizon Wireless reported record-high margins; on the other, the wireless infrastructure market hit an eight-year low.

For wireless operators in the United States, the money was most definitely in mobile data. Sprint revenues were up 6 percent on the strength of its unlimited data plans; Verizon Wireless saw a 7.3-percent increase in service revenues; AT&T posted its highest ever operating margins (30.3 percent), bolstered by a \$1 billion uptick in mobile data revenue; and MetroPCS reported a 6-percent growth in revenue.

European service providers didn't fare so well, as the impact of the European financial crisis, and particularly Spain's deepening problems, became more painful. Vodafone, the world's largest mobile service provider, posted an 8.1-percent drop in service revenue (although mobile data revenue was up more than 17 percent). BT noted a 6 percent drop in revenue, and Orange/France-Telecom reported a 2 percent decline in revenue in France. Telefonica performed well in Latin America, but posted a 6.1 percent loss in Europe; however, like other service providers, Telefonica saw mobile data revenues rise, up nearly 16 percent.

Infrastructure vendors, by and large, did not fare well in the second quarter. Alcatel-Lucent, ZTE, and Ericsson all felt the pinch of a contracting market; or maybe Huawei just swallowed up all of the oxygen



in the room. For the first time in history, Huawei reported higher revenues than Ericsson, ostensibly taking the crown from the Swedish incumbent. Cisco didn't report new earnings, but it did layoff an additional 1,300 employees, and ZTE played ping pong with the press over a rumored layoff plan that would effect 10,000 workers.

"With continued economic uncertainty around the world, mobile network operators are holding back on investments in their network infrastructure," said Aditya Kaul, Practice Director, Mobile Networks, ABI Research. "Instead of buying new equipment, many operators are choosing to upgrade existing equipment, which is less profitable for the equipment vendors. We expect wireless infrastructure spending to be weak for at least two more quarters, until operators are able to see a light at the end of the tunnel."

Netflix stock took a nose dive as subscriber additions missed guidance by a longshot, and the company issued a loss warning to investors. Dish Network celebrated the loss of 10,000 subs; well, not really, but the subscriber loss was much lower than the anticipated 87,000 subscriber exodus. In the meantime, Internet Service Providers (ISPs) and Multi-System Operators (MSOs) in the U.S. face new competitive pressure from the North in the form of Congeco and internally from a little company named Google.



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**The Service Provider Evolution: Google and Facebook**

As the new digital services economy unfolds, and connectivity becomes increasingly pervasive, what does the service provider of the future look like? If owning both the transport and service portfolio are defining traits, then say hello to Google and Facebook, newly minted service providers with a previously unimaginable reach.

For years, Google has been buying up fiber assets and in a location-based decision, spent nearly \$2 billion to acquire a New York City building in that sits atop one of the largest fiber hubs in the U.S. This month, Facebook took the first steps toward becoming a service provider by pitching \$450 million into a consortium of APAC service providers to build a 10,000-kilometer undersea fiber optic cable with 54.8 terabit-per-second transfer speeds.

By managing the transport, Facebook will have greater control over the user experience (the same rationale that drove Google to buy its own undersea direct-connect to Asia two years ago).

Google, the omnipresent web and mobile company that began life as an advanced search-engine, has spent most of its years shape shifting. With each metamorphosis, Google's identity has inched closer to what would traditionally be defined as a Communications Service Provider (CSP). In fact, many have argued that Google is the service provider of the future. Today, with the launch of Google Fiber TV, the line between Google and CSP has been erased.

As part of its Google Fiber initiative, Google held a contest in which municipalities across the U.S. applied to become the test bed town for Google Fiber internet service. The twin Kansas Cities--Kansas City, Kansas and Kansas City, Missouri--were selected winners. Residents of these cities will have access to three Google services: Gigabit Internet, Fiber TV, and Free Internet. All the services require that a resident live within a predetermined "fiberhood," and will eventually require a \$300 construction fee to support the fiber build (this fee is waived for early customers).

**Seven global mobile operators have joined to form an M2M alliance that will deliver the kind of scale needed to reach market dominance.**

Gigabit Internet is Google as ISP, delivering unlimited, un-throttled 1Gbps download and upload speeds for \$70 a month. Upgrade to Fiber TV, and for \$120 a month Google is also the cable guy, supplying subscribers with a full TV-channel lineup, a DVR box that captures 8 HD shows simultaneously, and a free Nexus 7 tablet that functions as a remote. Both of these offerings include 1Tb of Google Drive cloud storage as well. For customers who spend less on connectivity and entertainment, Google offers a third option: Free Internet. Provided a customer lives

within a "fiberhood" and pays the \$300 construction fee (which can be paid in \$25 installments), Google will deliver unlimited 5Mbps connectivity for free.

It's clear that fiber is the underlying enabler for Google's entry into the CSP realm; it delivers

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such a large information highway that Google can offer free internet (at the measly rate of 5 Mbps--the same speeds many ISPs sell) to local non-subscribers. For paying subscribers, the customer experience on a 1 gig fiber connection will likely be a compelling reason for subscribers to stick with Google, and the connection fee strategy is innovative; customers are essentially subsidizing Google's fiber buildout. Further, Google Fiber TV has been developed in concert with the latest market research, it seems. Analysts have indicated that the tablet is the new remote, so Google provides a free Nexus 7 tablet; multi-screen is table stakes for MSOs, so Google innovates with seamless multi-screen content delivery; and the typical experience of browsing on traditional cable offerings is antiquated, so Google Fiber TV will sport multiple dynamic interfaces and user profiles that resemble Netflix, not the "cable grid." While this news is exciting, it's important to note the size of the launch; in a word: microscopic. Only about

1,500 households will have access to the new service offerings. The big question is, are other cities already in the works, or is this simply a test? Only the future will tell, but in the meantime, Time Warner Cable and AT&T (the Kansas City incumbents) should be on alert, as they are certainly on Google's radar as competitive targets.

### Major Partnerships Take Centerstage

The measure of success in emerging technologies is often times intrinsically connected to scale; he who builds a critical mass of customers first wins. The machine-to-machine (M2M) business is seen as a hot prospect for operators looking to replace declining traditional revenues, but how will communications service providers (CSPs) build this critical customer base if each company operates independently? In other words, who is going to be the Google of M2M?

The answer lies in partnering, or what Pipeline deems cooperation, and this month seven carriers around the globe joined to form an M2M alliance that will deliver the kind of scale needed to reach market dominance. KPN, NTT DOCOMO, INC., Rogers, SingTel, Telefónica (through its Telefónica Digital unit), Telstra and Vimpelcom have entered into an alliance that seeks to put CSPs at the center of the M2M universe. What's more, other wireless operators are welcome to join.

The other major partnership news came from Telefonica, a company that would no-doubt win a speed dating challenge. Telefonica released a flurry of announcements that underlined the importance of partnerships as part of its "Beyond Connectivity" initiative this month. The global CSP forged mobile content monetization deals with Facebook, Google, Microsoft and RIM, an expansive alliance with Etisalat to collaborate in areas including Machine-to-Machine (M2M), financial services, cloud computing, and video services, and a mobile payments partnership with Visa. That's quite a few bottles of champagne for one month; nice job Telefonica.

### The Price is Right?

## Is Facebook the new face of communications service providers?

Following Verizon's lead, AT&T introduced shared data plans this month, which zero-rate voice and messaging and charge for buckets of mobile data that can be shared among ten devices. These new plans mark the first steps from postpaid market leaders to ween customers off the concept of voice as a separate billable service in anticipation of the all-IP network, where everything is simply mobile data. They also smartly align the CSP's revenue model with both service consumption and network spending. However, the new plans don't align well with consumer sentiment.

A new study from J.D. Power and Associates took a close look at customer care in wireless and found that consumers in the U.S. prefer unlimited plans to tiered charging. This fact is hardly surprising, but what is worth noting is the cost of servicing tiered-data plan

customers in the postpaid environment. Postpaid customers make more calls to customer service than customers on unlimited plans. In a sense, the best strategy from a purely CEM perspective seems to be unlimited plans. At the same time, self-care portals and apps are working. J.D. Power and Associates reported that "overall satisfaction is 42 index points higher among full-service customers who use their carrier's management app than among those who do not."

The image is a promotional banner for a KnowledgeCast Webinar. At the top left, the Pipeline logo is displayed with the tagline "Technology for Service Providers." To the right, it says "KnowledgeCast Webinar". The main title of the webinar is "Transforming the Telecommunications Enterprise through Agility", with a sub-headline "now available on demand". Below this, it features the IBM logo and a "VIEW NOW" button. The background of the banner includes a faint world map.