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Funding the Future: Tech Incubators

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Communications service providers (CSPs) have a tough road ahead. It is no secret that their legacy revenue models have taken a big hit and they are being outmaneuvered by low-cost over-the-top (OTT) players. In telecommunications, Skype, Facebook/WhatsApp, Google Voice and Google Chat, Viber, and others have pushed the cost of voice and messaging down to zero. In video, NetFlix, Hulu, Amazon Prime, YouTube and a host of other competitors have had a similar impact on premium content monetization. The arrival of direct-to-consumer options like HBOGo has further fragmented the revenue model for MSOs, as consumers can now purchase a la carte from outside the walls of the cableco. None of this is breaking news. The question is: how can these organizations transform themselves quickly in order to remain relevant and profitable?

If you know anything about animals, you know that the big ones move slowly. This is one of the biggest challenges facing CSPs today. By their very nature they are slow moving creatures. In part, it is due to the their history as highly-regulated and oftentimes government-controlled providers of critical communications. In part, it is due to their organizational structure, typically driven from a focus on engineering (or over engineering, some might say). Lastly, the nature of their evolution plays a large role--large CSPs are the result of many years of mergers and acquisitions, and this creates a complex web of back-office systems, network infrastructure, disparate front-facing systems, and vast organizational hierarchies. This is what CSPs are working with, and it is not going to change anytime in the near future.

In this environment, typical project cycles stretch from 12 to 18 months. This is an eternity for the cloud generation, and cannot keep pace with Amazon, Facebook, Google, or Apple. CSPs have increasingly looked outside their own walls for answers. Enter tech incubators. By funding and leveraging small, external groups for research and development, CSPs can compete with Silicon Valley and attain a level of agility that is impossible from within their own organizations. Here are some shining examples from leading operators: Orange Silicon Valley, AT&T Foundry, and Telefonica Open Future.

Orange Silicon Valley

Everyone knows Orange, the multi-national network operator with more than 236 million customers, but few know that Orange has had a presence right in the heart of silicon valley for the past four years. The division, aptly named Orange Silicon Valley (OSV), serves as a home base for research and development, start-up acceleration, partner collaboration, and networking with the region's leading disrupters.

Each year, OSV engages with more than 500 companies through its Orange Fab startup accelerator and Orange Institute. OSV calls itself a "guide to the digital revolution," which might be more than a pat on the back when you consider the projects they are funding. OSV is currently pursuing innovation in such cutting edge areas as cryptocurrency, the Internet of Things (IoT), artificial intelligence, digital enterprise, network virtualization, next-gen networks, and machine learning. As for who OSV targets, the company breaks this down its into four categories in its own words:

- Seekers: We look to the ecosystem of Silicon Valley to meet new ideas and to inspire others. We expect the unexpected, and embrace the unavoidable as quickly as possible while preparing for the next wave on the horizon.
- Collaborators: We spend our time in the Cloud, hacking new products from the Valley, evaluating them with test-beds and benchmarks, and crafting adaptations of disruptive technology for use in our networks and devices. SDKs, APIs, and frameworks are the tools all developers use, and we learn from the ecosystem by using these tools alongside them.
- Participants: OSV experts participate in open source forums, test-beds, and benchmarks. We host events,

support innovators and analysts in Los Angeles and the SF Bay Area, and maintain an active schedule of conference attendance throughout the year across the innovation center that is California.

- Guides: We actively bring Orange senior managers, major customers, and European policymakers into dialog with the disruptor of Silicon Valley. OSV takes you behind the latest news and puts you in contact with the newsmakers before it hits the Web.

In the realm of thought leadership, OSV provides free access to heaps of research on concepts like big data, the "porous enterprise," and CEM.

AT&T Foundry

The AT&T Foundry launched in 2011, and represents a $100 million investment from AT&T and a group of sponsors that include Ericsson, Alcatel-Lucent, Amdocs, Cisco, Intel and Microsoft. The Foundry operates ou of four locations: Atlanta, Plano, Palo Alto, and Ra'anana.

AT&T Foundry works in projects combining business, design and technical resources, and has started more than 200 projects and deployed dozens of new products and services. Projects focus on areas of significant business or technology interest and typically involve external startups, innovators, entrepreneurs, academics, and inventors. These projects are organized in short 'sprints' designed to determine success or failure quickly.

An impressive listing of some of the solutions being developed at AT&T Foundry can be viewed here. Some of the standouts include software-defined storage, numerous IoT solutions, the AT&T Drive connected car platform, and a test-bed for Domain 2.0, AT&T's foray into network virtualization.

Telefónica Open Future

Telefónica recently entered into a limited partnership with Coral Group to form an investment platform to discover, create and deliver innovative products and solutions to accelerate and enhance the digital experience of its customers in Europe and Latin America. The global CSP

Innovation labs and tech incubators solve a key challenge for CSPs

has earmarked up to $200 million for investment into this venture. This new funding was made possible through Telefónica Open Future, a global, open program designed to connect entrepreneurs, startups, investors and public and private organizations worldwide. Its goal is to guide innovation towards the development of viable projects, using a scale up model that gives visibility to the talent and connect with organizations, investors and businesses.

Driving innovation from the outside in

The biggest learning lesson from these innovation labs is that innovation is occurring from the outside and then moving in. By enabling small teams to adopt the "fail fast" methodology, service providers can become more agile. These labs and tech incubators solve a key challenge for CSPs--that is, to move quickly and release new, next-gen services to the market while they are still hot.