

## Survival of the fittest; maintaining differentiation in an evolving telecoms market

Life in the Telecoms industry has become increasingly difficult. According to the European Telecommunications Network Operators Association (ETNO), rapidly evolving technologies, together with constant changes in customer behaviour, has led to a situation in which the European telecommunications sector faces numerous challenges, such as: maturing markets, decrease in traditional fixed services revenues, competitive pressure on fixed voice by mobile and the advent of new convergent technologies such as VoIP.

What has this led to? According to the ETNO, these challenges have led to new market structures, competing infrastructures, a huge increase in competition and an ever increasing number of services being offered.

These challenges have been taking shape over the last few years and yet again, the sector is facing another huge transformation, sending the global telecoms market into another stage of evolution. This technological development is set to change the face of how telecom suppliers operate and will force the introduction of even newer threats and business models.

What major development has taken place that is instigating this change? The arrival of Next Generation Networks (NGN).

Should the arrival of NGN not be a good thing? The OECD believes NGN are expected to provide new opportunities for a variety of developers. Well, the advantages for the end-user are clear to see. Both enterprises and businesses alike are set to benefit from further competition and will have an unparalleled choice of vendors who can meet their needs. Coupled with the fact that new entrants have been entering the market at breakneck speed over the last couple of years, the omens do indeed look good for the end-user, but signal a much tougher operating environment for telecom providers.

It only gets worse for the telecoms providers. Research suggests the heavyweight IT players are also encroaching on the sector, believing they can take valuable market share from telecoms service suppliers themselves. Giants such as IBM and Microsoft have both talked about entering the market, especially when the NGN are up and running.

With the huge number of players operating in the market, service and solution offerings are beginning to look increasingly similar. The arrival of NGN's could mean everything will not just look similar, but the same, leading to the commoditisation of the sector.

What do all these various factors mean for telecoms providers? First off, value that has been disappearing (due to factors such as competition and changes in market structure) will be completely eroded. Looking into the future, the life within the sector could become a battle of price and not only will we see value disappear, but margins will also be at an all time low.

The ETNO stated (in 2005) that the availability of added value services will be one of the key characteristics that will shape the European telecoms market in the future. If, in the future, service offerings are going to look the same, it will be those organisations who have the ability to successfully differentiate themselves from 'the rest of the pack' that will be the ones who succeed. Personalisation of offerings for each customer segment could be key if telcos want to be winners.

This evolution is not just happening on these shores, but on a global scale. A report into network evolution from Huawei Technologies revealed European telecom majors France Telecom, Telecom Italia and Deutsche Telecom are all in the process of planning their Next Generation Networks.

Europe is not the only region who is fast developing NGN. China and the United States are the two countries considered to be the most developed currently in the deployment of NGN's, state TMC Net. At the end of 2005, a study from U.S. based telecommunications consultancy Dittberner Associates revealed, that China accounted for more than 27 percent of the worlds NGN installed base and the U.S. 26 percent.

The vision and capabilities for NGN's are beginning to take serious shape and the global telecoms market, as we know it, is evolving into a whole new kind of beast.

What is a NGN and why has this technological advancement become the next evolution in a constantly evolving market?

According to the Telecommunications Regulation Authority of France (TRAF), the progressive migration of the telecommunications sector to next generation networks and services is a major trend generating interest among most players. It is the result, say the TRAF, of a combination of favourable and motivating factors:

- Major structural changes to the telecoms market, Europe wide, including: deregulation of the local loop and long distance markets, network optimisation and cost reduction and outsourcing amongst others.
- Major changes in services and uses, including: the explosion of data services (in particular Internet and multimedia), mobility and accessibility, need for operators and service providers to develop new markets.
- Major technological evolutions, in particular with the development of very high speed access and transport networks, the generalisation and evolution of IP in favour of differing levels of quality of service.

The primary goal of NGN, state U.S. telecoms provider Telcordia, will be to enable users to get the information they want, in any media/format, over any applications, anytime, anywhere and in any volume. Telcordia believe there are several characteristics likely to be important in an NGN environment:

- Ubiquitous, real-time, multimedia communications: The only hope for dramatically increased fidelity, akin to communication in person, is high-speed access and transport for any medium, anytime, anywhere and in any volume.

- More 'network intelligence' distributed through the network: This includes applications that know about, allow access to, and control network services, content and resources. It can also perform specific functions on behalf of a service or network provider (e.g. 'management agents' that monitor network resources, collect usage data, provide troubleshooting, or broker news services/content from other providers).
- More simplicity for users: This shields users from the complexity of information gathering, processing, customisation and transportation. It allows them to more easily access and use network services/content, including user interfaces that allow for natural interactions between users and the network. It involves providing context sensitive options/information, transparently managing interactions among multiple services, providing different menus for users and providing a unified environment for all forms of communication.
- Intelligent information management: This helps users manage information overload by giving them the ability to sort and filter content and manage data of any medium.

An NGN white paper from Telcordia Technologies highlights the fact that an NGN environment can include a broad range of services. Telcordia define these service drivers as:

- Voice Telephony – NGNs will likely need to support various existing voice telephony services. NGNs are not trying to duplicate each and every traditional voice telephony service currently offered.
- Data (Connectivity) Services – Allows for the real-time establishment of connectivity between endpoints, along with various value added features (e.g. bandwidth on demand)
- Multimedia Services – Allows multiple parties to interact using voice, video and data. This allows customers to converse with each other while displaying visual information. It also allows for collaborative computing and groupware.
- Virtual Private Networks (VPNs) – Voice VPNs improve the interlocking networking capabilities of businesses by allowing large, geographically dispersed organisations to combine their existing private networks with portions of the PSTN, thus providing subscribers with uniform dialling capabilities. Data VPNs provide added security and networking features that allow customers to use a shared IP network as a VPN.
- Public Network Computing (PNC) – Provides public network-based computing services for businesses and consumers. For example, the public network provider could provide generic processing and storage capabilities (e.g. to store/backup data files or run a computing application).

The public network provider would charge users for raw processing and storage used, but would have no knowledge of the specific content/application. Alternatively, the public network provider could provide specific business applications, with all or part of the processing/storage happening in the network.

- Unified Messaging – Supports the delivery of voice mail, email, fax and pages through common interfaces.

NGN does not only offer cover network characteristics but also service characteristics which could provide new opportunities to network operators, service providers, communications manufacturers and users.

The service offerings are not expected to end there. According to EMC, a world leader in information management, the new wave of services offered by NGN's are driven by capacity intensive content that is being delivered to a wider range of terminals than ever before, such as TV, PDA, Smartphone as well as PC-based browsers. Offering these services through a NGN means they have one thing in common – they are all rapidly becoming IP (Internet Protocol) based (EMC: 2006).

The service offerings EMC refer to, which are already being deployed and adopted by some providers, include IPTV for broadcast TV, Video on Demand (VoD), Voice over IP (VoIP) for telephony. There are others that are not so well known yet, like Over IP Video (OIPV), network-hosted Personal Video Recorders (nPVR) allowing the delivery and storage of personalised content, Content Caching or VODCasting capturing voice or video for subscription purposes or location-aware services providing information in context to the actual location of the user – just to name a few (EMC: 2006).

Just to demonstrate the significance of IP-based services in the telecommunications, media and entertainment market, the forecast for IPTV subscribers alones estimates \$36.8 billion US in 2009 with a compound average growth rate (CAGR) of 72%. The overall IPTV system, revenue in 2009 is expected at US\$9.9 billion with a CAGR of 83% (EMC: 2006. Sourced from Multimedia Research Group).

Most experts agree with the EMC view, and see NGN in general as a multi-service network based on IP technology. NGN, as an integrated IP network for wired and wireless communications, could eventually handle all types of traffic or applications over packet networks. In addition, some market analysts now predict that the entire PSTN (Public Switched Telephone Network) will evolve into NGN over the next ten years or so (OECD: 2006).

So, instead of utilising different networks for their voice, data and video applications, NGN will enable end-users to run these applications through one converged network.

What does this mean in practise for all those organisations that have to operate in this growing, but increasingly complex market sector?

NGN's are expected to provide new opportunities for a variety of developers, believe the OECD, such as applications, software components, products and systems solutions.

Providing new opportunities is very much true, as the gradual introduction of the NGN will change customer needs and expectations. Due to this competitive nature and tough market conditions that telecoms providers and manufacturers face however, only those who are innovative in their business approach, and ultimately clever enough, will reap the rewards on offer. Telecom suppliers who are unable to react to these new, changing customer needs, will inevitably suffer.

As NGN's become the industry norm and competition increases, states U.S. Telco service provider Telcordia Technologies, it will be essential for companies to position themselves appropriately to take advantage of their core competencies and to prepare for the emerging telecommunications environment.

Failure to do so could result in the whole of the industry becoming commoditised. As more and more suppliers move to offer services through an NGN, offerings to the end-user will once again begin to look very similar (as we are finding with the market today). The battle for supremacy will be won on price and margins will fall to new lows.

## Telecoms, NGN and the UK

The UK Telecoms market has been described as one of the most sophisticated and advanced in Europe. Mobile and broadband penetration are comfortably ahead of the European average, according to global telecommunications research consultancy, Budde.

The sector in the UK has also benefited significantly from light touch regulation and increasing customer demands. The disadvantage for the telecoms service provider, however, is that more service providers are appearing at an alarming rate and everyone, both large and small, wants their piece of the pie.

Good news for the end-user, who are benefiting from cheaper prices and more value-added services, but not so good news for the service provider. All this choice has meant customer churn is increasing and profits are diminishing. The UK telecoms market is on the verge of going the way of the food, drink and clothing sectors by commoditising itself even further.

Figures provided by the corporate research team (sourced from Bloomberg) at Lloyds TSB revealed pre-tax profit margins for telcos' listed on the FTSE for November 2006 was -32.7%. Compare this with pre-tax profit margins for telcos' listed on the S&P (19.6%), the DAX (10.4%) and the Nikkei (9.8%).

The figures do not make for pleasant viewing, but they reflect the ever increasing competitive landscape that telecoms providers are faced with in the UK.

The industry is now set to face even tougher battles for profitability and market share. The gradual introduction of NGN's will mean service offerings that once just looked the same, will become the same. In effect, the market will commoditise itself completely.

BT, the UK telecom incumbent, has begun implementing their '21st Century Network' (21CN) across the UK. On November 28th last year (2006), the first customers were connected to the network in Wales.

But why is BT spending in excess of £10 billion to create the 21CN? Many commentators on the industry state the £1 billion plus in operational costs that will be saved when the 21CN is fully implemented. Look a little closer and it seems one of the big drivers is to remain competitive whilst meeting increasing customer demands.

BT is not alone in investing and developing a NGN. Other major players such as Colt and Thus are developing or have in place their own NGN.

In fact, according to Colt's Chief Technology Officer, Alireza Mahmoodshahi, rolling out NGN's is not a matter of choice for telcos' that want to survive. Speaking at a NetEvents conference in Geneva, Mahmoodshahi stated:

"NGN's as we see today are not a matter of choice. As a service provider it is a must do in order to compete and deliver what our customers want."

This comment is probably expected by the majority of service providers in the market. Once again, however, it highlights the original analysis that service providers offerings begin to look increasingly similar and eventually become the same.

## What challenges will the telecoms sector face in the future?

The arrival of next generation networks will alter the landscape in which telecom providers operate. Some of the challenges are defined below:

- The telecoms market in the UK offers consumers and enterprises alike unparalleled choice and value. The transition to NGN's will erode many of the advantages upon which vendors have based their business.
- Services and solutions have begun to look similar. The advent of the NGN and the convergence of services could mean we get to the point where everything will look, and even be, the same.

- This convergence of services has added the traditional IT heavyweights such as BT and Microsoft into the telecoms arena.
- This gradual transition to NGN's will see service providers struggling to differentiate themselves from all of the competition currently in the market place, as well as, those who are set to enter it.
- Convergence of IT and Telecoms will make competitive advantage a scarce commodity for many a service provider.
- The rapid technological change of the industry means telecom providers must make fundamental adjustments to their business models if they are to survive in this complex and highly competitive economy.
- In this highly competitive economy, mergers, alliances and the onslaught of new market entrants could have service providers struggling to find innovative ways to remain and/or attract lucrative customers.
- The ever increasing competitive landscape will put account management capability at a premium. With the number of telecom service suppliers increasingly steadily, this could be the decision between buying and rejecting a vendor's offer.
- Effective customer segmentation will play an ever more important role for the telecoms provider as important resources can no longer be wasted on marketing and selling services to customers who don't really need or want them.

## What does this mean for the Equipment and Service Provider

It means they need to understand clearly which elements of the market they are targeting, and why. As well as needing to better align their capabilities to become the best in each segment they choose to address. User choice is exploding in both the consumer and business marketplaces so no one company can any longer 'own' the marketplace. This is driving new complex partnership models, as well as high rates of acquisitions and mergers in the marketplace.

Consumer choice is taking off, driven by Local Loop Unbundling as well as by the integration and bundling of new services, and their availability through any device operating on mobile, WiFi, satellite, cable or copper. With the advent of new IP offerings and services such as Hybrid (SIP/WiFi) phones; Unified Messaging; PRBT; Network Address Books; Improved Reachability; 'Push-to' services; VoD; EPG; PVR; Communications TV; Amigo TV; and MyOwn TV coming to market right now.



More importantly, enterprise choice is also taking off as a result of IP anywhere. With services such as Managed business communication services (MBCS); Managed employee interaction services (MEIS); and Managed customer interaction services (MCIS) all coming to market right now, the need to focus and become the best has never been more paramount.

These plethora of services that are available or becoming available means that customers are becoming more sophisticated. They are having to; they have the same issues of reducing margin and increased competition. They have to meet the expectations of their customers and, if they are not an end user sales organisation, their customers then have to meet the expectation of their own customers. As we already know, those customers are becoming more demanding, especially with the level of service offered.

The convergence of telecom services will drive the industry with the need to create compelling value propositions to the end user. It has to be unique, something different, which makes your organisation stand out from the crowd and become a trusted advisor, who not only adds value but can align the business needs to the exact requirements of the customer.

In an industry where customer churn is at an alarming rate, the equipment and service provider needs to act now before it is too late. It is no longer acceptable to provide services and customer service levels that are just 'satisfactory', but solutions and service levels that leave customers very satisfied that reward repeat business and lasting relationships.

## The options are clear

- Whether the need for NGN's is driven by consumer and enterprise demand, new entrants or new offerings, your organisation needs to be bold and innovative and constantly adapt solution and service offerings to the ever changing demands of your customers.
- Or, deliver low cost products and services which have a very short life cycle in terms of consumer and enterprise usability and hence value.

The final word should be left to Alireza Mahmoodshahi of Colt:

- *...there is going to be risk, but there is no glory without risk. Those who want to remain conservative forever – then they will be the ones to go."*

## What can ICDL offer?

Finding the answers to the challenges listed above forms the core of the knowledge that organisations require today to compete successfully and thrive. If organisations are not creating Value and differentiation, and positioning the qualities that underpin these factors in the minds of their customers and beyond, they will be at the whim of the market, rather than being a driving force dominating the market.

Research shows that senior level customers are looking for organisations who can offer new insights into their challenges, and who can help them develop new strategies. These organisations become 'Trusted Advisors'. To become a Trusted Advisor, an organisation needs to have a deep understanding of the customer's business challenges, an equally deep understanding of their own organisation's capabilities and to be adept at helping customers break out of old assumptions and become bold and innovative, creating differentiation, competitive advantage and net new Value.

## Become an 'Outside-In' organisation

To become a trusted advisor, the thinking behind strategies needs to be assessed, so that your organisation becomes an 'outside-in' business.

So what's the difference between an outside-in approach and today's strategic thinking? In many cases the answer is deceptively simple. Identify what is truly important to your customers; build offerings to meet these real requirements; deliver the right offerings to the right people in the customer, in a way that is appropriate for them.

Many organisations invest in the wrong activities, identify inappropriate information, and build their futures on what they think is important, not what their customers think is important. ICDL call these organisations 'Inside-out'.

Inside-out organisations sit in their offices, analyse their offering and invest time, energy and resource in trying to identify how they can 'beat the competition', and where they can sell more of their products or services. They do not invest in understanding the customer's needs and continuously adjusting their offering to achieve best fit.

How can any business state they have a full understanding of customer needs if they spend their time worrying about how 'they can beat their competitors'?

Outside-in organisations go out and stand in the shoes of their ultimate end users, look back at them and their competition and ask themselves, "standing here, looking back, what do I need to do to make my organisation, our offering and our partners seem more valuable to this end user than our competitors"?



This thinking drives remarkable change throughout the organisation, and through this, changes the perception of the end user. The results are clear:

- Take 'Customer' Risks
- Focus on Customer Needs
- The Business is Focused on the Customer
- Strong Orientation on 'Partnership'
- Reliable Sales Forecasts

ICDL's outside-in approach enables organisations to develop high value long term relationships with their clients by ensuring that the business needs of clients are clearly understood, and the organisation is aligned to exceed delivery expectations.

ICDL's approach is unique for organisations working in complex markets or selling complex offerings to build their own clear differentiation and competitive advantage strategies. The result- your customers can once again see clearly see why they should buy from you, not just from the cheapest. With programmes that have received the highest acclaim from organisations such as British Telecom; Deutsche Telekom; Flag Telecom; and Inmarsat, there has never been a better time to look at a new strategy for success in an increasingly complex and competitive market place.



[Click here to start the Change](#)

*"ICDL didn't just meet my expectations with their Business Acceleration program, focusing on 'how to sell effectively based upon value', but significantly exceeded them. They rolled out training for FLAG across Europe, the US and Asia, and the results were universally excellent. We will definitely be working with ICDL again".*

Brian Macreadie, Senior Global Marketing Manager, FLAG Telecom  
(part of the Reliance ADA Group of companies).

*"Based on training conducted by ICDL through 2005 and 2006, we were able to identify - and fill - a significant capability gap in Inmarsat's sales channel. The results have been immediate. With a value-led approach to sales, our business has had an immediate impact in the region and we are currently exploiting numerous high-value opportunities."*

Harry Tayler, Managing Director, Evolution Communication

For more information on how ICDL can help you, call us today on +44 (0)118 979 8433 or e-mail [enquiries@thebusinessaccelerators.com](mailto:enquiries@thebusinessaccelerators.com)

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