Reinventing the Telco: A *Heavy Reading* Progress Report

**EXECUTIVE SUMMARY**

Incumbent telcos around the world continue to invest heavily in next-generation network (NGN) technologies to ensure their long-term future as profitable providers of network services. But while there's a clear consensus on the core elements that constitute NGNs, the telecom industry is still struggling with the concept of the next-gen telco.

Telcos are being driven to deploy NGNs for a number of reasons, including:

- The need to reduce costs, primarily to meet the threat of competition
- The need to meet the ever-growing demand for bandwidth, to handle both over-the-top Internet services and telco-provided video services
- The need to create a more flexible platform for the development and deployment of new services

The first two drivers are relatively clear-cut and uncontroversial, but the continued confusion over what constitutes a next-gen telco emanates mainly from the question of next-gen services. What and where are the new services that will drive future telco revenue? The answer, for now, is far from clear.

On the wireline side, the provision of Internet access (especially broadband access) has temporarily filled the gap left by the decline in telephony, while the rise of IPTV is giving telcos hope that "content" will continue to fill in for loss of revenue in mature products. Yet even on the most optimistic reading, triple-play packages can take telcos only so far. IPTV accounts for only a small share of revenue and spending, and the entire content market is in turmoil, as a result of the relentless march of new Web services and sites that are generating a vast ocean of "content." And in any case, consumers spend far more on communications than on conventional content, much of which the telcos have to buy before they supply – a factor that not only reduces margins, but also threatens to destroy them.

On the wireless side, the vaguely defined "mobile data" market is making progress, but the future is murky. There has been a steady drift to flat-rate mobile data packages that mimic the packages already usually offered in wireline broadband, with little effort to differentiate and charge for other applications. Mobile broadband packages tend to encourage the use of existing Internet applications, including email and Google, and efforts to establish genuinely new services that generate new revenues – for example, mobile TV – have had little impact.
The plain truth is that telcos are not sure where to go next to fill the revenue gap left by the dismantling of their telephony business models. For well over a century, incumbent telcos have provided a utility service and utility connectivity to a succession of new infrastructures – analog PSTN, digital PSTN, cellular mobile, Internet, DSL, 3G mobile, and in the future, FTTH and LTE. The focus for telcos has been on rolling out *infrastructures* rather than supplying new *services*. Since telcos no longer control the supply of applications and services, most of which emerge from the Web, they no longer control their future sources of revenue. And the drift of customer attention away from telco services and toward Internet and Web services continues apace.

The core questions this raises for telcos are as follows:

- What new services will drive ARPU and lower churn?
- Will telcos develop and deploy those services themselves, or simply facilitate them?
- If telcos are simply facilitating services, what key technologies do they need to deploy to add value to third-party services?
- If telcos are developing services directly, what is the optimal way to do that?
- Should telcos prioritize the development of wireless services or wireline services – or should they instead converge those services into a single portfolio?
- Can next-gen telcos serve both consumers and businesses equally, or do they need to prioritize their development plans to favor one market sector or the other?
- Can telcos continue to function both as an infrastructure provider and a service provider, or would structural separation increase overall revenue and shareholder value?

**Reinventing the Telco: A Heavy Reading Progress Report** explores and analyzes the key strategies and decision points that Tier 1 incumbent telcos are now facing as they make their long-term network and business transformation plans. The report is based on an exclusive, worldwide survey of network operator professionals and their technology suppliers, focusing on their organizations’ plans and perceptions regarding next-gen telco transformation.

In total, more than 360 telecom industry professionals participated in the survey, including nearly 150 respondents from network operators – with the largest group of network operator respondents coming from incumbent telcos.

**Excerpt 1: Respondents by Company Type**

![Respondents by Company Type](source: Heavy Reading)
In addition to presenting and analyzing survey results, the report delivers a deep-dive analysis of five major incumbents that are trying to transform themselves into next-generation telcos:

- France Telecom SA
- KT Corp.
- NTT Corp.
- TeliaSonera AB
- Verizon Communications Inc.

Together, the survey results and individual company analyses provide clear and compelling insight not only into how telcos see the next-gen services environment evolving, but also into the factors that are now driving telco decision-making processes and strategic priorities.

Excerpt 2: Investment Priorities (Incumbent Telco Responses Only)

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<td>Control, policy, &amp; QOS tools</td>
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<td>Content development software &amp; tools</td>
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Source: Heavy Reading

Report Scope & Structure

Reinventing the Telco: A Heavy Reading Progress Report is structured as follows:

Section I is an introduction to the report, with complete report key findings.

Section II provides an overview of the current status of incumbent telcos, including the threats they face from Web companies and other new competitors, as well as from declining consumer spending on the basic telecommunications services.

Section III examines the high-level results of our survey, analyzing telco and industry opinion on the key strategic choices facing telcos and the keys to likely success in the longer term – looking in particular at the future of telephony.

Section IV looks at the survey results in other key areas, examining some of the major dilemmas facing telcos, including strategy for content and entertainment markets, prioritizing consumer and enterprise customers, and choosing among fixed, mobile, and convergent market strategies.
Section V reviews the recent performance of five major incumbent telcos – France Telecom, KT, NTT, TeliaSonera, and Verizon – and analyzes the degree to which their current strategies are in line with their aspirations and beliefs about the future.

Section VI synthesizes our findings and sets out what telcos need to do if they are to make the transition into next-gen telcos.

The report is essential reading for a wide range of industry participants, including the following:

- **Telecom service providers**: How are telcos approaching next-gen transformation issues? What do incumbent telcos see as their long-term goals for providing and delivering connectivity and services? How are telcos prioritizing their capital spending, and are those priorities consistent with their next-gen telco initiatives? How important a role will incumbency play in the development of next-gen telcos? What are the potential opportunities for smaller competitors in the next-gen environment?

- **Technology suppliers**: How do telco spending priorities for next-gen services mesh with your current and projected product portfolios? Is your company well positioned to meet the changing needs of incumbent telcos and their competitors, or do you need to consider strategic changes in direction to stay ahead of customer demand? How quickly are telcos likely to deploy next-gen service transformation programs, and what are their first steps most likely to be?

- **Investors**: How will the emergence of next-gen telcos affect the telecom supply chain? Which technology providers are likely to emerge as the main suppliers of next-gen telco products, and when are they most likely to reap those benefits? How will the transition to next-gen services affect the financial performance of incumbent and competitive network operators?

*Reinventing the Telco: A Heavy Reading Progress Report* is published in PDF format.