



Telecoms: Too important to leave to telcos?

How the public sector is redefining the telecoms industry

Governments appear to be taking an increasingly **interventionist role** in telecommunications. There is a growing view that the future of telecoms is too important to be left to the telcos. This **shift in the market's driving forces** holds both threats and opportunities for telcos and their partners.

MANY GOVERNMENTS have in recent years focused on communications networks to improve economic growth and social inclusion – Digital Britain, Multimedia Super Corridor Malaysia, Saudi Arabia's Economic Cities and so forth.

However, many of the authorities in the more liberalized markets have started to become frustrated at the slow rollout of fiber networks and ubiquitous and affordable high-speed mobile communications. While initially the frustration focused on consumer protection in terms of pricing, competition, broadcasting provision and coverage or availability, government concern has recently focused more on the reliance of vital national projects on the existence of this new infrastructure.

Various major public projects are becoming intricately dependent on networks and their ability to support new paradigms within education, environment modeling, healthcare service provision, transportation and so on.

Together, governments see these projects as essential to 21st-century development. Critically, while they are all dependent on improved communications networks, they are much less dependent on traditional telecoms services. Although basic services such as voice telephony and SMS are still important as enablers, it seems implausible that telcos' new in-house services such as dedicated content, IPTV or IMS video-sharing have equally important roles.

New national infrastructure services rely more on basic IP and internet connectivity, plus application hosting and support. Despite suggestions

that x-ray images or public-safety broadcasts are also content, the stark truth is that they are part of deeper ICT infrastructures and control systems, with the actual telco network an enabler rather than an integrated delivery platform.

The net effect has been that government focus now lies squarely on access. The powers that be want pipes as a priority, not services. They may also need hosting and integration and outsourcing expertise, but that is an area where the telcos intersect with the IT behemoths.

COMMUNICATIONS SERVICES – NOT JUST TELECOMS

This leads to another theme: telecoms versus ICT. All of the projects mentioned above are heavily reliant on IT. Arguably, it is the software and management that are difficult whereas, in theory at least, the networks and data transport are relatively easy.

In contrast to some of the telecoms operators, IT-centric companies think they should be leading the national transformation process, with telcos as suppliers, sub-contractors or consortium partners where appropriate.

It is worth noting that telcos do not control the whole of the communications infrastructure within any given country. There are numerous parallel networks, both wireline and wireless.

It is also notable that the early successes in national fiber rollouts have been Korea and Japan. These are markets where the telecoms industry does not typically attract much government focus on competition for its own sake, as on technology evolution and possibilities for exports. In fact, network planning in South Korea at least, is

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► largely undertaken by the government. There is also often much less focus from capital markets on short-term returns from network operators.

One problem facing operators is that, with greater emphasis on ICT driving benefits at the national level, there is increasing pressure on governments to devise new ways to measure the success of communications providers. While there are different attitudes globally to the privatization of utilities, health care and other national functions, there has always been a strong government agenda. Governments like the revenues from privatization, the taxes from competitive firms and the socioeconomic benefits of technology, but they don't like relinquishing control.

The Telco 2.0 Initiative sees this desire for control and intervention increasing as telecoms' importance to overall economic welfare grows. Recently, governments have had to deal with a growing range of challenges that are outside the normal realm of economics such as intervention with banks, controlling climate change and CO₂ emissions, healthcare system evolution, the shifting role of the military, and aging populations. These are major, systemic issues far beyond the normal mechanisms of business – and it is rapidly becoming apparent that communications, and IT technologies, will be critical in solving them.

Reduction in CO₂ levels is a good example – government is not just interested in smart grids based on telecoms; its overall strategy has to extend to changing peoples' behavior, insulating old houses, taxation, funding developments in energy generation and distribution, climate modelling and monitoring, encouraging new forms of transportation and so on.

DO TELCOS MOVE TOO SLOWLY FOR GOVERNMENTS?

Given the timescales in which many governments must cut CO₂ emissions in their countries, it is not clear that sufficiently dramatic changes will result from the free market. For example, in a capital-constrained era, many telcos are talking about rolling out fiber in line with demand. For governments with annual targets dependent on new networks, that may not be fast enough. Some appear willing to sacrifice telecom competition in order to make gains elsewhere in more highly prioritized public-sector areas, such as national transformation, with the aim of creating a more competitive digital economy overall.

Whether those priorities relate to international obligations or other pressing concerns for vot-

ers is irrelevant – most parliaments would put rapid improvements in health care provision above theoretical concerns about facilities-level competition for fiber.

In other words, there is an increasingly poor fit between governments' expectations for national transformation, and the realistic deployment of next-generation networks from commercial telcos dependent on the favorable views of investors.

GOVERNMENT IN TELECOMS: BEYOND REGULATION

We have gone through a protracted cycle of telecom privatization, liberalization and technology evolution that has driven a huge amount of investment, innovation and social change. When most national operators were sold away from governments, large-scale mobile networks, broadband access and the web as we know it did not exist. State involvement in telecoms has largely been reduced to national regulators ensuring that competition works effectively.

But the world is changing again. In many ways, telecoms has become so important and successful that its influence has grown beyond merely connecting people and companies, enhancing productivity by lubricating old, cumbersome processes.

While there have been lofty policy documents about the benefits of next-generation broadband, not much implementation has actually taken place. This is now changing; the recent moves to stimulate economies seem to have reawakened state interest in setting the communications agenda. The collapse of the banking sector and major companies such as General Motors in the US has made interventionist politics more palatable to voters. There has been a realization that sometimes policymakers and treasury departments can move much faster than industry itself.

The state investments in telecoms awarded in various countries have also given bureaucrats a carrot to dangle in front of those companies that have not fully embraced competition. Money is given in return for improved openness and transparency. In a way, this is the opposite of the money that the industry spends on lobbying – what goes around, comes around.

In other words, we seem to be moving full circle back to government control of telecoms, at least in part.

The danger here for telcos – and the opportunity for vendors – is that communications policy and strategy becomes much more owned, or at least controlled, by governments, not the net-



works themselves. There seems to be relatively little appetite for direct state financial control of NGN fiber rollouts; there is a greater desire to provide a financial catalyst for investment by private companies, while forcing telcos to cede aspects of control and vision, especially around open access and wholesale.

This has not been lost on many of the network equipment manufacturers that have started to talk directly to ministers, with reference to subjects such as CO₂ emissions, productivity and national security. Vendor executives, Cisco's John Chambers for example, regularly talk about direct meetings with heads of state, as well as discussing "architectural" public-sector opportunities as a priority above "carrier-level" solutions.

IMPACT ON TELCO BUSINESS MODELS

This is the problem for the operators – some of the upstream customers they are pursuing, including governments, energy companies and healthcare providers – may turn out to be the prime contractors. The telco might be relegated to providing specific subcontract components for a wider ICT project, rather than innovating their own business models through a next-generation services and capability platform.

This is not necessarily a problem for operators as these prime contractors could, in effect, be channels for operators to distribute their new services. However, given how slowly and ineffectively many telcos have managed their own internal transformation projects and intentions to innovate, are they really the best at helping governments with their grand plans? The big risk for operators is that national architecture services, such as energy grids, rely on access not telecoms services. Governments may therefore see operators as adding relatively little value and that they should be rewarded with relatively poorer returns.

This is the classic dumb-pipe scenario that telco execs fear but, in this case, the threat comes not from the so called Over the Top (OTT) players but from governments.

This goes to the heart of the future wholesale and platform opportunity for telcos. It is possible, either through enforced regulatory structural separation, or dedicated, government-inspired intervention, that the future communications infrastructure may not be theirs to "slice and dice." They may become customers, and perhaps caretakers, of the national broadband network, not its owners.

The bottom line is that governments want pipes for their own purposes. Dumb, smart or otherwise doesn't matter so much – but speed and ubiquity do. Competition for voice and broadcast entertainment is only nice to have, compared with the must-haves around connectivity for public safety, energy, healthcare, education and municipal services.

From a perspective of operators finding much needed profitable new growth, increasing government involvement is a double-edged sword. On

the negative side, it seems probable that attempts to retain ties between infrastructure-based access and operator services will fail in many cases, with separation inevitably occurring at some level in the next few years in most markets.

However, faster fiber rollouts and transparency in the wholesale provision will help the truly innovative service providers reach new customers, while the focus on ICT-enabled national transformation will encourage major public and private investment. Operators that can move fast and position themselves correctly have an opportunity to secure a portion of this.

While it is not obvious that public sector bodies will pay handsomely for value-added services, such as advertising and payment APIs that typically appeal to the private sector, there is a good deal of scope around authentication, two-sided broadband capacity wholesale and managed-services contracts.

We've seen a step change in strategic intent and action from the world's major operators and vendors in the past 12 months, but many are still learning about the big opportunities. While telcos should not stop lobbying governments to retain more control, they also need to be pragmatic and plan for a probable future in which they are smaller fish in a larger IT and communications sea. They also need to put in place their own programs for business model innovation now if they haven't already – or they risk being left high and dry as the tide turns.

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This is the Telco 2.0 Initiative

► The Telco 2.0 Initiative focuses on business model innovation, and conducts research and analysis, collaborative senior executive brainstorms, and strategy consulting at the intersection of the technology, media and telecoms (TMT) industries. A key Telco 2.0 theme is that operators can create new markets through the innovative use of core assets – these include new marketing, identity, payment, customer care, content distribution and digital logistics services.