At last,

they are beginning to get the message

Tens of billions of dollars are being invested every year in so-called Next-Generation Networks (NGN)—that is, in all-IP platforms built on high-speed wireline and wireless infrastructure. But are next-generation telcos emerging that can make the best possible use of that infrastructure?

That was the question *Heavy Reading* posed recently in a large-scale survey of telcos and suppliers that was the basis for our recent report, "Reinventing The Telco: A *Heavy Reading* Progress Report." And while the survey did not provide a definitive answer, it suggested that telcos are becoming more realistic about their role in the all-IP NGN of the future.

To start with, most big telcos now recognize that the era of big telephony revenues is disappearing fast. Last year, to take just one example, France Telecom lost almost 25 percent of its customers — more than 5 million lines — to competitors who typically offer flat-rate VoIP and do not charge for minutes. And everywhere, wireless telephony is going flat rate and saturating. In its four major European operators, Vodafone's revenues barely rose in real terms in the most recently reported financial period because telephony is on the slide.

Faith in triple-play

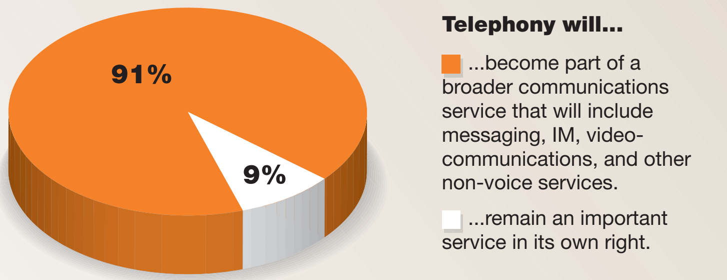
Small wonder, then, that in our survey, nine out of ten respondents said they did not believe that telephony would survive as a stand-alone service. Over half our survey respondents said that packaged services would be the biggest source of telco revenue by 2012 — typically a triple-play package with a few extras thrown in. But faith in triple play may be misplaced. Competition between flat-rate broadband wireless and wireline packages is growing, and internet access sells on a simple price/bandwidth ratio. And consumers spend less on entertainment than communications. The spread of free user-generated content and over-the-top video provided directly by rights-owners is putting this model under even greater strain.

The truth is that triple play on its own is unlikely to pull telcos out of the current swamp of low growth, no growth, and real decline. In these circumstances, the huge investments going into NGNs look less than prudent. Yet NGNs do have a silver lining, if only telcos can accept that they need to use the transition to NGNs to open up, loosen up, and accept that they can't maintain vertical control of the applications and services that run on these platforms.

A patchy record

Encouragingly, our survey suggests that telcos have at last begun to get the message. As Figure 2 shows, when we asked telcos to name the factors that would be

What is the future of telephony?



point

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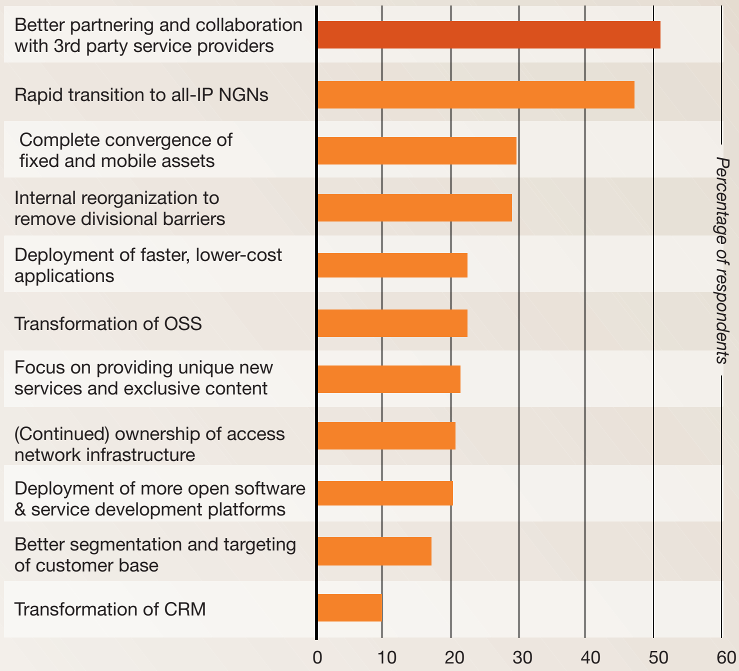
most important to their future success, partnering with third-party service providers came out on top — ahead of a range of factors that until recently would have scored higher. It's a strong indication that telcos now understand that third-party service providers are essential to their future success.

Of course, it's a long way from perception to execution. Big telcos have, at best, a patchy record when it comes to cooperating with third-party providers, especially web-based providers. The relationship today is more negative than positive as telcos seek to head off net neutrality legislation and, as the webheads see it, to discriminate arbitrarily against applications and sites that are deemed "harmful."

Most important factors for mainstream telcos' future success



Free-wheeling creativity

However, big telcos are hoping to put things on a more constructive footing by opening up networks, platforms, and resources and then sharing the hoped-for new revenues with those third parties. Often going under the name of network or applications "enablers," these capabilities include the ability to bill, authorize, and identify customers, as well as security, per-application or per-subscriber quality of service, presence, knowledge about subscriber location or devices, and high-level exposure of call control and other specialized telco software, so that ordinary software developers and even non-technologists can write to telco platforms.

All around the world, programs such as BT's Web 21CN initiative and the Orange Partner Program are now emerging as telcos attempt to meld their technology assets and prowess to the free-wheeling creativity of websites and applications developers.

Telcos undoubtedly have an enviable ability to earn revenue from end users — not a strength of the web-based providers, who often give value away in the untested and vaguely defined belief that they can somehow monetize that value later. Could telcos help them do that more effectively?

That is a huge question, and it is perhaps the last great throw of the dice for the world's hugely rich but mightily endangered incumbent telcos. If they can successfully open up resources to third parties and create new business relationships with them, the future could be brighter for all. But it's a formidable task, with a lot to do if NGNs are to earn the hoped-for return on the investment now being made in them.

the author

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