

Transformation 2.0: Laying the Groundwork for Success in the New Communications Economy

By A. Kowalik

Introduction

As the telecom industry wrestles with new competitive and end-user market forces that are changing the industry's business model, a growing number of service providers are exploring the implications of the so-called "2.0" trends. The "2.0" term is a concept that builds on the dramatic changes that have occurred on the Internet. It is a specific reference to the web's embrace of new economic models that come from "mashing up" existing services and the rise of new social networking activities that are changing the way businesses and consumers interact with each other.

For service providers who have traditionally plied their trade in the telecom industry, the 2.0 opportunity is about much more than simply "webifying" existing offerings. The emergence of all-IP broadband networks and the convergence of services over this IP infrastructure have set the stage for an entirely new class of applications, user experiences, revenue streams and business models. This change is forcing the communications industry to redirect itself and its relationship with end users.

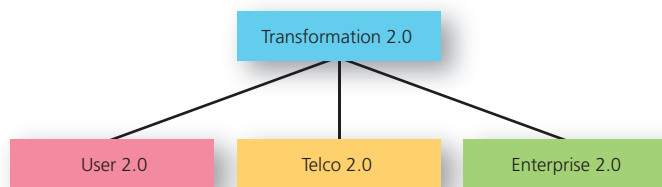
Defining the Elements of Transformation 2.0

In order to analyze the opportunity for service providers brought by the 2.0 ecosystem and what new market trends offer service providers, Alcatel-Lucent has developed a framework of analysis called Transformation 2.0 (Figure 1). Transformation 2.0 is made up of three key elements:

- **User 2.0** – The industry recognizes that today's broadband consumers – individuals who use converged IP applications to interact with and express themselves to other people – behave differently with each other and the brands and causes they care about when compared to traditional user segmentation analyses.
- **Telco 2.0** – This reflects a growing awareness that service providers will have to make major changes over the next five to 10 years to address the current broadband incentive conundrum. Service providers must deploy infrastructure to cope with the increasing traffic generated by new Internet applications, while dealing with the fact that average revenue per user (ARPU) from traditional services is declining in countries where broadband is exploding. This raises the important question of who will pay for the necessary capacity upgrades. Telco 2.0 organizations also realize that they must begin to compete and cooperate with new digital entrants in the market. This means that they must develop new, more sophisticated ways of defining and selecting new business models, then, make deliberate changes to network assets and service capabilities to realize new revenue streams.
- **Enterprise 2.0** – The implications of these converging trends and increasingly ubiquitous access to broadband services is dramatically changing the way organizations of all sizes behave. The use of emerging social software platforms in companies or between companies and their partners or customers is becoming more common. Social software is enabling people to rendezvous, connect

and collaborate through computer-mediated communications, and to form online communities from any place and any time to generate and maintain value for their organizations. According to Alcatel-Lucent, a key success factor for these “dynamic enterprises” (see our article in this issue entitled, *The Dynamic Enterprise – Leveraging 2.0 Applications*) also depends on the ability of enterprises to leverage both their tangible and intangible assets to boost productivity and achieve a competitive advantage.

Figure 1: Constitutive elements of the Alcatel-Lucent Transformation 2.0 framework



Thus, Transformation 2.0 is about much more than just applying 2.0 tools to the offerings that service providers are currently bringing to market. Beyond looking for ways to integrate blog or wiki services into the fixed and mobile offerings of service providers, the greater “2.0 opportunity” lies in taking advantage of a fundamental shift in end-user behaviors, needs and desires (see our article in this issue entitled, *Breaking the Rules: Finding New AVPU Through Click-throughs*). It is also about responding effectively to a whole new breed of competitors – many of them successful 2.0 players – who are introducing new business models to the communications industry (see our article in this issue entitled, *Business Transformation: Advanced Business Models for Converged Communications*). Increasingly, service providers are facing competition from players who provide comprehensive services to brands, advertisers, merchants and developers as well as experience-driven offers that not only meet consumer demands, but also readily monetize new user behavior patterns.

To respond effectively, service providers will have to make significant adjustments to existing business practices. For instance, many traditional service providers currently take a siloed approach to developing and offering services to both consumers and business customers. While there has been a significant amount of movement to begin offering Triple or Quadruple Play services that integrate voice, data, mobile and now video offerings, even this approach comes across as highly limited to consumers who are used to logging onto the web and accessing any service they want instantly.

Thus, the forces behind the 2.0 trend present an opportunity for service providers to transform their networks and their business strategies. The trend is an opportunity to review current cost structures to better compete with new players. It is also an opportunity to integrate an array of platforms to launch the new services demanded by end users, while updating the business models to adapt to this new marketplace.

Monetizing Core Assets

Because new digital entrants have launched – and in many instances shaped – these paradoxes of demand, the telecom service provider has little choice but to adapt. Part of this adaptation will call for service providers to learn how to diversify revenue streams by monetizing the core intangible assets of their businesses in new ways.

To monetize intangible assets – such as subscriber data, real-time billing, multi-channel interaction and so on – to their fullest potential, service providers must identify key new partners with whom they can collaborate to create value. And to get the proper perspective, the industry as-a-whole will have to shift from a largely vertical approach to understanding its business opportunities and develop horizontal business models across the 2.0 value chain.

Successful development of 2.0 business models will require strong leadership and commitment from the most senior positions within the service provider organization. This is because the internal restructuring of many organizations will probably be quite significant. No particular group within the typical organization currently owns the assets that can be monetized in completely new ways. Unlike current products, services, systems or campaigns that characterize the way the service providers currently go to market, the core assets described above are spread throughout the organization in separate databases and customer relationship management systems. Bringing these assets together and developing a unified perspective on how to effectively harness them will take a tremendous amount of work and change management. But, the opportunities associated with bringing these elements together are great – and indeed a failure to undergo this type of a transformation will only bring about greater pain later as organizations struggle to survive on waning traditional revenue streams.

That said, it is also important to ensure that Transformation 2.0 initiatives are executed in a way that optimizes current business models for as long as possible. Let's not forget, that the majority of a service provider's revenue – for at least the foreseeable future – is predicted to come largely from traditional revenue sources.

The Action Imperative

However, action on new business models is necessary today in order to supplement the ongoing decline in these revenue sources. If service providers do not pay attention to the forces behind key 2.0 trends, serious opportunities will be missed and potential for growth will be strangled as new competitors rush in with new options for consumers and business customers alike.

To prepare for this new 2.0 economy, service providers must begin integrating current offers and future initiatives. They will have to engage in service portfolio diversification and develop new senior executive or C-Level sales engagement strategies that target marketing executives in the enterprise as well as wholesale media providers who can very likely become an important new source of revenue.

New categories of services that can emerge as a result of an active offer-diversification strategy could include:

- **Identity and content management services** – These include identity management services for enterprises such as user repositories, directory services, identity federation, (for example, single sign-on); and content management services, including the ability to store, manage, manipulate, retrieve and disperse content to end users;
- **Advertising** – (see our article in this issue entitled, *Breaking the Rules: Finding New AVPU Through Click-throughs*);
- **Web services** – This would include services that help enterprises share data with suppliers and partners, while enabling customers to access different applications from different places, networks or devices; and/or
- **E-commerce** – Creating platforms that enable consumer shopping and purchases via cell phones, mobile banking or online payment processing services for enterprises.

Developing 2.0 businesses with these new partners will require a much more collaborative and customized approach to client and partner management than most service providers are used to. However, to retain relevance and increase bargaining power in such collaboration, service providers must enter these discussions by:

- Understanding core competencies of the service provider's core assets' value to third parties,
- Developing firm plans for making these core assets available to third parties in a way that is synergistic with their competencies and
- Being knowledgeable about the associated commercial value of these competencies.

One of the biggest challenges associated with commercializing these competencies or assets revolves around making it easy for partners to do business with the new 2.0 service providers. Service providers must become proficient at launching simplified interfaces so that partners can access key services and create joint delivery platforms. This has to be done while ensuring systems and process are secure, auditable and easy to understand.

How Alcatel-Lucent Can Help

Alcatel-Lucent has a thorough understanding of the 2.0 challenges and opportunities that confront both service providers and enterprises. That is why Alcatel-Lucent has a portfolio of targeted 2.0 solutions that are in line with service provider business plans and priorities. We bring to market a set of capabilities that enable operators to make a competitive transformation to 2.0 and work closely with service providers to:

- Restructure capital expenditures (CAPEX) and operational expenditures (OPEX) in a manner that improves margins by creating alternative business models.
- Explore innovative approaches to working with core communication products to retain customers and their spending.
- Facilitate revenue-generating partnerships with application developers through the development of a Service Delivery Environment (see our article in this issue entitled, *Mitigating Risk in the New Economy*).
- Broaden and increase the sophistication of wholesale and enterprise product offerings, where barriers to entry from competitors are still quite high.
- Diversify into new markets for alternative revenue streams, including: content, advertising, digital home management, banking and content delivery networks.
- Develop new business models beyond the traditional subscription framework.

Conclusion

The convergence of IP and broadband networks has created new market dynamics that are eroding the value of revenues from traditional voice and messaging services. However, these trends also provide the opportunity to create new applications, user experiences and revenue streams for service providers.

For instance, new digital services are creating larger demand for broadband services. And because the new generation of consumers is more tech-savvy, and willing to adopt new technologies, service providers that can offer converged tools allowing subscribers to create customized communities, services and experiences have much to gain in this new 2.0 economy.

As 2.0 trends continue to establish a foothold in the industry and blur traditional industry lines, it becomes critical to create new business models to successfully compete on the new landscape. New competitors from media, Internet and retailers that are not encumbered with the CAPEX and OPEX challenges related to physical legacy networks are using aggressive strategies to compete for customers and revenues.

For this reason, Alcatel-Lucent is helping service providers develop their own 2.0 opportunities, while providing both technical and intellectual platforms for collaborating with new entrants to define new revenues streams. We believe this is critical. Because when the dust settles, the winners in this marketplace will be those who can improve margins, design communication products to retain customers, facilitate revenue-generating partnerships, increase wholesale and enterprise product offerings to diversify and expand their service footprint, and capture new revenues based on new and emerging business models. ▶▶

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