Alcatel·Lucent

Unlocking the Value of Intangible Assets – Raising Top Line Revenue with New Business Models

By Dr. E. Pittampalli, M. Lenney

Introduction

Service providers are faced with a difficult dilemma. Despite the fact that they have decades of experience, major networks in place, are serving customers all over the world and continue to derive income from voice and data traffic flowing through their pipes, traditional revenues are eroding, and competition is increasing.

Voice is becoming a commodity, as evidenced by the move to flat rate, "all you can eat" pricing plans. According to Pyramid Research, in 2007 global service providers were still deriving 81% of their average revenue per user (ARPU) from subscription-based voice services.[1] The subscription-based services typically include both prepaid and postpaid accounts based on minutes of use.

But further analysis in a forecast from researchers at IDC projects that the U.S. mobile subscriber market is entering its mature phase.[2] While growth in data services will remain a key revenue driver – to offset continued voice ARPU erosion – even data revenue growth is set to slow sharply beginning in the 2009-2012 time frame.

High-speed, IP-based networks are tailor-made for Internet-based applications, and customers are expecting their service providers to provide more innovative, personalized and context-aware services – from multimedia offerings to mobile social networking. The young Millennials constitute an influential customer segment driving the push to new applications both on and off the Internet, given their seemingly insatiable appetite for data-rich applications and services.

In the area of mobile social networking alone, a recent In-Stat report[3] predicts a steady growth rate in the number of U.S. Millennials subscribing to mobile social networking, as nearly 30 million people sign up by the year 2012. In addition, Millennials' use of wireless data applications will surge compared to average users.[4]

In this article, we describe the new business models and strategies service providers should consider to reap the potential of these dynamic and in-demand, end-user applications.

Unlocking Intangible Assets – A Service Provider Goldmine

Service providers have substantial physical or tangible assets in the form of extensive wireline and wireless networks, but even these are not enough to meet the new customer-driven demand. The situation will only get worse as competition ramps up from major Internet, applications and content providers – such as Google, Microsoft, Apple and others.

In addition to making the most of their networks, service providers need to transform their business models and develop strategies that leverage intangible assets as well.

1 ©2007, *Global Mobile Data*, Pyramid Research.

2 ©2008, IDC, US Consumer Mobile Subscriber, Revenue, and ARPU 2008-2012 Forecast: Mobile Services in Transition, Doc #211329, March 2008

3 ©2008, *US Mobile Social Networking and the Millennial Generation*, In-Stat.

4 ©2008, *Internet and American Life Project*, Pew.

What Are Intangible Assets?

Intangible assets are intellectual properties – such as patents, copyrights, trademarks and trade secrets, as well as assets like end-user profiles, presence, location, calling/buying habits and preferences, goodwill and brand image.

Google is a prime example of a company that is leveraging intangible assets by acting as an intellectual landlord who passes on the right to use its broad spectrum of search services. By capturing an astronomical number of eyeballs, Google captures a major portion of web advertising dollars.

Apple is another excellent master of leveraging intangible assets. The company uses its virtual music portal – iTunes – to boost sales of its tangible offerings – its line of network computers and consumer devices such as iPods and iPhones.*

Telecom service providers also have a rich set of intellectual properties and end-user data to monetize. These include billing data, contextual information and analytics, credit history and social networking interests. By leveraging these end-user intangible assets shown below, telecom service providers can raise the top-line revenue by adapting to today's changing market dynamics and create a value proposition that is different from those offered by competitors.

Intangible Assets Owned by Service Providers

- Established billing relations and trust
- Credit histories
- ID management (authentication)
- Wide range of vertical applications and services
- Location and presence capabilities
- In-depth knowledge of calling patterns
- Insight into customer buying and browsing preferences and habits
- Buddy/family lists
- Social network and other Web 2.0 capabilities

Intangible assets allow service providers to move into nontraditional areas – such as entertainment and Web 2.0 services – and harvest new revenue streams – such as advertising, fulfillment, e-Commerce and m-Commerce.

The result is an increase in their revenue streams through the creation of new customer-tailored services. And, as an additional benefit, a move in this direction secures revenue and value of tangible assets – fixed and mobile networks – by attracting new subscribers who may be interested in the "free" services that are supported by advertising.

New and Strategic Business Models

Unlocking the wealth of customer data has significant short- and long-term strategic value. Business models that leverage end-user data – such as user profiles that can be targeted for advertising or e/m-commerce initiatives that generate a commission or service fees – generally out-perform models based solely on optimizing physical networks.[5] By first evaluating their present mode of operation (PMO), service providers can then examine various business models that better match future mode of

* iTunes, iPod and iPhone are trademarks of Apple Inc., registered in the US and other countries.

5 ©2006, *Do Some Business Models Perform Better Than Others?*, Working Paper 4615-06, May 18, 2006, T. Malone, P. Weill, R. Lai, V. D'Urso, F. Herman, T, Apel, S. Woerner: Massachusetts Institute of Technology (MIT) – Sloan School of Management, Harvard University – Harvard Business School, The University of Tennessee.

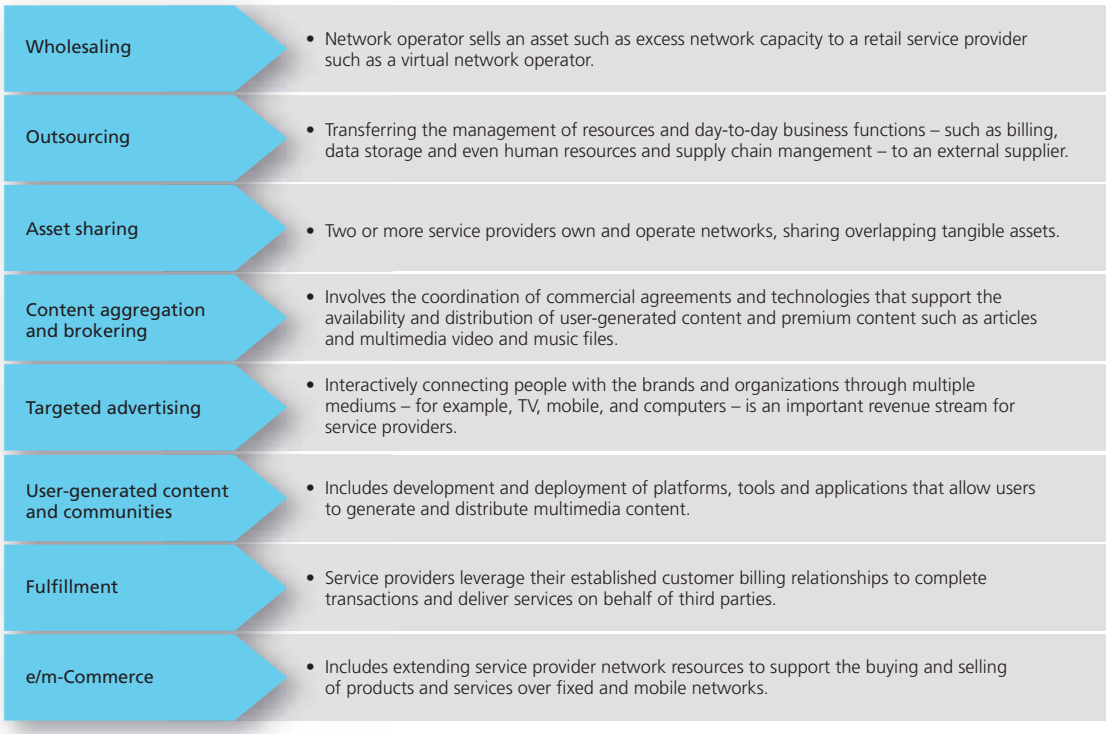
operations (FMO) that take full advantage of both their tangible network assets and intangible end-user data assets. The goal is to support top line revenue growth and reduce operational expenses.

The new models allow service providers to accelerate their transformation from being a traditional telephony domain player to a multi-domain (Internet or entertainment) player, allowing them to deliver innovative services rapidly to meet end-user demands. At the same time, these new models support the service providers' drive to tap into new, high-growth markets to increase mobile subscriber growth and reduce churn. With this transformation, providers are not only operating in the telephony domain, but also are blending the best aspects of the IT, broadcast (content aggregation and brokering) and web domains into their operations and, as a result, are becoming multi-domain players.

In order to move into this new cross-domain territory, service providers may have to make counterintuitive decisions. For instance, some of the business models may not be self-sustaining in terms of generating additional revenues. However, these business models could and should definitely be used for competitive differentiation.

Alcatel-Lucent has identified eight key business models that service providers should consider as they look to boost revenues and lower costs (Figure 1).[6]

Figure 1: **Business models**



These business models are examples of innovative ways to reduce operational costs and increase top-line revenues by unlocking the potential of the service provider's intangible assets as well as finding new uses for its tangible wireless and wireline network assets. A couple of cases in point illustrate this principle.

6 Alcatel-Lucent Enriching Communications, Volume 2, Issue 2, "Business Transformation: Advanced Business Models for Converged Communications," Dr. Eshwar Pittampalli, Marcio Nespatti and Valerie Faudon.

Case study 1: Content aggregation and brokering – Orange's free ad-funded mobile video service[7]
France Telecom and its wireless division, Orange, recently introduced an advertising-funded video magazine, *Zap!*, that is exclusively available to Orange mobile subscribers. The service offers free celebrity, lifestyle, news and sports video clips to 2G and 3G handset owners. However, to consume the content, subscribers must watch a short advertisement before the video. The information is refreshed to ensure continued customer interest. According to company executives, this strategy is not only generating new ad revenue, but is also drawing and locking in users interested in the content and dynamic services available on the service provider's mobile phone network.

Case study 2: User-generated content and communities
A number of mobile carriers – AT&T, Sprint, T-Mobile and Verizon – have partnered with social networking sites – like MySpace, Facebook, Loopt, Jumbuck – to offer mobile social networking services. Mobile social networking represents the convergence of various community development and communications applications that have become important to the young Millennial generation – such as voice, texts, IM, games, maps and multimedia sharing.

These synergistic partnerships are still in the development phase, but show incredible potential – especially when one considers the predicted rate of adoption among the technology-savvy Millennials. In this scenario, mobile service providers are creating new revenue streams by providing on-deck client applications available for a subscription fee. A second potential source of income may be derived from data charges for using the service. However, many Millennials are sensitive to extra data charges, so pursuing this line of business may hamper adoption of the core service. A more lucrative development for revenue might stem from joint ventures with networking sites in which ad revenues on the Web and "net new" subscription revenues are shared.[8]

Creating Killer Environments Rather than Killer Apps

To unlock the full value of their intangible assets, service providers need to create a killer environment rather than search for a killer application. This is because finding killer apps may be as easy as following the Millennials' lead. But before the Millennials' lead can be followed, service providers must first develop a killer environment to which end users are attracted and in which they can be carefully tracked. This environment will most likely be the byproduct of transformed networks based on an IP infrastructure that features a service delivery environment (SDE) that takes full advantage of the power and flexibility of a Service-oriented Architecture (SOA).

Consider a mobile subscriber who signs up for a service called "Gifts on Time", which alerts the end users to birthdays, anniversaries or any special occasions for friends and family members. In offering this service, carriers can not only provide an alert ahead of time, but also a URL link to a web site that was last used to purchase a gift and/or a greeting card. By clicking this link, the end user not only fulfills the obligation to send the gift on time, but also completes the entire transaction without interrupting the session on the phone. By leveraging the "buddy/family list" intangible asset, the service provider is aiding the end user and raising top-line revenue from both extended session minutes and/or from the commercial activity with a vendor partner.

Thus, a killer environment also calls for service providers to make their networks more attractive to third parties and wholesale customers. This means they must significantly reduce the proprietary elements of the network that make it difficult to connect and transact business. A transformed network based on IP technology will provide an environment that enables flexible, consistent and simple access to third-party services. The result is an enhanced quality of experience for the end user.

7 ©2008, "Orange Announces Launch of Ad-Funded Video Magazine Zap! on Orange World," PR Newswire, http://www.prweb.com/releases/2008/7/prweb1074634.htm.

8 ©2008, *US Mobile Social Networking and the Millennial Generation*, In-Stat.

In addition, service providers will have the ability to monetize their customer assets from non-user-paid revenue such as on-portal advertising or the sale of differentiated assets to the marketplace. These would include such items as user location, demographics, postal code and presence, as well as providing access to various systems such as user shopping carts and operating system real estate (including prime displays, locations on the main screen and mailboxes).

Overall, this new environment gives the service provider the necessary service agility, personalization and blending that make it possible to monetize intangible assets. This, in turn, will have the effect of reversing faltering revenue streams from traditional sources. Because of the limited nature of the service providers' resources and the rapidly changing dynamics of the marketplace, the transformation to this new environment requires the help of a skilled technology partner with global experience, in-depth resources, and top quality research and development facilities so they will be uniquely positioned to leverage and unlock the value of their intangible assets through IP transformation.

Dr. Eshwar Pittampalli is Managing Director, Business and Network Transformation Market Development, Corporate Marketing Organization, Alcatel-Lucent, Murray Hill, NJ, USA.

Mary Lenney is Senior Manager, Strategic Marketing, Corporate Marketing Organization, Alcatel-Lucent, Murray Hill, NJ, USA.

To contact the authors or request additional information, please send e-mail to enrich.editor@alcatel-lucent.com.