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Operators are struggling to monetise the investments they are making in content

Plus

Exclusive interview with EE Chief Executive Olaf Swantee

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Olaf, OTTs and an order of CMOs

Olaf Swantee, EE's enthusiastic leader, is the subject of our CEO interview this issue. But rather than discussing 4G LTE – his obsession since the UK operator launched the tech back in 2012 – it is the IoT that is his new preoccupation. EE unveiled a connected strategy during the summer, and Swantee reveals what he wants to achieve in this area. "Operators are still challenged by the changing mobile landscape and changes in traditional revenue sources. The connected strategy recognises that there is the opportunity to do more for customers because customers are asking us to do more." You can read the full interview on page 8.

Our special report this month showcases the industry's latest thoughts about the OTT/digital content space. As operators continue to rack up deals with OTT partners, our feature interview looks at KPN's new TV app, which aims to take on the digital players at their own game. Our survey highlights a range of opinions, notably that the acquisition of exclusive content is crucial to the future success of operators. However, despite new revenue generation being cited as a key goal of such content, in reality it is proving hard to come by. As Current Analysis' Emma Mohr-McClune comments: "The 'show me the money' argument doesn't seem to apply to content; or at least, carriers have yet to hit upon the right innovation model to properly monetise the effort." We also look at partnerships, the impact of start-ups and the future of messaging apps.

Elsewhere in this issue, we look at whether calls for a European cloudco have any chance of success and get the latest on regulation from our correspondent in Brussels.

Finally, September saw the judging of our second annual CMO of the Year award. The independent panel of judges drew up a shortlist, which is highlighted on page 22. You can also read about the criteria they were judged against and what the judges hoped to find in the winner. Last year's winner, Telenor Denmark's Lars Thomsen, says: "We are looking to finding the five-legged sheep; this is why the CMO role these days is the most important role in our industry." The 2015 CMO of the Year will be unveiled at a dinner in October – an interview will feature in our Q4 edition of the magazine.

Enjoy the issue.

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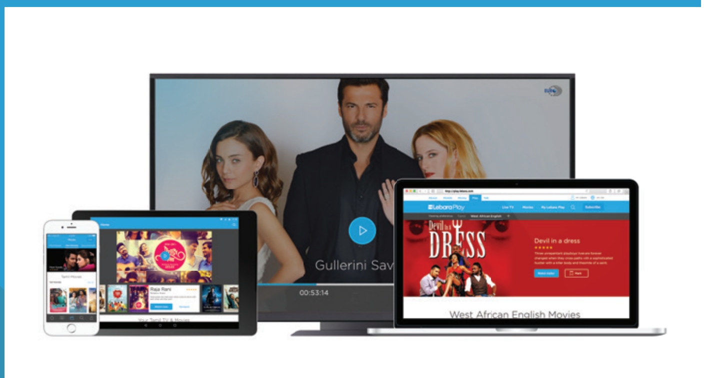
Opinion

Operators need to strike right balance between OTT partnerships and in-house R&D
By Adrian Baschnonga, Lead Analyst, Global Telecommunications, EY



Q&A

Carlotta Ventura, Telecom Italia's Brand Strategy and Media Director
Carlotta discusses the operator's rebranding

Analysis

Retailers go shopping for M2M as Vodafone claims it retains big advantage
Retail is becoming the fastest growing area within the M2M/IoT space, as businesses look beyond sweating supply chains, new research from Vodafone has claimed.

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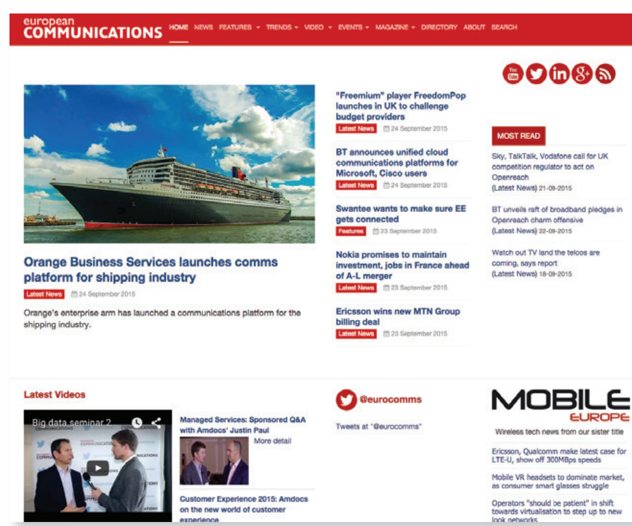

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Telco stocks fall flat in Q2

The share price of telcos in Asia, Europe and the US disappoint

Asia hints at midsummer misery, as US has mixed performance

The US market was split in two during the second quarter, with both T-Mobile and AT&T increasing their share price but rivals Verizon and Sprint seeing a decline.

Not known for its softly spoken approach, T-Mobile ruffled Verizon's feathers with a #NeverSettleForVerizon advertising campaign on Twitter. While some former T-Mo customers used the hashtag to say why they left, the operator closed the quarter on a high of $38.88, up 18 percent on Q1.

Verizon made the biggest waves in the quarter, buying dotcom veteran AOL for $4.4 billion in June. Its overall Q2 share performance was down 4.7 percent to $46.61 as it disappointed analysts with its Q1 contract additions. CFO Fran Shammo said: "We have to be rational and we will not chase every customer."

AT&T's share price shrugged off several Q2 fines for data throttling and breaches of customer information to close the quarter up eight percent to $35.52. It hit a quarterly high of $36.18 in mid-June after the FCC rejected calls to allocate more spectrum in the forthcoming 600MHz auction to smaller players.

Sprint is hoping to support its fightback with the aid of space in 1,400 new look Radio Shack stores, after the collapsed retailer exited bankruptcy during the quarter. It also launched unlimited 2G data roaming in 15 countries during the quarter. Nevertheless, it closed on $4.42, down 3.6 percent on Q1.

A busy quarter for Sprint's owner SoftBank saw former Google exec Nikesh Arora named as Masayoshi Son's heir apparent, as the CEO revealed better than expected operating profits of ¥982.7 billion in May. The Japanese operator also began selling a humanoid robot called Pepper. Shares were up 20.6 percent in Q2 to ¥1,420.

Being named the world's most profitable carrier by ABI Research failed to stop a decline in China Mobile's share price of 3.4 percent during Q2. Its shares hit a high of HK$116.10 in April, when Apple revealed China was now its biggest market for iPhones.

-0.3%

The US

The US telecoms sector fell 0.3 percent in Q2 according to data from the Dow Jones US Index

-3.9%

Asia-Pac

The Asia-Pac telecoms sector fell 3.9 percent in Q2 according to data from the FTSE Group Index

BT fends off rivals over EE deal competition concerns

BT saw its share price rise 2.1 percent in the three months to June. The quarter began with the UK operator unveiling its results for the full financial year.

CEO Gavin Patterson said the company had "delivered or beaten" the outlook it had set as earnings and profits rose.

Revenues continued to fall, however; they were down two percent to £17.8 billion (€24 billion).

BT welcomed a record number of new fibre customers, 266,000, in the three months to March.

This helped to continue the good performance of the operator's Consumer business unit, which saw sales rise seven percent to £4.3 billion (€5.8 billion).

Patterson said it had been "a ground-breaking year".

However, the CEO spent much of the rest of the quarter talking about regulation.

First, he went into bat for the company's upcoming acquisition of EE, which rivals have said will distort the market.

In May, BT called for the deal to be speeded up, telling the UK's Competition and Markets Authority that it would boost competition and benefit both consumers and businesses.

At a seminar in June, Patterson described the acquisition as BT's way of "catching up with the rest of the world," having been absent from mobile for many years.

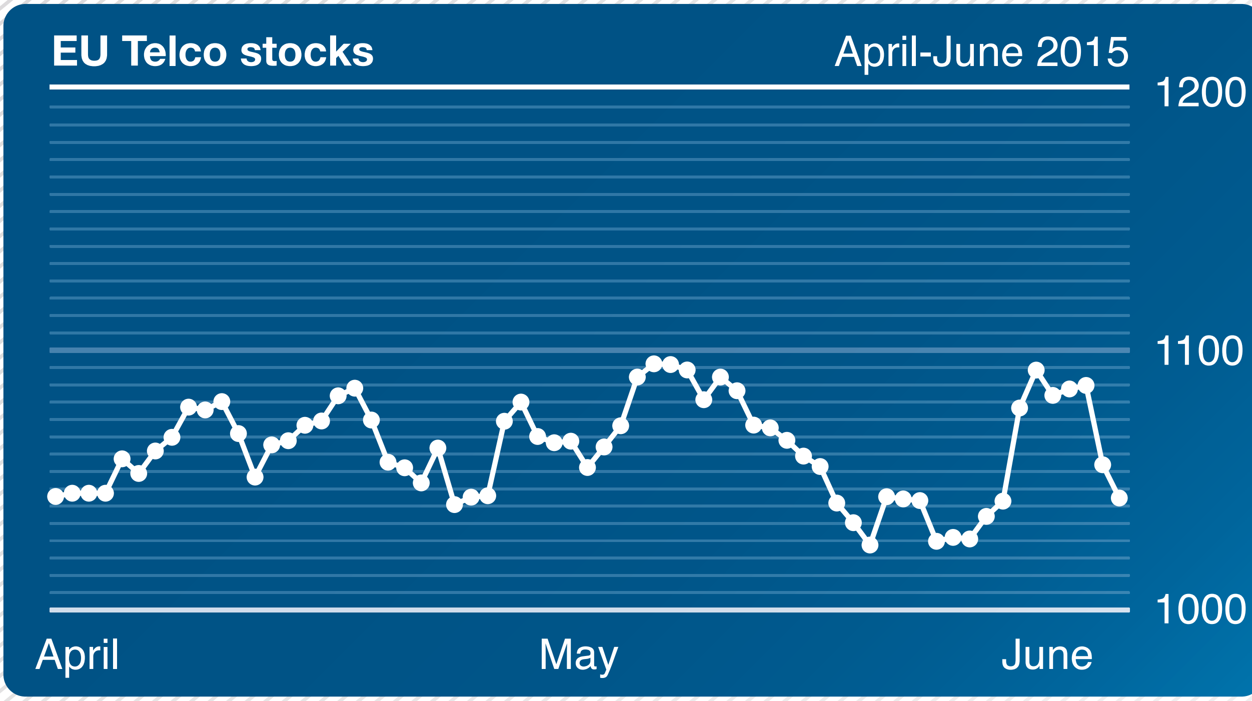
But it could be forced to give up its Openreach arm as a quid pro quo.

Patterson said: "Its decisions are made independently and that will continue to be the case. Openreach will continue to be as regulated in the future as it is today."

He also talked up the MVNO business that EE has built up. Patterson promised to "continue to grow" that part of the company.

But rivals, notably Sky and TalkTalk, remain on the offensive.

In June, Sky called on the UK regulator to launch a full investigation into Openreach on the grounds that it has consistently failed to deliver an adequate standard of service.



European telcos broadly flat in second quarter

Although the share price of Altice continued its meteoric rise – the 18.5 percent increase in Q2 followed a 15 percent rise in the first three months of the year – overall, European telco stocks fell 0.1 percent between April and June.

Telecom Italia was the next best performer as its share price rose 5.4 percent.

In April, it put meat on the bones of an earlier announcement that it was offering Italy's first ever quad-play proposition in partnership with Sky. The two firms are using each other's infrastructure to push Pay-TV and broadband.

A month later, the operator revealed Q1 sales fell 2.6 percent, reflecting a lower sequential decline than in previous quarters.

Also in May, TI announced plans to list part of its wireless infrastructure on Italy's stock exchange.

A busy quarter ended with news that Vivendi had become the majority shareholder in TI after taking over Telefónica's 8.2 percent stake in the operator.

Vodafone saw its share price rise 3.8 percent, after it announced underlying service revenues in Q1 increased by 0.1 percent, reversing a downward trend for the last 10 quarters.

BT (see box out), KPN and Telenor were the only other telcos in our ranking to register a rise in their stocks.

TeliaSonera was the worst performer, as its share price fell over 12 percent. In May, it revealed Q1 net profits fell 5.6 percent and CEO Johan Dennelind described the macroeconomic situation at its Eurasian businesses as "demanding".

At Deutsche Telekom, the share price was down over 10 percent despite strong Q1 financials driven by growth in the US.

The Germany-based operator paid €900 million for the remaining 49 percent stake in Slovak Telekom that it did not already own, just over a month after the opco announced an IPO.

Swisscom and Orange both saw their stocks by over seven percent.

The Switzerland-based operator revealed in May that Q1 profits fell 5.9 percent as it increased spending. It also teamed up with vehicle rental company Sixt to launch a fleet management business in Switzerland.

Orange announced it has over 100 million customers in Africa and the Middle East, but Q1 earnings and sales fell.

It also lost the head of its French business, while Group CEO Stéphane Richard drew criticism for comments he made about the operator's presence in Israel.

-0.1%

Europe

The European telecoms sector fell 0.1 percent in Q2 according to data from the FTSE Group*

* Our index is made up of the following EU telcos: Altice, Proximus, BT Group, Deutsche Telekom, Orange, Swisscom, Tele2, Telecom Italia, Telefonica, Telenor, Teliasonera and Vodafone Group.

Swantee wants to make sure EE gets connected

EE Chief Executive Olaf Swantee tells Marc Smith about the operator's new connected strategy, as it looks beyond 4G and smartphones

EE unveiled a new "connected strategy" in June, the centrepiece of which was the world's first 4G action camera (see box out). In common with other telcos, EE is attempting to put together a coherent strategy for the Internet of Things, arguably the most hyped phrase in the telecoms industry today.

But the reasons for EE's involvement go beyond jumping on the bandwagon marked potential new revenues. The UK mobile operator's initial goals for 4G have, to a large extent, been met – it has signed up 11 million customers in three years while coverage has reached 90 percent, making it the country's and Europe's market leader by some distance.

Having launched a TV service last year, an IoT play is the obvious other growth area for it to look at ahead of its proposed acquisition by BT. Speaking to European Communications, Swantee says: "We've invested heavily in creating a network that can truly deliver high speed, high capacity and mobile broadband to our customers. With voice and text revenues declining, the industry has to find new ways to keep them connected.

"Operators are still challenged by the changing mobile landscape and changes in traditional revenue sources. The connected strategy recognises that there is the opportunity to do more for customers because customers are asking us to do more."

According to the CEO, EE has now reached the point for first time where the network is able to exceed the speeds devices are capable of asking from it. "It means we, as a network, can ask for more because now we deliver more," says Swantee.

Can it succeed? Set against other operators, the majority of whom have a slavish focus on the network-based intricacies of the IoT, it is refreshing to see EE dive straight in with a consumer tech launch. That is not to say EE is blind to the technical challenges. Swantee says: "The connected area is only emerging and as such it is extremely fragmented; from a technology standards perspective, this is a real challenge. As an industry, we really need to accelerate standards in this space to drive more reliability and more interoperability."

Nevertheless, EE's consumer-first approach is to be welcomed. The operator has a four-pronged strategy for a world where many things are becoming increasingly connected. In addition to Connected You, the umbrella under which its Action Cam falls, there is Connected Business, Connected Car and Connected Home.

Swantee has created a dedicated team responsible for driving all of them, headed by Christopher Traggio. The CEO says: "Creating these categories gives the business the permission to be creative and to think differently about the products and services we offer going forward. The 4GEE Action Cam was first… it's exactly the sort of imagination we are looking for from the business and also shows how we will work with partners on this strategy."

Swantee describes EE's plans as "very ambitious" and says we can expect to see "significant launches" in the next 12 months. But he adds: "This is not about rushing to launch new products, we take extra care to ensure the end-to-end experience is spot on when we actually launch the product."

Swantee expects Connected You to be the biggest revenue driver of the four areas it is focusing on. "Given the scale of our retail estate and our consumer base, Connected You is clearly an area we expect to drive a lot of attention and ultimately significant revenue for our business," he explains.

Without being explicit about what it will come up with next, he adds: "We want to bring to consumers new devices and new applications that are enabled by the speed and the reliability achieved by our 4G network. Watches, cameras, cars or homes; the opportunities are immense. In all major consumer technologies, UK has been leading in terms of adoption. We expect the same for these categories."

He adds: "Beyond that, we see increasing demand from our B2B partners, preparing to deploy some of these technologies to drive more efficiency in their operations. For example, a number of our key B2B accounts came to us to discuss applications of our connected cameras for their mobile workforce."

What price success?

Naturally, success will depend on how much money it can extract from both new and existing customers. EE is using a number of different pricing options for the Action Cam, depending on whether the customer is signed up to take other services. For example, PAYG customers pay £299.99 for the device plus 2GB of data for 30 days. Those who opt for a monthly contract pay £49.99 for the device then £15 a month for 2GB of data. Existing EE subscribers can opt for a shared plan that costs £15 a month, inclusive of the device.

Swantee says: "The whole category gives us permission to innovate much more from a pricing/service perspective. We already offer our connected products on our shared plans, which is proven to be by far the preferred tariff for our connected camera."

EE will not share how many people have signed up for the Action Cam so far, but the CEO says: "We have 30.9 million connections on our network right now. By using all of the great products and services at our disposal we should increase that to 32 million by the end of this year. And looking a bit further ahead, by 2017 we should be selling more connected devices than smartphones."

Ultimately, Swantee wants to position EE as the gateway through which consumers enter the IoT. "Our ambition is to help our consumers navigate this space," he says. "And through our nationwide retail footprint we have a unique ability to connect with consumers."

Certainly, the opportunity is forecast to be huge. According to research house IHS, global services revenues from the M2M/IoT space will hit $45 billion by 2018. But the Action Cam is the thin end of the wedge. Another study, this time by Accenture, predicts that smart thermostats, security systems and refrigerators will be the top three connected devices adopted by the majority of US consumers.

There is no reason why EE cannot get involved in such areas – in May, for example, Telefónica added a home security service to its offering in Spain.

And while a lack of awareness is the main reason that consumers haven't purchased a connected device, according to the same Accenture study, EE and other operators still have a chance.

However, even with the proposed acquisition by BT, it is questionable whether EE would have the required scale to go beyond offering niche products such as the camera.

Then there are the other partners on whom any connected strategy depends. Swantee says EE spoke to "all the major manufacturers in the market" when developing the product, but found that there was either no desire to produce a 4G-enabled camera, or the ones that were being manufactured "were not good enough for us".

It chose manufacturer BenQ because, says the CEO, it "shared our vision and had the ability to create a unique and high-quality product". He adds: "We'll look to do the same with products going forward. We'll study the market to see if there are any companies we can work with that are already producing what we're after for our customers, and if those products don't exist, we'll partner to create them ourselves."

Clearly, EE was successful with the finding a partner but it would be wishful thinking to assume it's an approach that would succeed every time and, again, has the hallmarks of a niche play.

Finally, there is a question of semantics. Swantee cites its TV proposition as an example of a Connected Home product because "it brings the mobile experience into the home". By most of the industry's definition, however, a TV service is not a connected product in the true sense of the IoT. We will need to see a few more products yet before proclaiming EE's connected strategy has been as successful as its 4G one. ec

Lights, camera, action!

The 4GEE Action Cam is a 4G connected camera that enables customers to broadcast HD video content to other connected devices. It captures HD video, and comes with an accompanying viewfinder watch and Android/iOS app that allow users to control settings.

EE admitted the device was inspired by live-broadcasting apps, such as Periscope and Meerkat, and cameras such as GoPro. However, it says broadcasting app skeegle, which the camera runs on, differs from other similar platforms by the fact that content is only shared with a customer's existing contacts.

Where there is no 4G coverage, the Action Cam will fall back on EE's 3G network. It can also be connected via Wi-Fi.

EU telecoms industry cautious about net neutrality decision

By Carmen Paun, in Brussels

The European telecoms sector is uneasy about the compromise struck in June between the European Commission, the European Parliament and the European Union (EU) Council of Ministers on net neutrality.

In particular, industry leaders are concerned that the agreement needs further work and tighter wording, ensuring the result is positive and unambiguous.

The European Telecommunications Network Operators' Association (ETNO) has said that EU and national regulators have to ensure the final wording of European open internet rules will "not hamper user experience and network quality, and does not limit the development of innovative business models".

The GSMA, meanwhile, warned about the unclear wording of the net neutrality compromise giving rise to different interpretations across the EU countries: "It is important that guidelines on the open internet rules ensure consistent application of the regulation across the EU," it said in a formal statement.

The compromise text struck on June 30 reads: "Providers of internet access services shall treat all traffic equally, when providing internet access services, without discrimination, restriction or interference, and irrespective of the sender and receiver, the content accessed or distributed, the applications or services used or provided, or the terminal equipment used."

However, the rule shall not prevent internet service providers (ISPs) from implementing "reasonable traffic management measures", the same text said. To be deemed reasonable, these measures "shall be transparent, non-discriminatory, proportionate, and shall not be based on commercial considerations but on objectively different technical quality of service requirements of specific categories of traffic," it added.

This could include, for example, the need to prioritise voice services, which require different resources, to messages, one European Commission official explained.

However, under the agreement, such traffic management must be handled carefully so that end users do not notice regular declines in services, another Brussels official said. Only where there was an exceptional traffic bottleneck would ISPs be able to act, he explained: "When the congestion is temporary or exceptional, the internet service provider would be allowed to throttle some services."

> "Industry associations still argue the agreement as drafted lacks sufficient clarity"

Then again, if there was a regular problem, ISPs would have to avoid discrimination: "If we are talking about a recurrent congestion, distinguishing between different streams of traffic is not the solution; the solution is to expand the capacity of the network in that place," the European Commission official said. Indeed, such a situation would indicate there is significant demand, so network operators may have a commercial incentive to increase capacity, he added.

Barring exceptions in the public interest, which can be subject to "specific quality levels" under the deal, all traffic is deemed equal, under the draft regulation agreed between the institutions. Not even services such as internet TV or others considered innovative could be prioritised in the short term, according to the compromise text. ISPs would be free to provide IP TV, high-definition video conferencing, telesurgery and other similar services, but only if they do not impede users' internet access, according to the European Commission.

Under the deal, and assuming it is formally approved swiftly enough, end users will be able to complain to their national regulators from April 2016 if they believe telecom operators are breaking the new rules, a Brussels official said.

One regulatory control that would remain is users' ability to choose between different access speeds and different data volumes, as the agreed regulation will not have an impact on them, stressed an official.

Lacking clarity

Civil society organisations and industry associations still argue the agreement as drafted lacks sufficient clarity.

While network management should be limited to times of congestion, some of the rules in the draft regulation allow deviations from its principles beyond exceptional situations, such as temporary or unusual congestion, the European Digital Rights (EDRi) advocacy group said in its analysis of the compromise.

But what the agreed text is most unclear about, according to the organisation, is on so-called 'zero-rating agreements', by which internet users paying for a certain download volume get unlimited access to some websites. The latter does not count towards the users' download volume consumption. EDRi argues that this kind of deal violates the net neutrality principle and should be forbidden.

While there is no clear ban on the zero-rating deals as such, the compromise text could be read both as allowing such deals and as not allowing them anymore, the group argued. "The agreed text could be argued to permit price discrimination, as it allows agreements on data volumes and commercial practices that do not completely remove the right of end-users to use and provide content, services and applications of their choice," EDRi said.

"It could also be read as prohibiting price discrimination, on the basis that this would amount to a discrimination on the basis of the services being used and that it would limit the right to distribute information".

To clarify the situation, EDRi has called on the European Parliament, which is due to vote on the agreement this autumn, to add an amendment making it clear that the new regulation will indeed ban zero-rating deals.

This would also help make the situation crystal clear for national laws forbidding this kind of deal in the Netherlands and Slovenia. If the new regulation specifically bans zero-ratings, the Dutch and Slovenian laws would be absorbed by the new EU law. But if it does not, the two countries may see themselves obliged to repeal the ban on zero-ratings, as EU legislation takes priority if it contradicts national laws.

The Dutch liberal-democrat member of the European Parliament (MEP) Marietje Schaake wants the EU to follow her country's example in banning zero-rating deals. "In the Netherlands we have initiated laws to ensure internet providers and telecoms operators do not abuse their power with anti-competitive practices. In the EU, hundreds of millions of people do not have access to all services online because net neutrality is not safeguarded. This is unacceptable," she said.

She also stressed that the rules need clarifying before the text is formally agreed by all EU institutions. "I will seek to ensure the greatest possible clarify on issues such as traffic management and specialised services, to make sure there is as little as possible vagueness on net neutrality," she promised.

One of the rules that may need clarification and could be subject to amendment is parental controls blocking pornographic or violent content from being accessible to children. The current draft regulation does not make a clear exemption for these in its net

neutrality provisions, but the UK does have them in place.

"Last-minute changes to the agreement will not exempt parental controls and spam blockers from the law, but after very close liaison with ministers back in the UK, we have negotiated a position that should allow the British government to pass its own law to maintain parental controls," said the British Conservative member of the MEP Vicky Ford, who was involved in the negotiations on behalf the European Conservatives and Reformists (ECR) Group.

Meanwhile, the net neutrality rule as drafted, could be seen as an obstacle for competition, the Dutch MEP Schaake warned, and this is exactly what concerns the European Competitive Telecommunications Association (ECTA). "What is crucial for end users as well as for challenger telcos in the implementation of these future guidelines is that effective competition in the provision of internet access is ensured so that end users can choose between several offers and switch to another operator if they are not satisfied," ECTA director Erzsébet Fitori told European Communications.

The EU Council of Ministers is expected to formally approve the current text on 1 October. The European Parliament should also put it up to a vote, the same month. Both must agree the text for it to be approved.

More reform next year

Besides net neutrality, the draft regulation also foresees an end to phone roaming charges from 15 June 2017.

Net neutrality and roaming charges are the only elements left from a wide-ranging telecommunications reforms proposal presented by the former EU Digital Agenda Commissioner Neelie Kroes in September 2013. Negotiations between the three EU institutions ended up leaving the rest of them behind.

But Brussels has not given up on completely overhauling its telecommunications market, as part of its dream to create a digital single market. The current European Commission, which took office in November 2014, under the leadership of the former Luxembourg Prime Minister Jean-Claude Juncker, will present its own proposals for telecommunications reform next year.

This will include more effective spectrum coordination, common EU-wide criteria for spectrum assignment at national level, incentives for investment in high-speed broadband and ensuring fair conditions for all market players, traditional and new, the European Commission has said.

A European cloudco – pie in sky?

Deutsche Telekom and Orange are two leading proponents of a European company that could take on Amazon and Google in the cloud space. David Craik analyses whether this is an idea that could take off

Back in June German operator Deutsche Telekom laid down a challenge to Amazon and Google. Ferri Abolhassan, director of T-Systems' IT Division, told delegates at Huawei's 2015 Innovation Day in Munich, that Europe should take the fight to the US tech giants by creating its own equivalent of their successful cloud operations – a European cloudco.

"There must be, in Europe, a force that gives an answer to many initiatives coming from the US. If everything is going on Amazon, is that good for Europe? There should be a European answer," he said.

DT has high hopes for the cloud. It is aiming for annual growth of 20 percent in cloud platforms over the next three years primarily from European enterprise customers.

Abolhassan said the stepping-up of cloud activities would enable the company to become "the leading provider for businesses in Europe".

Orange is also looking upwards. Back in March it bought out its two partners in French-based cloud computing company Cloudwatt.

It offers data storage and public cloud services to businesses in France and Europe and has a data centre in Normandy guaranteeing that all client data is hosted in France.

Cloud is one of the five key areas that Orange Business Services is counting on to turn its performance around. At the time the group said: "The technologies and services offered by Cloudwatt complement Orange's own portfolio and represent an opportunity to accelerate the deployment of a sovereign public cloud both in France and in Europe."

But the enterprises they are targeting may not be so keen. According to a recent KPMG survey, the majority of businesses are currently spending just 10 percent of their IT budget on cloud services. Concerns around security, regulation and integration abound.

John Higgins, Managing Director of Digital Europe, says the continent's traditional SMEs have been a bit slow to take it up. "Think of advanced digital technologies – cloud, social, mobility, big data analytics – then look at the stock of European businesses," he says. "Fewer than two percent are taking advantage of those and 40 percent are not using them at all."

He also plays down talk of a European cloudco. "A European cloud idea has been suggested several times in recent years but ring-fencing – putting up barriers – around one geographical region doesn't make much sense in the digital economy," he states.

"The terms 'national cloud' and 'regional cloud' are oxymorons. Cloud computing relies on economies of scale, which in turn relies on there being no such barriers. That's why the idea has never gained traction."

Given this background and uncertainty how likely are Deustche's aims of a European Cloudco and Orange's sovereign cloud of becoming a reality?

DT's Abolhassan looks to be pinning his beliefs around data protection, an issue that he says is "a real concern" In Europe. He points to the German legal concept of 'informational self-determination' – in other words granting an individual the fundamental right to decide when and to what extent data about his or her personal life may be captured, stored, used and shared.

"I believe telcos face three principal tasks. First, they must understand the customer's business and identify areas where the cloud could benefit them," says Abolhassan. "Second, they must have an in-depth understanding of cloud technology and have hands-on experience of cloud transformations of all shapes and sizes. Third, they must have a firm grasp of quality and security management imperatives."

He says DT has learned that expertise, technology and pricing is "not enough" if you lag behind on quality and security. A 'made in Europe' cloud is important, he claims, because it puts the European perspective on data protection into practice.

"According to a PwC study published in March this year, 90 percent of German businesses regard data security, compliance, server location and trustworthiness as critical when choosing an IT provider," Abolhassan says.

"In Germany, for instance, companies are forbidden from using personal data where it is not explicitly permitted by law, or where they have not gained the consent of the person concerned in advance.

"The situation in the US is the exact opposite. Anyone who wants their data to be protected by German legislation would be well-advised to opt for a German service provider with data centres based in Germany."

That's fine – but is it a dream or a reality? Abolhassan says DT actively participates in various European cloud bodies, and is "in discussions with the relevant authorities".

He adds: "But we are also implementing our vision for secure, cloud-based solutions in a number of real projects. For example, we are working with Huawei to create an infrastructure-as-a-service offering. The hardware comes from China, the data centres are located in Germany, and users enjoy the benefits of compliance with German data protection legislation."

In France, Cloudwatt president Didier Renard is also concerned with data protection. He says: "We are trying to be more sovereign than others in our technology in both France and Europe. There are big issues in the way data is used post-Snowden. We are competing with Google and others and we want to address issues such as big data and analytics and create a complete set of solutions for our customers. The French state is an example of the adoption of a public cloud and this should be leveraged for SMEs."

At the end of July, Orange Business Services announced that it would provide the French government with their first public cloud platform. The two-year deal will provide ministries with services such as cloud computing and storage for projects on agile development, open data and big data.

It is using the infrastructure of Cloudwatt solutions for Open Source Cloud for the project with the public cloud platform hosted in Orange datacentres in France.

Renard says the main challenge in developing its sovereign plans is the financial differential with Google and Amazon and the sceptical attitude of French organisations to the cloud.

> "The terms 'national cloud' and 'regional cloud' are oxymorons"

"The speed of public adoption of the cloud in France is low. It is difficult to make changes here compared to the US and Asia," he says.

A 'European cloud champion' could change opinions and provide more assurance on security, he feels.

"It is a personal opinion but we need to develop a European cloud champion and there are three ways of doing this," Renard states. "One way is for Orange or another operator to quickly develop both internally and externally to become that champion. But to get to that size you will need a lot of capex. You could have a combination of Orange or Deutsche but it would be difficult to achieve given government intervention and the need to be agile. It wouldn't be the right answer."

The best way, he believes, is the third option of interoperability of the cloud or to "transfer workloads from one cloud to another". He says: "It will be a virtual cloud operator where perhaps we can share data."

Swisscom, meanwhile, has built its own open source-based cloud. A spokesperson says: "We operate it ourselves in tier IV certified datacentres on Swiss soil with high levels of security. Already over 70 percent of our workload is being migrated to the cloud."

The operator identifies Amazon as it main competitor in IaaS but believes having Swiss data storage is a clear advantage. It also believes a European cloudco could become a reality. "It is possible as customers demand more control and data privacy. With the NSA scandals the willingness to outsource to a local provider with local law becomes even more attractive," the spokesperson states.

So there is support and belief within the telcos community that a European cloud rival to Amazon and Google could emerge.

David Webster, public cloud analyst at IDC, agrees: "A European cloudco would be managed by a European organisation and the data centres would be in Europe as well. The data should never leave Europe and hopefully it would be far away from the prying digits of the US security agencies and make it difficult for US courts to get access to data from cloud servers on non-US citizens," he says.

"Security is the main driver behind this with some organisations in Europe hesitant about using the cloud. Deutsche is a very large organisation and can bring economies of scale almost equal to Amazon and Google. It would be a comfort blanket for some people regarding security."

However, he doubts whether Amazon will be quaking in its boots. "People using Amazon are satisfied with the Amazon data centres in Europe and they are fiercely price competitive regarding reducing prices. A European cloud firm would have to match these prices or be able to show very good reasons why they are charging higher prices. Google and Amazon have massive scale. It would be a challenge for any firm to operate profitably against them. But, yes, it could become a reality." ec

Operators can't be prudent with cost at the expense of innovation

For the last decade telecoms service providers have largely been financially prudent, focused on developing efficiencies throughout their business.

"It is a legacy," says Eric Updyke, group president of system integration and operations at Amdocs, "which stems back 15 years to the expensive chase for 3G spectrum."

"Service providers paid a king's ransom for this spectrum and have been digging themselves out of that hole ever since. They've focused on network sharing and efficiencies as well as simplifying their operations," Updyke states. "Operational cost reduction is important, and perhaps more than ever now as they face slow to stagnant revenue growth, an often unfavorable regulatory environment and the constant need to keep investors happy. But focus on cost reduction can't come at the expense of innovation, which has become equally important in today's environment. Service providers have to reconcile the need to focus on innovation and new services with their need to be financially prudent. They have to find the right balance."

Updyke says the need for innovation is being driven by two forces – the battle to deliver new services in an intensifying competitive environment and the battle to deliver The New World of Customer Experience™ to increasingly demanding consumers.

"There was a time when service providers thought that their ownership of the network made them untouchable, but that has been challenged by OTTs providing services that leverage the network for free and increasingly now by tech giants such as Google with network initiatives like Google Fibre," he says. "In order to bring competitive new services to market, providers are reorganising themselves and doing more M&A, some aimed at expanding their portfolio and some at consolidating the sector."

At the same time, and indeed boosted by the arrival of Google onto the scene, as well as Uber and Zappos in other sectors, customer expectations are changing.

"They've risen to the point where now you have to deliver a superb customer experience. It is no longer enough to differentiate yourself from a rival by laying out newer generations of networks," Updyke explains. "Customers never loved waiting days for new services to be activated or staying at home for hours waiting for an engineer to install broadband, but they tolerated it. Not anymore."

The new customer is demanding innovative services that extend beyond traditional communications. They want more regular interaction with their providers and they want new experiences.

"Service providers need to build customer loyalty to limit revenue migration to non-communications providers and to introduce new revenue streams and business models," Updyke says. "In our vision of The New World of Customer Experience™, service providers need to deliver a multidimensional customer experience and inspire their customers with innovative services in this always-on, hyper-connected world."

He says service providers have recognised that they need to make changes and have launched new services to help them differentiate from the competition.

"They are making large investments to support sophisticated end users and high smartphone adoption, at times, as a defensive move to better compete against other service providers," he says. "We're seeing more telco/TV and OTT bundles and more quad-play investment helped by LTE build-outs and bandwidth acquisition."

But they are struggling to both monetise these services and deliver the necessary uplift in customer experience.

Updyke says 4G uptake in Europe is ramping up, although overall mobile subscription penetration remains stagnant. In addition, quad-play and multi-play are rapidly becoming more popular, but margins are being hurt by heavy discounting. The M2M market is also growing rapidly but revenues aren't keeping pace.

> "The more services you have such as quad-play, the more you need to ensure that at every customer touch point you are consistent"

"Furthermore, the more services you have such as quad-play, the more you need to ensure that at every customer touch point you are consistent. You have to provide the right information at the right time. Stapling a few bills together with a discount wrapped around it isn't quad-play! Customers see you as one provider," he explains. "Consolidating back-end systems after M&A and establishing convergent IT platforms that can share customer information are essential to providing consistent interactions across channels and lines of business. It's tricky because you have a very complicated set of legacy systems which are not consistent. You need to prioritise and focus on areas directly affecting the customer."

Updyke is encouraged by the awareness amongst providers that "innovation is imperative" but says creating a strategy to succeed is vital.

"When it comes to innovation you have to focus on long-term, but dynamic strategies – which need to be constantly revisited at shorter intervals than in the past," he says. "You need insightful fine-tuning at the right points in time to break the struggle of monetising your new services and decide where to apply your focus. It is difficult to juggle all these new balls at once, especially when you go at it alone. Service providers are recognising that a collaborative approach is required. They need to consider flexible sourcing strategies that combine both in-house and outsourced expert resources as well as ways to effectively incubate new ideas. They need to decide where they can differentiate around the best customer experience, and where cost and scale are going to win the day."

The catalyst for these new strategies has to come from the top down.

Updyke explains that Amdocs recently conducted a study, with strategy consultant Telesperience, into how industry CEOs should lead and drive their organisations by 2020.

The study covered the world's 100 largest service providers, in terms of revenue, with in-depth interviews conducted with CEOs and senior management executives from 30 of the top 50.

It revealed that CEOs in Europe believed they had to change their management styles in order to remain successful, as rapid innovation by traditional and new players continued to revolutionise the way we communicate and consume information and entertainment.

The CEO in 2020 was seen as the chief innovator, driven by a passion for innovation. This key skill was judged ahead of financial and corporate governance.

The study also found that many service providers were adding new C-level roles with responsibility for areas such as customer experience and digital.

"CEOs are not just the chief cost-cutters, they have to be chief innovators too," says Updyke. "Cost-cutting alone won't improve the customer experience or monetise your assets. Executives in Europe believe CEO management styles will need to change for them to be able to scale their organisations into the future. They need to shift from today's favored styles of 'visionary' and 'pacesetting', in which the CEO is expected to know where the company is going and lead it there by example, to 'coaching' and 'affiliative' styles, which leverage teamwork to attain end goals. The ability to create organisational structures that support innovation and change was cited as the most important CEO innovation skill."

Reinforcing the need to overcome the challenge of executing on innovative ideas, the study found that providers are looking at a blended approach of insourcing and outsourcing strategies in various areas of the business, including those traditionally outsourced, those not traditionally outsourced and in new areas altogether. More than half are expected to outsource at least some support for cloud services and digital services, for example.

So how is Amdocs helping to drive this innovation and empower The New World of Customer Experience™?

In addition to continuing to invest in the industry-leading CES BSS/OSS suite, Updyke describes a new push into services, based on 3 distinct pillars – the first of which is its investment in services R&D including IP, platforms, processes and tools.

"We realised that we had to invest in services that drive business innovation," he explains. "We have built a services business that is not confined just to our products to address end-to-end business challenges. We are really encouraging the development of new ideas in start-up mode by putting the right processes in place and are incubating those ideas, not in a lab but in real life situations with customers. We focus on ideas that address our customers' main challenges and look for the services they will need tomorrow. Once they've proven to bring real value to customers in incubation mode, we scale them up."

One example is the development of an order-to-activation service designed to minimise order issues and manual intervention based on automation and predictive and preventive analytics. It leverages unique tools and IP, as well as operations best practices delivered under clear SLAs and KPIs. This service has successfully provided enhanced customer experience by minimising order errors and enabling successful fulfillment and activation for service provider offerings such as connectivity services, broadband, TV, voice and bundles for residential and business customers.

"Order-to-activation is one of the most critical business processes a service provider needs to deal with. If you don't get it right you will have a lot of frustrated and dissatisfied customers. We have a product play and in-depth knowledge of service providers' operational and systems environments," Updyke says. "Our service is bringing real value through significant reduction in order fallout of up to 60 percent, for example and we already have a dozen customers using it."

> "CEOs are not just the chief cost-cutters, they have to be chief innovators too"

The other two pillars are a wide partner eco-system, which has seen Amdocs teaming up with top technology firms to improve its end-to-end service offerings, and a business oriented operational model, targeted to achieve KPIs and business goals that translate into numbers.

"Half of Amdocs' revenues come from managed services customers, leveraging our ability to promote a set of KPIs that align well with our customers end goals. By providing both products and services, we can offer our customers a unique accountability model and take on the biggest and most complex projects that others do not dare attempt. If we are successful, our customers are successful," he says.

And Amdocs has certainly delivered for two telco giants looking for help around innovation. Vodafone and Amdocs achieved an industry first – creating from scratch a shared services and development center with centralised operations capable of serving completely different markets. Benefits included CAPEX/OPEX cost reductions, predictability of OPEX costs through a fixed long-term agreement, and reduced risk, overheads and complexity of vendor management. This unique engagement secured Amdocs and Vodafone the prestigious GTB Innovation Award for Best Business Services Innovation.

Telefónica chose to partner with Amdocs for transformation projects in Argentina, Chile and Peru. By modernising and standardising Telefónica's business support systems on Amdocs software, Telefónica subscribers in these countries can now move seamlessly between customer interaction channels across its entire multi-play offering. "This empowered Telefónica to differentiate itself by enabling all customer interactions online and ensuring a world-class multi-channel and digital customer experience. Telefónica is leveraging our market-leading products, services and best practice business processes to ensure high levels of standardisation and re-use across the group with transformation speed and cost advantages," Updyke says.

Updyke stresses the impact a strategic services partner can have in terms of bringing new services quickly and more effectively to market, but says providers can also do more to encourage innovation amongst their own staff.

"Encourage your employees to give their input regardless of role. Get them to see things from the perspective of the end customer and ask 'What can we do to innovate?' – challenging the status quo," he says. "Providers need to focus on innovation and on working out which business models can allow them to turn good ideas into value for their customers, all at the high pace required in this fast-moving industry. Being prudent with cost at the expense of innovation is the legacy of yesterday, and yesterday is gone."

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CMO of the Year

The judging process

European Communications' CMO of the Year award 2015 has moved onto judging the nominees

Since our last issue, the nominations for the award have been collated and it was up to the independent judging panel to assess the strengths of the contenders. In early September the seven judges set about analysing how they matched up against the following criteria:

- Improving the brand in terms of advocacy, awareness, context, etc
- Improving the customer experience
- The strategies employed to retain customers
- The new products and services that have been launched and their success in terms of take-up, revenue, profit where possible
- Helping to increase operator's overall sales from new and/or existing customers

Here's what the judges had to say about what they were looking for this year:

Lars Thomsen,
CMO, Telenor Denmark and winner of the 2014 CMO of the Year award
"To me, the ideal candidate is data-driven, omni-channel focused and a true customer champion. The candidate is preferably leveraging the latest technology in both solution design and customer interaction, where communications will be executed on all media platforms so that messaging is timely and relevant.

"On top of this, simplicity is really key to get a strong message across to consumers: less is more. We are looking to finding the five-legged sheep; this is why the CMO role these days is the most important role in our industry."

Andrew Davidson,
Head of Marketing, Networks, Telecoms & Security, Fujitsu UK
"Taking our lead from last year's winner, I want to see a CMO who is embedded in the success of the business and not a peripheral player. Too often marketing sits apart from the business - today's successful organisations thrive when driven by marketing, understanding

how to create a story that the customer wants to engage with."

Vincent Rousselet,
VP Market Insight and Strategy, Amdocs
"In assessing the nominations for the CMO of the Year award, we are looking for evidence of a CMO's ability to keep on top of the ever-increasing change in our industry, while using analytics to anticipate customers' needs and desires.

"CMOs that extract lessons learned in other sectors will also score highly. Building on this, a CMO that fast-tracks innovative campaigns that drive superior customer loyalty and mindshare at a rapid pace will definitely get our vote."

Alex Holt,
Head of Telecoms, KPMG UK
"The role of the CMO has never been more important to the comms sector as organisations strive to achieve growth by better serving their customers. The winner will be someone who can demonstrate they have pushed aside any engineering led legacy culture and have personally driven the customer to the heart of their business. The success of becoming customer-led will be clear for all to see and will absolutely have translated into profitable growth."

Dr Andy Tiller,
VP Product Marketing, AsiaInfo
"Today's CMO must take a leadership role in business transformation. Telecom operators are facing huge market pressures, but there are great opportunities as well. The CMO must lead their company to success in the new digital economy."

Anthony Kendall,
Strategy Director, Brand Finance
"Brand is a very powerful tool and a key component of the overall value of a business. The CMO is in a unique position to utilise the brand asset - I'll be looking for evidence of the brand being used to drive business strategy and value."

Marc Smith,
Group Editor, European Communications and Mobile Europe
"CMOs are increasingly looking to provide subscribers with a best-in-class, differentiated service. To do this, they are charged with driving change within their companies, from internal processes and key KPIs to brand value and innovative services. It is a multi-faceted role that demands strong leadership and support from the rest of the C-suite.

"CMOs are doing all this against a backdrop of the growing number of OTT and other external players who are encroaching on the traditional turf of operators. All told, the role of the CMO continues to evolve and become ever more important"

CMO of the Year 2015: The shortlist

This year's award shortlist features executives from A1, Orange Romania, Proximus and Telekom Romania

A1's (Telekom Austria) Alexander Sperl

Sperl, who heads up A1's marketing activities under his Chief Commercial Officer title, is focused on positioning the company as the premium brand in Austria's telecoms market.

The judges were particularly impressed with Sperl's contribution to A1 NOW, a new OTT offering that features live TV and VoD services. It launched in August and is the first such product on the Austrian market. The operator is currently road testing the service with customers.

Sperl will no doubt be expecting A1 NOW to help keep A1's Net Promoter Score – a key measure of customer experience – the highest in Austria's telecoms industry.

He is also credited with helping to reduce churn and to increase brand value. The introduction of a Combine & Save programme, which promotes the uptake of converged services, has stabilised ARPU and kept churn rates falling.

The operator has implemented a number of new, customer-friendly initiatives under Sperl's leadership, such as the placement of "Gurus" within A1's stores, who offer free technical and troubleshooting devices to customers.

Orange Romania's Julien Ducarroz

Under Julien Ducarroz, Orange Romania has managed to obtain and preserve a leading position in the Romanian telco market. In a Brand Tracker study conducted at the start of 2015, Orange ranked the highest in the categories of "top of mind awareness", " spontaneous awareness", "brand consideration" and "first choice purchase intention".

The company impressed with a campaign that drew in 73,000 engaged users and encouraged 30,000 video uploads for what became one of the first commercials in Romania based on user-generated content. The resulting TV spot became the most watched advert on YouTube in Romania in 2014, with over two million views.

Ducarroz, who carries out marketing duties as CCO, impressed the judges with a number of innovative products and services, notably helping to establish a community of customers who engage in online forums.

Meanwhile, Orange Romania's NPS has improved by 13 times after the operator managed to cut the response time to customer emails and complaints by half.

The company is the only operator in the country to offer carrier billing for Google Play apps and expects the deal to bring in €1 million this year.

Overall, the judges felt Ducarroz was a strong leader who took a personal interest in customer advocacy.

Proximus' Ariane Marchant

Ariane Marchant, Director of Marketing for Residential Services, was integral to the creation of the new identity for Belgacom. Proximus, formally the sole preserve of the mobile arm, was rolled out as the company's new brand in October last year.

Marchant is credited with managing this transition in only nine months and with a budget of just €20 million. The judges were impressed with the roadshows she created to turn Proximus' 15,000 employees into brand ambassadors.

But Marchant also had her eye on the small details; for example, technical assistance for Proximus TV was extended until midnight for seven days a week. The MyProximus app has also been introduced, which allows customers to manage their subscriptions more closely.

The operator's customer retention strategy has resulted in a three percentage point reduction of mobile blended churn. The introduction of Netflix's services created a six percent uplift in fixed line customer acquisition, while 92 percent of customers were migrated to the company's new converged fixed/mobile packages during the year.

All told, Proximus revised its financial full-year 2015 guidance upwards in Q2, and the company expects its growth objective of to be achieved by the end of the year - one year ahead of schedule.

Telekom Romania's Mathias Hanel

The second nomination from Romania came from Telekom's Chief Commercial Officer Mathias Hanel and provided the judges with an opportunity to compare two operators from the same market.

Telekom Romania, made up of Romtelecom and Cosmote, was branded as a DT subsidiary in September 2014. Hanel achieved the highest brand performance in Deutsche Telekom Group just four months after launch – 91 percent of customers knew that Romtelecom and Cosmote were united under a single new brand.

The judges were impressed by the fact that high value customers were prioritised, customer experience governance was created and that best practice from the roll out of a self-care mobile app has been used in other markets in the DT group.

Independent studies showed that TR's IPTV tech got better customer satisfaction ratings than cable rivals, while the customer care centre and the performance of onsite technician's also scored above average for the same benchmark. Revenue and market share targets set by DT were also achieved.

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Chris Williams,
Head of Global Marketing at Amdocs

Amdocs is once again delighted to sponsor the European Communications CMO of the Year Award. Marketing is all about the customer: to the outside world, marketers convey the unique promise that their operator stands for; inside the business, they are the voice of the customer.

Customers now compare experiences from different industries and expect everyone to raise their bar. You can order a taxi in seconds via an Uber application, get full information on the driver location and read the reviews left by past customers. This type of experience sets a benchmark. For a cable company to schedule a technician visit to your house in two weeks, in a four-hour window, to fix a fault you've reported today is just not good enough anymore.

Even those cable providers who put great effort in reducing the appointment window to two hours need to continue improving. Singtel, for example, is offering a two hour window to its customers. But the company sets itself an internal goal of arriving in the first 30 minutes for more than 90 percent of appointments. This delights customers, as well as reduces the number of inquiries to Singtel contact centres by customers asking when exactly the technician will arrive.

Contact centres are just but one of an array of channels used by customers. Service providers, such as Globe in the Philippines and a number of the Telefonica affiliates in South America, that analyse the information they have on subscriber channel preference and use it at the right time, seem to be more appreciated by their customers. When a bill is due, send an e-mail; but when a new promotion is about to launch, a Facebook status is preferred. That adaptable channel mix is too the signature of a superior experience.

The CMO is a critical agent of change in making customer experience a true source of sustainable differentiation. How so? By innovating the experience, the CMO can make it inimitable by competitors and irresistible to customers looking for exciting services that are intelligently delivered, influenced by a dynamic quality of experience and all performed in a manner that accelerates value.

We look forward to honouring the marketing leaders who have embraced The New World of Customer Experience™ and, by doing so, have solidified the performance of their business.

Dr Andy Tiller,
VP Product Marketing, AsiaInfo

AsiaInfo is proud to sponsor the European Communications CMO of the Year awards, which were launched in 2014 in recognition of the growing importance of marketing to operators across the continent.

As competition between operators, as well as the increasing numbers of external players, increases, the role of the CMO in telecoms has never been so important. Operators are evolving to become more digital, and the focus is on marketing to really drive strategy and develop new business models that work in the fast-moving digital communications age.

Technology is advancing at great speeds, giving operators the ability to develop highly targeted and innovative products and services. IT/BSS has become a key enabler for marketing, which is in a prime position to drag organisations out from the clutches of legacy systems and processes. AsiaInfo is increasingly supporting the CMO's objectives with our IT transformation projects.

AsiaInfo believes in the great potential of the telecom industry, and we are delighted to support European Communication's initiative to recognise CMOs who set great examples in the industry.

IBM: digital change agent

Change is hard. In telecoms now, it is also urgent. The global picture shows revenue is flat and margins are shrinking – the coffers are stagnant. Rising data traffic is putting infrastructure under extreme pressure. Customer expectations regarding price, service and delivery are through the roof. As competition gets fiercer, their demands grow longer and their patience becomes shorter.

For telecoms providers, something has to change, or something has to give. This is the view from Big Blue.

Global tech giant IBM has reinvented itself as a solutions provider of formidable scale in recent years, and knows a thing or two about change. It considers itself to be the best partner to help operators navigate these choppy waters, and to make landfall again as digital service providers.

"Almost every carrier is dealing with these industry forces right now – how to remove costs, deploy new services and improve the customer experience," says Scott T. Stainken, General Manager for Global Telecommunications at IBM. For him, and for IBM, the only way to solve this conundrum is through new insights coming from data. "Intelligence is critical," he says.

IBM recently published results from its June 2015 Institute for Business Value study "Keeping Telecom on Target – How CSPs tap the transformative power of data and analytics". A recent IBV survey of sixty-five Communications Service Providers concluded that this industry is starting to gain competitive advantage out of this intelligence, with 71 percent of CSPs achieving a positive return on analytics projects within the first year, and 53 percent of these companies focusing on end-to-end analytics transformation integrating data into their business processes.

"You have to transform; you have to be able to deliver services in different models," he says.

Stainken has been with IBM for more than 30 years; he has seen its own transformation at close hand, against the backdrop of the converging information and communications technology markets. "We are changing too; our focus is on higher value business to innovate and help our partners grow," says Stainken.

To an extent, IBM has survived because it has stayed true to itself. It remains a business defined as much by attitude, as by product. The word "partnership" rings with familiarity by the end of a short interview with Stainken, and he returns time and again to this idea of "focusing on customers' needs". This culture is a source of pride for it; it is explored in detail in Making the World Work Better, a biography of the firm.

In the ageless world of technology, IBM's capacity for invention means it can be forever vital. And but for the revolution in personal computing in the late 1980s, it has remained on the leading edge.

It has demonstrated a particular ability to shift track during the past decade, having exited from commoditised hardware markets like PCs, hard disk drives and DRAMs to put focus on more profitable sectors such as cloud computing and data analytics, and to reverse its falling revenues. The sale of its x86 server division to Lenovo last year has transformed it as a solutions provider in the main.

IBM hasn't swapped out its core business, running the "critical systems of the world" for major industrial sectors, but it is no longer counting on markets that aren't growing.

Industry solutions

In line with this shift, IBM has been like a ball of energy in recent times. It has reorganised its old hardware, software and services units as solutions divisions that address core aspects of the new IT environment – cloud, analytics, mobility, social, and security.

More than this, its new solutions have been optimised for individual industries, such as banking, energy, government, retail, and, of course, telecoms. "We have solutions targeted at specific industries, supported by specific industry teams and capabilities," explains Stainken.

"For telecoms, for instance, we have an industry practice that provides consulting and systems integration. Previously, that would only have been available as a one-off custom implementation; now it's available as a pre-integrated solution, either in the customers' environment or as a managed service."

Separately, IBM has been acquisitive in the market, having spent $17 billion to acquire 30 companies to build its capabilities in big data and analytics. It won't discuss how these exchanges align against its new industrial focus, but a good proportion relate to data analytics and, in one way or another, to the telecoms industry in particular, its second largest client sector after banking.

> "IBM has shifted from proprietary R&D to innovation based in open standards"

"No one else has invested so heavily in this market," says Stainken.

From a strong base, IBM has lengthened its stride in the analytics market. Its acquisition of Dublin-based network analytics provider The Now Factory in October 2013 was a marker on the track, here. "Previously, we didn't have this real-time connection to network itself; this ability to see what's happening inside it," explains Stainken.

Integrated analytics

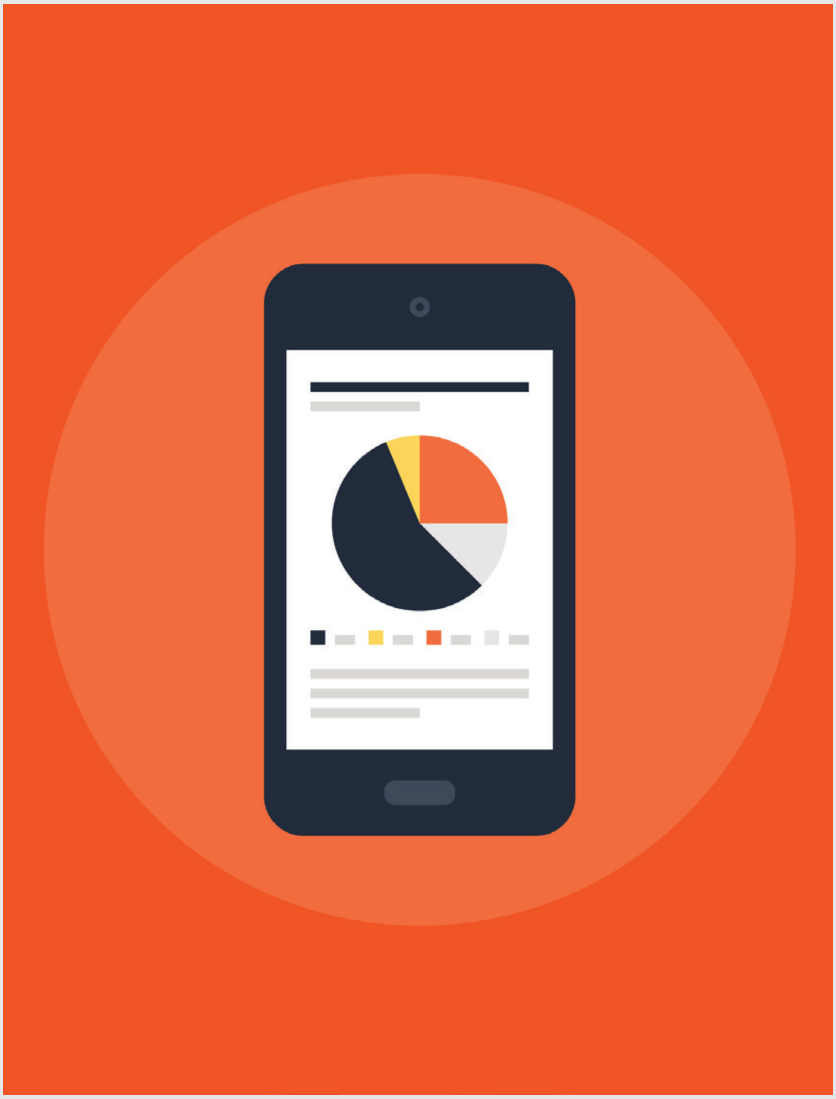
IBM's third step has been, effectively, to keep on keeping on – to put continued focus on its own R&D and business development functions, which are throwing up some pioneering partnerships around 'cognitive computing', notably with Apple around consumer healthcare analytics and with Twitter around social media analytics for enterprises.

"We've filed more patents than anyone; a large number are associated with telecoms. We are leading this trend in the market for real-time analytics and, especially, cognitive computing," says Stainken.

Importantly, IBM is combining its inherent capabilities with its inherited expertise in its new range of targeted solutions. "We've been working on how to deliver data intelligence for telecoms for over five years. We've taken our acquisitions and our own implementations and offered them as solutions for industry. We're moving to a next round of industry solutions, pre-integrated and pre-packaged," he says.

In total, IBM has announced 20 industry solutions with pre-built analytics capabilities that make it simpler for organisations to act on critical business insights. This announcement is very unique for one specific reason – IBM's industry solutions contain significant and deep pre-built capabilities designed to solve very specific problems in a multitude of industries. Unlike prior software solutions, which were often a collection of products with partial integration, an industry-specific implementation blueprint, and an army of consultants, this announcement is significant because these are industry solutions. They contain pre-built capabilities that integrate analytics and data management capabilities from IBM's analytics platform. They are also designed to solve very granular, and very challenging, issues. Two of the recently launched industry solutions are dedicated to the telecoms industry.

The first of these, Behaviour Based Customer Insights, provides analytics about customer activity across locations, devices, applications and interests. It has a unique application which correlates net promoter scores and subscriber network experience by using mobile, voice/SMS, CRM, device and cellular data. In the main, it is geared towards marketing and customer care. "It allows them to act upon that insight, whether it's to offer a promotion or to take steps



to stop churn." IBM's next move will be to incorporate a churn prediction application into this solution.

Facilitated by The Now Factory, the second solution, Customer Experience Analytics, delivers insights about customers' activity on the network in relation to their locations, devices and apps. By way of a customer experience scoring mechanism, it optimises customer experience across voice and data services, and improves the quality of service from a customer perspective. The Customer Experience Analytics solution addresses a defining issue for the sector, about loyalty, advocacy and churn. According to IBM, only one in six customers are advocates. "This is a huge leap for the industry," says Stainken.

"How do you use analytics in a more predictive manner to enhance the customer experience? It's about discovering problems in the network before customers do. That way the operator can change the overall experience for the consumer."

Cognitive computing

But more than simply joining up its own portfolio, IBM has shifted from proprietary R&D to innovation based in open standards. Its 'Watson' system is a good example of this.

Watson was developed initially as a show of IBM's technological wizardry; a computing system that could understand natural language and not just binary code. In 2008, as per its initial concept, it went up against human contestant on US quiz show Jeopardy, taking first place and $1 million in prize money.

Watson was released to developers as an open platform, and spun off in its own unit, the Watson Group, early last year. Its capacity for cognitive computing has been made an essential part of IBM's new analytics solutions for the telecoms industry, as well as its other vertical markets.

"We're moving from a world of systems and records, and large statistical data stores to cognitive computing, which can solve problems and make offers in real-time. We're using Watson to bring cognitive computing to telecoms, working on use cases for call centres, and also to other areas of the business, like network," explains Stainken.

IBM has multiple public references, here. Malaysian operator Celcom Axiata has used analytics solutions by IBM to run real-time contextual marketing campaigns, enabling it to make almost instantaneous offers to consumers based on new insights into their behaviour. Its leadership of the Malaysian market is in no small part down to its ability to easily garner insights from its big data stores in real time, it says.

Meanwhile, US service provider XO Communications has used IBM tools, rooted in Watson's predictive modelling capability, to identify customer dissatisfaction and take steps to stop churn. Watson is assisting another operator to resolve customer issues more effectively, says Stainken. "It effectively makes call centre agents and self-serve applications more intelligent, because they have better information at their disposal."

Predictive analytics

Ken Kralick, one of Stainken's industry-specific Global Solution Executives, explains that, through native innovation and new business, IBM can start to predict what customers want, where they need better service or where the network needs to beef up capacity. This is based on customer profiles and actual network behaviours.

"The kind of predictive analytics coming out now sit somewhere between traditional data intelligence and the cognitive computing we are doing with Watson. We're filling the gap with some very impressive predictive analytics that really make customers feel like their telecoms provider knows who they are and what they want," he says.

"Without being too intrusive, or surveying them to death, we can really predict what customers are looking for. And that's part of the customer experience element we were talking about, and a really great example of how we have integrated all these [analytics] assets we've bought over the last couple of years into preconfigured, prebuilt, out-of-the-box, ready-to-use, report-ready solutions that work for industry."

> "Predictive analytics that really make customers feel like their telecoms provider knows who they are"

As illustration, Kralick says IBM is working with an Argentinian operator to provide users with targeted offers and promotions when they are in the vicinity of the advertisers' retail location. "You don't have to print a coupon, and plan a trip," he says. "When you happen to be in range – when you're at break, say – a retailer you like might entice you with a deal on coffee or lunch."

He adds: "For any Chief Marketing Officer, this is a really interesting proposition – a predictive, real-time, personalised solution. It brings a lot of interesting new revenue that the telecoms operator hasn't had before, and the customer feels like, wow, they know me. It's a good win-win."

IBM's telecoms business is also working with other sectors, such as the travel industry, to combine data insights. Telecoms operators and airline carriers, for instance, are pooling data, and putting it through IBM's analytics filters to come up with wholly differentiated consumer propositions. "It's very powerful," says Kralick.

Industrial strength

For IBM, all of these characteristics and capabilities stand as a potent combination, and inspire some fighting talk on the part of its GM.

"When you combine all of this – the focus, the investment, the innovation – it is unique in the market. We're not just a consulting practice, we're not just a software product; we can deliver an end-to-end solution globally. No one else can do that. We're one of the few organisations that know how to deliver globally integrated enterprise solutions – for the world's largest organisations," says Stainken.

The point about scale is important in IBM's story, if hardly revelatory for a business that has outlived virtually every other in the technology space, and still outranks most for revenues (and leads every other IT firm on the Fortune 500).

"We have the industrial strength to handle the requirements of the largest telecoms providers in the world. For some customers, we are bringing in over 20 billion transactions per day into our systems. Our ability to filter those, and grab the events we need, cannot be matched by anyone," says Kralick.

"We have assets that we've built over time, with the likes of the US government, that we've brought into our portfolio and integrated into our solutions. This is not just sandbox proof-of-concept stuff. This is industrial strength, in a big way. We have the ability to process all these billions of events in real-time, or to store them offline in a cost-effective way and probe them as the client chooses. No one else can stream, store and monitor data like that."

Even so, fewer than one in four telecoms providers are effectively exploiting their data stores, or making use of analytics services available to them according to IBM. "The industry accepts there is a need for analytics, but most recognise they're not yet leveraging capabilities available to them in the market," says Stainken. The June 2015 IBM Institute for Business Value paper reports, 23 percent of CSPs consider themselves to be analytics front-runners, implying that more than three quarters of the CSPs surveyed acknowledge that they have work to do in exploiting data and insight for greater competitive advantage.

He warns: "Use of real-time data analytics is rapidly becoming a competitive advantage; if you're not, then you're at risk."

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SCOTT T. STAINKEN
General Manager, Global Telecoms Industry

Scott is the General Manager of the Global Telecommunications Industry. He is responsible for the strategy, solution offerings and development of the overall industry ecosystem. One of Scott's key priorities is helping IBM's telecommunications clients transform within a converging marketplace of communications, media, information technology, and consumer electronics. IBM is committed to enable transformation via open standards based and innovation in key areas such as advanced analytics, cloud, security and mobility.

Scott has over 30 years experience in the Information Technology and Telecommunications industries holding a variety of global leadership positions including: General Manager Wireless, responsible for IBM's worldwide mobility initiatives, and Vice President Sales Global Telecommunications. He has broad international experience including assignments in Korea, Japan and Spain.

Scott is a member of the TM Forum Board of Directors.

IBM®

Embedding Customer Experience across the Business

Jarkko Multanen, CEO, Accanto Systems

The way in which consumers evaluate Communications Service Providers (CSPs) has changed radically over recent years. The emphasis is no longer on coverage and price but the quality of the experience. Despite recognising the change, few CSPs are yet to align business processes with the customer experience.

Right now, Customer Experience Management (CEM) may be at the top of the agenda but too many CSPs lack the focus required to deliver a truly effective, joined up experience. With different objectives across marketing, network operations and customer service, not to mention multiple budget holders, companies are being pulled from pillar to post and failing to deliver any coherent strategy.

CSPs need a mind-set change. Yes CEM is clearly essential but no company is going to realise the vision of excellence by adopting a catch all approach – or embarking on a single RFP for a CEM system. There are any number of issues that can affect the customer experience and rather than attempting to address every aspect of this experience at once, or hoping that one CEM system can solve all the experience issues that affect the business, CSPs need to take a far more measured approach – and look to deliver incremental benefits along the way.

CSPs have huge advantages when compared to other organisations looking to improve customer experience – not least vast amounts of customer data. Networks already provide various metrics and KPIs on their performance, but often these are vendor specific. With a typical CSP having multiple vendors, it is virtually impossible to follow the quality of experience of a single subscriber while he is using voice and 2G/3G/4G data services. Nonetheless, in order to truly optimise the customer experience, especially for high value customers, CSPs need to find a way to leverage this scattered and independent information.

What is required is a means of consolidating the multiple network tools that monitor 2G, 3G and 4G networks as well as billing information and customer service calls. Once CSPs have aggregated these diverse information sources, correlations between customer experience and long term value will become clear. What is the impact of network outage on customer churn? Are specific handsets causing problems? What prompted a drop in expenditure by high level customers during a specific timeframe?

It is this information that can support the refinement of the CEM strategy. Armed with this insight it is far easier for a CSP to prioritise activity and, critically, embark upon improving one aspect of the customer experience, rather than trying to change it all at once.

Getting one aspect of the service aligned with the customer experience will deliver immediate and quantifiable ROI and, critically, then provide a platform for expanding the CEM model into other areas. For example, providing customer services agents with up to date information on a customer's experience is incredibly powerful. Firstly, when a customer calls, the agent can see immediately if the problem is related to the network or the handset, for example, and respond quickly and appropriately.

Secondly, CSPs can begin to embrace a more proactive model. For example, tracking the quality of service being delivered to corporate customers in real time, using dashboards in service operating centres to monitor performance, and proactively contacting customers to flag that an issue is being addressed. This approach not only improves the customer experience but also reduces the burden on customer services by driving down call volumes and improving resolution time.

After years of investment in improving network quality and competing on price, CSPs are beginning to refocus. As a result, the difference between good and bad customer experience is becoming stark – and with customers increasingly making CSP decisions based on the quality of experience, those companies that get it right are gaining significant commercial advantage.

CSPs have a huge opportunity, with detailed customer and already existing, although scattered, network information - including real time activity - and long term relationships that organisations in other markets can never hope to achieve. Rather than attempt to achieve the impossible with a single CEM, CSPs need to leverage this information to gain insight into priority areas and begin to make incremental change. It is by using this real time insight and following a clear CEM framework that CSPs can successfully evolve towards business processes effectively aligned with the customer experience - and drive up that Net Promoter Score and customer perception to far more acceptable levels.

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Special report

OTT / DIGITAL CONTENT

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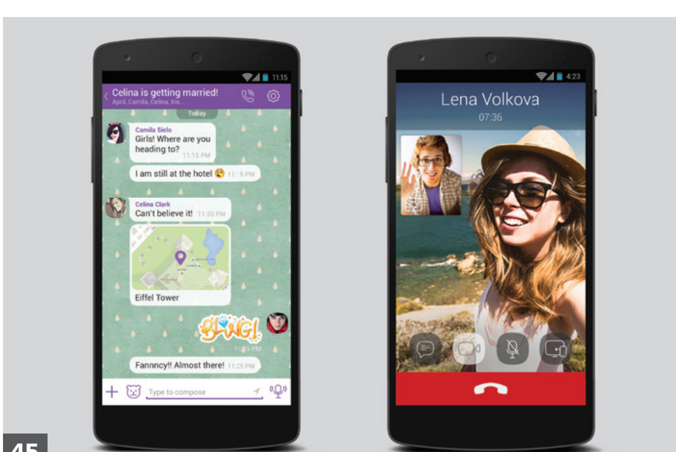

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Q3 survey: Operators want new revenues, differentiation but find partnerships hard to come by

The OTT/digital content space remains one of hope for operators, but they are struggling to turn offerings into significant revenue streams

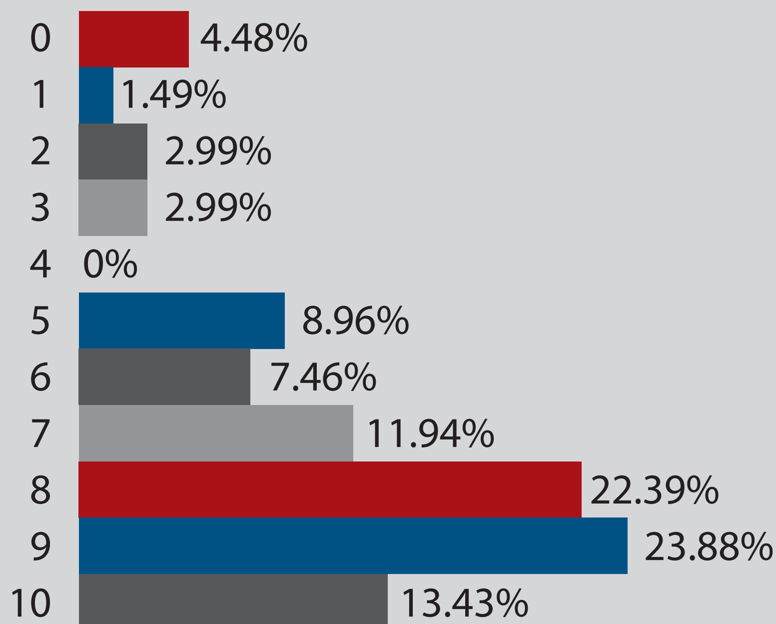
The telecoms industry is united in its view that the acquisition of exclusive content is crucial to the future success of operators, according to European Communications' latest survey. When asked to place a value on its importance, the weighted average of respondents was 8.2 out of 10 (see Fig.1).

Said one respondent: "Exclusive content is something clients look forward to… [it's] an important part of branding." Another added: "It is important that operators invest in content to maximise the utilisation of data capacity available, not to mention the competition in the market being saturated by content providers."

But not everyone is convinced. One respondent said: "[Exclusive content] is too expensive and self limiting."

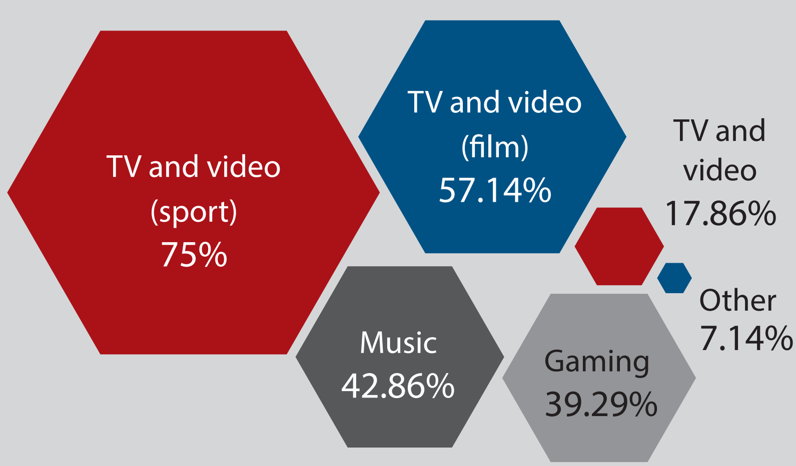
When it comes to the type of content they should be offering their subscribers, exclusive or not, operator respondents chose sport as the most valuable. Three-quarters chose this, ahead of film, which got 57 percent of the vote (see Fig.2).

Fig.1 On a scale of 0-10, how important is it to the future success of operators to acquire content that is exclusive?



*All respondents

Fig.2 Which type of content do you regard as the most valuable to offer subscribers?



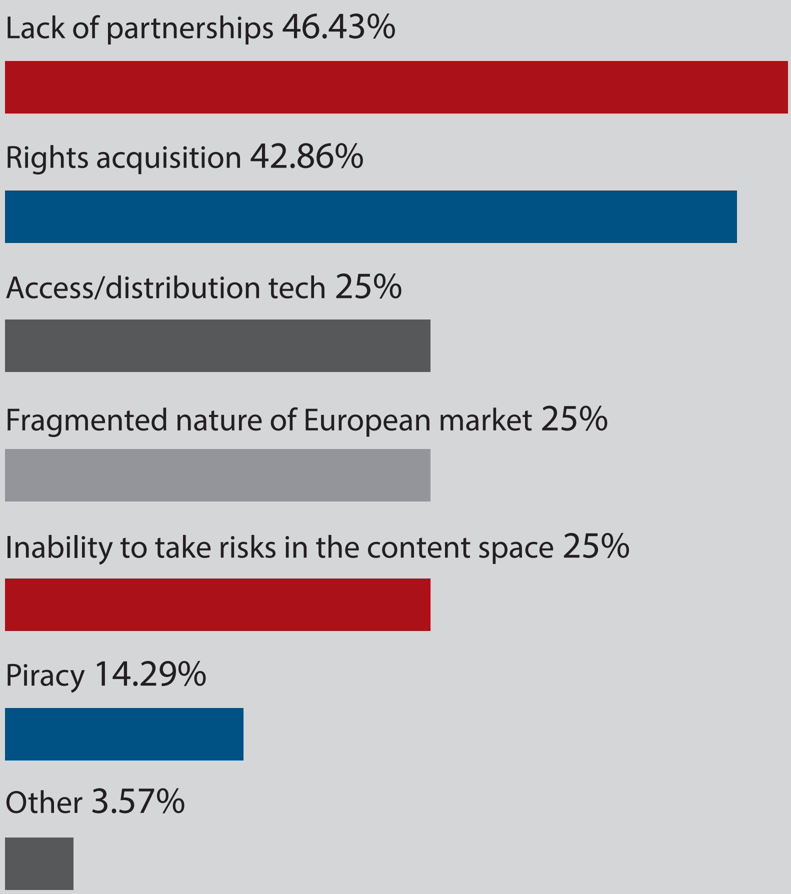
*Operator only respondents

Music and gaming also got a healthy share of the vote, ahead of other, non-specified types of TV and video content.

BT is perhaps the most visible of Europe's operators to pursue a strategy of acquiring exclusive sports content. It has spent billions on football rights for the English Premier League and European Champions League fixtures.

Analysys Mason's Stephen Sale notes: "High-value video content (notably sports) is the likeliest revenue generator [while] music and gaming are more often used to attract and retain subscribers."

Fig.3 What do you regard as the biggest challenge to the success of your digital content strategy?



*Operator only respondents

However, in reality it is proving hard to get such content. Operators regard a lack of partnerships as the biggest challenge to the success of their digital content strategy. Over 46 percent chose this ahead of rights acquisition, which was chosen by 43 percent of respondents (see Fig.3).

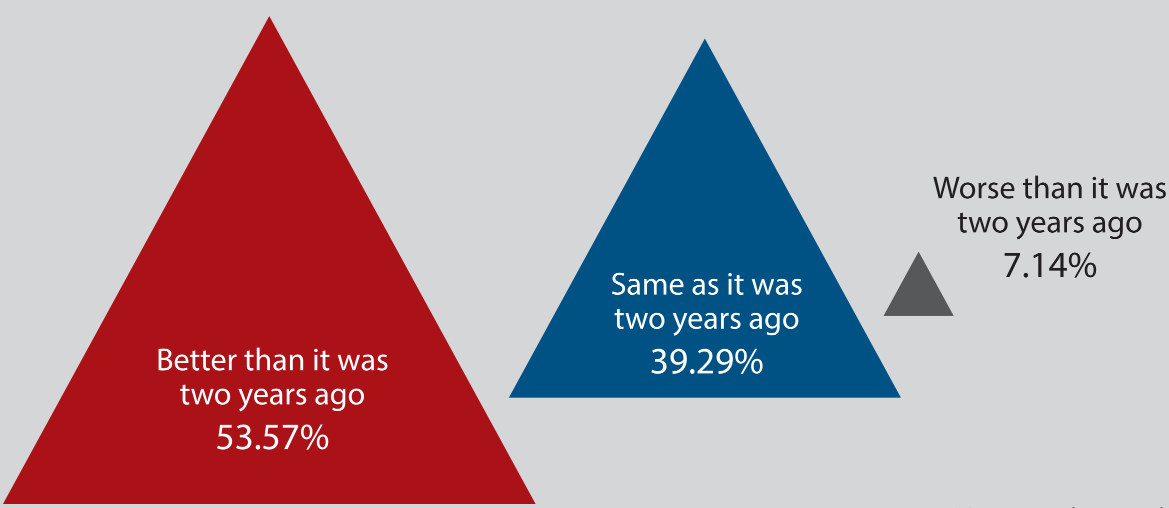
> "Many operators lack the commercial clout with OTT partners"

Says Sale: "Many operators lack the commercial clout with OTT partners. There are a few dominant content players and the practice of exclusivity in national markets can often restrict the opportunity for an individual operator."

But the situation is improving. According to operator respondents, their relationship with non-telco, digital content providers has improved since the last time European Communications canvassed their views on this topic in 2013.

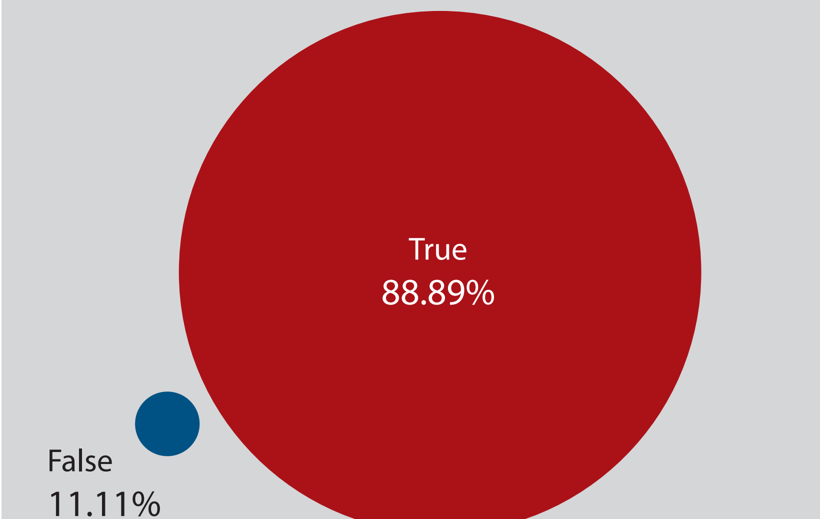
Over half, 54 percent, said the relationship was better than it was two years ago versus just seven percent

Fig.4 How would you define your overall relationship with non-telco, digital content providers currently?



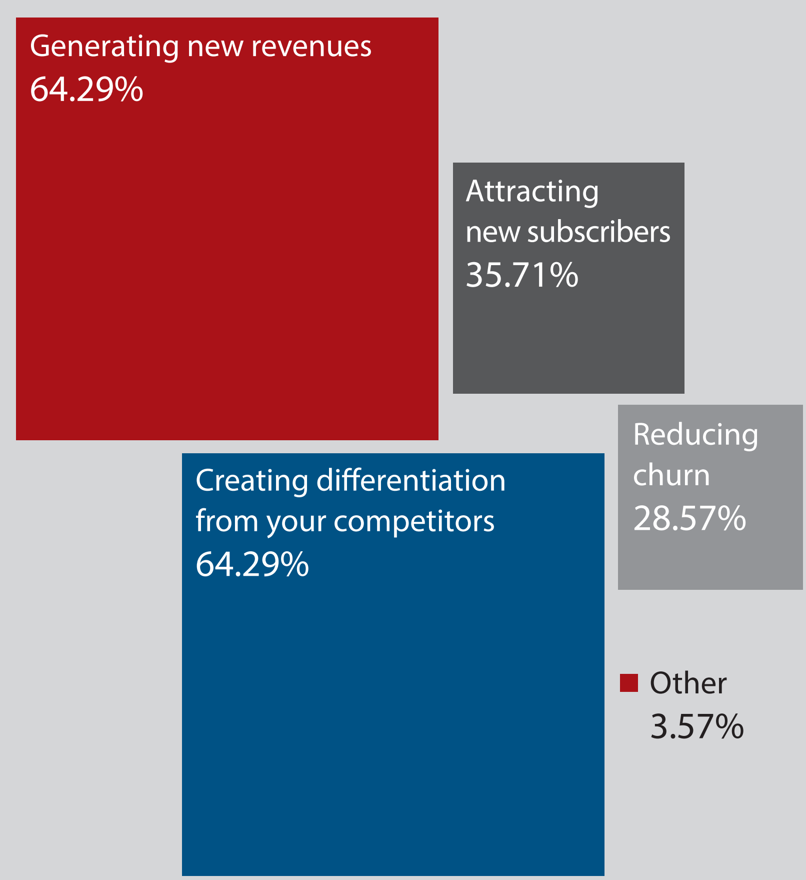
*Operator only respondents

Fig.5 True or false: partnerships with digital content players are becoming increasingly complex.



*Operator only respondents

Fig.6 What is the main driver for you providing content?



*Operator only respondents

who said the relationship was worse (see Fig.4).

The remainder, 39 percent, said the relationship was the same as it was in 2013.

Current Analysis' Emma Mohr-Mc-Clune agrees things are moving in the right direction. She says: "Two years ago, I attended a vendor conference featuring a panel of non-telco digital content providers, and it was quite clear to everyone in the room that the two groups were speaking an entirely different language. We've come far in attempting to understand each other. We've worked at it. Avoidance is not an option."

> "Loyalty patterns are shifting, and content partners are becoming more demanding as a result"

The nature of those relationships is getting harder, however. Almost nine in 10 operator respondents agreed they were becoming more complex (see Fig.5).

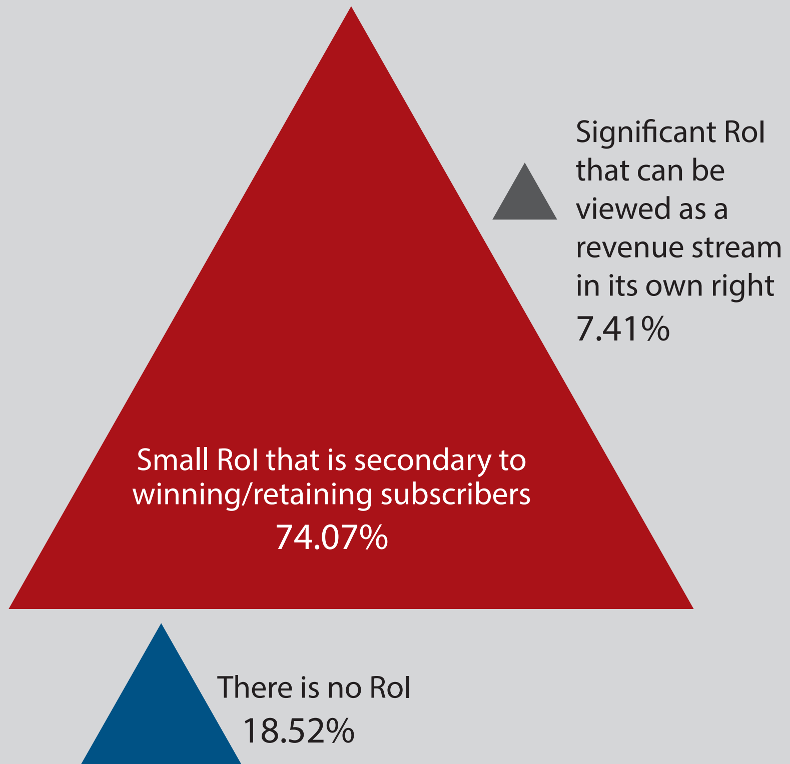
"Too right they are," says Mohr-Mc-Clune. "Content providers are looking to go global fast, but local or regional market content licensing regulation hasn't kept up with all that, and the partnership hurdles appear higher than ever. What's more, the OTT content provider space has matured somewhat over the last year.

"Loyalty patterns are shifting, and content partners are becoming more demanding as a result. Network providers have never been under so much pressure to open up their APIs, but the stakes are high. OEMs and other third parties are looking for new hooks into the ecosystem, and the entire sponsored data model has still to be resolved."

Sale adds: "The focus for operators has been on partnerships with a small number of well-known, established OTT providers with strong brands and proven business models.

"Each provider will have very specific requirements and is approached on a case-by-case basis. As the sector matures and operators seek to differentiate then the number of partnerships will increase, interactions will become more complex and the long-tail of OTT providers is likely to require more integration support."

Fig.7 What is your assessment of the RoI you are getting from the content you provide currently?



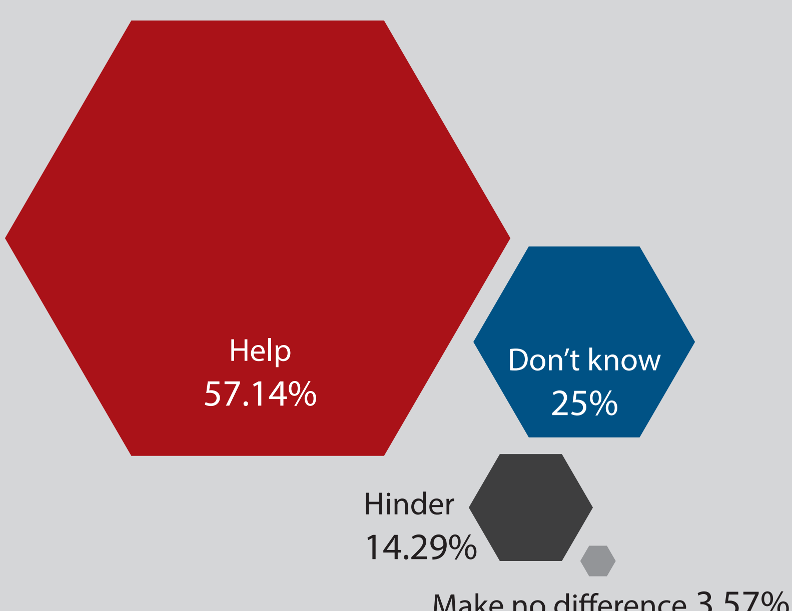
*Operator only respondents

Driving at new revenues

Whoever they partner with and whatever they offer, generating new revenues and creating differentiation are the two main drivers for operators to provide content. Almost two-thirds of operator respondents chose these two answers ahead of attracting new subscribers and reducing churn (see Fig.6).

Sale comments: "Western European telecoms revenue is forecast to decline from €252 billion in 2014 to €231 billion in 2020. Operators are looking at OTT content to help drive data usage, particularly in mobile, as well as a potential source of direct revenue. Some services may be bundled in to tariffs or the associated data may be zero-rated as a means to reduce churn or attract new customers."

Fig.8 Is consolidation in the European telecoms market going to help or hinder the type of partnerships you can sign with digital players?



*Operator only respondents

Reducing churn was chosen as a driver for content provision by 28.5 percent of respondents – a figure Mohr-McClune thinks is surprisingly low.

She explains: "I think what we're seeing here is a loss of confidence in content provision as a retention tool. Carriers today recognise what a complex and multifaceted exercise churn control is, subject to the whims and idiosyncratic behaviour of individuals with highly differentiated content tastes, device access preferences, loyalty triggers and price sensitivities, but also subject to changes in digital content fashion.

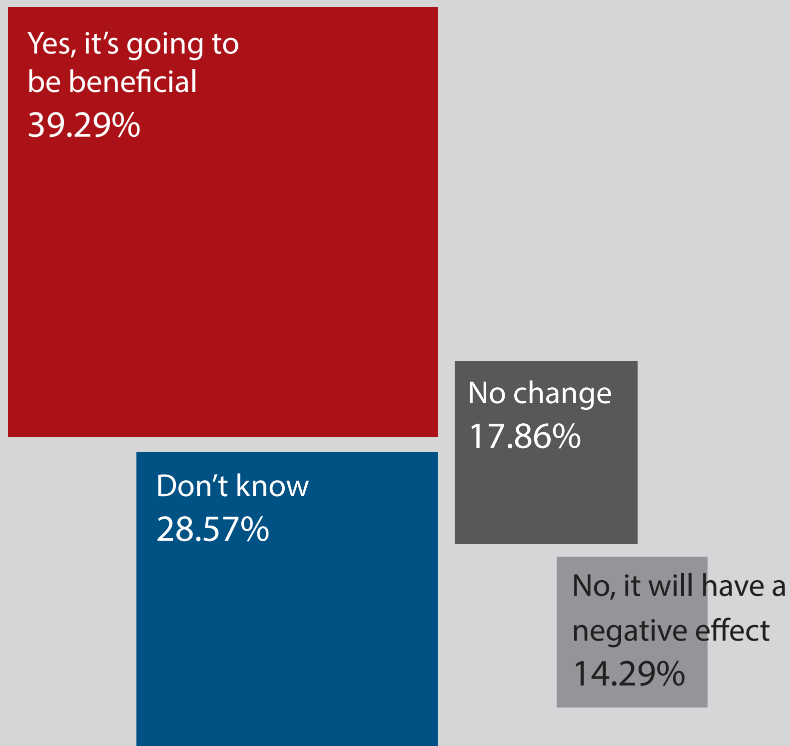
"Simply 'adding a Netflix subscription' to the bundled service mix is insufficient as a longer term strategy, although it might work in the short-term to achieve differentiation. These results articulate the questions many carriers today have about content as a longer-term churn control mechanism."

> "Simply 'adding a Netflix subscription' to the bundled service mix is insufficient as a longer term strategy"

The problem for operators is that the RoI that they get from the content they offer remains insubstantial. Just seven percent said the RoI was significant enough to be viewed as a revenue stream in its own right, while 18.5 percent said there was no RoI at all (see Fig.7). The vast majority, 74 percent, said the RoI is small and secondary to winning/retaining subscribers.

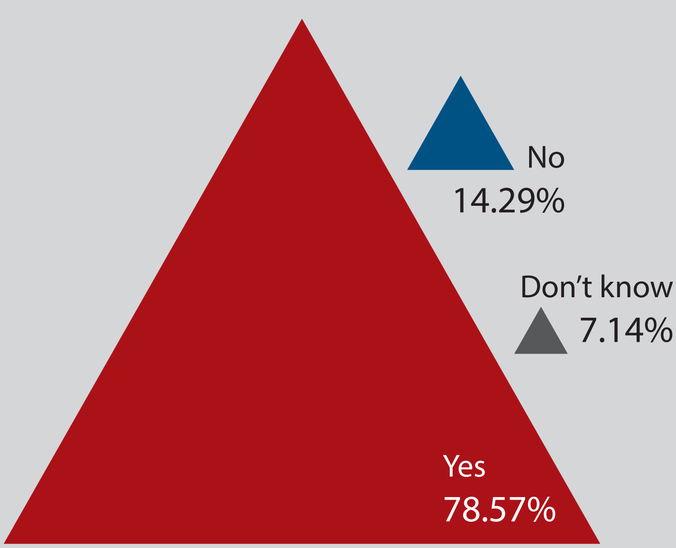
Mohr-McClune says: "There's reality for you, and I'm pleased to see this survey expose this little discussed fact. The 'show me the money' argument doesn't seem to apply to content; or at least, carriers have yet to hit upon the right innovation model to properly monetise the effort."

Fig.9 In June, the European Union promised to enshrine net neutrality in law from April 2016. Overall, is this going to be beneficial to your digital content business?



*Operator only respondents

Fig.10 Should you be able to, would you anticipate charging for specialised services, such as internet TV?



*Operator only respondents

Adds Sale: "Potential gains from monetising data traffic are commonly traded off as zero-rated traffic for customer acquisition/retention. There may be indirect benefits from acculturating customers to content consumption but these are hard to measure."

Regulation is a double-edged sword

With M&A activity continuing across the European telecoms sector, the majority of operator respondents, 57 percent, thinks consolidation is going to help the type of partnerships they can sign with digital players (see Fig.8).

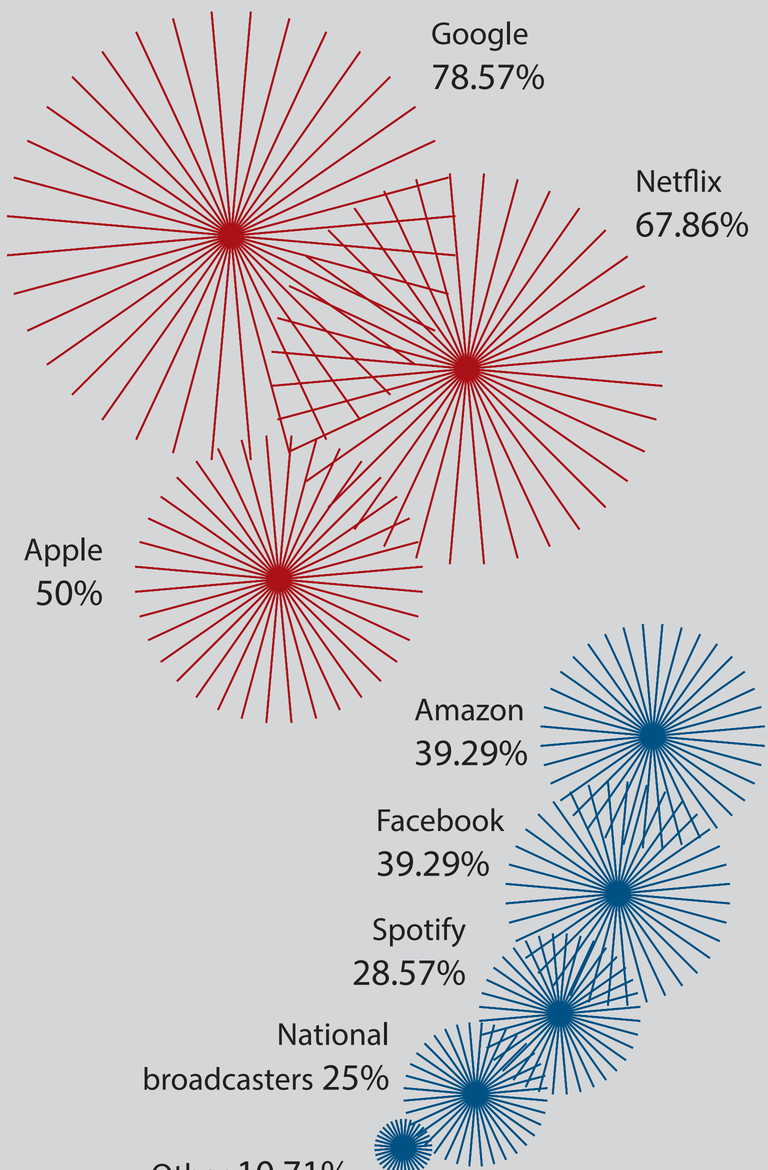
Fourteen percent said consolidation would hinder it, while 3.5 percent said it would not make any difference. The

Operators rate Google as biggest content competitor

Google is regarded as the biggest competitor that operators face in the digital content space. The YouTube owner was chosen by 78 percent of respondents, ahead of Netflix (see Fig.11). Apple was the third most popular choice, with exactly half of respondents choosing the Cupertino-based firm.

Mohr-McClune says: "There's nothing too surprising in the results of this particular question; Google and Netflix are well acknowledged as comprehensive and increasingly global content threats. What's more, the channel sophistication and muscle of Facebook, Amazon and Apple are all well understood."

Fig.11 Which of the following players do you consider as the biggest competition in the digital content space?



*Operator only respondents

figures were almost identical when we asked whether consolidation would help or hinder the precise type of content they could acquire.

It should be noted that the survey was carried out before the European Commission put the brakes on the merger of the Danish arms of Telenor and TeliaSonera in September.

Operators are split on the potential implications of net neutrality, however. Amid continued discussions as part of the EU's Digital Agenda reform, a majority thinks that enshrining net neutrality in law would be beneficial to their digital content strategies (see Fig.9). Fourteen percent think it will have a negative effect while 29 percent say they simply do not know what the impact will be.

Sale sides with the don't knows. He says: "Despite strong messages in support of net neutrality there is plenty still to be resolved in the EC's Digital Single Market initiative around content. For example, proposals for cross-border content portability will likely incur costs for service providers and content owners and the potential options have not yet been made clear. Weighing up the full implications of the EC's proposals is difficult at this stage."

Unsurprisingly, the vast majority anticipates charging for specialised services. Over 78 percent said they would charge for offerings such as internet TV if they were allowed to, versus fourteen percent who said they would not (see Fig.10). ec

About the survey

One hundred and eleven respondents took part in our online survey in August and September 2015. The respondents were equally split three ways between operators, vendors and other interested third parties, such as analysts, consultants and regulators.

From a geographical perspective, 69 percent came from Europe and 12 percent from Asia-Pacific. The remainder was split between respondents from the Middle East, Africa and the Americas.

PeerApp helps European telcos quickly and efficiently deliver high-quality OTT and streaming video content to their subscribers

Consumer demand in Europe for high-quality OTT and other digital content delivered over the Internet continues to grow rapidly. A new report from research firm IHS: Brits Watch Less TV than Ever Before; Italians Watch the Most, substantiates consumer interest and migration toward Internet-based video and other services.

OTT and additional streaming video services place significant demands on broadband access networks, both in terms of magnitude of traffic and cost of supporting it on one hand, and meeting quality of experience expectations for the end users, on the other. As a result, many European broadband operators are re-evaluating the design of their network infrastructures, and are looking to embed content delivery capabilities deep in their networks in close proximity to end-users.

US-based PeerApp, a global leader in helping network operators accelerate and optimise content delivery, enables European broadband service providers to minimise customer churn by speeding delivery of live and on-demand video services, online gaming, software updates, cloud services, and other popular OTT content to their subscribers. PeerApp solutions also allow operators to provide the best possible QoE for their customers, while better enabling them to control and cut operating and capital expenses.

Alan Arolovitch, Chief Technology Officer, Peerapp

With more than 500 broadband service provider customers in 100 countries, PeerApp says it can help communication companies 'quickly and efficiently deliver high-quality OTT and streaming video content to their subscribers'.

> “The importance of content delivery and the complexity involved are not fully realized by many network operators”

PeerApp Chief Technology Officer Alan Arolovitch explains that open content caching really came into its own with the emergence and subsequent popularity of video services such as YouTube and grew with the emergence of smartphones such as Apple's iPhone.

“We've seen both the rapid scaling of video delivery and demand for new software updates from smartphone users as well as new apps moving over to the cloud and the Internet,” he says.

PeerApp's solution to the challenges European broadband operators face is to augment their networks by embedding content delivery capabilities deep in the network, in close proximity to their customers.

These local content delivery solutions help network operators make more efficient use of bandwidth by storing popular OTT, streaming video and other digital content closer to end-users. This shortens latency of access and reduces bandwidth consumption.

“Consumers in Spain, for example, could currently be accessing a content server in the UK or Germany. With PeerApp, the operator can bring the content closer, so subscribers can watch it without buffering,” Arolovitch explains. “The ability to provide content deep in operator networks and neighbourhoods throughout Europe is critical to improving QoE.”

Arolovitch believes that European groups are only now waking up to the importance of improving content delivery. “Before Netflix was launched last year in Europe, internet traffic was contained. The European operators we're talking to say this has led to cost and service quality problems. Consumption and cost per subscriber is rising and margins are being eroded by this onslaught of traffic. It has put operators out of their comfort zone.”

How do European operators reduce cost but provide the best possible quality?

Arolovitch explains that to accommodate the demand for quality, most operators have invested in broadband network upgrades offering last mile speeds in excess of 100 Mbps. Unfortunately, he states, these investments have not fully solved the challenge of delivering the performance subscribers expect.

“A common answer is to get the fastest broadband speeds as possible to residences,” he explains. “But it's not the speed but the quality of the pipe and performance of the applications that matter most to customers.”

PeerApp asserts that OTT and streaming video applications can be delivered 12 times faster – or more – by bringing it closer to end-users. And that associated network savings can be 35 percent or higher.

“Our technology targets large users of media, especially video and file sharing over the internet," Arolovitch says. "The importance of content delivery and the complexity involved are not fully realized by many network operators. Downloads and dynamic URL schemes are not designed with caching in mind and traditional approaches based on URL analysis do not apply. Instead, high-quality content delivery should be based on response. We analyse the payload in a particular area and understand trends among services, content types and subscribers. We then look at what's popular and cache that content as close as possible to end-users. So when it's needed it comes quicker and with more quality."

But it seems not always easy.

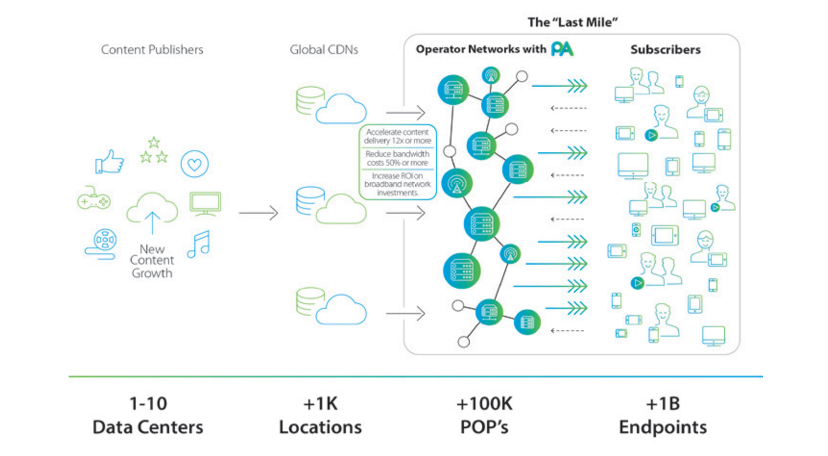
"We are able to figure out – and often anticipate – the content the local population is wanting right here and now. But there is obviously variety in demand. From a northern to a southern region in a country you can have 50 percent disjointed popularity," he adds. "We can help identify the necessary content for any given area."

Globally, PeerApp solutions manage an aggregate capacity of 5 TBps; this includes multiple Tier 1 deployments on a 100-500 Gbps scale.

Let's look at a specific European example:

Arolovitch explains that a European Tier 1 operator was facing two challenges when it picked PeerApp for help: regulators demanding transparency to end-users around bandwidth and latency; and a need for competitive differentiation.

"The operator ran a competitive process to select a solution to help them best address these challenges and PeerApp was selected," he explains. "We deployed a 400 Gbps traffic handling capacity system for the operator. Since deployment, subscribers are experiencing significantly faster downloads than before – both for content and web pages. The operator started using 'customer experience' in their advertising and also began creating new packages and offers around increased bandwidth, resulting in excellent customer uptake. With an iOS8 update specifically, PeerApp was able to absorb the bandwidth hit resulting from customers updating their iOS devices. There was a traffic spike of about 5 Gbps from the downloads, but since they were fully cached by PeerApp the operator did not need to serve the updates from the Internet, but could serve them locally from within the PeerApp system in its network."



PeerApp Local Content Delivery optimizes networks for cost and quality

This European Tier 1 is also supporting mobile customers through the PeerApp solution. While PeerApp has supported mobile operators with core-based solutions for quite some time (about one-third of its business globally), it is also bringing a mobile edge computing (MEC) solution to market that will bring local content delivery to the RAN, in a virtualised manner.

"We consider our open content caching a 'seed function' to help operators on the path to realising their SDN/NFV strategy," Arolovitch says.

Coming back to OTT, Arolovitch continues, "Operator OTT response and strategy has become complicated with the moves by content publishers such as HBO to go direct in their service offerings."

"It's a new reality for operators. Do they compete or partner with the likes of HBO?" Arolovitch asks. "We are at the beginning of that marketplace. Netflix went direct and in the US every content publisher has some kind of direct service in the works. But we believe that they need to work with operators to get to market and to distribute. Operators can help content publishers with delivery and back-office services. It makes business sense to cooperate and local content delivery can be an important part of that. We will help both parties meet consumer demand expectations."

Indeed he claims Europe is a much more competitive market than the US and much more quality driven. Thus putting more pressure on operators.

"There are competitors and disruptors in the European market which means customers leave on price. There is also more regulation and benchmarking with authorities leaning more on operators to avoid false advertising," he states. "Claims such as 'lightning fast broadband' are benchmarked by third parties – they really look at how operators shape up on quality. They have to deliver on their promises."

Arolovitch elaborates, "We are finding that there is a growing market need for our services in Europe in fixed and mobile. We're engaging with European operators to see how we can help them with this." With pending European Tier 1 deals and MEC trials, PeerApp is ready to help Europe come of age in the new ultra-competitive world of media content demand.

"New consumer behaviour and increasing adoption of OTT and other streaming video services continue to drive network traffic growth," adds Arolovitch. "We work alongside the operators to help them find the best way through."

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KPN aims to Play in the TV space with new app

Ahead of the launch of KPN's new TV app Play, the operator's TV & Propositions Manager Diederik Rosenbaum gives Marc Smith the lowdown on the OTT service

Stop me if you've heard this before, but operators are starting to roll out services that ape those of digital companies several years after the originals.

After failing miserably to counteract messaging apps like WhatsApp with joyn, now operators are going it alone with TV and video apps as they bid to entice customers with a range of digital content.

KPN is one of the frontrunners in Europe. In April, it announced plans to launch Play – described as a "true" OTT app featuring linear, on-demand and catch up TV – later this year.

Diederik Rosenbaum, TV & Propositions Manager at KPN, claims past lessons are being learned. The Netherlands-based operator has hired external coaches to help its core Play team of 30-50 people, oddly based in Italy, adopt what Rosenbaum calls "an OTT mindset".

He says: "We're seeing [these efforts] pay off in time-to-market."

KPN began market research 18 months ago, spent "a good year" developing the product and has now launched the app in beta mode with roughly 2,000 customers trialing it. It has penciled in a full commercial launch some time in the autumn.

So, what exactly is Play? The app features 22 channels, including content from The Wire broadcaster HBO, but none of it is exclusive.

While exclusivity is often cited a must-have in the "new" world of TV, spread out as it is across multiple broadcasters and platforms, the rights to acquire such content are prohibitive to many.

As such, KPN is taking something of a low-cost approach to Play and Rosenbaum doesn't seem unduly worried by not having a blockbuster exclusive.

Instead, what sets Play apart is that KPN is targeting people who "are not in the market for an internet connection" in Rosenbaum's words.

In short, this is the disloyal, permanently connected and potentially lucrative youth market.

According to Rosenbaum, Play is KPN's response to how that demographic is watching TV differently. This can be summed up as more streamed, on-demand content on mobile devices.

"They don't see a difference between in home and out of home," he says. "Perhaps the biggest insight we gained was that they think: 'Don't restrain me.'"

An interesting footnote to this is that KPN ditched its youth-focused mobile brand, Hi, in May.

The operator said at the time that the desire to be connected anywhere, the use of music and video streaming, as well as a need for converged access were shared by all of its subscribers, not just the youngest.

It is a key point worth dwelling on that, with Play, KPN has decided to offer something that does not beholden the customer to sign up to its telephony and broadband services as well.

While triple- and quad-play offers are de rigueur amid the wave of consolidation in the industry, the very market that KPN is targeting with Play is the least likely to sign up for such a service.

Play is a true OTT service and stands out in the telco world as something different.

It comes as an app for iOS and Android devices as well as on Google Chromecast for use on smart TVs.

Rosenbaum says a web portal is being worked on but has not been included at launch as it is "a bit harder to do".

KPN has worked with Accenture and Think Analytics on the app, the latter helping to provide recommendation technology that learns what customers like.

The Play team has developed the app with a "deliver customer satisfaction first" attitude, according to Rosenbaum.

He claims the beta test has revealed only "minor things" that need to be changed "in all phases" of the customer journey through the app.

Exact pricing details have not yet been revealed but, leaving that key detail aside for the moment, it is worth contemplating whether Play has enough to make it stand out in the field.

Although he concedes KPN is playing in the same pool as Netflix, which launched in the Netherlands in 2013, Rosenbaum does not see it as direct competition.

He explains: "I think we're addressing the same target group but it's a different product. It would be very pretentious of us to say we're competing with Netflix."

Another potential competitor, Amazon Prime, is yet to arrive in the Netherlands. Then there are the national broadcasters. NPO, the Dutch equivalent of the BBC, has an app on Google Play that has been downloaded up to five million times.

Again, it is not directly comparable as it offers NPO channels alone, but it does give an idea of the size of the established players that is out there.

But KPN has another competitor in its sights. Rosenbaum continues: "The core of KPN's business model is broadband where our main competitor is Ziggo… but they don't have a comparable OTT app."

Liberty Global-backed Ziggo is the largest cableco in the Netherlands and run by former KPN Director Baptiest Coopmans.

It offers apps, such as Horizon Go, to customers but again you have to have an existing subscription with the company. A Ziggo spokesperson told European Communications she couldn't comment on whether they were working on something similar to Play. It sounded unlikely.

Whatever the competition, Rosenbaum says success will not be judged on the number of customers who sign up, but instead on how "addicted" they become.

It is a comment that suggests the "OTT mindset" is alive and well at KPN. The executive backs it up with another when asked a typically telco question about the impact of Play on KPN's network.

"People don't ask that of Netflix so why do you want to ask that of me?!" Rosenbaum retorts. Touché, sir.

Should Play be a success with customers, Rosenbaum says it would be "a logical next step" to offer it to KPN's existing subscriber base.

He claims not to be worried about cannibalising the operator's own existing TV customers. KPN added 64,000 IPTV customers in the second quarter, taking the total subscriber base to just shy of 2.2 million. Its share of the Dutch TV market is growing and currently stands at 28 percent.

"We're not fearful of that, but we will have to think about in our pricing model," Rosenbaum says.

Other longer term factors include the European Commission's promise to look into the online players that provide a similar or equivalent services to telcos. Brussels wants to create a level playing field between all parties as part of its Digital Single Market reform that could benefit offerings such as Play. Agreement, if it ever comes, is likely to be a long way off.

Before that, however, KPN needs to focus on getting Play out into the market and generating a buzz with its intended target. Marketing and advertising will be key here, and much will depend on whether people see value in a product that offers breadth of content if nothing exclusive.

Certainly, the true OTT nature of the app is something that should appeal but what effect will the KPN brand have on decision-making? According to Brand Finance's 2015 ranking, the brand value of KPN rose 37 percent versus the previous year. While the report doesn't single out what young people think, overall the brand appears in rude health. It is in 31st place in the global ranking, ahead of Ziggo in 79th place.

Naturally, it is too early to draw any such conclusions about Play. Instead, Rosenbaum reflects on some of the lessons he has learned during the app's development: "You have to constantly move and stretch yourself to stay ahead of the game. Competition is coming from all areas. It's fun but unpredictable.

"Building an OTT app really does require a different way of working. I know it's a cliché, but it really is a case of innovate or die." ec

Operators struggle as punters continue to go OTT for content

A glut of content partnerships, and the anomaly of BT's mad spree on the TV rights for live sport, cannot mask the fact that operators are a declining force in content provision. James Blackman reports

In early 2013, when European Communications last considered this industry's approach to content in any depth, there appeared to be some renewed vigour among network operators. Having tried and failed to reinvent themselves as media brands, eventually swept aside by the flood of content over-the-top (OTT), they had re-emerged at last with a new strategy: partnership.

By joining with established OTT brands to offer customers easy, often discounted, access to content, operators had hit upon a new way to strike out from the rest of the field, and draw some deflected lustre.

"They've essentially given up on licensing and reselling content now," says Ovum Analyst Guillermo Escofet. "That era's long gone; they've been pushed aside and their content teams have been whittled down. The focus is now on bundling content – on identifying third-party media brands to partner with and package up into mobile tariffs."

Plenty of new partnerships are being signed, and pushed. In the UK, for example, O2 has agreed sponsorship

of Channel 4's digital channel, All4, giving its Priority customers access to shows before they air, EE has replaced its long-running two-for-one cinema offer with a video streaming promotion with Wuaki.tv, and Vodafone is offering Sky Sports and Spotify to 4G customers ahead of the launch of a TV service on its nascent fixed-line offering.

But this pattern of partnership won't last, reckons Dr Florian Gröne, partner at Strategy&, a consultancy division within PwC. Content will remain king, he says, but consumers will associate it less and less with the underlying platform, as demonstrated by the continued trend of cord cutting and content unbundling.

"Once consumers start voting with their feet, it is very difficult to stem the tide and lock them in merely on the basis of trying to bundle content with connectivity," he says.

King of content

Some appear to reject this idea, and have gone further than just partnering with OTT providers. BT's 2012 deals for the broadcast rights to a tranche of English Premier League football matches (38 per season) and all of English Premiership rugby, worth £890 million combined over three and four years respectively, hinted at a change in perspective for telecoms in general. Its appetite hasn't let up.

This August, it announced a deal with US television network AMC Global, the original home of Breaking Bad and Mad Men, for a range of television and movie premieres on a new AMC channel. The same month, it outbid Sky for live coverage of the 2018-18 Ashes series, as part of a deal worth £80 million.

> "Competitive gains achieved via new content partnerships are increasingly marginal"

Such spectacles are but sideshows to the main event, of course; BT has just forked out around £897 million to steal UEFA Champions League coverage away from ITV and Sky, and £960 million to renew its stake in Premier League football (now 42 games, compared with Sky Sports' 126).

But Gröne regards the BT example as an anomaly among telecoms providers. In general, the telecoms sector is short of ideas and increasingly marginalised when it comes to content, he says.

"Carriers are ill suited to the content creation game, and the differentiated content available through licensing or partnerships is very limited – the best answer anybody has come up with is 'live sports', which results in increasingly steep commercial commitments. So the era of carriers as content aggregators is coming to an end as consumers take more control."

Escofet makes a clear distinction between the opportunity in content for mobile operators and for fixed line providers. Even though BT is offering sports content on its SIM-only tariffs, and is about to get back into mobile in a big way with the pending takeover of EE, it is a fixed line business at heart, with a direct line to the television set.

This makes all the difference, according to Escofet, and the sheer level of BT's investment in content makes it something of a freak even in the fixed-line television market. "TV is the exception when it comes to content, not the rule, and BT has invested enormous sums," he says.

Charlie Marshall, Director of Strategy at digital sports specialist Supponor, agrees: "The main reason mobile finds [content] difficult is it's all about the main screen, the television screen. Mobile operators have struggled in general because they lack that gravitational pull of the main screen experience."

It's a view that hardly raises eyebrows among multi-play vendors themselves, it seems. BT was unavailable for comment, but its French equivalent was clear enough. "There are commonalties [between fixed and mobile] because of convergence but the objectives are very different," says Laurent Maillot, a Director within Orange's content team.

In France, Orange is a major force in the distribution of content; its Orange TV service, available with its broadband and multi-play tariffs, provides tiered access to 160 channels, with a good number on-demand and in high definition. "We are masters of the set-top box; we control access to the television," remarks Maillot.

Like BT, its content strategy hinges on live sports, movie premieres and original drama series, though Maillot makes clear it has a more measured approach to football rights than BT. For Orange, mobile is a subordinate platform. "It is just another screen," says Maillot.

"For mobile, the focus is on partnership and distribution, and selection of the best possible services. We will offer content through partnerships, but we have no desire to be a content provider. For fixed, the strategy is quite different."

So what's the appeal, and what's the future, if operators are just delivery pipes, or, worse, promotional channels? "For mobile, the focus is on partnership and distribution, and selection of the best possible services. We will offer content through partnerships, but we have no desire to be a content provider. For fixed, the strategy is quite different."

Hard to differentiate

This is harsh, of course. Mobile operators hold decent appeal for OTT providers looking to expand their reach. Softbank has just announced a tie-up with Netflix that will see it bill its mobile and broadband customers directly for Netflix services. The deal represents a neat entry to the Japanese market for Netflix.

Spotify, one of the pioneers for content partnerships, has grown significantly by piggybacking onto mobile operators' distribution power and marketing muscle. Even so, its global subscriber base stands at 75 million, of which just 20 million are paid-up members. "It isn't a mass market proposition yet; mobile operators represent about the biggest billing channel there is, so they can help make it so," says Escofet.

The flipside, of course, is operators get to mitigate against churn. Gareth Williams, Manager of Custom Research at Analysys Mason, says: "Customers taking three or four services from a supplier are far less likely to churn than those taking just one or two. As a means to entangle customers, and a way to stimulate revenues, content partnerships are certainly working."

He adds: "The problem is, mobile operators can't just carry on forever like this."

Competitive gains achieved via new content partnerships are increasingly marginal, and fleeting. Escofet points to Orange's tie-up with anti-virus software Lookout in France and DoCoMo's bundling of note-taking application Evernote in Japan as examples of operators going beyond standard entertainment bundles. But differentiation – in the content itself, or in its pricing – is hard to come by.

"It does let you differentiate, but it's a very tactical thing," he says. "If you're the first to market, then you have a point of difference. And there are lots of ways of bundling these services – whether it's hard bundling or soft bundling. But it doesn't last forever."

Indeed, outside of BT's big bucks strategy, is any telecoms provider, fixed or mobile, really distinguishing itself? Do any of these content partnerships look really fresh? "No, I'm not aware of anything that's particularly interesting," responds Williams, simply.

Supponor's Marshall agrees: "There's nothing that compelling, there's nothing that exciting. It's just a race to the bottom," he says.

Yet, as network technology improves and content becomes more mobile many content providers are designing for mobile first. Increasingly, mobile is dictating the agenda for content distribution. Surely operators' roles in the sale and distribution of content must expand?

"Carriers will continue to have to shoulder the capacity burden and invest billions into spectrum, fibre and new network technology to provide the bandwidth that feeds consumers' ever-growing appetite for broadband data," says Gröne.

But mobile networks are fizzing with data insights, real-time and location-aware. If they can unlock them, surely they can enhance their roles in the value chain, delivering more interactive and targeted content? Not necessarily. OTT players are setting a blistering pace so far as data analytics go, and operators are hobbled by entrenched cultural challenges, argues Gröne.

"Carriers have had access to rich customer and network data for many years, but they've had limited success activating it with a consumer mind-set. Changing to something more nimble, customer-centric and responsive will remain a significant challenge." ec

Telcos incubate start-ups to send them over the top

Telcos are putting together an army of start-ups to go over the top and reclaim ground lost to digital players. Are the new recruits good enough to take on Facebook, Google et al? Nick Booth reports

Operators continue to train young start-ups to go over the top (OTT) of their networks, and do battle with the digital enemy that has staked out new revenue streams. Many won't make it back alive.

According to one analyst firm, operators have lost out on considerable growth potential by not having applications that sit on top of their networks.

Ovum predicts a combined revenue loss for operators of $386 billion (€345 billion) between 2012 and 2018 as a result of providers like Facebook and WhatsApp making use of the infrastructure they so kindly provide.

As a result many operators have launched incubator programmes in a bid to fight back.

Telecom Italia, for example, has invested €4.5 million to fund start ups featuring robots, donkeys and bookworms.

Each year, the Italian operator's accelerator selects 40 startups that have applied to the programme to address areas such as mobile, smart city, smart home, automotive, gaming, health & wellness, data analytics, green solutions, social impact, digital payments, IT security, social networking and wearables.

Those selected receive a €25,000 grant to develop their projects and take part in the acceleration program in Milan, Rome, Bologna or Catania.

Among the new companies championing Telecom Italia's cause are Looqui, a system for Tactile signing for the deaf and blind, Fred, a proximity based social networking site focused on book sharing and Hotblack Robotics, a system that "guides a team of robots connected to a cloud robotics platform".

But will they reclaim any of the revenue streams that operators are losing?

As with any form of creative competition, nobody can predict where the next box office success will come from.

Lucy Lombardi, Head of Innovation at Telecom Italia, believes the main opportunities for OTT start-ups are not in pleasing consumers but in developing business-to-business apps.

"The first wave of app development was mainly oriented to fulfill personal needs like communication, entertainment and information. Now we are seeing the rise of business apps oriented to productivity, customer management, payment and process monitoring," says Lombardi.

This is a trend reflected at Telefónica's Wayra incubator too. The most notable application it has developed so far is Qudini, a cloud based digital queue and appointment management system for the company's own stores. It is being rolled out across Telefónica's global operations.

The founders, twenty-somethings Imogen Wethered and Fraser Hardy, first crossed paths at an O2 sponsored Hackathon in March 2012. From there, they came up with the idea of solving queuing using mobile technology.

After winning the Hackathon and sponsorship from Telefónica subsidiary BlueVia, they were encouraged to apply for the first London Wayra cohort. Trained and mentored, Qudini left nine months later with a business plan and SEIS (Seed Enterprise Investment Scheme) funding of £150,000 (€250,000).

In the UK, where the system has been trialed, Telefónica said it has seen a 15 percent reduction in the number of customers walking out of its O2 stores before they get served.

It is a rarity, however. No other startups have had the same level of success, admits Gary Stewart, Wayra's UK Director. However, Telefónica claims that its subsidiary has had some success, generating €6 million in contracts. "We have an intense scouting process with eleven recruitment centres around the world," says Stewart. There are pitching competitions being organised by Wayra practically every day, he says, and Wayra is scouring the universities in search of creativity. "We're always looking for talent," says Stewart.

Only 1.4 percent of the young hopefuls that pitch their business ideas get taken on, says Stewart. If they do impress the Wayra judges, they then have to make a much tougher case to a jury of venture capitalists. Those that emerge from this process with their dream still intact will be given £34,000 (€46,500) on funding and the same amount in support services.

So far, so underwhelming

A review of other start-ups from the Wayra stable reveals several that still concentrate on social media, which some analysts say has peaked, while others are targeting shopping and gaming. Social and Beyond, for example, helps brands engage with the customers at the point of sale.

UpClose.Me aims to cash in on the selfie generations obsession with image, by connecting them live through interactive videos. Tappx is a cross-promotion platform where members exchange advertisement and promote their apps for free – social media meets eBay.

Just as Hollywood studios marketed the film Alien as "Jaws - in space" there are all kinds of hybrids of already successful formats. Frock Advisor, for an example, is an omni channel fashion platform. Bragbet sounds suspiciously like social networking meets betting while Chatterbox offers yet more consumer insights, this time through instant messaging.

Like Comcast's rumoured plans to launch an online video service called Watchable, these could be accused of being yet more "me too" efforts by old players, according to analyst Rob Gallagher.

As Director of Research at Ovum's media and entertainment division, Gallagher has seen many a telco try to go OTT in order to become a true communications service player, rather than a provider of a dumb pipe. "So far, so underwhelming," he commented in one of his reports.

"Consumers are hardly crying out for another YouTube or Facebook Video, as demonstrated by the continued poor performance of also-rans such as Dailymotion and the likely failure of newcomers such as Vessel," says Gallagher.

There is potential for growth in the video sector, as content creators seek to reduce their financial reliance on the Google-owned YouTube service, which keeps 45 percent of revenue generated by ads on its platform.

In comparison Comcast will offer participants to Watchable 70 percent, according to the Wall Street Journal. Could operators cut a deal with their subscribers, offering them a percentage of any ad revenue for videos they post over their network?

"I believe there is a growing wealth of compelling original digital video that many viewers simply are not seeing," says Gallagher. The potential is there to be the author of a blockbuster but, as with any creative process, only one in a million gets lucky.

A less risky OTT strategy might be pursued in the new opportunities offered in emerging technology that nobody has had the chance to colonise yet, according to Mark Slinger, Head of Product at network management software vendor SysMech.

> “I believe there is a growing wealth of compelling original digital video that many viewers simply are not seeing”

"As voice and video over LTE help operators to reduce the 'cost per bit' for delivering services, they could help them offer services more akin to the OTT ones currently on the market," says Slinger.

OpenCloud's Head of Marketing Mark Windle says WhatsApp's recent move into voice services could be illuminating. Operators can compete by introducing virtualised VoLTE services – not only a fine technological innovation, but also an opportunity for operators to differentiate their voice services.

Mobile operators need to launch enhanced communication services and open, virtualised VoLTE provides the means, according to Windle.

"Operators could launch new VoLTE services much more competitively, and they support sustainable differentiation," says Windle. "This model has already been adopted by some operators and others will need to follow or risk getting left behind."

Management still stuck in the past

Whatever service they decide to provide, the experience of Coleago Consulting suggest operators cannot rely on their senior management for ideas.

The consultancy firm has developed The Innovation Game, which is based on the world of start-ups, angel investors and venture capital. Targeted at new staff and graduate trainees at telcos, it aims to instill in them an entrepreneurial spirit.

Participants begin by making a one-minute elevator pitch for a new business idea. Then, working in small "start-up" teams they seek seed capital and then final funding as they develop their idea and its business case. Next they have to plan, shoot and edit a TV commercial for their new idea.

It follows an earlier idea Coleago had, whereby staff, including top-level executives, were put into a War Game scenario intended to inspire a new way of thinking and a novel approach to business.

Instead, all it revealed was that senior management often find it very difficult to escape the telco mindset of networks, devices, tariffs and capacity, according to Coleago MD Graham Friend.

Nevertheless, Lombardi remains confident that Telecom Italia can create the talent, especially as new opportunities arise in areas like the Internet of Things.

What are the special talents that Telecom Italia's 'talent scouts' and talent farmers need to get the best out of their crop?

"First it is important to understand the new role of telcos in the digital value chain," says Lombardi. "We have a role to play where there is a need for proximity to the customer, a need for security or for end-to-end quality of experience. A telco can put together infrastructure assets and digital skillsets alongside it. We are paying special attention to everything that has a potential to integrate the telco industry, such as Smart Spaces, the IoT and robotics." ec

The future of instant messaging is content too

Now that OTTs have cracked communications, Owen Hughes explores whether any save havens remain for telcos' own digital services

The OTT players remain the biggest threat to the future of mobile operators' messaging services, and one that isn't going away any time soon.

While some operators continue to deliberate launching RCS-based apps – which promise enhanced communications and interoperability across networks but only if telcos can cooperate together – OTTs are turning their attention to voice and other forms of services.

WhatsApp serves as a prime example of OTT players' rapid march from basic instant messaging to all-singing, all-dancing communications services.

The addition of VoIP to the hugely popular mobile application earlier this year enabled WhatsApp's 800 million-plus users to make free voice calls to anyone in their contact list - generally at a better quality than cellular networks.

Meanwhile, owner Facebook has taken the fight to Skype by introducing video calling to its Messenger app. Add the fact that the company is now working on a digital assistant to rival Siri and Google Now and it's clear that OTT providers aren't content with just offering users a slightly more pretty-looking text messaging service.

Pamela Clark-Dickson, Principal Analyst of Consumer Services at Ovum, points out that instant messaging has come a long way from its humble beginnings.

"Services such as WhatsApp, Facebook Messenger, Viber and so on have been successful mostly because they initially enabled free in-app messaging, and more recently, voice," she says. "Then, [instant messaging] providers added stickers, which helps make messaging more fun and engaging. Since then, the range of content and services available via OTT apps has just exploded."

One noteworthy move from the instant messaging space has come from Snapchat. The photo and video-sharing app dipped its toe into the m-payments market last year when it launched Snapcash, a feature that allows users to send and receive money via the app. While the service is currently only available in the US, it serves to demonstrate that are fewer than ever safe havens for operators to play in as OTT messaging providers explore new ventures.

"M-commerce is one of the main areas we see quite a lot of OTT players diversifying into and this is another area that's becoming a challenge for telcos," says Rishi Tejpal, Principal Research Analyst at Gartner.

"Instead of just having an extension to mobile commerce services, some of the OTT players are actually moving toward mobile payment solutions."

While established instant messaging services evolve, new ones are appearing from the woodwork.

Market newcomer Yahoo Livetext merges live video chat with text, cutting audio out of the equation altogether.

Livetext Product Manager Arjun Sethi claims the service allows user to connect with "the immediacy, simplicity and ease of texting with the expressiveness of video, without the audio."

By way of example, Sethi explains that the app can be used to share a video message with a friend without disturbing those around you with sound.

Nevertheless, it's a late arrival in an already crowded space, leaving its longevity in question.

CCS Insight analyst Kester Mann suggests 'me too' products are an inevitability in the instant messaging market.

"There are a few new things coming out, [but] there's only so much innovation you can bring to this area because a load of these OTT guys have been around for quite a long time and messaging is quite established. There's only so much you can add to that," he says.

Sethi is unable to provide any details on where Livetext aims to go from here, but says: "We're always looking to innovate and improve, and look forward to being able to learn with and from our users in order to develop more features."

Yahoo's service is yet more proof that instant messaging providers are quick to capitalise on the momentum of new communication trends.

Ovum's Clark-Dickson says: "Almost all OTT communications apps are now offering voice and video chat alongside messaging as standard features."

And they aren't stopping there, either. Clark-Dickson continues: "Telcos are probably already aware of the fact that a number of the OTT communications providers have expanded their capabilities to include content and commerce.

"This is a fairly standard approach for most app developers: build a substantial base of users on the premise of enabling 'free' in-app messaging and voice, and then add services for which they can charge either consumers, brands and advertisers."

New functionality

This is another area Snapchat has proved active. Snapchat Discover, introduced in January this year, brings content from other providers directly into the app itself, thereby offering a platform through which companies can bring their own services to the attention of Snapchat's users.

Given Snapchat has an estimated 100-200 million of these daily, it's little wonder why Discover has already attracted the likes of CNN, National Geographic, ESPN and Comedy Central, all of which are now using the platform to advertise their own material.

It's not just Snapchat cashing in on this tactic, either. Says Gartner's Tejpal: "CSPs are also in the advertising space [so] if OTT players are moving into it as well, one of the challenges for telecom operators is to secure their market share in this domain.

"The moment you move more toward digital services, you're providing customers with added value and user experience. That's one of the things keeping users with OTT platforms, rather than moving towards operator services."

> "Everyone in the instant messaging space is looking at new functionality and new ways to engage with their users"

Viber, the multi-platform messaging app owned by Japanese commerce company Rakuten, has signed up more than 600 partners since its launch in 2010 as part of its efforts to beef up the service with new content and functions, signing up the likes of the BBC, Buzzfeed and web-based music channel SB.TV

COO Michael Shmilov says that helping Viber's users connect with brands is a particularly important in for its ambition of incorporating payments into the service in the future.

"Messaging is also no longer about 1:1 communication," says Shmilov. "Messaging apps are quickly becoming the preferred way to consume content, and we want Viber to be a place where people can communicate directly with merchants and one day exchange payment through the platform."

Yet the Viber executive stresses that the core principle of instant messaging is the ability to offer something that users want to engage with.

"Customers want to be able to connect with family and friends in an intuitive way, but they're also looking for features that make spending time in the app more fun, expressive and personal," he says.

"One day, messaging will be the way to communicate with everyone and anything, everywhere, and we will make sure that Viber stays fast, simple and secure when our users are communicating."

Of course, operators have launched their own messaging services in an attempt to counter the attraction of OTT, with varying success. Yet nothing from the telco corner thus far has posed any real threat to OTT's march on the space.

Being the case, what insights can Shmilov offer telcos about where the industry is headed next?

"Right now, everyone in the instant messaging space is looking at new functionality and new ways to engage with their users.

"We can't speak for others, but at Viber, we're dedicated to creating a rich, sophisticated experience for our users that makes it easy and fun for them to connect with their family and friends for free.

"We have a robust set of features that our users have embraced, and we're focused on continuing to develop and improve the experience for them."

Still, operators that devote too much of their efforts to creating OTT-championing apps are risk of being forever one step behind, say analysts.

Says Tejpal: "Advertising, digital content, m-commerce, mobile payments – these are the main areas where we see the OTTs could go into. They can't only rely on instant messaging or voice services, because that model will not be sustainable for much longer. At the end of the day, they need to stay where the money is coming from."

Should telcos give up on instant messaging completely? Maybe. Either that, or operators themselves need to carve the direction the market takes in future. And that's no easy task. ec

Tele2 appoints new CEO as Granryd leaves for GSMA

Tele2 announced in August that its CFO Allison Kirkby would take over as CEO in January 2016. She replaces Mats Granryd who leaves the operator to assume the Director General post at the GSMA. She said: "Together with my leadership team we will continue to challenge the industry."

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