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Q3 2016 ISSUE
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Accenture:
How telcos can thrive in new era of living services

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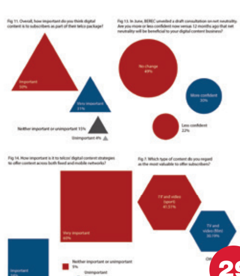

SPECIAL REPORT: OTT/DIGITAL CONTENT

Featuring an exclusive survey, interview with Virgin Media's Chief Digital Entertainment Officer and the heroes and zeroes of OTT content

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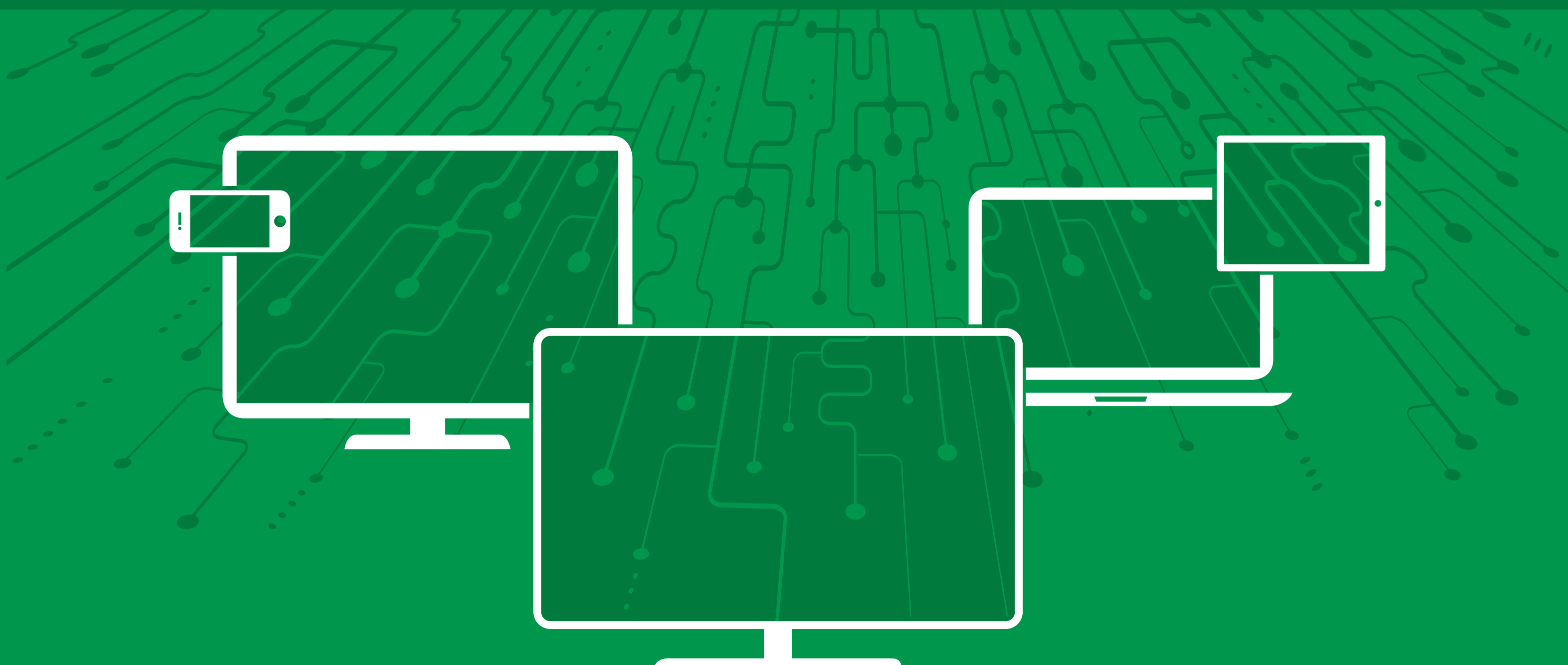

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Virgin Media's Mr TV talks talent, targets and telcos

David Bouchier was hired to turn around Virgin Media's TV business. He tells Marc Smith how he plans to do it

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Content, CMOs and coup attempts

The number of deals that network operators continue to strike with OTT/digital content providers shows no signs of abating. YouTube, Readly, Uber, NBC Universal and Apple Music are just some of the companies that telcos have announced partnerships with in recent months. And here's why; they are desperately searching for something, anything, that will differentiate themselves from their competitors.

That is the headline finding from our latest OTT/digital content survey, which forms the centrepiece of your annual look into this key area of telecom strategy. In the UK, Virgin Media hired David Bouchier last year to give its content some much needed oomph. The self-styled "Mr TV" tells us how he has gone about a "root and branch rebirth" at the company. "Telcos don't know the conversations they need to have with the industry," he says. "I'm fortunate to have worked across all parts of the TV business [and] I'm not intimidated by it."

Bouchier admits that however good the content you have may be, without the right marketing no one will know it exists. Such a sentiment leads us neatly onto our annual CMO of the Year award 2016. Nominations came in during the summer, and we are delighted to present the shortlist in this issue. The CMOs from DNA, MTS, Play, Sunrise and Vip will be put out of their misery at an awards evening in October. We'll bring you all the news from that event, including the highlights of an exclusive CMO roundtable and an interview with the winner in the next issue.

Back to Q3 and the c-suite is represented by the Deputy CEO of Orange in charge of the Middle East and Africa, Bruno Mettling, and Turkcell's Chief Strategy Officer İlter Terzioğlu. Mettling explains how he intends to push Orange into new areas such as energy and e-commerce, while Terzioğlu discusses the importance of mobile communications during the country's recent coup attempt. "Our services – before, during and after – held up," says Terzioğlu. "There wasn't any interruption. There weren't any changes in customer behaviour – except on the upside, where people were making more use of them."

Enjoy the issue.

Marc Smith, Editor

SJP business media

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Opinion

Post-Brexit considerations for the telecommunications sector
By Adrian Baschnonga, Lead Telecommunications Analyst, EY

Feature

BT dodges Openreach spin-off, but Ofcom calls for more money, independence
Ofcom has proposed BT's Openreach arm should become a distinct company to deliver the best services to the UK, but rivals have argued the mooted plans do not go far enough.

Feature

Nokia exec admits it is late to the smart home, targets Qivicon, digital health
A Nokia exec has admitted the company is late to the smart home market, but predicted that its new single box solution would make it stand out from the crowd.

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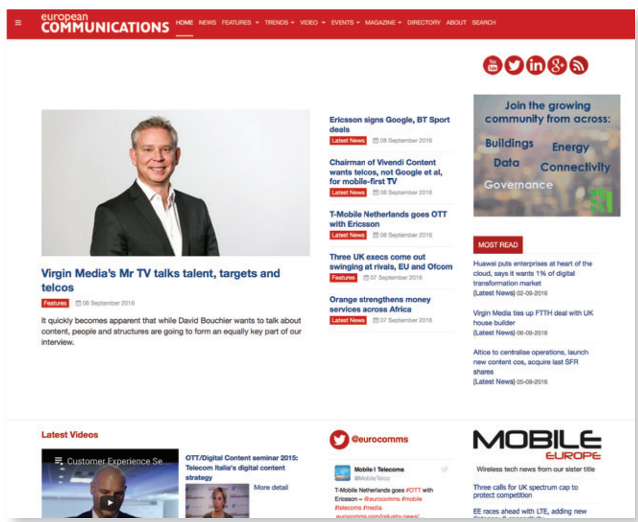

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The US and Asia-Pac grow as Brexit impacts European stocks

Telcos in the US and Asia-Pacific both saw share prices on an upward curve in Q2 as Europe's poor start to 2016 continued

Heir apparent leaves Softbank as US has strong quarter

Softbank President Nikesha Arora suddenly left the operator in June amid heavy shareholder pressure, waving goodbye to taking control of the Japanese telco. Arora was wooed from Google in 2014 and was heir apparent to the company. But concern had been growing about its strategy and performance, with Arora ultimately paying the price. He will remain as an adviser, but CEO Masayoshi Son looks set to stay on longer than expected. The operator had a choppy second quarter, with its share price eventually closing up seven percent at YEN5789.0

In Thailand, all three of the country's operators were hit by the costs of last year's spectrum auction. The auction's biggest winner, True Corp, saw its expenses leap 72 percent year-on-year after buying two of the four bands. Its share price weathered the storm, closing flat at THB7.20.

All four of the United States' operators closed the second quarter on a three-month high. It proved an eventful three months, with AT&T and Verizon tussling for Yahoo and the launch of the 600MHz spectrum auction.

Sprint shrugged off Arora's exit at parent Softbank, a loss of more than $500 million, and concerns over a new network leasing strategy, which saw it sell off some of its towers and rent them back, to close the quarter up 24.8 percent at $4.53.

Almost 40,000 Verizon workers took to the streets in April as part of an ongoing dispute about outsourcing. It was the poorest performing player among the country's Big Four telcos, with its share price up only 4.4 percent to $55.28.

T-Mobile, which surpassed analysts' expectations during the quarter by adding more than 2.2 million contract customers, saw its share price close out at $43.27, up 9.9 percent. AT&T's shift towards more lucrative customers saw its share price follow suit, up 15.1 percent to $42.73.

6.1%

The US

The US telecoms sector rose 6.1 percent in Q2 according to data from the Dow Jones US Index

4.5%

Asia-Pac

The Asia-Pac telecoms sector rose 4.5 percent in Q2 according to data from the FTSE Group Index

Vodafone bucks Brexit bear market

The vote by the UK to leave the European Union on 23 June dealt a shock to telco stocks across the continent. The days immediately following Brexit saw share prices fall although many regained much of what they had lost. UK-based Vodafone saw its stock rise the day following the vote and, although it fell sharply when the markets next opened, by the end of the month it was higher than before the referendum took place. It capped a good second quarter for the operator, which saw its stock rise 3.4 percent overall.

In May, Vodafone released its financial report for the 12 months to the end of March. The company laid claim to being the fastest-growing fixed broadband operator in Europe after adding 352,000 subscribers in the three months to March. Underlying revenues were up 2.3 percent to £41 billion for the year and it returned to growth in Europe in the final quarter.

CEO Vittorio Colao said: "This has been a year of strong execution for the Group, returning to organic growth in both revenue and EBITDA for the first time since 2008. I am confident we will sustain our positive momentum in the coming year."

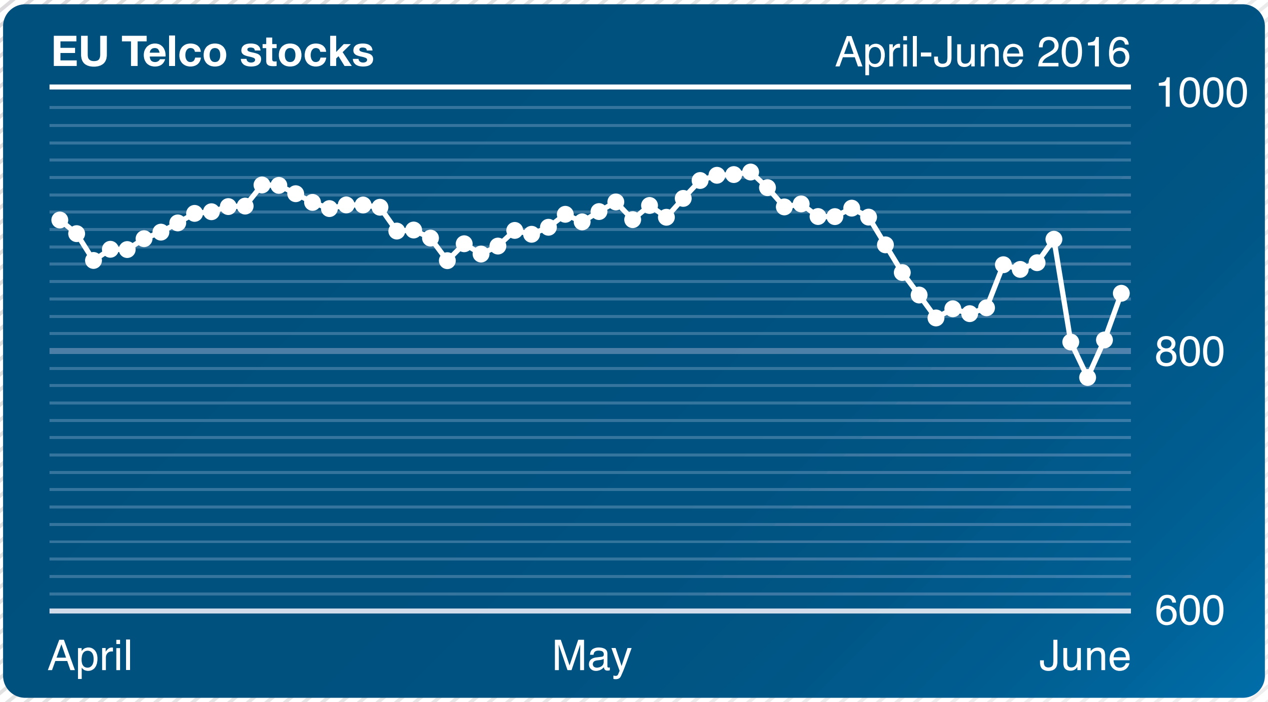
Although Vodafone lost its Chief Commercial Operations and Strategy Officer Paolo Bertoluzzo in May, it also won a multi-million pound contract to update and transform EDF Energy's communications and IT infrastructure in the UK.

June saw the company's New Zealand subsidiary merge with that of Sky in a deal worth NZ$3.4 billion (€2.1 billion). Vodafone will hold a 51 percent stake in the new company, which forecasts synergies savings of NZ$415 million. A further NZ$435 million of revenue synergies are also expected through the monetisation of content on mobile devices.

Vodafone NZ CEO Russell Stanners said: "The merger brings together Sky's leading sports and entertainment content with our extensive mobile and fixed networks, enabling customers to enjoy their favourite shows or follow their team wherever they are."

The operator also teamed up with Afrimax, a privately funded group that has spent the last six years acquiring spectrum in Africa, to launch 4G services in Zambia. This adds to the launch of mobile services in Uganda that the two partners bankrolled in 2014.

While the UK shut the door to the rest of Europe, the rest of the world looks full of opportunity for Vodafone.



Europe continues to suffer in 2016 with stocks down in Q2

European telco stocks registered a second successive fall in Q2 as the first half of 2016 was one to forget. Our index of the continent's leading telecoms shares fell 5.6 percent during the second quarter, following a 4.5 percent quarterly decline in Q1.

Telecom Italia, now known as TIM, was again the worst performer as its stock fell over 19 percent. The economic crisis in Brazil, where the company has a substantial business, continued. Revenues there fell over 15 percent in Q1, it reported in May, and the company warned of a "progressive deterioration" for the whole of 2016. The operator continued to wait on news about how its business in Italy would be affected by the merger of rival mobile operators Three and Wind.

Despite April bringing good news that a proposed merger between Orange and Bouygues had fallen through, Altice's share price ended the quarter down over 12 percent. The company's French subsidiary SFR spent heavily on broadcaster NextRadioTV in a bid to "re-write the future of the telecom, media and advertising industries". Just a few weeks later, SFR reported in May that revenues slumped by 6.1 percent in the first three months of the year.

Both KPN and Telefónica saw declines of more than 10 percent in their stocks. In the Netherlands, KPN's enterprise arm continued to flounder with reported sales down 6.8 percent. Investments in IT infrastructure hit earnings, which fell three percent. In Spain, Telefónica's improved financial performance continued, with sales up for a second consecutive quarter in its home market. However, the champagne was put back on ice in May as the European Commission blocked its attempt to sell O2 UK to rival Three on competition grounds. The operator pulled the plug on the sale in late June following the UK's vote to leave the European Union.

Telenor and Vodafone (see box out) were the only telcos on our watch list to record an increase in their share price. Telenor's performance is somewhat surprising given it continued to be hit by the furore surrounding VimpelCom's February admission to corruption at its Uzbek opco. Telenor was criticised in an independent report into its relationship with VimpelCom in which holds a 33 percent stake. It also revealed it had further uncovered "possible misconduct".

5.6%

Europe

The European telecoms sector fell 5.6 percent in Q2 according to data from the FTSE Group*

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

Orange Deputy CEO puts human resources at heart of its quest for African glory

Bruno Mettling, Orange's former HR chief, tells Marc Smith about the importance of people as the operator targets e-commerce and energy in Africa

Even for a company that is used to shifting its management team around, the appointment of Bruno Mettling as Orange's Head of Africa and the Middle East is, on the face of it, a little unusual.

Mettling, who started his new role in March this year, spent the previous five years in charge of the France-based operator's human resources department. When we sit down, at Orange's annual strategic update for the Middle East and Africa in London, the company is talking up its partnership with Google, e-commerce opportunities and entering the energy market. So why do they need an HR specialist in charge as they head towards a target of 20 percent revenue and EBITDA growth by 2020?

"We have to challenge our HR processes in every country," says Mettling. "Sometimes in Africa there is not always the same level of attention given to the situation of our staff but I insist on that."

Key to Mettling's appointment is the size and scope of Orange's footprint in the MEA region. The operator is now present in 21 countries after a spate of acquisitions, particularly in the past 12 months. When Mettling's predecessor, Marc Rennard, took charge of the MEA region in 2006 Orange had operations in just three countries. The company now employs around 20,000 people in countries that stretch from Botswana in the South to Tunisia in the north. Harmonising all the new people and businesses requires a skilled and experienced hand.

"We are now at a new stage of our development in Africa," Mettling says. "We are moving from a business model focused on voice to one focused on data."

But it's not just about focusing on internal issues. Mettling adds: "We also have to reinforce our governance around regulation and tax. We have to strengthen relations with all the different countries, with the people in charge, and we have to reinforce our ability to analyse, to react more quickly to challenges we face."

A prime example of such a challenge is the reason behind why MEA revenues grew at a slower pace in the second quarter. Orange revealed the decline was due to the fact that it had to scratch 1.4 million customers in the Democratic Republic of Congo after its government imposed stricter regulation requiring telcos to log more identification details about new customers. Orange CFO Ramon Fernandez said this was a "short-term, negative impact" but he could not rule out the possibility of it occurring elsewhere.

Orange therefore needs people who can prevent such shocks occurring in the future. The appointment of an HR expert is perhaps not so surprising.

Data, e-commerce and energy

With Mettling having a least one eye on reconciling the disparate opcos and making some new key hires, he has handpicked the former CEO of Orange Spain as his deputy with a brief to drive the MEA business forward. Describing Spain as "a real success story" following the acquisition of fixed-line player Jazztel, Mettling has handed Jean-Marc Vignolles the job of Chief Operating Officer. It will be Vignolles' job to implement a multi-pronged strategy, which can be broken down into three key areas – mobile data, mobile payments and e-commerce, and energy.

First, Orange is keen to push Africans from 2G to using its 3G networks and, where they exist, 4G. Key to this is an eye-catching partnership with Google. The Orange-branded Rise 31 and 51 devices, for 3G and 4G networks respectively, are the most affordable smartphones in their categories, according to the operator. The smartphones come with local language support and a range of bespoke content. The company said it was too soon to discuss take-up – the Rise 31 has been launched in 10 countries since March, while the Ivory Coast was the first country to receive the Rise 51 in September.

Orange is not just relying on Google to boost data rates. Last October, it invested in subscription video on demand start-up Afrostream in a bid to boost its TV offering. Afrostream provides African, African-American and African-Caribbean films and television series, is being funded by Orange Digital Ventures and supported in part by Orange's Fab accelerator programme.

Mettling says the operator needs to deliver local content, but hints at larger plans: "We have met African movie people at the Cannes Film Festival – there is an expectation to deliver films. It's the beginning of a new story [and] we can be part of that story."

Second, the operator is keen to leverage its Orange Money service, which first launched in 2008 and now has more than 19 million customers. While Mettling wants to continue to grow this base, he also wants to use it as a platform to move into e-commerce. He says Africa's lack of physical infrastructure and the associated challenges of delivering products to remote areas present "a big opportunity".

The exec highlights the network of 400,000 Orange Money resellers the company has built up who could be "mobilised" as distributors. In a bid to square the circle, Orange has made a €75 million equity investment in Africa Internet Group, which owns the continent's largest e-commerce platform Jumia, among other assets.

On signing the deal, Orange CEO Stéphane Richard said: "With this strategic investment, Orange now has the capacity

to play a leading role in the fast-growing e-commerce market in Africa.

"This acquisition is combined with the signature of several important partnership agreements that will create value for all parties. In particular, across the 12 countries where we have a common presence, this investment will enable us to significantly develop our ability to market products and services developed by Orange Middle East & Africa over the internet."

Orange joins AXA, Goldman Sachs, MTN Group, Millicom and Rocket Internet as an investor in AIG. Mettling says the operator is targeting e-commerce revenues of €40 million by 2020.

Third, Orange is looking to get a foothold in the energy market by targeting 90 percent of the rural population living in Sub-Saharan Africa that has no access to electricity. Similar to the e-commerce situation, Mettling cites the lack of physical infrastructure and the ubiquity of smartphones as an opportunity for the operator. "One African in two has a mobile device, while one in three has access to electricity. We can develop competitive solutions," he says.

Orange unveiled its first two in July. In the Ivory Coast, Senegal and Cameroon it is providing solar energy kits for individual houses and micro grids for "collectives" of rural communities. Orange is subsidising the entire cost of the equipment for what it is calling its Rural Electrification Programme. It is still developing tariffs, but users will pay for the service via the Orange Money platform.

The trial will run for six months from November. Mettling is targeting 1,000 premises to have the kit, which can also be used to recharge mobile devices, installed by the end of this year.

In Tunisia, meanwhile, Orange is installing 100 smart electricity meters in homes as part of a six-month trial in partnership with local energy firm STEG. The two companies said they hoped to roll out the service to four million premises across Tunisia in the future. Mettling revealed agriculture was another industry he wanted Orange to get more involved in.

A tough job

Is Orange attempting too much or is it getting in at the start of what could be a very lucrative moment for the company? Mettling rather dodges the question when it is put to him. No doubt he would rather let the figures do the talking. Revenues across Africa and the Middle East rose 3.3 percent year-on-year to €2.5 billion in the first six months of the year, while EBITDA was flat at €828 million. The operator said it remained on track to deliver 20 percent revenue growth by 2018 but has upgraded the same target for EBITDA growth thanks in part to increased data usage.

Mettling says he has "a tough job" on his hands and will hope that the bets Orange has placed are the right ones. Telcos certainly do not have much form when it comes to entering new market segments, so Mettling's HR skills and more will be put to the test as he looks to continue the Orange's early successes in the region. ec

Turkcell CSO: Growing pains

Turkcell Chief Strategy Officer İlter Terzioğlu tells James Blackman how it plans to lead the market at home and abroad, and how, from a technology standpoint, the country's youth and dynamism is the real coup

On the night of July 15, as the attempted coup d'état against Turkey's state institutions unravelled, the country's mobile networks were alive with activity. The plotters plotted on social media, and the government sent video calls and SMS missives to update and exhort the people. All the while, Turkish citizens, adept at getting around censorship rules, accessed live video streams from the streets of Istanbul on their smartphones.

Two weeks later, Turkcell, the country's leading mobile operator, posted record growth, and raised its capex to 25 percent of revenue for the year. Turkcell is not about to get into a political discourse; it wants to talk business. But whilst unrelated, both its success and the plotters' failure mark out the country's technological development.

"Communications, and especially mobile communications, were very important during the coup attempt," says İlter Terzioğlu, the company's Chief Strategy Officer. "Our services – before, during and after – held up. There wasn't any interruption. There weren't any changes in customer behaviour – except on the upside, where people were making more use of them."

But, then, network stability is now new. Terzioğlu has been with Turkcell for 22 years, having also headed international business and regulation, as well as the network itself. He recalls the 7.4-magnitude earthquake that rocked northwest Turkey in 1999, when he was Chief Technology Officer. "That is our objective, at all times – to keep services running, for everyone," he says.

The June events do not just speak of the country's newfound technological dynamism; they also talk of its youthful vigour. With a median age of 30, it has the youngest population of anywhere in Europe. "More than half the population has grown up in this world – of the internet and social media. They want to use these technologies and services around the clock," says Terzioğlu.

Such behaviour has helped Turkcell to record two decent quarters on the spin to post its highest sales growth for three years, finishing the period 8.6 percent up at TRY6.583 billion (€1.96 billion). Revenue guidance was steady at 8-10 percent, while EBITDA jumped in line.

Young Turks thirst for its heady brew of "data, services and solutions", says Terzioğlu. "Those three things are the growth engine," he says. Indeed, data and services contributed 46 percent of total revenues at last count, and grew by 39 percent in the second quarter.

Yet, as the rise in capex hints at, there is ground to make up when it comes to technology. Turkey was late to the punch with 4G LTE. At the same time, it has watched others' first steps, and hurdled in-between technologies. "We were late, yes, but we've adapted quickly," explains Terzioğlu. It was the same with 3G UMTS in 2009, he reflects. "We had a big advantage coming to it late," he says. "The European operators were struggling to deliver even 1Mbps at the time, just because they'd established the technology first. We went straight into HSPA+ (3.5G), and it's been the same with 4.5G."

After taking 47 percent of available spectrum from the auction in August last year, Turkcell was swift to launch services in Turkey in April, and skipped straight through to '4.5G' LTE-Advanced (LTE-A) and LTE-A Pro. Five million signed up in the first three months, with another 16 million "registered" in the wings. Data consumption has climbed by a third; population coverage stands at 82 percent. Terzioğlu says Turkcell is not just taking its cues from its industry peers this time. "We're looking at all kinds of service providers – of television and social media, and so on. We are learning from them, and we'll do a great job."

Still, it's not just about networks. This captive Turkish market is short of devices. Smartphone penetration in Turkey is around 60 percent. In March, Turkcell established a financing company to facilitate payment options for customers. It has already provided lines of credit to 1.1 million Turks, to the tune of TRY1.4 billion (€421 million). "We want to get these services into the hands of customers. And in Turkey, and in similar countries, the problem is mainly one of financing," says Terzioğlu. It's the same for fibre broadband. "Penetration is much lower than elsewhere in Europe, so there's potential for growth there too," he says.

Turkcell has 45 percent of the mobile market in Turkey, and 54 percent of the fibre market. But its share of the fixed broadband market is much lower. Its ISP subsidiary Turkcell Superonline is negotiating with Vodafone Turkey and satellite company TurkSAT, as well as members of telecoms association TELKODER, to make better use of existing infrastructure and remove the need for duplicate building work. The programme's stated objective is to wire up 21 million more Turkish households to fibre-to-the-home. "Instead of investing alone, it's better to do with other players in the market. The main drive is efficiency," says Terzioğlu.

A sub-plot, here, is the main trio's desire to disrupt the status quo, and gain cheaper access to the fibre optic network of incumbent Turk Telecom, which extends to around 213 kilometres of cable and outruns that of its peers by a considerable margin. Terzioğlu corrects the terminology around Turk Telecom's dominance of the fibre market. "It's not a monopoly, actually," he says. "We should be precise; it is significant market power. But it should be open to everyone, and fair to everyone."

International growth plans

Turkcell is capitalising on latent demand in its foreign markets in a similar way. Despite its Turkish stronghold, which contributes over 90 percent of group revenue, Turkcell also works in eight other markets, and has fast-expanding horizons.

Turkcell's Ukrainian operation, working under the life:) brand, posted a seven percent jump in revenue in local currency during the second quarter. Terzioğlu expects the same upside at its life:) subsidiary in Belarus, buoyed again by latent demand and timely supply of smart services. "We will have a big impact towards the end of this year," he predicts. Its strategy is to increase its international footprint through selective mergers and acquisitions, as well as "globally relevant" products and services. "Our vision is to take 40 percent of our total revenue from international markets. At present, that figure is almost 10 percent, so our strategy goes on," says Terzioğlu.

Its 2015 deal for Astelit in the Ukraine – which saw it purchase SCM Holding's 45 percent stake, take total ownership, and rebrand it in line with its wider group nomenclature – was the first step on its new international roads. Turkcell has also submitted a binding offer for Telia's 59 percent share of the pair's FINTUR joint venture in the CIS region, covering Kazakhstan, Georgia, Azerbaijan and Moldova. Negotiations are ongoing, and rather overshadowed by allegations of corruption around Telia's business operations in Uzbekistan.

But Turkcell is not about to stop there. Terzioğlu says it is actively evaluating new market opportunities according to three essential criteria, established with its consolidation in the Ukraine: their cultural and geographic fit, their balance of fixed and mobile access, and their straight profitability. "If it doesn't match or lift our group EBITDA level, then we're not interested," he says.

Turkcell's strategy is the same in all of its markets: to build infrastructure and drive usage through development of services – and this way tap into rising demand. This last element, its digital footprint, applies beyond its operating countries, as well, with total download numbers for its flagship BiP instant messaging and VoIP product about to hit nine million, with over 800,000 of those from international customers.

Its focus on services sets it apart from many of its counterparts, at home and abroad, reckons Terzioğlu. "We are investing a lot in products and services," he says. Alongside BiP, the company's portfolio of digital products also covers TV, music, sports, cloud storage and customer services. In all, it has scored 31 million downloads so far; a number Terzioğlu expects to reach 100 million by 2020. In August, 230,000 tuned into Fizy to catch a live broadcast of Turkish pop-star Mustafa Ceceli at Istanbul's open-air amphitheatre, staged as a part of Turkcell's annual 'Starry Nights' concert series.

Terzioğlu refers to the company's rising triple-play ratio as a mark of its success beyond traditional airtime provision. "That's the most important statistic," he says. Indeed, 20 percent of Turkcell customers are taking voice, data and services, and blended ARPU was up by more than seven percent at last count, as the company put focus on "high value" customer groups.

After a decade of transition, the telecoms industry can at last raise its head, and take stock. Turkcell is content, and jockeying to position itself as a leader for telecoms and services at home, and also among international brands in whose steps it has traditionally followed. "In last six to 12 months, the transition has gathered pace. Now, I see a really bright future, because we are launching new services in a faster and better way, and we are adapting very quickly," says Terzioğlu

He adds: "In terms of customers and revenue, we are the leading player in our geography. In terms of new products and services, we are one of the leaders in all of Europe. And that's because of what we're doing, and also the environment we're in – which is young, and ready to grow." EC

Accenture: Telcos can thrive among heightened expectations in the living services era

The world is becoming increasingly connected, dramatically changing our lives both at home and at work. The rise of smart cities and motorways, autonomous cars and smart home applications are helping consumers and enterprises on a number of levels.

Tom Loozen, Senior Manager Director, Global Communications Industry at Accenture, describes it as “a new era of living services” which in turn is leading to the most exciting ever period for the telecoms sector.

He says: “We are seeing the integration of smart digital technology into many inanimate objects, devices and machines. More products and technologies are connected than ever before and now there is the need to learn more about customers’ needs, intents and preferences so providers can flex and adapt to be more relevant, engaging and useful. The coming of 5G can only accelerate the demand for high speed mobile connectivity and bandwidth. More critical services will be running over mobile networks.”

These opportunities lie not just within the home but also in areas like healthcare, with connected medical services, health records and diagnoses, and transportation applications. There is also more growth to come in enterprises where connectivity and wireless communications is and will increasingly become a core part of operations.

To take full advantage of this “phenomenon” and to boost revenues, telecom firms need not just to think about the digitisation of the network and how to power the changes but to give much, if not more, focus to quality of service, ways of working, security and customer experience.

“Imagine the experience that both consumers and enterprises receive today when they contact a telecoms firm or use a mobile network,” Loozen states. “The expectations for that experience are going to rise exponentially in a world where everything is connected. There is no room for error.”

In the world of business Loozen picks out an example from the mining sector. Accenture is working with the industry on its Connected Mine solution which, enabled by cloud and Internet of Things technology, provides real-time data on performance to operations managers, operators and the head office.

“It is about utilising Wi-Fi and connectivity in the mining plant. You can track where people are, what gases are in the mine and how hot it is, how much material is coming out of the mine and what that means for transportation requirements,” he explains. “It allows people to make better and more informed decisions.”

The information over these networks and the handovers need to be extremely secure, accurate and comply with industry regulations.

Loozen says telcos have the best chance of exploiting these opportunities, in mining and elsewhere such as Smart Cities, with their high level of quality networks, data centres, solutions and focus on security.

“They have the skills, expertise and are trusted providers,” he states.

So what should telcos be doing to prepare for this new connected world? Loozen says one of the key strategic business areas where telcos should increase their focus is called “design thinking”. He explains: “Telcos have often needed to be rushed in how they work, for example, an issue with the network needs quick action in fixing it. ”

The exec calls on the telco industry to take time to look at innovative digital success stories such as taxi firm Uber. “Just say you want to get some pre-paid credit for your family. You want to go straight to your phone, like Uber, use your credit card, put in an amount and off you go. But at present you have to search on the website, receive a text to prove that you are the phone’s owner, maybe have to speak to someone at the telco about who you are and what you want,” Loozen says. “It can be cumbersome at the moment but helping customers access, upgrade and use more data or use pre-paid by designing quicker and more intuitive functions can be very positive. Making it easier for customers to sign up to new services or use more data is key to boosting annual revenues.”

Again, in the consumer space, where telcos are continuing to struggle to up revenues on text or voice, there is a further challenge in getting subscribers to use their mobiles to take up Smart Home and other connected services.

“It is not easy for customers to order smart home or smart temperature applications because the process of how the technology works and how it is integrated is unclear,” he states. “We think the demand for these services is very high so telcos should be thinking about how to design a clear, all-in-one package to help subscribers easily understand and start enjoying the services.”

Accenture has worked with telcos in better understanding the needs of their customers. “We are using data to profile customers’ behaviour, which helps telcos work out whether they would be interested in say a smart fitness application or shopping app,” Loozen explains.

So to what extent are telcos taking this design leap?

“It varies,” says Loozen. “Some telcos talk about this and don’t act but to others it is core. In Accenture, our design consultancy called Fjord is working with a lot of telcos who are prepared to undertake meaningful transformation in this 5G era. They want to look at everything from the way a field engineer works, to how a call centre responds to customer queries or questions. Some operators want to com-

bine their own design experts with ours to create an internal design studio."

Another key factor in fully preparing for the connected era is through accelerating digital transformation through new approaches to technology.

"Every telco is aware of and indeed has already invested in digital things such as software defined networks, automation, big data analytics, cyber security, intelligent automation, artificial intelligence and the cloud. But what financial benefits are they deriving from it?" Loozen asks. "They need to rotate to the new which means using digital to drive growth in their core business. By using multi-layered IT architectures, they can create the right end-to end experience for customers and clients at the right cost levels," he states. "Telcos should be using these technologies in a smarter way. We are working with organisations to combine cyber security and artificial intelligence to work out and better plan against potential hacking. Having a big data, analytics solution only makes you a better company if you use it to identify the most opportune areas requiring network upgrades or how it can help performance in the call centre. Our message is go digital but look at the outcomes you are targeting. Identify what needs to change in process behaviour and decision making to ensure you are the customer focused organisation you want to be and make a profit. You don't want this new technology hampered by an expensive and slow moving organisation around it."

Accenture says it can help telcos deliver this given its wide range of expertise in every part of their operating model.

"We have the different class design skills explaining what your products, field engineers, retail shops and social media should look like to enhance customer service and quality of service," he explains. "Accenture was also recently named as a leader in the July 2016 Gartner Magic Quadrant for IT Services for CSPs Worldwide. We feel that's important as if you have a great service and product proposition you need a flexible IT architecture underneath it to support it. We can create that for clients as well. We also create a user interface that enables a telco to make use of the big data and insight it generates. We can then bring that analysis and the findings back to the core business of engineers and call centre agents in such a way that they can make better decisions."

Its expertise also extends to network function visualisation. "When we put this infrastructure in place we also again work with the product managers who are creating services for their customers. We also help identify a team of people who can run this new network in a flexible and agile way," Loozen states. "Our experts use our alliances with both software and hardware providers such as Nokia, Salesforce.com, Huawei, Oracle and Vlocity to solve any problem."

Telcos can also better shape up for the connected world by reconsidering their organisational structure. Loozen says there is a need for smaller, more objective and task focused teams.

"You should look for a combination of people from IT, network and those from the back and front offices in these teams," he explains. "They come up with much more relevant solutions."

What is Loozen's overall message to telcos looking to take advantage of the connected world? "Telcos provide connectivity which is in huge demand by consumers and businesses. They provide services and support in homes and workplaces and have a retail presence," he says. "Now with this new era of living services they can use these strengths to their advantage if they come up with propositions which are easy for a client to use, easy for them to buy and are secure. If not, then customers and clients will go and look for this elsewhere. Take your time over how you are going to really create great experiences and build a technology structure underneath it to really follow through on your ambitions. By doing that you will be a great business in the digital age."

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Gartner, Magic Quadrant for IT Services for Communications Service Providers, Worldwide, 14 July 2016

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CMO of the Year 2016

This year's award shortlist features executives from executives from DNA, MTS, Play, Sunrise and Vip

Moving the marketing dial

With judging day for the CMO of the Year award 2016 upon us, what can we expect from this year's nominees?

The third annual European Communications CMO of the Year award will be presented in October and there are five candidates in the running for the 2016 prize. Over the following pages, we introduce the CMOs from DNA, MTS, Play, Sunrise and Vip who make up this year's shortlist. As this issue goes to press, the judges are set to sit down and run the rule over the five nominees, who cover the very different markets of Croatia, Finland, Poland, Russia and Switzerland. They will be judged against five key criteria: brand, customer experience, customer acquisition and retention, new products and services, and impact on the top and bottom line.

The last 12 months have seen the usual heady mix of rebrands, innovative launches and gradual improvements in financial performance of network operators across Europe. The leading CMOs have been central to much of this, by leading from the front on rebranding efforts, analysing what their customers want from the market and working with product teams to deliver new services that drive subscriber, revenue and profit growth. They are also integral to the internal transformations that continue to take place within operators, as they attempt to add marketing's voice to get the people and technologies required to succeed in a world defined by data.

It will be interesting to drill down and discover what has focused the minds of our CMO nominees during the past year. The inaugural award in 2014 was won by Lars Thomsen of Telenor Denmark, who was keen to emphasise the simplification of product portfolios and the importance of big data to understanding customer needs. Last year, Proximus' Ariane Marchant used her award to call for telco CMOs to focus on emotions rather technologies and share brand ownership with the rest of the organisation. Undoubtedly, the dial will shift again this year.

The winner of the CMO of Year award 2016 will get their hands on the trophy at an event in London, which features a roundtable and dinner. The news will be announced online at www.eurocomms.com and a feature interview will appear in the next issue of the magazine.

Netcracker Technology is proud to be a sponsor of European Communications' 2016 CMO of the Year Awards

The position of the CMO is more important than ever as service providers around the world begin to transform their businesses in an effort to stay in sync with the rapidly expanding digital ecosystem. While many companies prioritize operationalizing and monetizing the technology that enables these transformations, it's extremely important for service providers to understand the cultural shifts that come hand-in-hand with those changes. The CMO role is critical to help service providers connect with customers and lead them to assess what's out there and make clear decisions, even as their choices proliferate.

Marketing is, first and foremost, about people—both in and outside of the organization. CMOs today need to not only have a firm understanding of the technology their companies are using, but also how it impacts the bottom line, i.e. customers. As overall experience becomes an increasingly valuable differentiator between service providers and customers shift, once again, into focus, CMOs have their work cut out for them. Not only do they need to ensure customers get tailored packages and offerings based on past experiences and individual preferences, but CMOs must also ensure their company's ability to simplify and ease the customer journey end-to-end, from the first contact to long-term support after a sale.

Becoming a "digital" service provider is an inevitability. For service providers, this means that their customer base is changing dramatically and their traditional services are becoming less relevant. As a result, going digital means more than just being able to deliver services online; it means assuming the customer's first experience with a brand is over a digital channel. Service providers need to move beyond the traditional mindset of selling compartmentalized products—they need to enable a new kind of experience, one that is highly personalized and seamless across all channels. The CMO's role today is about encouraging and driving that transformation, making them a key stakeholder in their company's future.

Joanna Larivee,
Head of Corporate Marketing, Netcracker

Focused forward
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AsiaInfo: Marketing is a prime driver for business transformation

AsiaInfo is proud to sponsor the European Communications CMO of the Year award, which recognises the growing importance of marketing to operators across the continent.

As competition between operators increases, and pressure from external players also ramps up, the role of the CMO in telecoms has never been so important. Operators are evolving to become more digital, and marketing is leading this ambition: driving strategy and developing new business models that work in the fast-moving digital communications age.

The marketing function is one of the prime drivers for business transformation, which in turn drives the need for IT transformation. Marketing needs to be released from the clutches of legacy IT systems and processes in order to take the organization into the digital future. Technology is advancing rapidly, giving operators the ability to improve customer experience, add value to digital partners, and monetize customer insights. Next generation IT/BSS is critical as operators execute their digital strategies, and AsiaInfo is increasingly supporting the CMO's objectives with our IT transformation projects.

AsiaInfo believes in the future of telecoms. We are delighted to support European Communication's initiative to recognise CMOs who are forging the way ahead for our industry.

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CMO of the Year 2016: **The shortlist**

Paula Miettinen, DNA

Paula has built up DNA's B2B brand presence in the Finnish market from scratch during the past five years. Brand awareness and brand preference reached all time highs in 2016, due to a variety of factors.

The marketing team aims to be a frontrunner in piloting new content formats, such as podcasts and short documentary films.

Paula believes the seamless cooperation between sales and marketing is one of the most important factors that impact customer retention and acquisition, and has worked hard to ensure this happens.

Further, she has ensured that every contact between DNA and its customers are emotionally positive, and meaningful to customers.

Vasyl Latsanich, MTS

In 2015, MTS launched a rebranding campaign in order to broaden the company's appeal. Vasyl says the aim was to make the MTS brand more attractive to a younger demographic in particular. According to GfK research, MTS was able to outperform its nearest competitor on a number of metrics, including "I trust this operator more than others".

Vasyl has also transformed the way the operator approaches customer experience, with the introduction of customer journey maps, crowdsourcing tools and analytics.

He was a driving force behind the introduction of a self-service app and helped to revamp the MTS digital services offering with the launch of nine new apps, from music and video content to security and RCS.

Bartosz Dobrzynski, Play

Bartosz has helped Play to consistently grow its market share over the past few years, reaching 26 percent in Q1 2016. The number two operator comes ahead of its competitors on a number of independent measures, including best value for money and for launching more new products and services. Play is also top of the tree in its home market of Poland when it comes to brand equity and net promoter score.

He cites the operator's family bundle, which offers SIMs and data plus device offers, as a key differentiator in the market. Play has also teamed up with music streaming service Tidal to attract and retain subscribers.

Timm Degenhardt, Sunrise

Timm has been working to position Sunrise as the "premium convergent challenger". The company was recognised as the leading brand for customer service excellence in Switzerland this year with NPS scores of its mobile arm in particular on a steep upward curve.

He has focused on simplification as a key goal, by reinventing the product portfolio externally and resolving problems better internally. Sunrise has created what it calls a "customer journey factory" to help it improve. This includes immersing staff in customer behaviour, rapidly prototyping ideas and improving implementation roadmaps on new IT platforms.

Ivana Markovich, Vip

Ivana has helped to increase Vip's brand image across a wide range of categories, including service, value for money and ease of use for both its mobile and fixed offerings. The operator's net promoter scores have also improved while those of its competitors have declined. Convergent offers have been key, with a range of cross- and up-sell initiatives introduced to mobile and fixed subscribers.

Bridging the divide between digital service providers and mobile operators

The rise of the digital economy has become one of the standout features of the new millennia. People around the world armed with their ever more sophisticated smartphones are increasingly making use of mobile applications and m-commerce channels to buy their everyday and luxury items, logging on to social media to chat with friends, or establish new business contacts.

This evolution has seen the emergence of a new wave of digital service providers from Twitter and Facebook, to taxi service Uber, and swayed more established companies such as payment processing companies into finding new solutions to cater for their customers' changing habits.

But one of the most obvious partnerships in order to fully profit from the digital service economy – the link between digital service providers and mobile network operators – is still in its infancy. BICS, a leading international carrier service provider, has identified the shortfall and is helping operators interconnect with digital service providers to fully monetise their assets.

BICS believes the digital service economy and providers such as social media firms and payment vendors need to be on a mobile platform to grow faster. This is to improve their offerings by enabling mobility, integrating mobile connectivity, enabling enterprises to roll out cloud based connectivity, engage with customers and ensure high quality customer service by better understanding consumer behaviour and preferences.

On the other side of the fence it says operators have invested in developing a range of valuable assets – encompassing networks, data centres, network subscriber nodes, customer care services and infrastructure and domestic and roaming services deployment – but are not using them to their full potential.

BICS envisages enabling digital service providers and application providers to engage in two-way communications with their customers. As an example a taxi booking app sends a reservation confirmation and a local contact number for a driver. It is essential, BICS believes, in instances such as these to have a normal mobile number, not a short-code, premium-rate or international number so the customer feels more comfortable when communicating with the driver.

Another positive from partnership could be in the area of mobile identity, as security and authentication are key for digital service providers in order to secure their apps and offer an enhanced customer experience to their users Operators could monetise detailed data on subscriber geo-location and mobile number history and profiles as part of the authentication solutions. Network and IT assets such as databases, billing systems and network capacity and coverage can also be monetised.

"BICS has traditionally been helping operators monetise assets such as voice, messaging and roaming," says Ravish Patel, Product Manager at BICS in charge of its Mobile Identity and Authentication solutions (pictured). "We are also very well connected with digital service providers such as OTTs and payment firms who recognise that mobile applications are the fastest growing platform to reach their end users. We are looking at ways to bridge the gap between the two. They need better and stronger partnerships with each other."

Ravish admits that operators and OTTs may seem unlikely bedfellows but it is imperative that they seek innovative revenue streams to stay profitable in the digital economy.

"There is still a fear amongst mobile operators about OTTs because they have been crashing into their revenues for quite a while now," he says. "Mobile operator profitability has been in steady decline since 2008 but better monetisation of assets can help it stabilise."

Nevertheless, the barriers between the two are clear. BICS identifies a lack of clarity in how to monetise assets but also a complexity in establishing business relationships with digital enterprises, creating bilateral business models and the administrative challenge of establishing and maintaining a new set of commercial agreements.

"With an e-commerce company's main focus is online commerce. It, and other digital providers, do not have the time or the dedicated team to go to every individual operator to talk about how they can use their assets. Similarly, mobile operators can't go around talking to all the digital providers. They want someone in between to do it for them," Ravish says. "We are connected to more than 500 mobile operators and all of the major digital service providers around the world. We complement the full chain and can become the single access window in this area. For example, just say a payment processor company is getting information from a mobile operator in a country or a region and wants to also get information from the other operators in order to complete their coverage, then they need an aggregator in between. That's the role we have played in traditional services and now want to play here as well in this new model."

BICS, as a global communications provider to mobile network operators, digital service providers and a large span of customers across the eco-system, says it can break down these barriers by offering a managed service to accelerate asset monetisation. This outsourcing includes developing, managing and agreeing the technical and commercial terms with multiple digital partners – easing the process for operators – while providing innovative services and products to new providers.

> "There is still a fear amongst mobile operators about OTTs"

However, Ravish believes many operators are held back by legacy systems, business processes and models which are not optimised to generate value from user data. They are also averse to disrupting their core services with new ways of working with "untried and uncertain benefits". BICS says a new operating architecture can help them to address these concerns.

Using the BICS model, operators can enhance their usage of a range of existing network assets with minimal business disruption. These include: geo-location data, USSD at a signalling level, number authentication services, provide A2P SMS services.

Subscriber insights

One of the most progressive areas to date is the BICS mobile identity service and mSecure hub where digital enterprises can gain subscriber insights through operator generated information on mobile numbers. The hub allows operators to monetize their end users' mobile ID towards global payment and security companies through BICS's innovative hub using secure technologies such as SS7, Restful APIs and other legacy interfaces like secure FTP.

This can be particularly helpful when authenticating new users of digital platforms, which BICS believes is the weakest link in digital service security and can have an adverse impact on customer experience. Verification of identity would be based on parameters such as registered profile, fraud activity and phone behaviour.

A risk score for each mobile number would be created to further help with authentication and security.

"Digital users share a wide range of personal information from name and email to payment details. Mobile applications need to ensure better security for their end users and to prevent account takeovers, fraud and spam on their network. Digital Providers needs to ensure that their customers are protected and when making transactions or business payments over the network," Patel states. "Many digital providers now use mobile phone numbers as an identifier rather than user names or passwords which people often forget. This provides easy access to their sites for their customers but they need to find better ways to authenticate these phone numbers. They need to have more knowledge about these phone numbers when transactions are being carried out."

These checks would involve finding out whether the phone number being used is valid, whether it is roaming and if the SIM is stolen at that point. By confirming this real time information with an operator then it can be seen whether a valid transaction is being made or not.

"When you shop on ecommerce website you have to fill out forms detailing your billing and shipping addresses. Even though it only takes five minutes it is enough for some customers, especially typing away on their smartphones, to give up on the purchase," Ravish adds.

"In order to avoid this and make sure the transaction is completed then eBay would work with mobile operators to get the customers number and address. E-commerce players will pay the operator for this data. It is a win-win situation with operators able to contextualise subscriber information such as identity of phone numbers with payment providers, social media, banks, credit card issuers for security, new user experience or authentication."

Ravish says there are already examples of operators working with digital providers in monetising identity data but it is still very much in its embryonic

> "We have a head start in this market and are the go to provider for interconnectivity"

stage. BICS has its own ongoing mobile identity trials with "certain operators" which Ravish says before the end of this quarter will transform into commercial relationships. "Our goal is to target global players who offer services to multiple markets and link them with mobile operators in these regions."

BICS stresses that customer consent is crucial before any of these services can be enacted. "These are consent based services," Ravish stresses. "They will say 'Yes, please allow my information to be used so my accounts are not hacked or someone else is not using my identity'. Without this element of customer privacy and consent these services would not work on a long-term basis. We look at the local privacy regulations in different markets and ensured we comply."

The next phase of asset monetisation BICS is developing a deep dive insight into customer behaviour and usage patterns such as calling and roaming behaviour. "In the future enterprises will also look at assets such as network coverage and sign roaming contracts with operators to enter the IOT space."

Again BICS will be the conduit for these moves.

"We have worked with mobile operators for the past 20 years on voice, messaging and roaming. They trust us commercially and technically and have already entrusted us with the data," Patel states. "We have a head start in this market and are the go to provider for interconnectivity. We are at the forefront of innovation in this sector."

He re-emphasises the need for operators to grasp the opportunity of fully monetizing their assets. "Operators are in the game of survival. Traditional revenue streams have significantly shrunk," he says. "To make themselves more relevant they need to turn themselves around by working rather than competing with OTTs. All they need to do is outsource the operational hassle to us whilst they focus on their core business. They can start earning revenues from all of their assets straightaway. The digital economic service is growing and operators need to ride the wave rather than trying to resist it."

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Video: the new king of mobile content

Mobile video is the new Holy Grail for network operators and there are multiple ways they can monetise the opportunity. In an exclusive interview with European Communications, Mark Horchler of Elemental Technologies explains how

European Communications (EC): The industry has been talking about the over-the-top (OTT) digital content and service opportunity for years now. Where are we now, and what is it that operators are still grappling with?
Mark Horchler (MH): Most consumers now regularly watch video on multiple screens including their mobile devices and advances in device technology and 4G are all helping to drive that trend. The fact that mobile is going to be such an important channel for video content means a vast opportunity for operators in this space. Their challenge is how to elevate their role so that they're not just passively transporting video traffic, but are commanding their share of the associated revenue. As ever, it's about identifying and driving value.

EC: What models are emerging?
MH: One strategy for operators is to acquire premium content – sports, for example. They can do this either directly from rights holders, or through a content distribution agreement with a television service provider, and include this as part of their own service in order to add value to their subscription offers. Another model is to serve as a platform for mobile video advertising. The issue until now with mobile video advertising has been matching the relevance to the viewer. If the content matches the viewer's specific interests, but the ads do not, the viewer is more likely to skip or use an ad blocker. The more relevant the ad content and the smoother transition from primary content to ad content, the less likely the user is to bypass it.

Generally, ad targeting is quite sophisticated on the web now, but not for video and certainly not for mobile video. There is a huge opportunity for operators that can get this right, or that can work with partners to capitalise on the potential.

EC: What is the need you are meeting?
MH: Elemental provides software-defined video solutions for processing and delivering content to all types of viewing devices. Our products can be installed on premises and accessed from the cloud, offering maximum flexibility to enable mobile operators to strike the right balance between OPEX and CAPEX.

EC: What other factors are forcing operators to approach this opportunity differently?
MH: Although the video opportunity is vast, it is complex. Mobile operators who are also offering primary screen services want to be able to leverage their linear content on mobile devices, and monetise it, without detriment to the viewer's experience. This isn't easy when you are managing multiple workflows for different services. Then you've got all the different video formats and content protection systems which all need to be managed to ensure a consistent and high-quality experience. By unifying primary screen content with mobile video, our software not only improves workflow efficiencies, but also enables a common viewer experience and branding across all devices. The old approach for content providers was to handle everything separately for each channel, and manage it in quite a rigid, pre-determined way. Software-defined video solutions allows them to be a lot more flexible, integrated and experimental, and operators can facilitate that.

EC: How?
MH: Using software to unify video processing and delivery infrastructures allows for central control and management, greater system resilience, and provides a more versatile platform for launching new features and services. Although we have a good idea of next trends, it isn't possible to predict the future 100%. But, because our customers are managing everything using software, they have maximum flexibility – whether that's how and where they provision their infrastructure, or what they use it for. They could use it to launch a new experimental OTT service, then further down the line decide to use the same platform to support existing linear TV services - gradually bringing everything together, to support and manage all of their offerings.

EC: Can you give some examples of how your operator customers are benefiting from your software?
MH: When it comes to premium content, video services need to be able to address a myriad DRMs and video players depending on the source and device. Using Elemental Delta they are able to keep a single encrypted version of their video content stored at rest on a server, which can be readily repackaged and re-encrypted with the right controls applied for each and every device on their network.

Also, our software includes open API interfaces to other third-party software such as network traffic analysis for keeping tabs on the customer's experience and ad decision engines for personalised video advertising.

EC: How does the software help achieve this?
MH: It lets companies insert ads on the server, rather than on the client device - which can result in delays or a temporarily blank screen because the main content

and the ad content are being streamed from different places. The quality of the ad could suffer if the latter is the case, and it can interrupt the experience for the viewer. If you manage everything on the same server, it's a lot smoother – like watching TV at home.

We can also help with targeting ads – with the relevance of content to the user – through a log-in to a video app or social media site, for example. Elemental can be easily linked to third-party ad decision software, allowing advertisement placement choices to be applied to video just as they are to other web and mobile content. Better targeting means better revenue opportunities. That applies to location-based targeting too. So, during a national sporting event, local sports stores could promote themselves via mobile video to potential customers in their area.

Ultimately, it all comes back to flexibility. We have more than 850 clients who all have different requirements and strategies, and we can help them get to where they need to be. The trouble with hardware-based systems is that they carry fixed capital costs and are fairly rigid in what they can do. Software lets you mix it up, try something for a limited time (for example, to take advantage of a special event). This gives operators more agility in launching new services. For example they may decide to offer temporary video services during major sporting events which supporting by video processing and delivery software running in the cloud. The agility of software defined video also enables operators to quickly adopt new technologies such a virtual reality as they strive to differentiate and add value to their offering through innovation.

EC: What else is coming down the line?

MH: Greater synchronisation of mobile and other screens will become more prevalent with the rollout of HbbTV 2.0, allowing mobile devices to act as an extension of the primary screen experience. So if you're watching live sport on TV, your mobile becomes a connected companion, allowing the user to view the current event from different angles, or to access rich supporting content including archived footage, statistics and background information. It's another reason for service providers and content companies to unify the way they process and manage video across different channels and devices.

Whether it's enabling content companies to more effortlessly turn live TV content into video-on-demand (VoD) catch-up content, make more effective use of bandwidth by embracing HEVC video compression, or support content protection across a plethora of devices and formats, our role is to allow operators to proactively claim their share of the mobile video opportunity and to make it pay.

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Q3 survey: Operators battle for differentiation as Facebook usurps Google as biggest threat

For telcos, the OTT/digital content space is now a fight for differentiation rather than revenues

Creating differentiation from competitors is the main driver for telcos providing OTT/digital content, according to European Communications latest survey (See Fig 1). Over 40 percent of respondents chose this ahead of generating new revenues, which was the answer selected by a third of respondents. When operator-only answers are considered, 50 percent chose differentiation while 30 percent chose new revenues. The results demonstrate how the mood has shifted in the past 12 months. When European Communications asked the same question last year, the same two answers could not be separated.

Adrian Baschnonga, Global Telecoms Analyst at EY says: “The role of content as a differentiator is becoming more pronounced compared to other drivers. In a competitive landscape dominated by ‘me too’ offerings, content has a unique role to play in making service providers stand out from the crowd. Yet quantifying differentiation is key – if it doesn’t translate into increasing customer stickiness or driving incremental revenue growth then it may be overrated as a strategic aim.”

Indeed, while differentiation is the biggest driver operators said it is also the biggest challenge to the success of their digital content strategies (Fig 2).

A majority of operator respondents, over 24 percent, said differentiation was the biggest challenge ahead of the complexity of the relationship with OTT/digital content partners, and return on investment, which both received over 16 percent of the vote.

Stefan Zehle, co-founder and CEO of Coleago Consulting, highlights the link between two of three challenges: “Exclusivity has the greatest scope for differentiation but buying exclusive rights is expensive, hence the challenge with regards to return

Fig 1. What do you regard as the main driver for operators providing content?

*All respondents

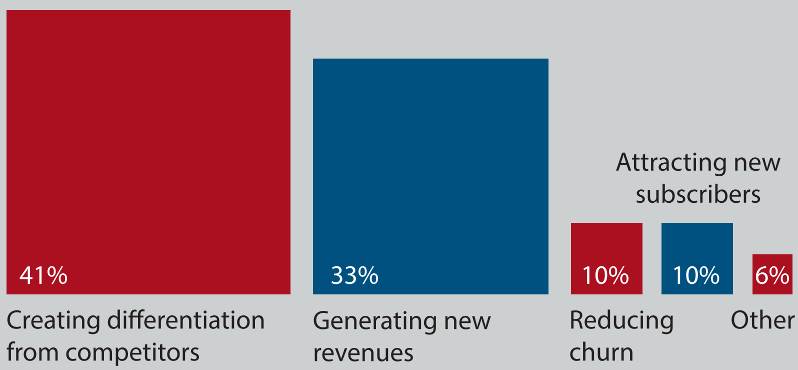
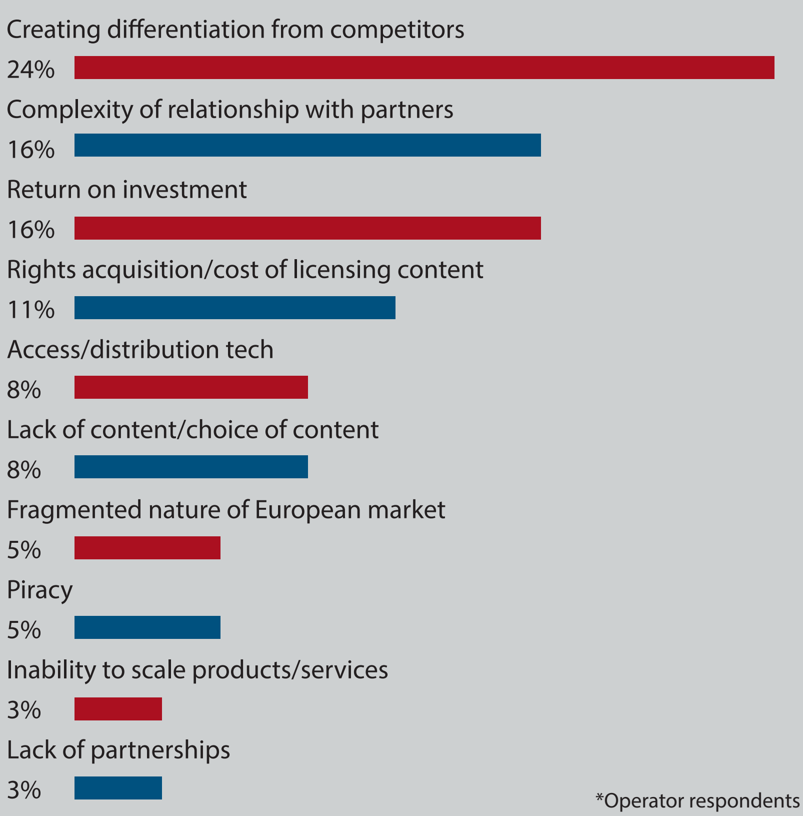


Fig 2. What do you regard as the biggest challenge to the success of your digital content strategy?



*Operator respondents

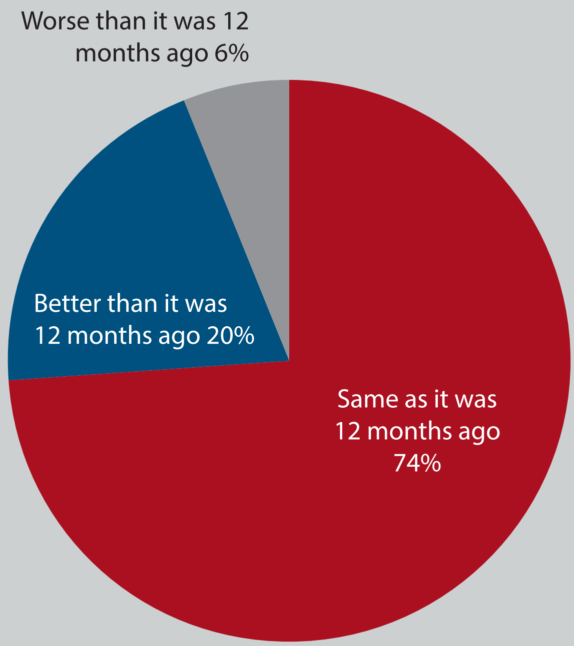
on investment. If exclusive content allows operators to charge a premium and grow customer numbers, the equation may work out. But it's risky because content rights are paid for up-front whereas the

> "Clearer engagement and communication with users can act as a differentiator in its own right"

return comes in over time and may not materialise as planned."

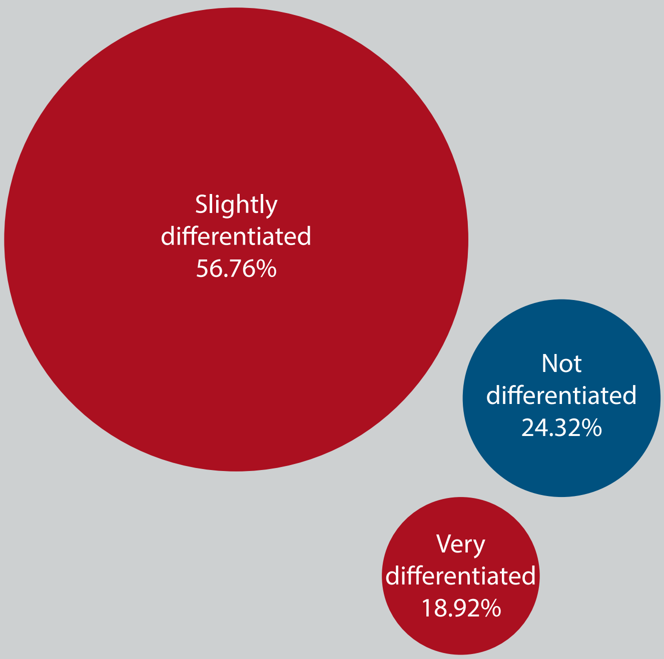
Again the results show how sentiment has changed during the past year. Twelve months ago, operators said a lack of partnerships was the biggest challenge ahead of rights acquisition. "The nature of the challenge is now shifting," says Baschnonga. "An ever widening range of partnerships may be counterproductive if it limits the time and resources devoted to each partnership in turn, so operators should be mindful of finding the right metrics to measure the success of their alliances while ensuring they can effectively manage a growing number of relationships."

Fig 3. How would you describe your company's relationship with digital content providers?



*Operator respondents

Fig 4. How differentiated you think your digital content offering is currently compared to your competitors?



*Operator respondents

Interestingly, the vast majority of operators said their relationships with digital content providers have not moved on over the past 12 months. Just one in five said the relationship was better, while six percent said it was worse (Fig 3).

More than three-quarters of operator respondents think their offering is differentiated when compared to their competitors, but the vast majority, 57 percent, admitted this differentiation is slight. Over 24 percent said their offering was not differentiated (Fig 4).

Baschnonga says: "Customers have so much choice of content through traditional and OTT sources that it is becoming ever more difficult to provide something unique. Here it is critical to look for new sources of differentiation – rather than considering the type of content offered, there may be more upside for operators in refining their overall packages of connectivity and content. We have found that a number of customers remain confused about service bundles – as such, clearer engagement and communication with users can act as a differentiator in its own right."

Over 59 percent of operators said they were either very or quite happy with the choice of digital content that they offer subscribers currently. Just 16 percent said they were unhappy (Fig 5).

One respondent says: "We offer Spotify, HBO, insurance, TV OTT, audio books and are working on several more partnerships."

Money problems

A quarter of operators described the return on investment they get from the OTT/digital content they provide currently as significant, up from just seven percent 12 months ago (Fig 6). However the vast majority, over 61 percent, said RoI remained small while 14 percent said there was no RoI at all. One respondent cited a lack of scale, while another said it was hard to measure precisely. "For many operators, making money from content is generally not the primary objective, content is a means to an end," says Zehle.

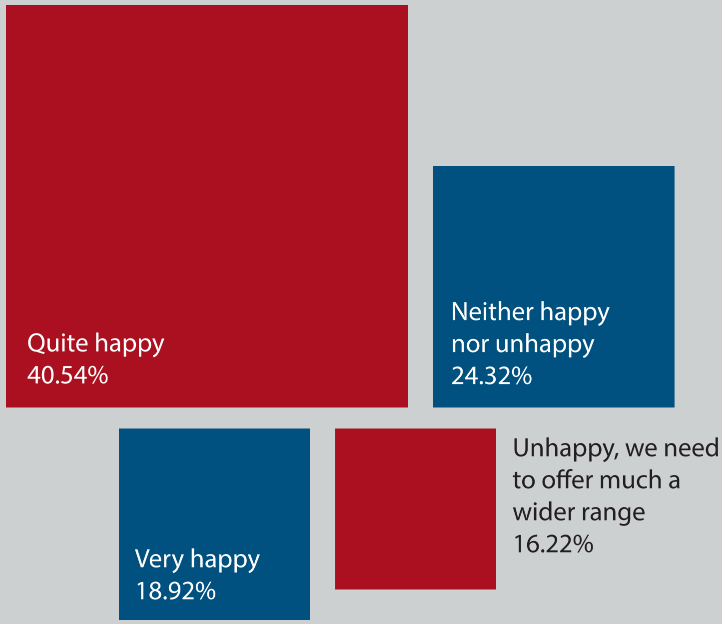
Sport was viewed by all respondents as the most valuable type of content to offer subscribers. Over 41 percent chose this answer, ahead of film. More than half of operators chose sport (Fig 7).

Zehle says: "Sport has always been the star attraction. Sky is essentially built on sport with film taking second place. BT has followed the same route because exclusive sports rights can pull in broad segments of the market."

When asked to rate on a scale of 0-10 how necessary is it to the future success of operators to acquire content, respondents gave a weighted average of 7.7 (Fig 8). When asked the same question about exclusive content, respondents gave a weighted average of 8.2 (Fig 9).

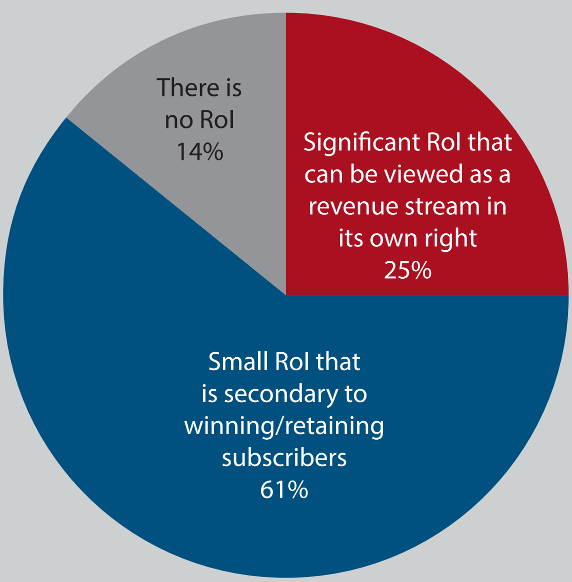
One respondent says: "If nothing in

Fig 5. How happy are you with the choice of digital content that you offer your subscribers?



*Operator respondents

Fig 6. What is your assessment of the RoI you are getting from the content you provide currently?



*Operator respondents

the service is exclusive, then the operator can't differentiate itself on anything other than price and device coverage."

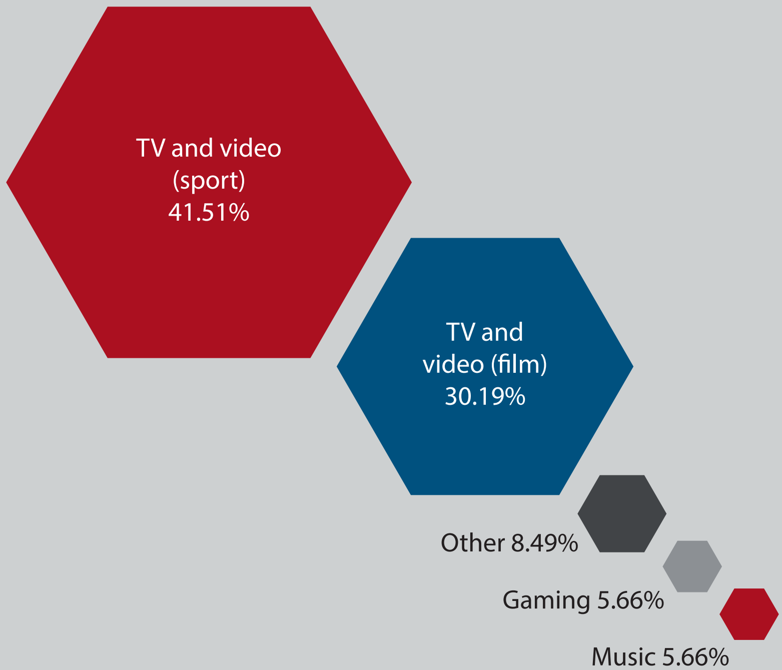
But Zehle warns: "Operators may face regulatory problems if they start to look a bit like a cable TV business. Witness the recent report by UK MPs...who criticised BT, accusing it of diverting money into exclusive sports media rights rather than investing in Openreach."

Baschnonga adds: "Untapped opportunities at the lower end of the market are increasingly coming into focus as video streaming goes mainstream and we will see less polarisation between free and premium offerings in the future."

Facing the competition

There is no argument that partnering with OTT/digital content providers is anything other than critical to operators. When asked to rate on a scale of 0-10 how important partnership is to the future success of operators' strategies, the weighted average of respondents was 9.4 (Fig 10).

Fig 7. Which type of content do you regard as the most valuable to offer subscribers?



*All respondents

Fig 8. On a scale of 0-10, how necessary is it to the future success of operators to acquire content?

Weighted average 7.7

Fig 9. On a scale of 0-10, how important is it to the future success of operators to acquire content that is exclusive?

Weighted average 8.23

Fig 10. On a scale of 0-10, how important is it to the future success of operators that they partner with digital content providers?

Weighted average 9.43

*All respondents

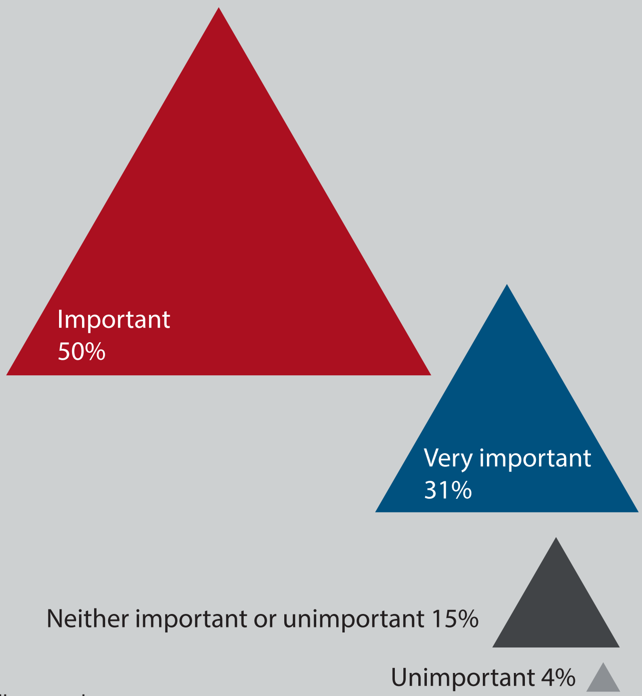
One respondent says: "Operators have no choice but to partner with OTTs. They are more creative and innovative, nimble, agile, and efficient. Operators have to ensure that the revenue sharing model is fair and recognises contribution of OTTs."

Zehle adds: "There is a broad consensus that partnering is important.

> "An ever widening range of partnerships may be counterproductive if it limits the time and resources devoted to each partnership"

However, partnering could mean different things to different operators, ranging from purely technical issues around the user experience (no buffering or jitter) to bundling content with access."

Fig 11. Overall, how important do you think digital content is to subscribers as part of their telco package?



*All respondents

Further, an overwhelming majority thinks OTT/digital content is a crucial part of a subscribers' overall telco package. Over 81 percent said it was either important or very important (Fig 11).

One respondent notes that such content doesn't have to be part of a bundle: "It can be used to incentivise or reward customers for their transactions and loyalty elsewhere in the business. As a valued form of reward - 'enjoy a free movie on us' digital entertainment can become a tangible benefit."

Zehle also raises the spectre of cord cutting. "People stop their TV subscription and selectively buy the entertainment they want from OTT providers such as Amazon Prime, Netflix or even HBO," he explains. "There will always be a significant market segment who just want a fast pipe and then select their own content."

Baschnonga adds: "There is still a significant rump of customers – almost one in five – who remain apathetic or uninterested in content offers within their telco packages. More effective segmentation of customer attitudes can help operators uncover new routes to cross-selling content to these users by focusing on more targeted packages that meet specific customer needs."

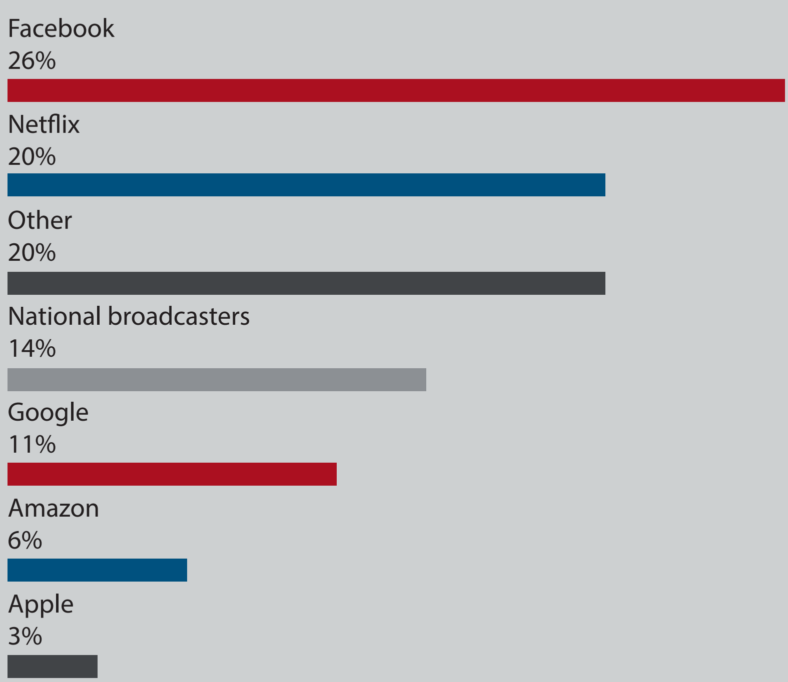
Operators now regard Facebook as their biggest OTT/digital content competitor, ahead of Netflix, Google and national broadcasters (Fig 12). Mark Zuckerberg's company has been catapulted from fifth place to first in the past 12 months as it launched initiatives such as live video streaming.

Google dropped from first to third place, while Netflix retained second place. National broadcasters jumped into fourth place as Amazon, Apple and Spotify saw their perceived relevance fall sharply.

Net neutrality

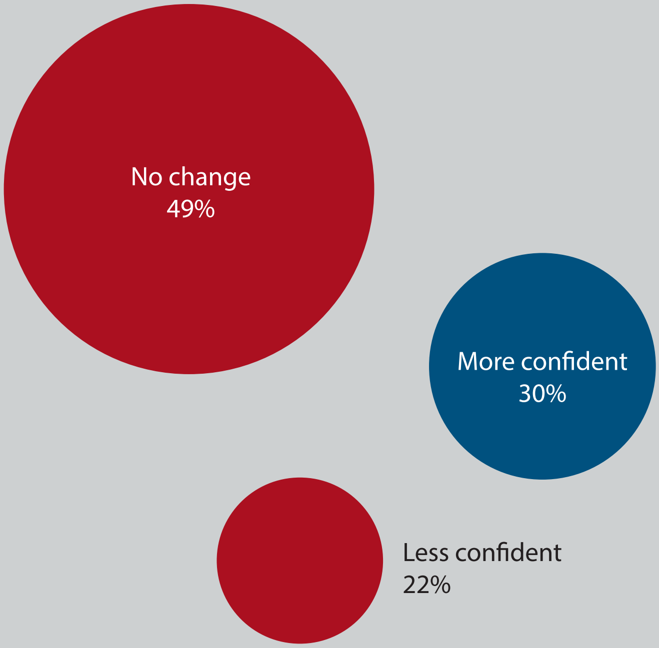
In June, "regulator of regulators" BEREC unveiled a draft consultation on net neutrality. Almost half of operators, 49 percent, said the guidance, which included barring them from offering

Fig 12. Which of the following players do you consider as the biggest competition in the digital content space?



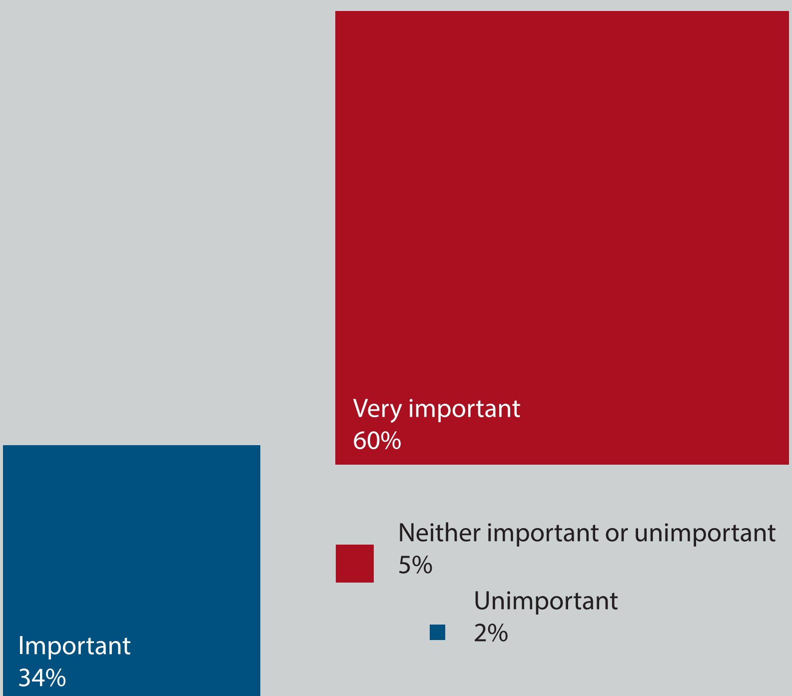
*Operator respondents

Fig 13. In June, BEREC unveiled a draft consultation on net neutrality. Are you more or less confident now versus 12 months ago that net neutrality will be beneficial to your digital content business?



*Operator respondents

Fig 14. How important is it to telcos' digital content strategies to offer content across both fixed and mobile networks?



*All respondents

zero rated services, had not affected how confident they were about their digital content offerings (Fig 13). However, the GSMA expressed "deep concern" as part what BEREC has since revealed was an "unprecedented" level of feedback from the industry.

Finally, the survey asked how important is it to for telcos' digital content strategies to offer content across both fixed and mobile networks. The results were clear; over 93 percent said this was either important or very important (Fig 14).

> "There will always be a significant market segment who just want a fast pipe and then select their own content"

Zehle says: "This chimes very much with the converged strategies pursued by many telecoms operators." Baschnonga agrees, adding: "At a time when mobile is making its presence felt within household broadband bundles, it is only logical that operators maximise their combined strength across different access networks by pursuing more ambitious content strategies."

But one respondent warns: "Continuing with artificial boundaries between distribution channels is an outdated strategy." ec

About the survey

One hundred and six respondents took part in this online survey in June and July 2016.

Thirty five percent were vendors, 34 percent were operators and the remaining 31 percent came from other interested third parties, such as analysts, consultants and operators.

From a geographical perspective, 75 percent of respondents were based in Europe, while 11 percent were from Asia-Pacific.

Virgin Media's Mr TV talks talent, targets and telcos

David Bouchier was hired to turn around Virgin Media's TV business. He tells Marc Smith how he plans to do it

It quickly becomes apparent that while I am here to talk with David Bouchier about content, people and structures are going to form an equally key part of our interview.

Virgin Media's Chief Digital Entertainment Officer is understandably keen to discuss updates to the company's set-top box and a host of content deals. It soon emerges, however, that these are just the icing on the cake. The raw ingredients are very much human and structural. And it starts with Bouchier himself. The Englishman is a veteran of Sky – he served in a number of roles including as Managing Director of Programming at the company's Italian arm – and has set up his own TV channel for pre-school children called JimJam.

"I have unusual 360-degree view of industry," he says of his career. "[Being] Mr TV is my job."

Bouchier was hired by Virgin Media CEO Tom Mockridge in July 2015 to overhaul the company's TV offering, which has been buffeted by arrival of BT's entry into the market and the continued presence of his former employer, Sky. In a bid to carve out a clear role for itself, Bouchier has delivered what he calls a "root and branch rebirth" of the company's TV offering.

He says: "It has been a great opportunity to mirror the way the market has moved, [to assess] how consumers have changed and to follow new ways of viewing."

One key objective has been to change "hearts and minds" at his employer. Although he says Virgin has a "heritage" as a TV business it "retrenched" in more recent times into being a cable business. A change of approach was required.

"I completely reoriented my team to look like a TV business," says Bouchier. "There used to be a distinction between the tech/product side and the acquisition/content side. Now there is a promotions team, a subscription services team and a transactional services team – it's oriented around the consumer product now, not internal departments."

The exec has paid particular attention to what he calls "the front end of the business" – marketing and promotions. He cites the ability to aim promotional messages at specific geographical areas as an example. Virgin targeted football fans in Middlesbrough and Burnley in the run up the new football season following the promotion of their teams to the English Premier League.

But in order for the marketing teams to succeed, they need to have something to sell. The football is important – as Bouchier says, Virgin wrote "a big cheque and put it in BT's back pocket" – but not what he has been brought in to do. Rather, he is interested in "classic pay TV territory", which he defines as having "a deeper genre, an edgier theme, more immersive content." He adds: "There's a lot of it around."

But getting hold of it is key. Bouchier hired former Channel4 exec Gill Hay to head up programme acquisitions and give Virgin some much needed leverage in negotiations. "The industry respects her, people trust her judgment," says Bouchier.

Hay's first act was to sign an exclusive deal with Endemol Shine International to bring the hit US show Kingdom to the UK. Bouchier says it is already Virgin's most popular on-demand programme since launching in April. Virgin will also get four original drama series after parent Liberty Global signed a deal with All3Media - in which it owns a 50 percent stake – to produce them exclusively for opcos across its global footprint. Bouchier is doubling up as Head of Commissioning for the two-year project, again demonstrating the people power that Virgin has at its disposal. "It exemplifies why we're different from other telcos," he says. "Telcos don't know the conversations they need to have with the industry. I'm fortunate to have worked across all parts of the TV business [and] I'm not intimidated by it."

Thanks to his own contacts, as well as those of Hay, Bouchier says Virgin now has "a good relationship" with all the studios. "One of things I have done to ensure we have right dialogue," he continues. "The attitude of a telco is that they see [content] as a cost, but that doesn't get you a great consumer offer."

At this point, Bouchier reveals he has a billion dollar programming budget and that 80 percent of it is spent domestically. "A lot of telcos assume doing content is too difficult," he says. "I have huge respect for BT and the team there but their priority [in spending on sport] was telco-driven. [It was] to stem flight from broadband, it was not about the passion they have for TV."

A blessing and a curse

Somewhat surprisingly, Bouchier describes content exclusivity as both a blessing and a curse. "A blessing because it's your own, a curse because no one knows about it," he says.

To overcome this, Bouchier has made becoming the market leader in search and discovery another objective. "We can have everything that everyone else does but we need to go a level above," he says. In August, Virgin flicked the switch on what it called "a major new platform update". Its TiVo set top boxes got upgraded with a host of new functions, including Series Link+ that enables customers to record entire series and find related episodes available on demand and on platforms such as Netflix before putting them in a folder.

"You have to understand the lifestyle of your customer – we do and have built the platform on the back of it," Bouchier says.

TiVo is the "embodiment" of its attempts to differentiate itself from its competitors, according to the exec. "Differentiation for us is the philosophy of being an open platform. I don't regard Netflix as a great threat, it's another provider of great programming. If our customers want to watch it, we need to provide it," he says. "What we've gone for is an aggregator role with the best relationships with all the providers. Everyone is on Virgin and that's the way we want to be. The best TV equals having the broadest range."

> "Telcos don't know the conversations they need to have with the industry"

Having been somewhat critical of network operators attempts to make waves in the content space, Bouchier is nevertheless keen to pay homage to that most telco of topics – infrastructure. Virgin has spent billions on upgrading its pipes to the latest DOCSIS cable technology and rolling out pure fibre networks.

"The majority of our subscribers are on 100mbps plus," Bouchier says. "When you consider no one else has [those speeds] that tells you there is a unique way to watch TV on Virgin. We've got superiority in the cable, my job is to make the cable sing."

Along with the majority of respondents to European Communications' latest survey, Bouchier sees Facebook as a growing threat. "They're certainly a competitor," he says. "They are talking to a particular audience, one that is critical we need to talk to."

As cited earlier, he is not worried about Netflix – "they're not going to take our subscribers" – but he does think the competitive marketplace is shifting. "The competitors are changing but I don't feel more threatened by [the likes of Facebook, Netflix et al] than by Sky or BT. Don't forget they have core businesses. Will Google write a big cheque to show the Premier League? I'd love to see the business plan that can justify that."

Bouchier says the biggest challenge he faces is delivering the "many things" he has set in train. "We've changed the tech, the programming, the look and feel, the teams," he says. He would have liked to have done more: "I'd like to have built more relationships with the production community. Quite rightly, however, we have to show what we've done to date has paid off."

Bouchier cites the lowest ever churn that Virgin has ever recorded in Q2, which also yielded the highest ever viewership of its own on-demand services. The number of video services that Virgin is selling remains in decline, but it is slowing. They lost 7,200 video subscribers in the UK in the three months to June versus a loss on 12,200 in Q2 2015. This adds credence to Bouchier's claim that he is re-establishing some of the "basic credentials" to Virgin's TV offering.

The next 12 months is all about delivery. "Our core customers are demanding a simplified life," Bouchier says. "If they understand that we've made a complex world of choice into a brilliantly brought together best way to watch the best TV package then I'll have done my job."

It's not catchy, but Virgin's Mr TV has a clear idea of where he wants to go and the company has some clear advantages over rivals BT, Sky and TalkTalk. He must translate his strategy into new subscribers. EC

The new heroes and zeroes of OTT content

At first glance, there's not been much doing between telecoms companies and entertainment providers in 2016. But, look again, and mega deals for premium 'hero' content and clever new bundling of zero-rated OTT subscriptions have started to emerge. James Blackman reports

This time last year, operators said in these pages a lack of partnerships was one of the biggest challenges they faced in the provision of content. Sure enough, major content partnerships have been thin on the ground so far in 2016.

But for Virgin Media's April tie-in with US-based media company NBCUniversal, which sees TiVo customers in the UK get its 'hayu' reality TV service free of charge, there has not been much doing between telecoms providers and entertainment companies.

If anything, the year in content has been marked more by acquisitions, than by headline partnerships. France's SFR struck a €741 million deal in April to acquire a 49 percent stake in French broadcaster NextRadioTV, which owns the country's fourth largest TV group BFMTV and its fourth largest radio station RMC, as well as multiple spin-offs. In parallel, it announced it will spend €241 million on the local arm of Altice Media Group, which publishes a range of newspapers and magazines, including Libération, L'Express and L'Expansion, and also owns TV channel i24 News. SFR said the twin purchases set out its vision to be a "true cross-media content publisher", converging telecoms, content and advertising.

On a lower level in the UK, broadband provider TalkTalk launched a pay-as-you-go TV service the same month that leverages it acquisition of Blinkbox; the resultant TalkTalk TV Store is a subscription-free service open to any UK consumer, allowing up to five devices per account. TalkTalk put the deal in the context of its "mission to offer the best film and TV content at Britain's lowest price."

A few weeks later, Ireland's eir rebranded its newly acquired Setanta Sports business, offering a 'Sport Pack' with six channels for free to both new broadband subscribers, and its existing base of 370,000 customers. It also unveiled a range of new content rights, including for the 2019 Rugby World Cup in Japan, alongside the various sports packages it inherited with the Setanta purchase.

It is the "first of many" content deals for the Irish operator in the coming months. Jon Florsheim, Managing Director of its consumer division, says: "We are creating an entertainment superhighway. We have the network, we have the content and we are investing heavily in recruiting the best people – all of which will help cement our position as communications provider of choice."

> "Our objective is to continue our business growth through customer loyalty"

It makes comparison with BT in the UK, whose content it is airing, and which is now pushing sports to its EE mobile base. A spokesperson says: "BT Sport has helped changed the perception of BT in the UK creating a 'halo' effect on the BT brand. For eir, our objective is to continue our business growth through customer loyalty – acquiring new customers across our business and using superb content to drive love of the brand."

Netflix clearly noticed the lack of partnerships and went on a charm offensive in April, when its Chief Executive Reed Hastings felt the need to instruct telecoms operators they can benefit from improved acquisition, churn and brand affinity by partnering with his company. It was a telling move, and the streaming giant, which has deals with around 25 pay TV providers globally, also included a quote from Canada's Telus in a letter to its shareholders, rhapsodising about the "deeper engagement" its Netflix partnership had driven.

This followed a note from research house IHS Insight, which warned in February that partnerships with the streaming giant were fraught with risk for operators, especially for those handling their own content.

IHS reckons Netflix is "less lucrative and more dangerous" as a partner than other premium content providers, such as US cable channels HBO and AMC. Part of the issue is Netflix's presence in 190 markets means it has the upper hand when bargaining for premium content.

All the same, nine operators have joined together to form a loose alliance, and bring collective bargaining power to the table. Deutsche Telekom, Europe's largest operator and unofficial leader of the pack, said when announcing the alliance in February that it addresses "only a small part of the world" by itself.

Orange is also involved, as is BT, Telia, Telecom Italia, and various others, plus an assortment of content providers. Orange Vice President of Strategy and Market Research Laurent Maillot remarks: "When we want to buy a series from Sony

Pictures, say, we are buying it for only one market, whereas Netflix wants to distribute it everywhere. It makes it very difficult for us. We need an alliance in order to be buy it for many countries."

For content providers, negotiating with a single group appears advantageous. Idomoo, an Israeli provider of personalised video content, has been brought into the fold, via its partnerships with Deutsche Telekom and BT. It has the inside track from across the negotiating table. "The alliance has resulted in cross-operator referrals as well as introductions to clients, which open up new markets and opportunities for us. This makes it potentially easier for us to scale our operations across geographies," says Yotam Benami, General Manager for Idomoo in the Americas.

Emerging OTT models

A distinction needs to be made between OTT giants like Netflix, and the cast of others looking to ape its success, reckons Ed Barton, Head of TV and Principal Analyst at Ovum. He suggests there's mileage for operators in the Netflix-style OTT partnership model with less-established providers.

"There's been a huge number of companies over last year that have attempted to copy a subscription-based Netflix model. But 95 percent are nowhere near scale of Netflix, and need a route to an audience. Fixed and mobile providers own their networks, and have tens of millions of subscribers; it's only natural most subscription-based streaming services look to them," he says.

It is also the single most dynamic category of content partnership in the telecoms space, he suggests, especially in the content of the evolution of the entire bundling proposition. "A lot of telcos are starting to offer television services as part of their multi-play bundling strategies, so there's a category of fairly well understood, relatively standard carriage arrangements, here – between television channels and operators," he says. "The developing relationship between telecoms and OTT providers is far more interesting, especially with the innovation around the bundling of content. Netflix is the most prominent example, and has made dozens of deals all over the world."

Barton cites Sky's move in the UK to offer NOWTV bundled with broadband as an example, because of its one-month commitment period, and the fact there's no bill shock or truck roll. "It is early stages, but we will see pretty rapid proliferation of OTT content partnerships in the coming year," he says.

The point is to draw in the "hold-outs" in the market, he says – the 35 percent in the UK, say, who have never paid for commercial TV on the grounds it is too expensive and too high maintenance.

> "The question today is how far we go upwards in the [content] value chain"

"OTT content bundled with a fixed or mobile data proposition provides great hope they can drive penetration."

Ironically, considering its default position as a tactical play with short-term commercial gains, or else as a third dimension in 'everywhere' multi-play propositions, much of the innovation around bundling of content is on mobile.

Like others, Telia's major focus is on provision of content via the set-top box, and its dissemination on mobile as an auxiliary platform. It has 460 channels and a rotating library of 10,000 on-demand titles in the Nordics, as well as lead position among TV operators in the Baltics. But Telia is also putting focus on 'value added' mobile content around music, audiobooks and security. It is the first operator anywhere to offer customers free surfing on social media sites. The promotion was launched with Stockholm-based anti-bullying organisation Friends, as part of its 'Hate Hate' campaign. Its mobile customers in Sweden get zero-rated access to sites like Facebook, Instagram and Twitter – "on one condition: that they're nice to each other".

And so far as partnerships around content go, Telia has one of the deepest anywhere, in its collaboration with Spotify, in which it holds a 1.4 percent stake. The pair has committed resources to create new products together. Their first is CoPlay, an app that generates a single playlist from multiple Spotify accounts. Johanna Berlinde, its Head of TV and Media, calls theirs a "joint innovation agenda" around "media distribution, customer insights, data analytics and advertising."

There are other bright spots too, observes Florian Groene, Principal at Strategy&, a consulting group within PwC. "Mobile operators are pursuing several innovative ways to improve the wireless customer experience and reduce churn through OTT partnerships," he says.

Both he and Barton cite T-Mobile's BingeOn programme in the US, where T-Mobile has partnered with content providers to deliver streaming content – both free, and event or subscription-based – that does not count against its users' data plans. T-Mobile has recorded significant net subscriber growth during the past 12-18 months, in part due to its messaging around content and data bundles, alongside significant media and marketing investments.

"The zero-rated video content or network optimisation play certainly has promise. Time will tell how much of an impact it has, how broadly it spreads, and whether regulation impacts on what can be offered to the consumer," remarks Gröne, making reference at the last to the continuing debate around net neutrality.

Crunch time for content

Gröne reckons more can be done in mobile by taking advantage of the portability and cost of mobile hardware, as well as of emerging technologies such augmented reality, virtual reality, interactive content and messaging services. More than this, mobile operators can capitalise on the "massive quantities of data they are uniquely placed to aggregate and analyse," he suggests.

"The typical mobile operator has an incredible amount of customer data and yet app-based companies are currently doing a better job of tracking data of individual customers," he says. "They must start to develop back-end data analytics that can be integrated into or serve as a value added service to partnerships they are seeking to develop."

Beyond clever bundling of content, operators might also start to aggregate multiple third-party video services, and offer them as a bundled entertainment proposition, much in the way Amazon does with its streaming content. "But, then they take on a curating role, and need to know their audience," says Barton.

Orange is already curating content for its Orange Cinéma Séries (OCS) service in France, a package of themed channels dedicated to movies and television. Maillot remarks: "The question today is how far we go upwards in the [content] value chain. We're really focused on aggregation and distribution of content; especially with video, we want to go more deeply into it."

Barton rounds off on a bullish note, suggesting there's potential for "some interesting stuff" if fixed and mobile providers can establish new ways of working with upcoming OTT brands. "We're optimistic about the ability of both fixed and mobile operators to assert themselves more effectively in the online video value chain," he says.

But he warns: "They need to get onto it quickly or they'll have their lunches eaten by traditional pay-TV providers or very aggressive OTTs like Netflix and Amazon, and their perpetual existential fear they're just dumb pipes will come to pass." ec

BEREC's balanced approach to net neutrality doesn't appease telcos

The telecoms industry remains unhappy with Europe's net neutrality guidelines, as regulator retains tough stance on zero rating and other policies

If telcos were critical of the transnational Body of European Regulators for Electronic Communications' draft net neutrality guidance released in June, they were event less happy after the final version of the rules was unveiled on 30 August. The six-week public consultation exercise saw 481,547 participants provide feedback and led to some significant changes.

These included clearer guidance that specialised services should not provide connectivity to the internet, and a decision that 5G services using network slicing should have special controls as a specialised service. There was some easing of controls, with a clause stressing operators do not have to secure prior (ex ante) authorisation regarding commercial practices, traffic management, and specialised services, while users should have free access to an ISP's customer service when a data cap is reached. Crucially, however, the tough line on zero rating selected bundles of services remained in place.

Telcos argue that BEREC has toughened legally sanctioned controls on their freedom to offer internet access deals and diverse service delivery. The European Telecommunications Network Operators' Association (ETNO), released a statement saying: "Most of the concerns outlined and described by industry experts have not been taken into account." It warned that by restricting their ability to offer differentiated traffic speed for a range of services and allowing the bundling of selected free services, telcos could be impeded from providing services that require high-speed broadband, such as connected cars.

In a summary of all consultation views received, BEREC noted that many

ISP respondents considered that it had "taken an unduly negative stance on zero-rating that may not be justified by the regulation." They also noted, BEREC said, that EU law does not prohibit zero-rating or differential pricing, while the "guidelines appeared to take a generally negative view of such offers or even appeared to consider any such practice as inherently violating the regulation." Some went further and argued that the regulation does not limit online commercial offers and that BEREC had "no mandate to formulate new laws or issue assumptions in advance of what is legal and what is not, without case-by-case assessment."

This was a significant contrast with the views of internet access campaigners. Joe McNamee, Executive Director of the European Digital Rights (EDRi) organisation claimed: "Europe is now a global standard-setter in the defense of the open, competitive and neutral internet." Activist Thomas Lohninger, of SaveTheInternet.eu, argued the guidelines were "a triumph for the European digital rights movement," promoting "competition, innovation, and creative expression".

BEREC's summary of consultee comments noted that concern about zero-rating had also been widespread among content and application providers and civil society respondents, who urged it to state clearly that "all forms or just certain forms of zero-rating/price differentiation are very likely to be harmful and should be prohibited".

However, BEREC claimed that it had taken a balanced approach, "interpreting the regulation which provides limits to commercial practices, including zero-rating, while not prohibiting them per se."

The European Commission was also positive, even though there have been concerns voiced in Brussels about deterring telco investment in connected cars, of particular importance in Germany, whose current commissioner Günther Oettinger is responsible for the digital economy and society portfolio.

A joint statement with commission

digital single market vice-president Andrus Ansip said that BEREC had provided detailed guidelines "for the consistent application of our net neutrality rules by national regulators across the EU." They, argued the commissioners, "guarantee the freedom of the internet by protecting the right of every European to access internet content, applications and services without unjustified interference or discrimination."

Crucially, they said, BEREC's work and the underlying EU regulation would help prevent "fragmentation in the single market, create legal certainty for businesses and make it easier for them to work across border." They claimed that a net neutral internet would promote innovation, advanced technologies and Internet of Things services such as connected vehicles and 5G applications, which would be the focus of an EU action plan to be released in September.

Unknowns

James Allen, Head of Regulation at Analysys Mason, agreed that 5G and connected cars will be developed under the net neutrality regime: "The question is whether they will happen to the same extent and in the same way as a result of the regulation and these guidelines (noting that the guidelines are not legally binding, so these points may ultimately be decided in national courts). In other words, EU deployments of 5G and connected cars will be affected at the margin."

While the regime allows the development of specialised services with dedicated quality of service, "what is unknown is how much revenue would have been available from services that are now not possible according to BEREC," said Allen. An example was opt-in blocking of advertising by ISPs: "There may be workarounds available which may increase costs, providing similar services with different architectures (e.g. you could provide ad-blocking at the customer premise rather than in the network)," he said. But how much money would be lost for investment as a result? While the new system will offer a commercial opportunity regarding selling more broadband internet access, Allen argued "this is a small upside, as take-up of broadband internet services is already high and revenue is broadly independent of usage (traffic)."

As for the national regulators who will have to implement the new guidance, there was a welcome in France from Arcep, saying they would "provide NRAs with a clear roadmap for enforcing the regulation". To follow up, Arcep would kick off parallel initiatives: taking an inventory of operators' practices on French networks and improving monitoring, including through the help of end users. It would be well equipped to ensure telcos and ISPs comply with the regulation, using its powers under the incoming French 'digital republic bill'. It also promised to cooperate with other NRAs to make sure this enforcement is undertaken consistently across the EU.

In the UK, regulator Ofcom said it would "monitor compliance with the new rules, and look into any complaints received". It went on: "We will consider any potential breaches as they arise in accordance with our interpretation of the regulation, and drawing upon the BEREC guidelines to inform our approach."

BEREC chair Wilhelm Eschweiler has argued that the regulator's group had delivered on their task of creating neutral guidance that reflected the principles of the regulation. He said: "The outcome is balanced and pragmatic, although covering various complex issues." He also contested suggestions that BEREC had gold-plated the net neutrality law with its guidelines: "They don't create new rules…but provide practical guidance on regulatory implementation of the net neutrality rules."

Dr Monica Horten, an internet regulation expert and visiting fellow at the London School of Economics department of media and communications, was unsurprised at the reaction of telcos given their past attempts to block content, with zero rating a new back-door method to prioritise content. She noted that ISPs especially had long dabbled in content, with poor results – recalling the travails of Yahoo!, AOL, even back to Compuserve.

The reality, she said, and one that policy makers have grasped firmly, is that "to have communications systems that work for everyone, there has to be the potential to talk to everyone." She added: "We have to have the potential out there to being this economic benefits that governments and policy makers are looking for."

Dr Horten welcomed that the guidance brings Europe closer to the policy of the Federal Communications Commission in the USA, helping international comms companies plot strategy. "Business wants to trade around the world, but that requires a global communications system," she said.

In this regard, one key potential problem could be Brexit. If the UK government goes ahead with its current plans to leave the European Union, then will the BEREC guidance and associated EU legislation be preserved on the UK statute book?

Dr Horten certainly hopes so, stressing that the single market has brought major benefits to the British telecoms sector, with companies able to work across Europe, because of a common GSM standard, backed up by single market rules: "The UK government thinks it can look at all the EU legislation and decide what it wants to keep. In an interconnected world, that's not going to work."

Regarding the impact of Brexit on the new rules, the Ofcom spokesperson said: "We are continuing to regulate the communications sector under the existing frameworks until any changes are confirmed."

Allen said, ultimately, the response of the UK government would be "a microcosm of Brexit: EU harmonisation can have benefits, but the UK would have an opportunity to implement something better tailored to UK needs [but] pan-European operators/ISPs might have to implement UK-specific solutions, losing economies of scale. ec

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Dunne deal: O2 UK Chief Exec heads to Verizon Wireless

O2 UK Chief Executive Ronan Dunne (below left) quit the company in July and re-emerged as the new head of Verizon Wireless in the US. Dunne, who left O2 in the wake of the European Commission's decision to block its merger with Three, will be replaced by finance chief Mark Evans (below right).

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