

# What Does the Telco Want to be When it Grows Up!



Martin Creaner, BSc BEng MSc MBA

*Martin Creaner is widely recognized as one of the leading strategic thinkers in the global communications industry with a successful career as an executive with industry giants such as Motorola and British Telecom, as well as over a decade as President & CEO of the TM Forum ([www.tmforum.org](http://www.tmforum.org)).*

*Martin is also a recognized thought-leader on the trends of the emerging digital economy. His most recent book "Delivering the Digital Economy" exposes some of the key dynamics of the digital economy and charts a blueprint for how the leading communications players can navigate this new challenge. Based on hundreds of interviews with leaders from the communications world and its adjacent industries "Delivering the Digital Economy" shares insights on what is really happening and how to adapt to these changes.*

*Martin currently advises the boards of a number of the largest companies in the communications industry. Martin also sits on the boards of a number of the up and coming digital economy companies.*

*In addition to 'Delivering the Digital Economy', Martin has co-authored a number of books including the leading OSS/BSS book "NGOSS Distilled", and the leading Telecoms Transformation book "Frameworkx Distilled".*

*Martin has been named among the 25 most influential people in telecom software by Billing World and has repeatedly been named as one of the Global telecoms Business top 100.*

*Martin holds an Master of Business Administration from Cranfield University, Cranfield School of Management; a Master of Science in Telecommunications from the University of East Anglia; and Bachelor's degrees in Engineering and Physics from Dublin City University and the University College Dublin, respectively.*

**I**n my book, "Delivering the Digital Economy", I talk about the transformation the communications industry is under-going and the set of options that the Telco now faces – essentially what do they want to be when they grow up!

The three emerging Telco business models are:

- **Telco as a Digital Service Provider:** In this business model the Telco has the ambition to be a leading digital service provider for their customers. The Telco will be primarily responsible for bringing the new digital service to market, billing the customer directly, managing the customer experience and sharing the responsibility for the quality of service the customer receives along with its go-to-market partners. The business model aims to bundle a variety of services to the customer and establish the company as a strong B2C digital services brand.

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- **Telco as an Infrastructure Provider:** In this business model the Telco has the ambition to be an excellent & efficient service infrastructure provider of both communications and cloud based IaaS/PaaS. The Telco will build strategic relationships with selected OTT players to bring digital services to market (content and SaaS for consumers and businesses), but does not aim to retain 'ownership' of the customer for these digital services, although it may provide first line of support for them. The Telco will continue to maintain the B2C brand for traditional services (voice, data, etc.), but does not aim to develop any digital services brand.

In this coming decade the Telco has to make an *explicit decision* as to what type of Telco it aims to be. In the past the Telco could be all of the above – and some still believe that they can continue to be “all things to all men”. But as time progresses, the reality will strike that being a **Digital Services Provider** is going to be incredibly difficult in the face of the stiff competition from the OTT players, and I believe that the vast bulk of Telcos will shift their ambitions to be an excellent **Enabler** or a hugely efficient **Infrastructure Provider**.

The path to becoming an infrastructure Provider is relative clear, but if the Telco is going to become an **Enabler** for the digital economy then they need to actively embrace the concept of developing a platform rather than simply developing products to sell. At a high level, the platform that the Telco will provide is pretty clear. It will be some evolution of the current back office systems – opened up via public APIs, sitting on top of a much more flexible and configurable virtualized network, and enhanced by next generation data analytics capabilities. This is the vision I have outlined in the final chapter of my book - *Delivering the Digital Economy*. But in recent months I have spent a lot of time looking at just how 'platform' business models work and why they are so important.

Essentially, there are two broad business models types: **pipes** and **platforms**. Pipes have always been the dominant

business model. In a pipe business model, businesses create products and services and sell them to customers. There is a one-way linear flow, much like water flowing through a pipe – value is created upstream and consumed downstream. Throughout most industries the typical business model involves pipes pushing out products/ services/content at the consumer. Even in the internet age, many businesses still work on pipe models. For example, most SaaS runs on a pipe model where the software is created by the business and delivered on a pay-as-you-use model to the consumer.

Platform business models take an entirely different approach. They adopt a 2-sided approach where it is difficult to distinguish between the creators and the consumers of services. Platform businesses do not just create and push services & content out to consumers, they also create a mechanism whereby the '*consumers*' can in turn become '*creators*' of services for others to consume. As the number of *consumers* increases the platform becomes more valuable to the *creators* using the platform. Conversely, as the number of *creators* increases, the platform becomes more valuable to the *consumers*. This positive feedback effect is what is known as the “**Network Effect**”.

Everywhere you look, platform business models are emerging, and there is increasing evidence that in the Digital Economy – *platform beats pipe!* For example, traditional TV Channels offer a pipe model for their content, but increasingly they are being trumped by *YouTube* which works on a platform model allowing users to both be consumers and creators of content. *Hilton Hotels* offers a traditional pipe model for offering short-term accommodation, but *Airbnb* is sweeping all before them by working on an innovative platform model where consumers can be guests one day and accommodation providers the next. Language learning businesses such as *Rosetta Stone* work on a Pipe model but language learning sites such as *Duolingo* hope to disrupt their business by operating a platform business model for education where users learn and provide translation services – at the same time!

The Telco world is likely to embrace this platform business model in a slightly different way, creating a platform which 3rd party B2B2C players use to get to customers (via some form of cloud marketplace mechanism) and to access needed business services. But at the same time, the use of the platform is creating data content which the Telco can further monetize. The more B2B2C customers the Telco has, the more valuable user data it can gather to further enhance its platform value proposition.

Telcos have a long way to go to becoming a flexible digital enabler for the wider digital economy, but many have taken the first steps along this road and I expect many more to begin this journey over the coming months.