Pipeline
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www.pipelinepub.com Volume 4, Issue 10

Creating Smart Distribution Channels to Overcome Commoditization

by Brian Cappellani

Telcos are debating how they will avoid being commoditized in a multi-party, content- and applications-oriented service environment. Billing and CRM vendors are dominating many of the conversations by pushing the message that telcos must become innovative service creators and personalized marketers in order to win in the end. The analytical capabilities these arguments infer will be important to drive market-of-one tactics, granular customer segmentation, and to target new services. But these capabilities only represent one part of the equation. Telcos and mobile operators have always been strongest in delivering connectivity and enabling transactions. By putting specific service management capabilities in place that enable a policy-driven service and information delivery infrastructure, they can take a critical but incremental step forward, enable smart distribution channels, and both demonstrate and bill for the business value they really provide.

Dispelling Marketing Rumors

Telcos have extensive customer management infrastructure and deep expertise in billing, but these don't necessarily add up to marketing excellence. There's a reason companies like Google and Amazon have had incredible success in Internet-based consumer markets and telcos have not – those Web 2.0 leaders excel at identifying consumer trends and targeting them with high quality, personalized customer experiences. Telcos and mobile operators have done well with mass market services, but the fact is that they aren't great at understanding individuals and targeting them with innovative and tailored offerings. Analytics applications that help telcos to better understand their customers' needs – consumer or enterprise – are important. But if they aren't coupled with policy-driven operations that can act in response to the new kinds of granular market intelligence these applications may generate, telcos won't really be able to leverage the value of the customer data they've mined in terms of service delivery and transaction enablement.

Telcos are in a difficult strategic position where, much like an army, they have potent yet finite resources that have to be applied in the right places to ensure success in the next decade. They have strengths in IT, but where they are strongest tends to be in engineering and networking, and applying IT resources to leverage those strengths. Telcos may not be great at satisfying individual desires yet, but they excel at maintaining communications infrastructures that help many other

industries to conduct commerce nationally and globally. This will continue to be true in a content and advertising driven market as long as telcos manage to build the next layer of service fulfillment and assurance capabilities they need. Because this is a traditional area of strength, it's a source of tangible value in this multi-party equation. Ultimately, the business intelligence capabilities they will build in parallel should help them to demonstrate the real business value of their delivery and assurance capabilities as they provide higher quality customer experiences and commerce channels that translate into new revenue for their enterprise customers.

The Real Value Proposition

Retailers, entertainment providers, and Web 2.0 innovators are most interested in telco and mobile networks because they present robust, high quality channels through which they can reach individuals safely, predictably and with billing built-in. Telco and mobile networks are secure and equipped with strong accounting mechanisms and controls that generate granular data regarding user behavior and spending. Further, telcos and mobile operators have more experience using this information to bill and collect from individuals and corporations than anyone else. Further, telco networks have already shifted largely to IP, which allows them to be multi-purpose and multi-service in nature.

When it comes to multi-service distribution success, IP is one leg in the stool and billing and usage collection is another. The third leg consists of the operational capabilities necessary to turn telco networks into smart channels. Smart channels can adjust quickly to new services' requirements, or to new devices and related business applications, and allow them to be brought on-board very quickly. A smart channel also has the ability to differentiate between individuals or end points by acting upon specific information, often in real-time, that's likely to be housed in a back end or third party system.

Telcos may need to develop new expertise in analyzing and identifying user and services trends to understand individual likes and dislikes and to measure the effectiveness of their enterprise customers' new commerce infrastructures. Analytical results will change continuously, thus changing the data points relating to usage history; opt-ins; personal preferences; affinity; time-of-day; location; presence; performance and other factors. Within the flow of commerce transactions; content; and interactive advertising, policies; permissions; and entitlements that are based on these changing data points will drive the action. The operations infrastructure therefore needs to be geared to respond to these changes fluidly by employing policy-driven systems that can play a managerial role between databases that house customer, service and market intelligence and network systems that provide connectivity, service delivery, transaction enablement, and revenue generation.

Incremental Steps

Developing smart distribution capabilities like this is actually an incremental step for telcos and mobile operators. As mentioned, they already have multi-service networks in place. Many also already have infrastructure that enables on-demand services, like ringtone downloads; debit-based services, like pre-paid mobile; and credit-dependent services, like telephony subscriptions. These are all based on well defined processes that are triggered by specific pieces of information that relate to

customers or network capabilities, and are housed in back office and network resident applications.

IMS was intended to provide the kind of policy-based, managerial layer that's needed, but the complexity inherent in the IMS specification tends to obfuscate this well-intended architecture's real business purpose. More telcos and mobile operators are asking themselves today, "How can we deliver orchestrated, multi-service offerings without having a full blown IMS architecture?" This is a healthy question. The IMS spec overlooks some of the critical roles that operations systems play, and it doesn't provide an answer for operating in a partial deployment scenario.

Telcos are figuring out quickly that IMS isn't really necessary for delivering on-demand services. Cable MSOs can demonstrate this fact with one touch of a button that allows subscribers to view movies or TV programs, request specific information, or to shop on-demand. IMS also isn't necessary for cross-domain services. Any mobile subscriber who accesses his or her business email through a simple handset can attest to this, as can any Slingbox owner who watches his cable TV content remotely from his laptop. IMS similarly isn't necessary for delivering personalized services in real-time. Service management capabilities, however, will be necessary to create a more secure and better accounted distribution channel than the Internet or raw broadband pipes offer today. Service management platforms must connect back office systems that manage subscriber-related data with devices, equipment, and application servers in the network that execute policies, collect usage information, and conduct complex service delivery.

Today, systems in the network like gateways, routers, and Ethernet switches, usually take commands from engineers and static policy databases. Though IP and Ethernet networking systems can do more, they are often set up in a static mode that reflects the mechanized provisioning that has always been used to nail up and tear down TDM pipes. IP and Ethernet end up emulating the physical pipes of old, like DS3s, and only provide the value of cost savings. They are capable, however, of changing their characteristics and connectivity in response to real-time instructions.

If current networking technologies are taking orders from service management systems that can provide them with the right information, policies, permissions, and configuration commands in real-time, they're entirely capable of enabling fluid, dynamic, and seemingly personalized service environments. To content partners, advertisers and enterprises, this translates into the kind of smart distribution and transactional channels they want and expect from telcos and mobile operators. They're willing to pay a premium for this kind of capability because they can monetize it and measure the value it has for their businesses. For telcos and mobile operators, there's an opportunity here to step up to this challenge. In a positive light, it's really a matter of delivering the next level of process automation that many current OSS/BSS transformation and integration programs are already aiming for and are already resourced to provide.

Capitalizing on Interactive Advertising

On the consumer side, a major motivating factor for telcos to step in this incremental direction is the allure of interactive advertising and the revenue it has

the potential to deliver. Cable MSOs are already moving in this direction and are working on the ability to deliver clickable overlay ads, or even clickable product placements that enable instant purchasing. They aren't far from enabling their subscribers to pull down more compelling information about the products they see on television. This is really just another form of transaction and e-commerce enablement, not dissimilar to what have become globalized ATM and POS transactions.

The Open Cable Application Platform (Open Cable), a CableLabs-derived technology that is slated to roll out later in 2008, is intended to enable interactive advertising in the foreseeable future. Telcos need to take note of and learn from what MSOs are doing in this area. MSOs are trying to put the back office tools in place that they need to leverage Open Cable middleware capabilities. They are using specific data collection tools, for example, to gather user data from more capable and IP enabled set tops to make audience information available that advertisers can, in turn, analyze to target their offers. This is meant to provide a level of granularity that Nielsen ratings can't approach. They are also putting service management tools in place that span the gap between real-time systems in the network and back office systems and databases that house permissions, policies, entitlements, and unified customer profiles.

Policies, permissions and entitlements are defined in back office systems like customer care platforms, billing systems, security applications, and provisioning consoles. MSOs are looking to put service management solutions in place that can protect these critical back office systems from real-time performance demands. These solutions ensure that the right information is extracted from those systems and injected into execution systems that drive and govern real time user interactions with services and advertisements. Service management systems also ensure that the right information is delivered back to the appropriate back end systems as users change their preferences, parental controls, or status. That way, processes like billing and service fulfillment, or the processes that will target ads and promotions, are keying off of accurate and up to date information like user preferences, opt-ins, and service subscriptions.

While none of this is necessarily simple, the incremental approach to creating smart distribution channels is where telcos can succeed and avoid being commoditized. Telcos don't need to wait for IMS to save them, nor do they need to become master marketers and analytics experts overnight. They can use their skills at the crossover points between IT, engineering, customer data collection, billing, and robust networking to create channels that are superior to both the Internet and the raw connectivity they offer today. They can build incrementally on activities they've got underway, and skill sets they've been developing for years. In doing so, they'll direct finite OPEX and CAPEX resources toward their strengths. They will increase the measurable value they offer to 3rd parties and be able to bill for it. As a result of employing service management capabilities on top of their existing operations, they won't remain commodity pipe providers who watch the real marketing and consumer behavior experts develop new revenue streams on their backs.

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