

# Enticing partners to a network-centric model

As telcos are finally about to launch video and other content services in the mass-market, competing offers from internet-centric providers such as AOL, iTunes and Google are appearing on the horizon. Can telcos and internet-centric providers find ways to better align incentives? PacketFront has some answers

> **Over a** number of years, broadband internet has been moving towards commoditisation – more “best-effort bandwidth” offered at a lower price year-on-year. Telcos have responded in part by launching video services – such as IPTV and video on demand (VoD) – aiming to increase ARPU and protect overall service margins. However, telcos are missing the mark in terms of both time to market and costs associated with launching such video services. Currently entering the market with video services on a me-too basis, their offerings remain comparable to services that have long been available from any average pay TV provider. Real differentiators, such as improved content choice, remain on the horizon for most, but require additional time and investment before they can be brought to market.

Taking their cue from the inroads made by internet-centric alternatives to fixed voice, several heavyweight players, including AOL, iTunes and Google, have started to invest in enabling technologies for internet-centric video, including both IPTV and VoD. Such services are designed to keep telcos out of the revenue stream, and there is a real risk that these providers, partly on account of their range of content and flexibility, will take a big chunk of the ARPU that telcos are betting will offset their own investments in video.

Attempting to create a walled garden, by keeping internet-centric providers on the outside through technical or commercial limitations in the broadband internet arena, is a risky strategy. Subscriber response to the introduction of metered broadband access, where there previously had been no such limitations, suggests that reining in these customers may come at a high price in terms of both subscriber churn and opex.

The challenges associated with bringing video services to market and the emerging and potentially formidable competition posed by internet-centric providers, raise concerns in regard to the sustainable nature of telcos' current service strategies in general, and video services in particular.

## ALIGNING INCENTIVES VIA REVENUE SHARING

One response to both concerns is based on establishing better alignment of incentives for telcos and providers of internet-centric video services. More specifically, it calls for finding ways in which to entice providers of internet-centric video services to a more network-centric model, and relying on such providers to bring video services to market

under a revenue-sharing scheme. For telcos, such an approach would likely mean lower margins, but at the same time, more services brought to market faster at relatively little or no risk.

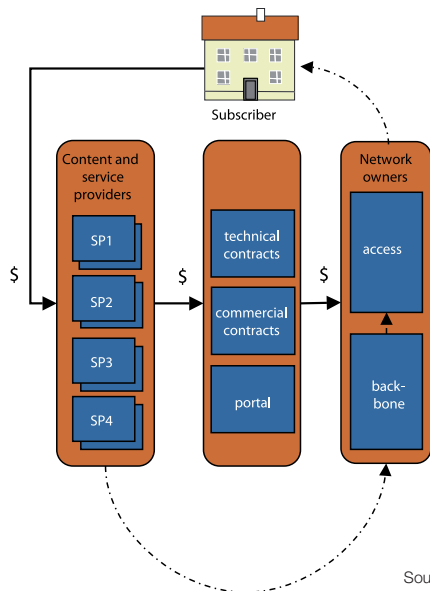
Of course, internet-centric providers of video services will have their own long-term interests, but should certainly be open to exploring ways in which such service alignment with telcos can be achieved. Firstly, if financial markets are less optimistic about the future prospects for network owners, a likely result is reduced investment in bandwidth and functionality – something that will later have a negative impact on internet-centric providers' ability to introduce second and third-generation video services. Secondly, telcos should be able to offer substantial value-adds to those providers that are open to a more network-centric approach. Such value-adds might include improved marketing access to the telco's subscriber base, end-to-end QoS, as well as more effective customer service and support.

## LESSONS FROM OPEN ACCESS

Since the turn of the millennium, alignment of incentives for network owners, content and service providers via revenue-sharing agreements has been one of the hallmarks of open access networks. The open access concept was first pioneered by community-based, FTTH networks, which were among the first to offer a “fat pipe” filled with services. Such providers were also among the first to realise that in-house development and marketing of all these services did not make commercial sense – either from a business or community perspective. A number of open access networks are now in operation worldwide and, although these are providing local coverage only, their success in securing content and service providers indicates that there are lessons to be learned here for telcos. One open access network for example, Malar City Network in Sweden, currently offers subscribers more than 60 services, delivered by 20 content and service providers – including multiple providers of IPTV, VoD and VoIP.

Essentially, an open access network combines one or more network owners, with more than one content and service provider – with the latter competing on a level playing field. Network owners, content and service providers co-operate on the basis of technical and commercial contracts defining service levels, revenue sharing and market rules.

## THE OPEN ACCESS MODEL



Source: PacketFront

Content and service providers typically invoice subscribers and handle first-line customer support. Network owners are responsible for the network and enable the provisioning of services for third parties. Incentives are then aligned via the revenue-sharing arrangements and a network owner's commitment to maintaining a level playing field for all the content and service providers involved.

Revenue-sharing arrangements and the commitment to maintaining a level playing field are key differentiators over traditional telco wholesale. Another important differentiator is a physical separation between network and services; a subscriber has access to parallel services from more than one provider – eg, a broadband-internet service from provider A, an IPTV service from provider B, and a VoIP service from provider C – on the same access, but with differentiation in terms of bandwidth and QoS. A final, but important differentiator, is content and service providers' level of control over customer relationships. They must be able to provision services via an interface to a multi-provider provisioning system, and trouble-shoot and meter their own services in real time and end-to-end.

## OPEN ACCESS FOR THE TELCO

For a telco version of the open access model for video services to be realised, a number of commercial, operational and technical challenges must be addressed. The details of the business model, including revenue-sharing arrangements and market rules, have to be agreed and made attractive for all the parties involved, including the telco itself, as well as its video content and service partners. A detailed approach to operations – including roles, interfaces and processes – must also be established and based on similar consensus. Finally, capabilities that support the business model and the agreed approach to operations must be built into the

BSS/OSS platform, as well as the network and, of course, at justifiable cost.

Telcos do not have to start from scratch, however. Open access business models and corresponding operational arrangements have been agreed upon by a number of network owners and content and service providers, and their collective experience should serve well as a starting point for other telcos. Moreover, system components and network elements that combine open-access capabilities with state-of-the-art, triple-play functionality have been deployed commercially for a number of years and are now carrier class in terms of both reliability and scalability. Finally, initiatives aimed at exploring the ease with which such system components and network elements can be integrated into various legacy telco environments suggests this can be achieved relatively easily in various such environments.

In summary, both telcos and providers of content and services should be well served by better alignment of incentives. Certainly, revenue sharing is a promising enabler for better alignment within the telco environment – as demonstrated by the business models, operational arrangements and solution components that are currently in place within today's open access networks. Indeed, given that many of the latter have been in operation for a number of years, the strategies they have adopted and resulting know-how should provide telcos with a solid foundation on which they can build their own open access environments. ■

## Contact:

### Geir Axel Oftedahl

Director of Business Development,  
Carriers EMEA, PacketFront  
T: +47 901 80 464 E: geir@packetfront.com



Geir Axel's background lies within management consulting, first with a focus on the energy sector, later telecommunications and broadband. Within broadband Geir Axel has worked extensively with FTTH pioneers, as well as with a number of European carriers and global equipment vendors. Geir Axel has also been the co-founder of two successful consultancies within this area.

Geir Axel joined PacketFront early 2004 and currently holds the position of Director of Business Development in the EMEA Carrier Team.

## About PacketFront

PacketFront is the leader in FTTH technology and next generation broadband aggregation. Its unique combination of central control and automation systems and advanced routers power the most demanding broadband networks in the world. Its solutions also uniquely enable new business models such as open access networks, where multiple content providers deliver competing services over the same physical infrastructure. The company is headquartered in Stockholm, Sweden, and has offices in Boston, Oslo, Amsterdam, Tokyo and Seoul. [www.packetfront.com](http://www.packetfront.com)