

The Battle for Relevance

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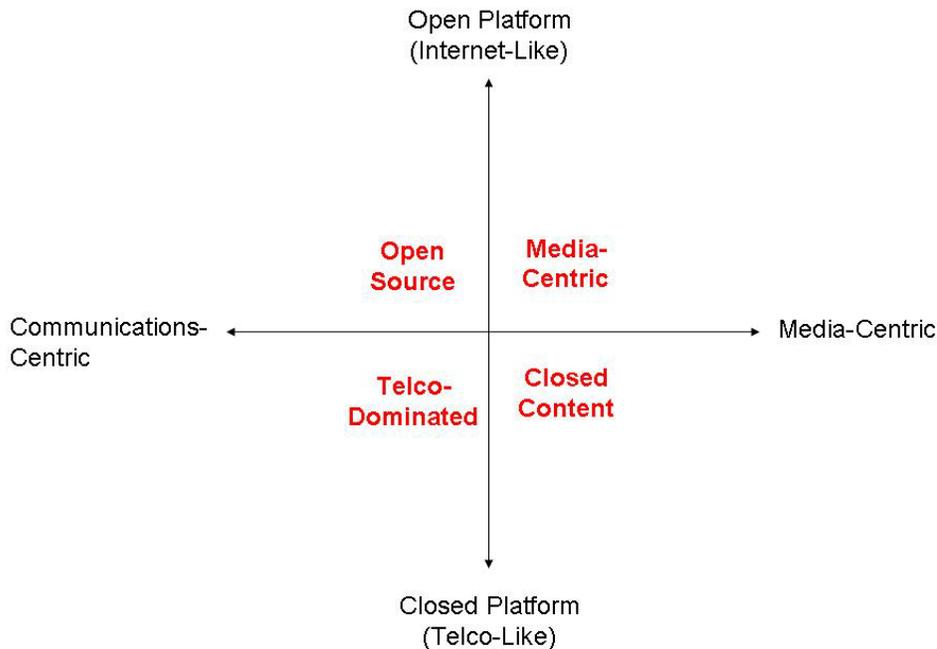
As the telecom industry embarks on the arduous journey up the west side of the next great investment bubble, it is once again going through a disruptive and wrenching period of reinvention. Service providers were once the providers of access to the network and transport of all customer-bound traffic, but today they find themselves in the confounding position of having to reassess exactly what it means to *be* a service provider. And as they do, system manufacturers have to march along in lockstep with them to ensure that their own product development plans support the service delivery strategies of their service provider customers. This is not a bad thing by any means, because in the midst of this reinvention there is the very real probability of tangible, long-term, sustainable revenue streams, inbound from a range of sources, some of them previously unknown. The key to taking advantage of them, however, is less than straightforward, and requires different approaches to technology deployment, revenue recognition, service quality measurement, competitive behavior, and intelligence gathering. Failure to adapt has a single destination: the oblivion of irrelevance.

While it is roundly believed that Charles Darwin made the claim that only the fittest survive, that is in fact not what he said. The actual quote, far more appropriate for this discussion, is, *"It is not the strongest of the species that survive, nor the most intelligent, but the ones most responsive to change."* In the world of high-tech, this translates into technology that adapts to the customer, rather than technology to which the customer must adapt their lifestyle.

One word will reoccur repeatedly throughout this discussion. That word is *relevance*. Stemming from the Latin *relevare*, 'to raise up,' relevance is the most important element of today's customer success strategy. Relevance comes directly from – and is a measure of – self-interest. As we enter an era that increasingly revolves around community technologies that facilitate the interconnectedness of that community, often called "the We Generation," those technologies become increasingly relevant. The more personally relevant a product or service is to each customer, the more likely that customer will remain sticky – and connected to the offered service. Given the growing cost of customer acquisition and loyalty retention, the cost of re-acquisition is untenable.

In traditional competitive business engagements there is typically a winner and a loser. For whatever reason, one company outperforms the other in the eyes of the customer, and the customer makes a choice – one company's product or service over those of the other. There is honor in winning, but ironically there is no

dishonor in losing. The losing company fights the good fight - it happens - and goes on to fight another day. However, there is no honor in irrelevance. Once deemed irrelevant by the market it is hard for a company to shake the image.



Today's evolving telecom industry can be illustrated by the quadrants shown in the diagram. The vertical axis shows a continuum from a closed, proprietary operating environment at the bottom to an open, collaborative one. The horizontal axis spans the gamut from a communications-centric world on the left to a media-centric one on the right.

Let's explain what each of these terms means. 'Closed' refers to the fact that many of today's software systems were designed to work only with specific hardware or software, making them proprietary. For example, most of the software products created by Alcatel Research Labs, Bell Labs, Telcordia, Bell Northern Research and other developers of telco software function only within the narrow confines of a telephone network, and are only capable of supporting the relatively narrow range of services that can be delivered over those networks - in essence, voice and non-specific data. The wealth of acronyms that flow from

this world – BOSS, NMA, TIRKS, LMOS, MLT, FACS, CRAS¹ - demonstrates the closed door environment that until recently characterized the telecom world.

‘Open,’ on the other hand, implies the availability of software and protocols that are service-agnostic and environment-independent. IP, for example, is perhaps the best example of an open protocol. Some writers refer to it as the “four-foot-eight-and-a-half-inch protocol. Any questions?

From the ruts ground into the sandstone paving blocks of ancient Rome by the iron-clad wheels of chariots, we know that the distance between the wheels of those conveyances was precisely 4’ 8-1/2”. Similarly, the distance between the wheels on standard gauge railroads is – you guessed it - 4’ 8-1/2”. As long as train cars are built to this standard rail gauge, and as long as railroads lay their tracks this far apart, a network can be built that will transport any train to any destination, *regardless of the payload it’s carrying*. IP, designed to be service-independent, is therefore a 4’ 8-1/2” protocol.

On the horizontal axis we span a continuum from communications-centric to media-centric, referring to the range of offered (and demanded) services. Communications-centricity refers to traditional network-based access and transport services – ISDN, DSL, wireless, Internet access, basic and feature-rich telephony, and high-speed data transport. This is the domain of the traditional telephone company. At the other end of the spectrum we find media-centricity, which refers to services that provide rich content delivered over communications-centric networks. This content takes on many forms including voice, video, data, still images, music, ringtones, ringback tones, and software applications. Once referred to as “value added services,” today the added value is implicit: they’re simply services, and more and more they are not optional. In fact, one of the greatest threats facing traditional telcos today is the fact that voice, which for the longest time has been their core service, is no longer a core service: it’s a feature, no more and no less. It’s part of the package – and the key to success lies in offering the right package.

Telco-Dominated

As the name implies, the lower-left telco-dominated quadrant of the diagram is the domain of the traditional legacy telephone company. These companies rely heavily on proprietary applications to operate, administer, maintain and

¹ Seven of the most common systems that support telco functions in the legacy network: Billing Operations Support System (BOSS), Network Management Application (NMA), Trunk Inventory Record-Keeping System (TIRKS), Loop Maintenance Operating System (LMOS), Mechanized Loop Testing (MLT), Facilities Assignment and Control System (FACS) and Cable Repair and Administration System (CRAS).

provision the communications-centric applications that they offer. They also tend to rely on centralized architectures for service delivery, the most cost-effective structure for offering a single service or small number of services to large numbers of customers – but far less effective for the delivery of media-oriented, customized services, as we’ll see later.

Closed Content

The closed content quadrant at lower right is more media-oriented, but still largely closed in its approach. Perhaps the best-known company found in this space is AOL. Born of the creative mind of its founder, Steve Case developed his creative concepts during stints at PepsiCo and Proctor & Gamble before moving over to Control Video, a computer game company which ultimately morphed into AOL. During the earliest days of online services, AOL quickly established itself as the premier online service before the Internet came booming into the public psyche. Because it hosted a large and constantly growing array of services and provided access via thousands of dial-up modems conveniently located in all major (and many minor) cities, AOL prospered. So good was the company’s content that it effectively marginalized its major competitors including Prodigy, MSN and a few others.

When the Internet came onto the scene in 1994, AOL managed to retain it near-monopoly over the online services universe, largely because of a well-orchestrated campaign of fear, uncertainty and doubt. In those early days the Internet represented the digital equivalent of the 19th century’s Indian Country, a dangerous, lawless place from which few returned unscathed. The message was, “You can leave the castle and go out into the Internet wilderness, but you do know that few who have attempted it have ever come back.” But as safeguards arose and the Internet became somewhat gentrified, AOL acquired the nickname, “the Walled Garden” of content. Why stray outside the walls of the castle? Stay inside, enjoy all that we have to offer in a safe, comfortable and familiar environment. And many people did. However, as time passed, more people left the content-rich but behaviorally restrictive confines of the AOL castle, and the walled garden model declined in popularity. AOL remains an important player, but less influential.

Open Source

The upper-right Open Source quadrant is a fascinating one, and serves as the breeding ground for the direction that the industry is currently taking. In June 1997, Bruce Perens, believed by many to be the founder of the Open Source movement, wrote a definition of the concept following a long e-mail exchange with colleagues. Open Source is similar to the concept of giving away free software, but richer than that and less rigid than the original “free software”

movement. The users of open source software can not only view the source code but can also alter and re-distribute it at will. There is less emphasis in the open source environment on the right of information and source code to be free, and some companies, like Red Hat, have come up with ways to create jobs and generate revenue by supporting Open Source products for enterprise customers that chose the Open Source route.

In essence, Open Source is “community programming,” a phenomenon in which large numbers of capable coders work together in a loosely assembled consortium to advance the potential of the software they support. It belongs to everyone and no one, and thus enjoys the support of a vast range of capability.

Perhaps the best known example of Open Source software is the Linux operating system. Based on a rock-solid Unix foundation, Linux has enjoyed growing support since its arrival in 1984. Today it controls a large percentage of the enterprise server market, the rest of which, for the most part, is controlled by Windows. In fact, in a recent interview, Steve Ballmer, when asked whether he was concerned about the growth of Linux installations, replied, “Microsoft doesn’t compete against movements – it competes against products.” And while Linux may indeed be a movement, of sorts, it’s a movement with significant force behind it. A few months ago Microsoft signed an agreement with Novell to – among other things – support Linux (in this case Novell’s Suse Linux) as a viable alternative to traditional operating system installations.

However, the Open Source juggernaut is not limited to operating systems. Asterisk (www.asterisk.org) is an Open Source IP PBX that will run over any operating system. Download it from the site, load it on a PC, configure it appropriately and voila – you have a full-feature PBX, complete with management, voicemail, and a host of capabilities.

Vyatta, on the other hand (www.vyatta.org), is an Open Source, midrange, enterprise router and firewall. Targeting the space enjoyed by Cisco and Juniper, Vyatta costs less than half what the commercial alternatives cost but offers a full set of features.

The list continues. XORP (www.xorp.org) is a full-feature software-based routing platform, stable enough for production use. Reaper (www.reaper.org) is a commercial-grade Open Source audio editing suite. YouOS is an Open Source, Java-based operating system. Moodle (www.moodle.org) is an Open Source course management system. GIMP (www.gimp.org) is a full-feature Open Source photo and graphic editing package, similar to Adobe Photoshop. There are hundreds of Open Source games available (classic gamers, take note) and new software is released every day. SourceForge (www.sourceforge.net) serves

as a clearing house or gathering place for Open Source; they provide access to more than 130,000 ongoing Open Source projects, all freely downloadable by anyone who visits the site.

In fact, there are some remarkably interesting Open Source projects that fall into this space, including the well-known Wikipedia concept. Wikis are nothing more than Open Source knowledge. In the same sense that Open Source software attracts a community of skilled developers to maintain it and constantly improve the software's capabilities, Wikis rely on the user community at large to maintain the database of knowledge in an open format for all to use. Albert Einstein once said, "Nobody knows as much as everybody." That sentiment drives the Open Source philosophy.

There is one last form of Open Source that we can't ignore, because it is the most powerful of all – and is also the force that is currently driving the industry into the fourth quadrant. We're talking about Open Source content.

Media-Centric

The other three quadrants set the stage for the occupation of the upper-right Media-Centric space. Open Source content is the watchword for this quadrant, and it is the space that is driving revenue growth in telecommunications today, and in the minds of many, the growth of the next bubble that we're just beginning to see. Here we find Google, YouTube, MySpace, Yahoo!, FaceBook, and a growing and bewildering array of companies that have something to sell. Herein lies the telephone company's greatest nemesis; herein also lie the greatest opportunities these companies have ever seen – *should they choose to embrace them*. For you see, the information contained in these systems doesn't tell us who these people are: *it tells us who they want to be*. Every personal Web page, every data entry, every quote and observation provides grist for the market analysts' mills. That grist, when refined, becomes advertising revenue, download revenue, click-through revenue, eyeball revenue, and sticky, long-term customers.

The issue today, as we noted earlier, is one of relevance. As providers of access and transport services, telephone companies are hard-pressed to demonstrate tangible relevance in an increasingly services-dominated industry. Access and transport are commodity products – they can be purchased from many sources, each cheaper than the last. For a telco to remain relevant, it must learn to play in this fourth quadrant. It must become content and media-centric. It must preach the gospel of resource abundance rather than one of network scarcity, and must learn to partner well with other companies. It must base its strategy on something called Long Tail economic concepts which we'll discuss in detail in a later Podcast, and must constantly, inexorably reinvent itself. Finally, it must

develop a customer analysis and billing model that gives it the ability to place the right service in front of the right customer at the right time, over whatever network access technology and using whatever device the customer desires.

Sound impossible? Well, it's not easy – but it's also not impossible by any means. However, it requires a reinvention, a refocusing, a resource repurposing effort that is at best wrenching. In the modules that follow we'll talk about the specifics of this transition, but for now I'll summarize the main actions that I believe these companies must take to ensure both their operational longevity and their market relevance.

First, service providers must create and begin to execute a strategy for IP conversion, including elements of both IMS and IPTV. At the same time these companies must recognize that the move to an all-IP network is much more than a technology transition. It is also a business transition that changes everything in terms of how services are created, delivered, and measured. It requires that companies stop talking about selling solutions and actually start selling them, using the three-part siren song of lowered network complexity, the ability for customers to self-provision services, and the move toward standardized services. It means that sales compensation programs must be rewritten to reward successful salespeople based on solution sales rather than on sales of the “technology du jour.”

Second, these companies MUST recognize that in the modern world of competition and market dominance, they will have two options when it comes to revenue: They can have *some* of the money, or *none* of the money. The days of being vertically integrated to a degree that all of the revenue accrues to a single company are over. However, the days of greater and greater revenues accruing to a *cluster* of companies that work together are just beginning. That's the emerging model, and it's a good one.

There's an old expression that says that the “quickest way to become a leader is to find a parade and get in front of it.” The smart companies are those that make themselves part of something bigger and more capable than themselves, and go to market as a converged entity. It's a matter of adaptation to ensure relevance. Never forget the words of Charles Darwin that we mentioned earlier: “*In the struggle for survival, the fittest win out at the expense of their rivals because they succeed in adapting themselves best to their environment.*” That's the secret – adaptation. And adaptation happens because of a desire for relevance and longevity. No single company in the industry today dominates the market with overwhelming relevance. But groups of companies that live out the old adage that “the whole is greater than the sum of the parts” can create an unequalled competitive entity.

This brings us to the third requirement for success in this remarkable industry. The success of a company in the market is directly related to the degree to which that company makes itself relevant to the market, and relevance comes from one thing and one thing only: self-interest. If a competitive entity makes its products relevant to the people or companies that make up the market, and that control the telecom spend that takes place there, then that entity will enjoy a large percentage of the spend. And what does this require? It requires a clear understanding of the forces affecting the customer base within the market and a commitment to sell telecom solutions that address the impact of those forces in four ways: cost reduction, revenue enhancement, risk reduction, and improved competitive positioning. If a company's products and services can address one or more of these issues, then their relevance is assured and they will enjoy a place at the revenue table.

Finally, companies must find ways to aggregate demand for their services. As service providers reinvent themselves to be more like media companies than access and transport companies, they must find ways to influence a geographically diverse – and dispersed – market. In later modules we'll discuss exactly how this happens, but suffice it to say that unless a service provider thinks beyond its own geographic limits it will leave enormous amounts of money on the table and miss out on some very real and very lucrative opportunities.

Blue Ocean Strategies and techniques for market aggregation, sometimes called Long Tail Economics, are critical. For now, think about this: What does it mean to be a service provider today? What's the service? And what must be bundled together to create the best service a customer can possibly imagine? These questions must occupy our thoughts in the months ahead.

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