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Analysis - Expansion: It's Not Just About Geography

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by Keith Mallinson

As carriers extend into new areas, they need to be mindful of their core assets and selective about diversification.

Most fixed and wireless carriers worldwide are fearful of being little more than, so called, dumb bit pipes transporting public Internet-based content for free or monetized solely by others. But are carriers capable of becoming competitive publishers, applications store fronts and value-added service providers?

Apple's iPhone and App Store form the gold standard for the mobile Internet. Research In Motion's Blackberry is very successful, though still largely through corporate e-mail. Google is a leading contender with various assets including global scale. No carrier portal comes close to matching the strengths of these pioneers. Nevertheless, while wireless carriers embrace the above, they are not giving up on doing their own thing.


Keith Mallinson

The iPhone has boosted carrier market shares and improved relative churn for its exclusive distributors, but heavy handset subsidies have resulted in economic rents accruing to Apple. As exclusive arrangements expire, carrier economics will deteriorate with lower prices and carrier competitive advantage will disappear as several vie to offer this must-have device.

The prevailing tactic for carriers is to offer most of the top smartphone platforms including iPhone, BlackBerry, Android, Microsoft, Palm and Symbian outside North America. In addition, carriers are also revamping their own propriety offerings as walled gardens and on-deck wares are marginalized by so called over-the-top offerings off-deck.

WEAKEST LINK

All that is seemingly lacking with iPhone's superlative end-to-end experience are the 3G networks – including AT&T's in the United States and O2's in the United Kingdom – that are overwhelmed by recently surging mobile Internet usage. Wireless carriers have yearned for this demand since the introduction of mobile data with GPRS and CDMA2000 1X a decade ago. Logic suggests, therefore, that the priority for carriers should be fixing deficiencies in their core business where they are the sole network service providers. Instead, carriers seem preoccupied with trying to extend themselves into new areas such as social networking, applications and multimedia content publishing.

There is a prevailing and yet incorrect view that commodity businesses, including network services, are inferior to those that provide enhanced and specialized capabilities. Superior scale, operational excellence and cost leadership can make for highly profitable humdrum business, as demonstrated in various industries by companies including Exxon, McDonald's and Walmart.

SMART PIPE STRATEGIES

A network first strategy has many facets. A priority in capital-intensive, public infrastructure industries is to affect regulation. Carriers are on the defensive against the populist arguments of Google and others. Network neutrality still threatens to undermine basic economic measures that would enable carriers to modulate traffic flows and provide incentives for additional investment. Traffic shaping, tiered classes of service and pricing flexibility are essential. Whereas auctions provide a fair and transparent means of allocating spectrum, bidding should be on the basis of capital investment, deployment and service availability commitments rather than massive payments to government coffers for other causes. Consolidation through acquisitions, network sharing and fixed network convergence will also improve financial performance for all competitors.

Deft engineering design and investment in innovative technologies that reduce bit transport costs, improve speeds, coverage, capacity, service availability and enable value-added services are also required. Focus should be on network and operations including next generation OSS, billing and customer intelligence, service delivery architectures, device management and IP-based core networks as well as new radio access technologies such as LTE. Legacy technological and operational “silos” are ripe for rationalization.

Whereas many carriers are eager to increase their business scope, addressable markets and revenues, they should be more concerned about their ability to reduce costs and deliver investment returns. They should be very selective about diversification into areas where they have less competence and commercial gains are uncertain.

VALUE-ADDED SERVICES ENGAGEMENT

How to work the expanding wireless services ecosystem is the trickiest part of the puzzle. Having no strategy is not an option. It is crucial to forge the right partnership deals, select effective business scope expansions and make appropriate acquisitions at the right prices.

Whereas Apple’s iPhone gross profits are as large as Nokia’s with 15 times more phone unit sales last quarter, Facebook, YouTube and Skype command a lot of consumer attention on the fixed and mobile Internet without making much money. It is not yet clear how they ever will. Application stores are springing up all over. Simply trying to copy Apple or partnering badly will result in costly failure.

Whereas carriers must expand networks while also improving their performance and agility, I have no universal recommendations for carriers in enhanced services including multimedia, social networking, applications stores and enterprise services. Applicable strategies depend on many factors, including national and international carrier scale, local regulatory and market demand conditions and the need to differentiate from competitors.

Mallinson is founder of WiseHarbor, solving commercial problems in wireless and mobile communications, www.wiseharbor.com. He can be reached at kmallinson@wiseharbor.com.

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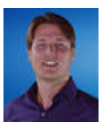

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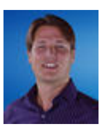

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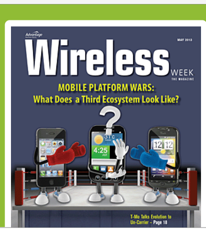

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