Roundtable: Carry the day

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Carriers World

What new services will drive the communications industry, and what challenges lie ahead for service providers? Leading executives give us a preview of some of the issues they'll be discussing at this month's Carriers World conference

What are the biggest issues in the carrier industry in the year ahead?

Dick Simpson: I think the biggest issue is finding the winning business model. Obviously, the industry is still experiencing some capacity oversupply, and this has driven down prices, resulting in a dramatic effect on the industry. How carriers successfully re-shape their model will continue to be the biggest challenge.

Paul Reynolds: The industry needs to take a constructive attitude to risk - with barriers between adjacent markets coming down and carriers encountering a new range of customers and competitors. This makes it even more difficult to predict the products and services that will be successful in the future.

Brady Rafuse: We are certainly seeing signs of improvement and there are some great opportunities in the current market. However, one of the issues facing the industry is that the last 12 months has continued to see substantial price compression and this is predicted to continue. This is being compounded by excess inventory that has driven the market closing price to below sustainable levels in some instances.

Osamu Inoue: Traditional carrier revenues do not appear to be increasing much as pricing will continue to be under pressure. This is possibly due to a number of factors including overcapacity. Our challenge is delivering business offers with solution value, meeting ever-changing customer requirements against the decline of market price.

Andrew Sangster: VoIP and wireless are still on the agenda to sort out. There is less froth about both of them, but still not a clear story as to how to address them in different markets. Depending on where your main revenue base sits, then mobile substitution can be a major issue.

James Kinsella: We see the biggest issues as cost control, margin management and rebuilding confidence after the slump. Delivering relevant services to our customers is also important to our business, through speaking the customers' language and not the language of telecoms.

Falk von Bornstaedt: Everybody in the telecoms industry has to continue with our cost-cutting efforts. I personally expect to see another round of consolidation, starting end of this year.

Simpson: But it will be very interesting to see how quickly demand picks up. If demand picks up quicker than expected and we continue to see strong take-up of broadband, we could have a very interesting situation on our hands.

Rafuse: Broadband take up is driving volume, without doubt. And that is also starting to stimulate new businesses that would not have been possible without high bandwidth services. Another issue is that the market today still remains overcrowded and operator consolidation is still required to stabilise the market and get closing pricing to long-term sustainable rates.

Simpson: There has been minimal recent investment in infrastructure, and if all of the factors mentioned occur together, the industry could quite possibly experience a capacity crunch in some of the more popular routes. Bear in mind that we are already seeing capacity issues and increases in prices for the more popular routes in Asia.

Christoph Brand: Consolidation is inevitable in many areas of our industry. The infrastructure competition is clearly heating up, particularly between cable operators and incumbent telcos. Then there's the whole issue of managing regulations, fixed/mobile convergence and VoIP.

Reynolds: An appropriate regulatory framework is a pre-requisite to encouraging continued investment and innovation. Investment won't happen if investors fear returns will be regulated away. Continued investment and innovation throughout the telecoms industry is clearly vital.

Sangster: Broadband roll-out and LLU have different impacts on different carriers, though for C&W in the UK it comes down to managing the rapid rollout of Bulldog, our recent acquisition and vehicle for a dramatic increase in the UK's competitive LLU capability.

Christopher Grahn: Introducing value-added services and optimising the product portfolio will be a top priority for carriers looking at building a profitable wholesale business as well as understanding how the profitability is built up for different products and customers. At the same time, the market conditions will force carriers to continue their cost reduction efforts.

Peter Newcombe: The common issues we hear about are how carriers respond to continued high levels of competition through new services and step function improvements in the operations of their infrastructure (buildings, equipment and people) - these are all bright areas for the sector.

How do you think VoIP will affect the market in general and your business in particular?

Rafuse: VoIP is going to revolutionise the industry on two fronts. VoIP enables telecoms providers to offer voice services at a lower cost due to low cost infrastructure. This also means more owners of end customer segments are able to deliver voice services without rolling out infrastructure.

Neil Kinder: VoIP has been growing exponentially in recent years but this has mainly been through new implementations and expansions. This has recently started to change with companies like Global Crossing beginning to replace their existing circuit switches with softswitch alternatives. This enables them to quickly and efficiently generate additional revenue through enhanced services, as well as lowering ongoing operational costs.

Brand: VoIP is both a threat and opportunity. It will cannibalise wireline voice revenues, but it will also be an opportunity; telcos can then offer service bundles of broadband access with VoIP capabilities. It depends highly on the level of efficiency of the TDM network whether you can reach a cost advantage with VoIP.

Kinsella: VoIP will fundamentally realign the cost basis and enable service providers to compete effectively with incumbent telecoms providers. It will also undermine the legacy investment made by the incumbents and some altnets. We made an early investment in the right technology so we are well positioned. We have contracted for the delivery of about a hundred million VoIP minutes per month.

Grahn: VoIP traffic is growing by the day, but its affect on the carrier market is so far limited with VoIP mostly being used as a way to either reduce termination or network cost. The convergence of voice and data could potentially have a larger impact on the carrier market if the actual business model changes from the well-established minute-based rate model to the monthly access-rate model used on the retail broadband market.

Inoue: VoIP is inevitable within the broadband market. That places our local operators NTT East and NTT West in a difficult situation. NTT Com, as a long distance and international carrier, hopes to integrate voice and IP by handling both in the same IP packet.

Newcombe: A number of the major operators will look to use the new technology to reduce opex and drive extra revenue through new services, including hosted voice services. The new services will broaden the user experience for both consumers and business customers. For instance, today consumers have limited control over who, when, where and how they are contacted, with multiple fixed and wireless phone numbers, home PCs, laptops, PDAs and multiple email and voicemail accounts. Our carriers can break down these invisible boundaries by offering new services that put the consumer back in control of who contacts them, and how, improving the user experience by offering a personalised service.

Von Bornstaedt: We have been using VoIP within our network for many years now, with the Jules platform and our partner for VoIP, VocalTec Communications. In this area, we have control over the QoS. The next step is QoS across different networks. In this area, we are in talks with other carriers to introduce, for example, "quality peerings". Some people argue that VoIP will take over PSTN to a large extent. I think this will be a gradual evolution. PSTN is simple to use. It does not need configuration, and it is not affected by denial-of-service attacks, but prices for VoIP and traditional telephony will come closer. We see a lot of interesting commercial deployments right now, some of which may be successful in the long run. In particular, IP telephony over broadband has a lot of potential, also for new services.

Reynolds: For incumbent operators, VoIP, like any new technology, presents a risk and an opportunity. BT has chosen to embrace IP and, as part of our 21st Century Network programme, we are adopting IP as the common transport method for all technologies, systems, products and services. The above is in addition to VoIP services already in the marketplace. They range from the budget voice over the Internet services to the voice over packet services used by corporations and large businesses to combine on-net voice and data traffic over private data networks to the more recent IP VPN and managed and hosted IP PBX solutions.

Sangster: The C&W "integrate" model recognises the central role IP will play in fully integrating business processes and communication. We have launched VoIP on IP VPN-QoS for the business market. We are trialling VoIP in various forms for passing traffic between carriers. As well as providing voice termination for broadband operators we will also provide our own solutions for resellers, and carrier white label services. These are typical of the market developments in which VoIP will figure in various forms, but I think it will not have a dramatic impact in the short term. VoIP is a fundamental part of our business plans for the future for us, so we can balance the threats and opportunities it brings to us in different markets and on our cost base.

Kinder: VoIP is also starting to move outside of the network core and into the access market, with companies such as Vonage, AT&T and Qwest generating a lot of consumer demand for voice over broadband services in the last six months. This new development is important for carriers as it removes the traditional regional boundaries for companies targeting the residential and small business voice services market; no longer is competition restricted by who owns the last mile.

What new services can we expect to see succeed in the coming year?

Brand: This depends heavily on what we are talking about: ILECs, CLECs, cable operators, or resellers? I see three main trends: fixed/mobile convergence, increased bandwidth both in mobile and fixed area, triple or even quadruple plays.

Sangster: Enterprise solutions based on IP VPN, and IP VPN wholesale propositions like ours. Mobile data is finally picking up, with growth at last in demand for 3GRX roaming solutions. And for C&W in the UK and other markets we will drive new LLU or broadband propositions.

Rafuse: Without a doubt, we'll see a suite of VoIP and IP VPN services. This will include network-based VPNs integrated with VoIP. These offer the security of traditional ATM/Frame services as well as the flexibility of an IP network. Being able to add voice as an application on the network will lead to users selling the potential up and down the supply chain.

Simpson: Products such as IP VPN may grab the headlines, but it's important to remember that no single product guarantees success. Rather, the growth of these products combined with enhanced service platforms will complement existing portfolios and lead to growth. Services that will succeed are those that will truly serve: restoration, SLAs, fault management. As for individual products, a few years ago in Asia the rise of ATM and Frame Relay had industry analysts predicting a shift away from traditional products to these more affordable technologies. What we actually saw was an influx of new customers while existing customers integrated the new products with their existing networks. In addition, I think many European and US carriers are beginning to understand how expensive it is to service their MNCs on their own throughout Asia. They know that capital efficiencies, scale and geographic reach will invariably underpin the best returns. VoIP and premium SMS are also hot topics, with premium SMS showing exceptional growth in Asian markets such as India, the Philippines, Singapore, Malaysia and Thailand.

Kinsella: We will see continued success in our voice and VPN services, and the natural convergence of our voice and media businesses will also see us start to deliver converged services. All aspects of security are becoming paramount to our customer, and services like our Share! solution for secure online distribution of music will continue to grow as demand increases for a secure service.

Grahn: Mobile operators will continue to drive the development of new services and applications. Push-to-talk has already become popular in the US, but the question remains if it will make it in Europe. SMS and MMS continue to grow in popularity and the introduction of 3G might mean a breakthrough for mobile data next year.

Von Bornstaedt: Until now only SMS and ring tones have been the killer applications in mobile data. But I see a big potential in mobile IP. Applications that make the best use of GPRS, UMTS and WiFi will succeed if the pricing becomes more reasonable.

Kinder: I expect to see products that offer SLAs across the networks of different providers. In the IP peering landscape, we will see products that offer virtual peering points within some carrier's networks.

Newcombe: We will see the widespread adoption of a number of services that will add value for consumers and carriers, such as VoIP VPNs, IP Centrex and Ethernet VPNs, optical broadband services, multimedia and collaboration services. Implementing these services within our own organisation, over 94% of the teleworking employees have reported a 15% to 20% increase in productivity.

Reynolds: Flexible bandwidth will give users the power to temporarily boost their broadband speed at the click of a mouse, up to 2 megabits per second. This will give access to a wealth of premium content, such as DVD-quality streamed videos or online gaming. We expect the first new services based on re-usable capabilities to be launched in 2005 with more than 15 product launches and enhancements in place in 2006.

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