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Netevents AP 2008

By Matt Walker

Along with seven other Asia-focused analysts, I attended and spoke at Netevents' four-day service provider/press summits in Langkawi, Malaysia at the end of May.

This entailed a slew of vendor and carrier briefings, and presentations and roundtables addressing the usual industry hot topics – from outsourcing to IPTV to next-generation networks (NGN). What stands out is the gulf that persists between the largest telcos' focus on cost, reliability and stable growth, and the media/web properties' market hype about long tails, user-generated everything, and hockey-stick-shaped forecast charts.

Listening to MySpace's Director of Mobile Technology (Jason Ling), I was transported to San Francisco eight years ago during Bubble 1.0. None of what he said about the behavioural changes underway was wrong, especially for those under-30-year-olds lacking distractions from 24/7 online lifestyles. But little of what he said was surprising, or carried (telco) revenue implications anywhere near the magnitude of their social impact. He was speaking a different language than the telcos in the audience. MySpace and the tens of other popular social networking sites, along with other Web 2.0 sites, are to some extent viewed as necessary evils by telcos, not solutions to problems. The feeling seems to be mutual.

Here's one problem. As NTT's Hiromichi Shinohara pointed out in his keynote, NTT's recent IP services boom has been easily surpassed by voice revenue declines. This gap will not be closed by NTT simply building fatter access pipes, as the over-the-top providers (OTTPs) in social networking/Web 2.0 video plead. On the one hand, few service providers operate in highly competitive markets, at least as competition is understood by economists. While this is changing, today few big telcos get much of their income from services with more than two other credible alternatives. Yet as vendors often point out, a new intelligent network operations (INO) network built on a greenfield basis would look dramatically different to what actually exists. Consider this: at year-end 2007, the top 40 or so Asia-Pacific telcos' net property plant and equipment value stood at roughly one-third of a trillion US dollars. They cannot reinvent themselves or write off this cost base overnight.

Moreover, carriers facing this transition should be expected to use whatever clout they have with government policymakers to their advantage. To do otherwise would be a disservice to the shareholders – and there are only a few large INOs left not publicly traded (BSNL in India among the largest). Some of the larger telcos also have untapped, sellable resources that they're starting to (or may) exploit. Among Netevents attendees, such expertise includes:

- Telekom Malaysia with structural separation/disaggregation
- BT and Telstra with NGN transformation
- NTT with 'going green', which goes as far afield as to sell its labs-developed environmental monitoring technologies in South America (plus lots of IP licensing schemes in the works)
- VNPT with expanding fixed line access simultaneous with a mobile boom
- Verizon Business and Tata with enterprise service requirements in emerging markets
- Indosat with infrastructure sharing, and expanding Internet connectivity in an environment with low PC penetration
- PLDT with cable theft
- PCCW with IPTV.

Which brings us to video, the focus of my Netevents panel discussion.

As we have discussed elsewhere, IPTV is a tough business and evidence of its likely success for telcos (i.e. profitability) is mixed. Telcos at Netevents overwhelmingly look at fully-fledged IPTV with trepidation and, more importantly, the top execs didn't seem to view it as a top priority. We have also discussed, though, the more interesting prospect of telcos with solid broadband networks partnering with, or becoming, content delivery networks to benefit from the OTTP boom. As part of this evolution, the key issues highlighted by the panel included:

- “how does a service provider get back into the value chain?” (Alcatel-Lucent)
- “we need to think about what we can do on the upload side” (Redback-Ericsson, in light of the shift in traffic towards user-generated)
- the huge offline competition, especially in China where only eight or ten foreign movies are approved annually for official distribution, yet “the DVD of every movie in the world is, basically, available on the streets of Beijing …” (BDA)
- the huge media/gaming/entertainment companies with a stake in how this plays out. As Todd Mapes of Ripcodes noted, “guys like Sony and Microsoft are not exactly going to give up that territory quite readily. My son plays on the Xbox 360, which is connected wirelessly to my Verizon router, which is connected to the broadband that gives me my IPTV. And he's got his headset on and he's [doing] voice over IP with guys all over the world. He brings up the map when he's playing some shoot 'em up game and there are little dots that indicate around the world how many players are online at that moment. For those of us who have kids of that age, that's going to be an interesting battleground, so to speak. No pun intended!”

And by the way, Chris Anderson (of 'Long Tail' fame) is currently working on a new book, mapped out in a recent *Wired* magazine essay, called 'Free! Why $0.00 is the Future of Business'. Not soothing words for incumbent telcos.