white paper

Unisys - *The Economist* Communication Roundtable

Is Google Taking Over the Communications Industry?

viewpoint

How the Google model could be applied to communication companies.

The Roundtable

The London headquarters of *The Economist* was the backdrop for a Communication Roundtable sponsored by Unisys and the global news giant. John Delaney from Ovum was keynote, addressing invited guests from global communication companies.

The Roundtable's theme focused on the profound challenges facing the Communication industry from Internet giants such as Google. Insights gained from this day-long discussion were provocative and presented long-term ramifications of this new assault. These challenges are unique not only because convergence is rapidly becoming a reality, but because of the unique, Internet-based business model that now threatens today's traditional business model.

The Premise

"Is Google Taking Over the Communication Industry?"

We began looking at this question by focusing on the differences between the Internet and the operator's business models. We wanted to know what made these Internet models so successful, as well as the barriers to be expected as they expand into the carriers' world. Each participant was asked to consider how the Google model could be applied to communication companies and whether they saw any opportunities for operators to take a major role in an emerging, combined industry. And, if so, what are the challenges they may encounter.

The Communication market has undergone tremendous change over the past two decades. Beginning with deregulation, change has been rapid and frequent. Long distance wars, local loop unbundling, data exchange (Frame, ATM), Internet launch (ISP), mobile voice, mobile data, broadband fixed, broadband mobile, IPTV and so on, are all examples of rapid transformation in service and capability. Considering the enormity of this change, one would expect that communication companies could take on any challengers. But this change was primarily driven by the same business model, faster connection, cheaper price and more money from subscribers. Competitors of the recent past had similar business structures and capabilities. The future may well be dramatically different. In fact, the threat is no longer only from known adversaries, but from a new breed of competitors who work from succinctly different business models.

The fundamental question is not whether operators can compete with one another, but can they learn a new way of doing business. Can the operator culture adapt to models that are more nimble and not dependent on the consumer paying them a monthly fee for connectivity?

This was the basis for debate around the question, “Is Google Taking Over the Communication Industry.” Is this Internet business model fundamentally superior in the consumer’s eyes? Will today’s communication companies become wholesale operators supporting companies like Google as they own the household structure?

Clearly the answer depends on many factors, including:

- Do operators want to compete with this business model, or just provide the bandwidth on a commodity basis?
- Are we clear about what new line of business will be required to compete?
- Can operators tweak their culture enough to support this type of model?
- Can operators build services that create a compelling user experience – or brand – to retain clients in the face of this threat?
- Does our industry have the right infrastructure to compete? Can it change fast enough? Do we even know what this infrastructure looks like?
- Can we be nimble enough to “out innovate” this new structure?
- Do operators have the brand trust to go head-to-head with these large, global players?

The heart of the issue remains: do we believe that household mindshare is required to sustain our market value? If we believe that mindshare is the key to retaining shareholder value and keeps us out of the commodity category, then operators are facing a profound transformation, and one that may dwarf any previous change.

Is the communication industry ready to compete?

The Discussion

Partner or Competitor?

Almost every carrier in the room – as well as those who were surveyed outside the Roundtable – agreed that these Internet warriors are important partners. A similar number of these operators agreed that long term partnering is a threat to the mindshare of the communication company in the market place. The balance between partnering and competing is difficult to manage, but, at least for now, Google needs operators and operators need Google. “Keep your friends close and your enemies closer,” seems to apply. Both parties appear to be learning their respective new businesses from one another. Each operator we talked to believes that Google, and the business model it represents, will become an increasingly defiant threat as the Internet generation ages.

The debate regarding partnering continues to hinge upon whether the communication industry is ready to compete. Even within one company there are those who believe this is not a core business –either short term or long term – and therefore partnering for the long term is required. Others within the same company believe that if we do not compete we will be dis-intermediated and lose shareholder value.

Our discussion concluded that as an industry we do not yet agree on what role to play in the convergent ecosystem, either wholesale connectivity or retail presence.

Differences Between The Distinct But Converging Models

It was clear that we are still struggling with what the true advantages are between the two business models. The Internet model has lower overhead with no direct user billing, almost no marketing, and minimal user support. Some guests questioned the ability of such a model to support the user expectations of current communication companies. While there was not a total consensus, here were some points that were netted out:

- The Internet generation does not expect as much service as the telephone generation does today.
- The business model that provides strong user support will still be around, but as part of a commodity service model (either supporting the branded versions that Internet providers will own or the communication company-branded model).
- There was no clear agreement that an advertising-based business model can support a more expensive connectivity model.
- The overwhelming amount of content on the Internet is the Internet giant’s advantage as they provide a personal experience that cuts through the mind clutter.
- The Internet model revolves around a personalized user experience (automated based on behavior). There was a perceived higher value in this model than a connectivity model.
- Advertisers will spend more to get to users than users will spend on their monthly bill.
- The communication company model is dependent on the subscribers’ willingness to allocate more of their income to these services. Ultimately, this may be the largest barrier as this source of spend is limited and has many other competitors.

The True Advantage Of A "Portal"

The debate on this subject was extended. Our guest host, John Delaney, argued that the advantage of a strong portal strategy is that "This is where the eyes or ears go first to get something they really want." This concept provided for a very active discussion about several key issues:

- "What they really want." If Search delivers what the user wants, vendors can add premiums to their advertising. Contextual advertising and browsing was a key discussion element including:
  - Can communication companies do it better because they have more information?
  - Will communication companies fail because they cannot compete in this area?
  - Do communication companies have the brand permission to be a Universal Portal?
  - Is Google in trouble if communication companies get their act together on directories, program guides, and search engines that take into account location, presence, etc.?
- "First Place to Go." The current Google/Internet model may be minimized if the mobile is the first place to go. With convergence, who owns more of this "first place to go" in the emerging ecosystem? This is why Google is so eager to partner and why communication company providers should be guarded.

In the next few years, our ability to modernize our business models, organizations, channels and supporting infrastructure will be a key determinant for our future role in the minds of our users.

The Battle For Entertainment Mindshare

This discussion centered around the changing nature of entertainment and the type of business model likely to succeed. Most participants agreed that, over the short term, video and TV offer an opportunity to take revenue from current competitors such as cable and satellite. However, due to the overwhelming number of choices becoming available, the long term value may come from “user behavior” and personalizing content acquisition over any device. Considering the hundreds of channels and millions of user-created content choices emerging on the TV and Web, it is clear that finding the content you want in a “universal portal” may be the key element in unlocking value. If operators can provide faster acquisition of targeted content through automated or personalized portals, they can better sell access to their audiences for advertising. Some of the key factors include:

- Universal portals create confusion not clarity if not coupled with personalization
- Power of broadband enhances portal / IP companies access to the home, not the operators
- Return path from broadband, enabled by IP, becomes the biggest single technology factor for the future. It could either increase the operator leverage or dis-intermediate them from the household mindshare. This path can:
  - Deliver information about customer behavior around media, gaming, music, video, etc. consumption to the operator, IP provider or entertainment provider
  - Interactive characteristics increase personalization and social networking capability
  - Personalization allows all devices to participate in social networking
  - User-created / community-created content competes with other forms of media for household/ user mindshare among larger number of devices
- Path to Universal Portal will be in stages:
  - One way broadcast Analog + PC two way
  - One way broadcast digital + PC
  - Digital broadcast + VoD + Time Shifting + PC + Mobile
  - All IP – all devices. Passive personalization (automated navigation of huge supply of content (including user generated)
- Entertainment for the Social Group regardless of device

Conclusions and Insights from the Unisys – *The Economist* Communication Roundtable

- Faster and nimbler is no longer in comparison to other operators.
- Winning the home and the user will depend on the operator's ability to innovate.
- The carrier market is already behind in adopting Internet business models
- To compete in this colliding market place, a new infrastructure is required that is more agile and more about the audience than the connectivity.
- Partner, but very carefully.
- "Access" no longer means connectivity only. Access means finding access to relevant information and content (through the connectivity) among an overwhelming set of choices.
- Operators have the opportunity to be stronger players than Google if they leverage what they know about the customer's buying behavior.

The next few years will represent a significant point of inflection for operators who will need to protect their base revenue from today's declining business model, while leveraging money from merchants who want to access their audience in tomorrow's, convergent model. Our industry must recognize that the threat is not only from our traditional competitors, but from a new way for consumers to pay for services forged by the converging Internet model. In the next few years, our ability to modernize our business models, organizations, channels and supporting infrastructure will be a key determinant for our future role in the minds of our users.

For additional information about the Unisys – *The Economist* Communication Roundtable or upcoming Unisys-sponsored events for the communications industry, contact: Larry Srader, VP Marketing, Unisys Global Communications at: larry.srader@unisys.com

Printed in U S America 09/08

4137 1428-000