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Billing

Good Reasons to feel positive about the Future

As the shockwaves of the dot com crash subside, the Communications Services Provider industry (CSP) is left with unprecedented levels of debt. It has a much reduced workforce and, therefore, a smaller cost base.

This article takes stock of the telecoms industry, looks at what will drive it over the next twelve months and what this means to the Global Billing Association (GBA).

NEIL PHILPOTT

CSP Market Overview

CSP share prices are substantially lower than their pre-boom levels. France Telecom alone has a greater debt than Russia. The leaders of Europe's largest operators have all been replaced. There has also been a knock-on effect throughout the supply chain of all equipment, software and services providers to the telcos. According to Information Week, both VC funding in the CSP industry and carrier capital expenditure peaked in 2000 and have been sliding ever since. In summary, confidence in the industry is at an all-time low across the financial community, the user community and the employee community. However, there are good reasons to feel positive about the future. Next generation technologies are working, new services are beginning to take off and financial results are beginning to improve.

On the technology front deployment of DSL is finally reaching the mass market in North America and Europe (with BT pricing access at £ 27.50 per month). DOCSIS 1.1 deployments are in progress on a large scale in Germany. Smooth hand-offs between 3G and wireless LAN and between 3G and 2.5G have been demonstrated in the equipment manufacturers laboratories.

Multimedia messaging services including photographs and voice, combined with colour, polyphonic mobile phones, are this year's Christmas Special for the mobile operators (although MMS is being offered free until March 2003 to get the public hooked), while GPRS based e-mail and VPN access are generating revenues from the corporate market with GPRS enabled PDAs.

An industry report predicts $ 7.6 billion will be spent through e-shopping in 2002, an increase of 86% on 2001, with ARPU of greater than $ 500 per annum. This implies there are 15.5 million online shoppers, leaving a lot of room for further growth. In the UK, Vodafone has launched its Vodafone Live services that allow users to make purchases of CDs, etc. and the charges appear on their monthly mobile phone bill. Hutchison 3G UK is looking for its first 20 000 paying customers to launch its services in the spring.

Vodafone reported better than expected results for H1'02, with revenue up 67%, customer numbers up 12%, EBITDA up 68% and net debt reduced. Nokia's Q3'02 sales were up 2% year on year, net profits jumped 228% and EPS 225% on the same basis.

In short, all is not lost in the telecoms industry but, it is safe to assume, we will not return to the crazy boom days of the dot com bubble. So the challenge is to survive and grow in a changing world.

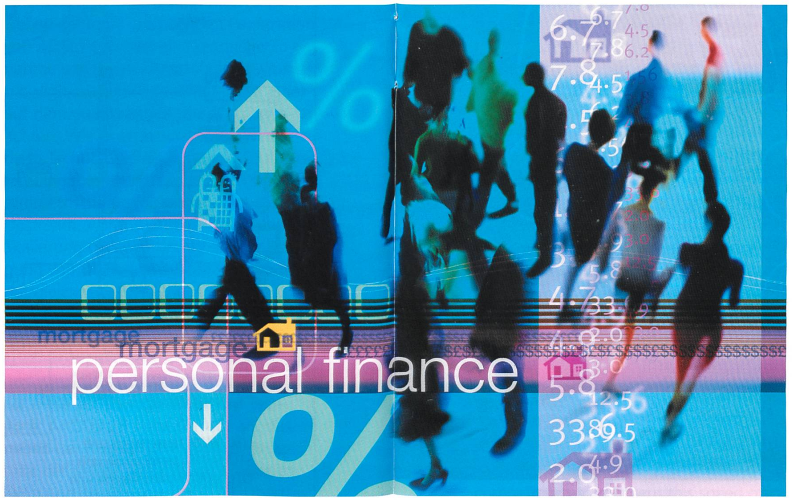
Communications Service Provider Imperatives

Taking Cost out of the Business

The retrenchment throughout the industry in this last cycle has been brutal and widespread. Nobody is keen to see any more of it. But it is naïve to believe we have seen the last of cost reduction. Even though we are entering a period of expansion and seeing the start of a return on investment, there is still fierce competition, reducing prices and there are still those debts to be repaid. Cost reduction is therefore still very much a strong theme. This implies a constant drive for efficiency improvements. That means ongoing refinement of business processes and the provision of improved IT support at ever reducing costs. It also means paying closer attention to measuring how efficient the business is being.

Revenue and margin Management

Market saturation and competitive pressure on prices is eroding revenues. As well as operating more efficiently to take cost out of the business, the CSP's response to this is to offer higher value services. In a lot of cases this requires investment in the network infrastructure as additional bandwidth is required. This presents a demand for return on that investment. Once additional bandwidth is available the CSP is able to deploy services that deliver digital content and to provide a more user-friendly facility for e-commerce. However, there are typically real costs involved in acquiring the content and actioning e-commerce transactions. Therefore it is not enough for the CSP merely to measure the ARPU. It must measure margins – hence the term AMPU. The value and therefore the price of content based services is not necessarily directly related to how long it takes to



deliver them over the network or how much data is transferred. This increases the importance of revenue assurance (assuring that all monies due are billed and collected) and fraud. A transaction such as purchasing theatre tickets may require a small volume of data to be carried across the network and may be completed in a couple of minutes, yet the value is high. Therefore the CSP's exposure from any failure to bill and collect the money for the tickets is great compared to that for a voice phone call.

Supporting new Business Models

In order to deliver ROI on next generation network investments and to raise revenues and margins, CSPs are looking to deploy value added services that are content based as well as supporting e-commerce transactions. They are also looking at new delivery channels with access to untapped markets, such as Virtual Network Operators and re-sellers. All this implies a complex value chain for service delivery from Content and Application Providers at one end to the end-user at the other, with the CSP and others playing a number of possible roles in the middle. This has a number of implications for the CSP in understanding what its customers want to buy over its network, managing an expanded and dynamic product portfolio, reconciling and settling finances across a complex value chain and providing dynamic transaction management support to its customer base. This requires the CSP to make fundamental changes to its business model, to establish and manage new relationships with other entities in that value chain. These changes impact all dimensions of the CSP's business: processes, organisation, and supporting systems. As the new business models are in their formative stages, the CSP must be flexible and nimble in monitoring the success of various options and adapting rapidly to what they find.

Impact on BSS Vendors

BSS vendors are forced by their development lead times to look to the future or face becoming obsolete. Over the past 2 or 3 years, the majority of these vendors have invested in developing their solutions for next generation services. However, as we are all aware, these services have been slow to materialise.

To compound the vendors problems, there are fewer market opportunities for new solutions as CSPs reduce spending. The start-up and tier 3 market has gone completely and the tier 2 market has battened down the hatches to spend nothing. Only the big guys have money but they are different animals. Their requirements are big, requiring scalability that not all solutions can provide. Their sales cycles are long and detailed which means deals take longer and cost more to close. Even these large CSPs are not spending as freely as they did. Tightened finances have caused them to seek ways of finding incremental solutions instead of replacement solutions, hence the prevalence of the adjunct rating solution. For some, this has meant further re-engineering of their solutions and yet more cost to be borne.

Therefore, for many, the peak of investment dollar requirement coincided with the downturn in revenue stream. It is no wonder so many vendors are no longer with us. However, those vendors that were able to balance the investment in new product capabilities with the reduced revenue stream must now wait to see if they built the right capability – the proof is in the pudding and 2003 should be the year we start to eat it!

Now in its 10th year, IIR's Billing Systems Conference and Exhibition is firmly established as the largest and most important event in the European Billing calendar. For further details contact billing@telecoms.iir.co.uk or visit www.iir-billingsystems.com

This article has been written as part of a series of articles for Billing Systems 2003 – the largest and most important event in the European Billing calendar, running from 13th–16th May 2003, Earls Court Conference & Exhibition Centre, London www.iir-billingsystems.com

ADC is an exhibitor at Billing Systems 2003.

Implications for the GBA

Despite, or perhaps because of, all this turmoil in the industry, the number of GBA members has remained fairly constant. We must be doing something worthwhile.

Since our foundation, we have worked on emerging requirements for billing. Although the jury is still out, it seems that much of what we produced from our work on Billing For Content will be put into practice. However, the devil is in the detail and there are still many issues to be resolved. So we have decided to continue our focus on these issues with a dedicated programme that includes workshops, etc. under the heading of New Billing.

On the other side of the coin, CSPs continue to strengthen their processes and management controls. Even as the sun starts to shine again on the telecoms world, the drive to remove cost from the business and the need to assure revenues (including those from the next generation services) will never go away. Hence we will continue our work on Revenue Management, including a full programme of workshops and the benchmarking initiative.

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