The brilliant future of Telco in the Cloud

[white paper]

Why partnerships between Telco Operators and Internet Services Innovators make a lot of sense.

The few ingredients to make it happen.

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1. Telco's and Cloud innovators: a rising love story

Two worlds - Internet services innovators and Telecom operators - have plenty of good reasons to work more closely together, but still struggle to find the path for successful partnerships.

On one side, Cloud services providers have been the indisputable source of innovation over the last decade for both professional and consumer Internet services (voice over IP and video chatting, music streaming, location-based services, highly flexible business software, etc. - *Exhibit 1*). Unfortunately, these often small teams are having hard time in finding the right way to the market - especially when markets are as highly fragmented as in Europe.

Exhibit 1 – Different categories of Cloud services

On the other hand, Telecom operators have fallen short in developing innovative services and capturing the new revenues generated by data traffic explosion (Internet and mobile), despite the significant efforts they have deployed along the way. Telco's have historically tried to grow internal product managers and IT specialists into Internet service designers. But by doing so, they have underestimated that radically different approach and skills are required to succeed in the fast-changing Internet industry.

While mobile devices manufactures and Cloud innovators are seizing most of the new Internet services' profit pools, Telco's face today a major dilemma: how to avoid being progressively reduced to a pure "pipeline" supplier? How to sustain a value-added relationship with

customers? How to finance the network update, if revenues are not growing at a rate comparable to increase in data traffic?

There are indeed plenty of good reasons for Telco's and Cloud innovators to team up.
Cloud service providers can bring Telco's the innovation and service components they need to add value to the overall experience of their customers. On their side Telco's hold unique assets to increase the attractiveness of Cloud services for the end-user, thus boosting their chances of success: an established brand perceived as a quality label, a unique and secured user authentication and billing, a customer care infrastructure, etc.

Partnership of Telco's with Cloud innovators is definitely a win-win game (*Exhibit 2*)

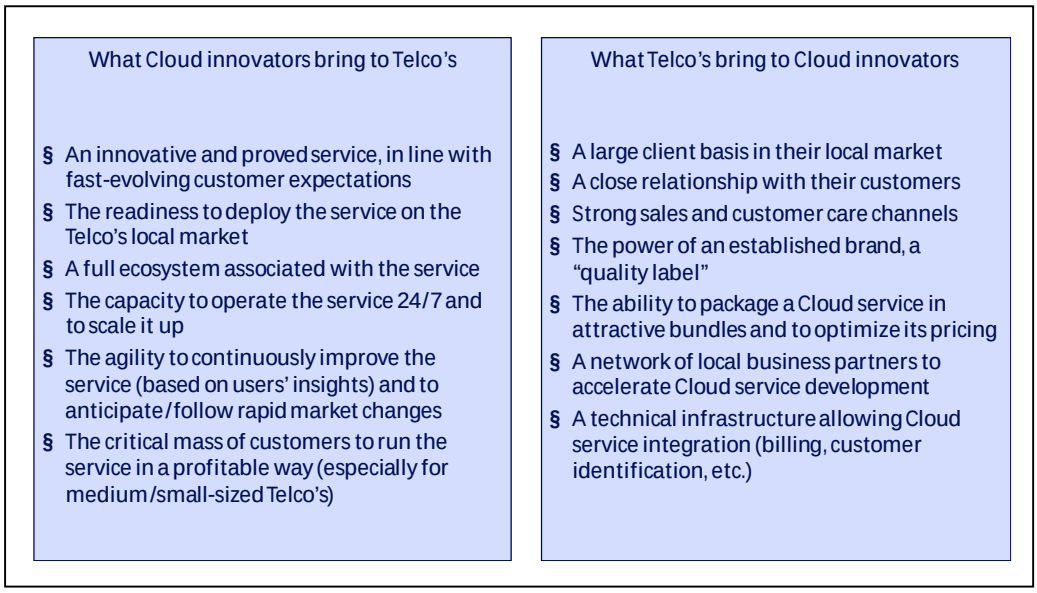


Exhibit 2 – Win-win partnership between Telco's and Cloud innovators

Unsurprisingly, when questioned about future priorities, all Telco's declare that the integration of third party services is of major importance to remain competitive and successful.

So, why is it so difficult for these two worlds to team up in the real life, despite all these good reasons?

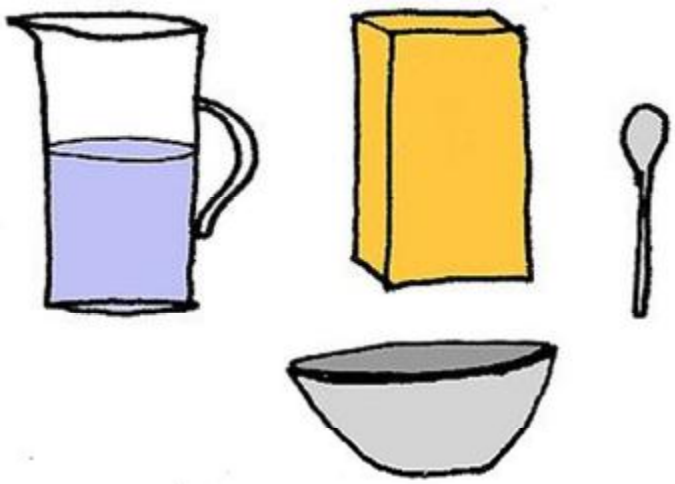
Several blocking factors are nestled on both sides.

On top of over-estimating their actual ability to develop Internet services in-house, Telco's are complex organizations - with multiple entry points and decision-makers. In most cases, Cloud service providers lack the resources to deal with these slow organizations and to fulfill their frequent request for service customization.

Conversely, Telco's hesitate to give up full control and work with recently established third-party teams. They fear a negative impact on their brand in case of quality issues or service decommissioning. In addition, Telco's IT infrastructure is often not ready or not flexible enough to quickly integrate third party services.

The good news is that all these concerns and hurdles can be easily unblocked by fixing a few areas within Telco's organizations …

2. Few ingredients for Telco's to get "Cloud-ready"



Telco's should get hold of three main ingredients to unblock the path for successful partnerships with Cloud innovators: (i) a technology platform for flexible integration of third party services; (ii) a limited set of clear business models to integrate Cloud services into their overall offer; (iii) some adjustments in their own organization and skills to facilitate innovation with fast-moving Internet players.

i. Ingredient #1: a technology platform for flexible integration of third party services.

   Telco's have historically nurtured talented teams of IT specialists capable of developing and operating real-time, sophisticated IT infrastructures. They have stacked disparate software and hardware. Over the last decade, armies of external system integrators have been hired to connect all these stacks with a Customer Relationship Management layer (CRM), primarily designed to be used by internal employees.

In the Cloud era, the challenge is now to connect these internally-focused IT stacks with external Internet services running in the Cloud and intended for Consumer and Business users - whose providers are by nature used to different technology standards and development approach.

This missing connection between Telco's internal IT systems and third party services can be established by setting up an "Enabling Infrastructure", which is typically a piece of open source software that enables Telco's to expose their own assets to third-party services. This Enabling Infrastructure allows handling in a flexible and scalable manner a set of use cases, such as: order entry, service provisioning, identity management and federation, service invoicing and bundling, customer service and self-care, service monitoring, etc. (*Exhibit 3*).

Instead of trying to develop Internet services in-house and running behind Cloud innovators, Telco's should focus internal competencies on building and operating a reliable Enabling Infrastructure to integrate third-party innovations.

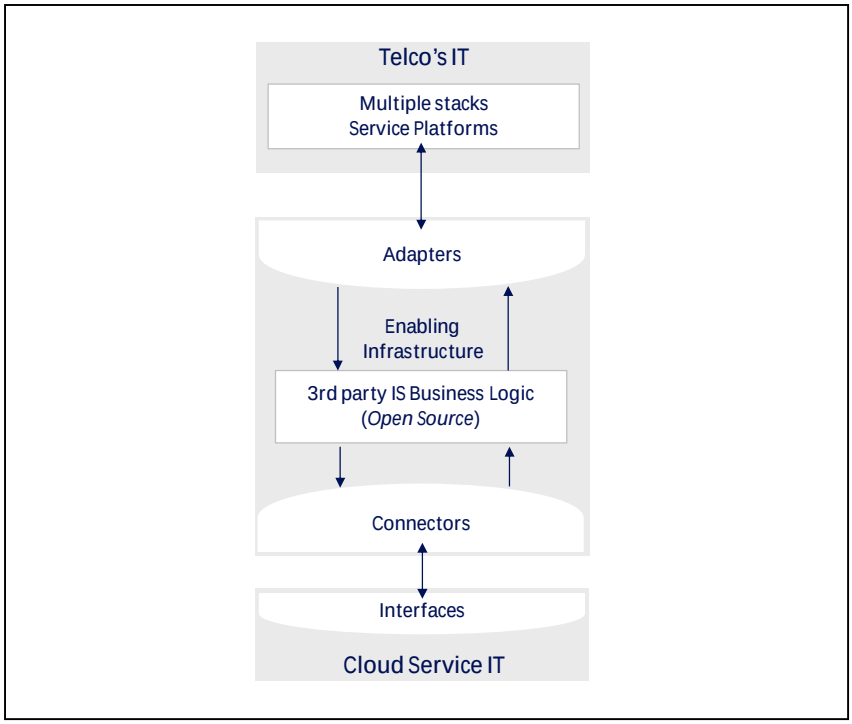


Exhibit 3 – The cloud services integration platform

ii. Ingredient #2: a limited set of clear business models for Cloud service integration.

The right business model for a "Telco - Cloud" partnership depends on two main factors:

- the strategic relevance and willingness from both parties to bet on a deep service integration (*what is the importance of the service within the overall Telco's value proposition? What is the expected business case and revenues target? Is the Cloud service provider developing a worldwide brand or is it open to a "white label" option? Should/could the service been customized? …*)

- the level of resources that the two parties are ready to engage, in term of costs and time-to-market (*do we want to launch the service in three months or one year?*) - bearing in mind that the integration time and cost are strongly influenced by the available technology platform (*see point i*)

Two extreme business models can then apply, depending on these factors (*Exhibit 4*):

- A light Cloud service integration – when there is no strategic reason from any side to push for integration and when limited resources are available (eg, the Cloud service is no core for the Telco, the third party service provider is developing its own worldwide brand).
- A full Cloud service integration – when there are both the strategic conditions and the resources needed to customize and fully integrate the Cloud service into Telco's offer.

A multiplicity of intermediate models can naturally apply depending on the context.

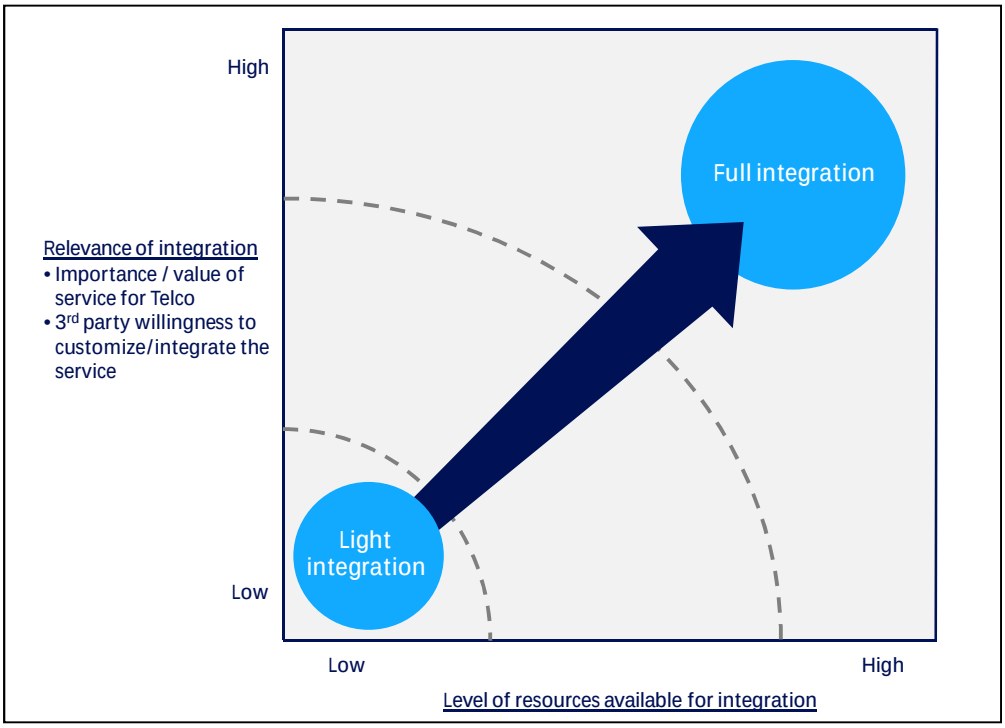


Exhibit 4 – Business models for cloud service integration

In order to get "Cloud-ready", Telco's should clearly define a few set of relevant business and integration models, ready-to-deploy depending on the context, each of them associated with five specific characteristics:

1. the level of integration of the Cloud service within the Telco's customer experience; in other terms, the choice between delivering the Cloud service as "*it was*" a Telco's own service or more independently as a third-party offer. This first characteristic is defined by answering some key questions: how Telco's channels will be leveraged for marketing, sales and customer care? Is the service bundled with other Telco's products? What operational modes are implemented for service subscription, billing and cash collection, customer data management? etc.;

2. the branding option (third party's stand-alone brand, co-signature of third party and Telco, or Telco's white label);
3. the mode of revenue sharing (Telco's commission percentage[1], minimum guaranteed from Telco to third party, license fee from third party for access to Telco's customer base, etc.), depending on Cloud service revenue generation modes [2];
4. the corresponding contractual scheme (Telco acting as wholesaler, reseller, agent, etc.);
5. the time-to-market needed to launch the service.

iii. Ingredient #3: adjustments in the organization to facilitate innovation with fast-moving Cloud players.

In most cases, Cloud innovators are small and fast-growing teams, which face uncertain competitive environment and must operate quickly.

If standard process-based project management can be suitable for in-house innovation, a more agile approach must be adopted when it comes to innovate with these fast-moving partners.

This is the third ingredient for Telco's to become Cloud-ready and implies some key adjustments in their organization:

- An accelerated innovation funnel should be put in place (*Exhibit 5*), from third parties selection to service integration, beta testing and market launch (instead of the typical linear multi-step process);
- A clear and unique entry point should be appointed in the organization vis-à-vis third parties;

[1] Typically 15 to 30%, up to 50%.
[2] Three main modes: pay-per-transaction/event, subscription with periodical flat fee, advertising-funded. Advertising-funded model can be made more relevant by leveraging Telco's assets for targeted / location-based advertising.

- Project teams and steering committees should be simplified, to act quickly and avoid back-and-forth decision flows.
- Skills of business and IT teams (traditionally focusing on in-house design and development) should be refocused towards building innovative eco-systems with external partners and integrating third party services.

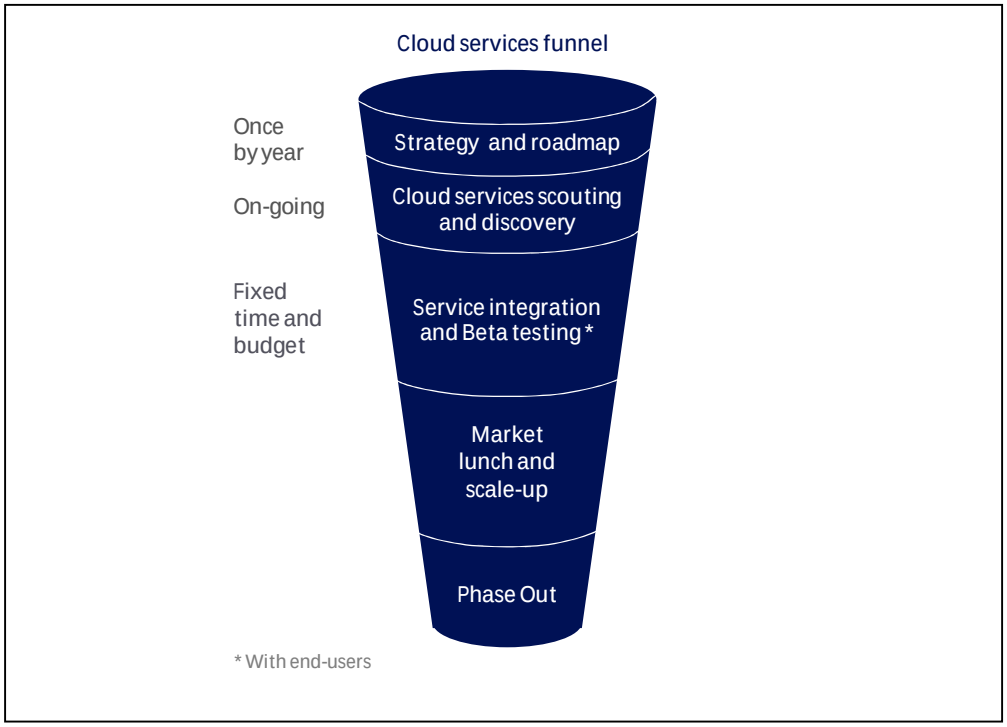


Exhibit 5 – Accelerated innovation funnel for Cloud service innovation

3. Starting the engine

By nature, the journey for a Telecom company to become "Cloud-ready" is a progressive and iterative process. It is useless to spend months and years to put on paper the way it should work, to reorganize teams and train hundreds of people.

Having done a minimum preparation work, the best way to proceed is simply … to start the engine: select one or two Cloud services and experiment quick innovation with them. The three pillars (the integration platform, the business models and a more agile organization) will be progressively built up, while leveraging lessons learnt from the initial projects.

Only a few steps are needed to start the engine for Cloud services integration:

- Bring business and IT teams together to define and develop the key components of the integration platform (*which use cases should we develop in priority? ….*);
- Choose one or two priority battlegrounds (*consumer or business services? which service area? ….*) and select a relevant service provider for each of them;
- Set up lean project teams to integrate, test and launch the selected services, with limited time and resources (typically three to four months). Put project teams under the responsibility of one clear sponsor and one unique steering committee;
- Engage the different stakeholders throughout the organization to fertilize the field for future integration projects;
- Leverage initial project members as "champions" to progressively train the rest of the organization, as the number of Cloud services will start growing.

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