Value-added services: Start early to get ahead

Q&A with Peter Trinkl

Claire Landon
Editor, TelecomFinance
claire.landon@
telecomfinance.com

Peter Trinkl, the former chief strategy officer at Swisscom Mobile Ltd., joined independent consultancy Sebastian & Partner in 2008 as senior consultant & management board Member. Prior to joining Swisscom, he was chief development officer at Orange Switzerland and head of business development at Cablecom. Peter, now an adviser to global operators, is a strong proponent of VAS as a credible alternative to large-scale M&A.

TelecomFinance: Must developed market operators expand into emerging markets to ensure survival?

Peter Trinkl: At this point in time we are seeing hectic M&A activity from developed market operators into emerging markets. On top, some of the former "emerging market" operators – including those from the Middle East - are also expanding into emerging markets. This leads to relatively high EV/EBITDA multiples, and the possible risk of overpaying – which could in turn trigger future balance sheet adjustments. Emerging markets will develop along similar lines to the developed ones: competition will increase over time and when they reach saturation, prices will decline.

Acquisitions in emerging markets will buy established operators some time but will not change the business model as such. In addition, possible risks include the unpredictability of these markets as well as differences in culture and business. My advice to developed market operators would be not to run with the herd into underdeveloped markets but to see how the business model of home operations can be expanded and extended.

Peter Trinkl, former chief strategy officer at Swisscom Mobile Ltd.

New services are still waiting to hit the customer.

TF: Have European operators reached the point where they need to decide whether or not to become utilities? While those that have chosen not to take this route – deciding instead to pursue large-scale expansion into emerging markets – are undoubtedly the more exciting to follow, it has been suggested that the utility model will, in the longer term, receive the most shareholder support and thus be the sounder investment. What do you think?

PT: Most of the investment community is already looking at telecoms as utility shares, typically describing them as boring but yielding good dividends.

Given the current market situation, the utility model might be the preferred one since it presents fewer risks. However, because of increasing competition and continued investment in infrastructure as a means to stay ahead, the utility model might not pay off in the long run.

TF: Should European operators be selling off or sharing towers and infrastructure to save cash and focus their efforts on services? Do you expect these trends to reach emerging markets?

PT: Some years ago, the network was the main market differentiator and no one ever thought this would change. In fact, most operators still name their infrastructure as the main USP.

Unfortunately, there are very few successful examples of real infrastructure sharing in the industry, at least on any significant scale.

I would advise operators to look into these developments very carefully, by checking out technologies like MORAN (multi-operator radio access network), defining which infrastructure is really core and how much could be saved to spend on expanding their business model.

For emerging countries, now is the right time now to look into the benefits of infrastructure sharing.

Most of the infrastructure is about to be built and, with wise sharing agreements, some of the CAPEX could be saved and spent on additional services.

TF: What are pros and cons of core M&A (other operators) versus adjacent M&A?

PT: The main advantage of core M&A is that it is more of the same! Operators know how to evaluate and conduct due diligence on their own business, so risk is relatively low. It is much more difficult to evaluate adjacent business opportunities: drivers of these businesses are very different, customer approach is sometimes viral rather than according to the textbook, management and culture is driven by opportunities rather than long-term business models, and so forth.

TF: IT services were previously seen as an important means to growth for telecoms companies, but judging by less-than-positive performance at BT Global Services, and failed disposal efforts at Deutsche Telekom's T-Systems, is this still the case?

PT: Indeed, IT would be a nice complementary service to telco if used as such. Most IT businesses of telcos try to be a full service IT provider. With the introduction of new services, IT will become a very dominant part of the new telco business model. The mentioned IT firms would be better off if they got closer to their telco-IT core business.

TF: Mobile banking appears to be taking off in emerging markets, with companies such as Orascom and Zain introducing it across their territories. How can e-money be tailored to suit European needs? And how much do European operators stand to gain from it?

PT: Cross-border top-ups, small remittances and micro transactions are very promising initiatives that encourage customers to use their mobiles in new ways.

I am following these developments very closely and feel there could be a brand new business model developed. We should learn from these initiatives: they are driven by market demand, suit customer needs and are generating revenues.

The European markets should not stand behind but should start to capitalise on this. In my opinion, the mobile phone could be best suited as a credit card or hotel pass key.

TF: Mobile health represents another mobile application taking off in emerging markets – is there a market for this in Europe?

PT: Unfortunately, European health markets are very fragmented when it comes to telco/IT based support. Furthermore, the majority of markets are heavily regulated and the framework for a broad rollout of telco support is still missing. I think that government support would be needed to make this a success.

TF: In addition to gambling and pornography, which are the most profitable services mobile operators can offer customers?

PT: Mobile gaming is still a growing sector. With the increasing capabilities of networks and handsets, gaming starts to become really fun and people like to kill time with it.

TF: Is there a future in mobile TV?

PT: Mobile TV is caught in a chicken and egg problem: without made-for-mobile content, customers will not use mobile TV. Delivering plain TV broadcast formats to a handset does not offer the best customer experience, so it is understandable that subscriber interest is low.

When it comes to made-for-mobile content or even user-generated content, e.g. kyte [a digital media service adaptable to mobile content and backed by Nokia, NTT DoCoMo, Telefonica and Swisscom], it might look different. But it will take time to develop the right formats and the right usability.

TF: In the past you have mentioned Google's acquisition of unified communications software group GrandCentral as a possible template for growth via VAS. Can you tell us a bit more about why that deal was interesting, and whether you have seen other transactions similar to this? Also, is unified communications a trend for telecoms professionals – as well as tech gurus – to keep an eye on?

PT: Google always states that they are not a telco operator. This is true if we define a telco operator as someone owning a network infrastructure. However, GrandCentral does offer smart telecommunications services like unified communications. I would therefore call Google a telco service provider. What does this mean for traditional telcos? Competition to the core telco business will come not only from the likes of alternative networks, but also from service providers – which might present a more serious threat. Customers do not qualify their service providers by the networks but by the added value they get from the services.

Unfortunately, there are currently very few transactions or developments in this domain. Some unified communications start-ups, such as talkplus, have in fact already disappeared from market. I do think that if some big brands or telcos were to pick up on these ideas, they could generate additional business through additional uses. My recommendation is to keep a very close eye on these developments.

TF: Which European telcos would you say are at the forefront of VAS? And which non-telcos should they be most worried about?

PT: It is hard to name a particular operator as leading the VAS front. Generally, we can see that the challengers in some European markets do spend significantly more resources on VAS and enjoy the benefits of this. I do think that the strategy of investing in VAS today – even if it is a trial and error process – will pay off in the long run.

Operators should keep an eye on the usual suspects such as Google, Apple and Microsoft, which are trying to expand their business models and could become a threat to operators. Operators should avoid being forced into the role of a dumb pipe provider.

■ To discuss these or any other issues, please contact Peter Trinkl at peter.trinkl@sebapa.ch Sebastian & Partner www.sebapa.ch.