

TELECOM PLANS

Few industries are developing at the pace of telecommunications but with the opportunities come tough challenges for firms whose revenue models must change, says William O'Carroll

Europe's telecoms sector is facing a number of distinct challenges.

Competition in the sector has led to increased consolidation. But while competitive pressure remains strong, further consolidation now looks a lot less likely, according to William O'Carroll, telecommunications expert at Grant Thornton.

"The proposed acquisition of Telefonica UK's O2 by Hutchison 3G UK's Three – in a planned deal worth £10.3 billion – was disallowed by the European Commission on the basis that it would reduce competition for consumers," says O'Carroll.

"So we are seeing an environment that is experiencing increased competition, but that is increasingly regulated in such a manner as to prevent natural consolidation from taking place."

We've seen that here too. While Hutchison Whampoa's mobile subsidiary Three Ireland got its €850 million acquisition of O2 Ireland from Telefónica over the line two years ago, making Three effectively the second-largest mobile operator in Ireland, the European Commission insisted it provide network capacity and services to UPC, to ensure it didn't become too dominant.

Adding to the pressure on telecoms operators is the pace of change in relation to convergence, whereby one operator looks to provide not just a fixed line, but broadband, pay TV and mobile packages too. Long mooted, it has now become a reality.

"Both in Ireland and the wider EU we'd expect to see a continuation of this trend towards convergence, but regulators need to adapt and provide a more investor-friendly approach to allow this to happen," he says.

On top of this, the sector is becoming less profitable overall, not just because of increased competition but also because of changing usage trends.

"The average revenue per user [ARPU], a key metric in the industry, was €24.51 in

Q2 2016, down from €24.75 in the same period the previous year, and that's a trend we are seeing right across Europe. It's driven by that combination of increased competition and the current regulatory environment."

In the past, telecoms companies benefited from data roaming charges, for example. The abolition of these across Europe has driven down ARPU, as have shifts in customer usage patterns. "Increasingly customer usage is data driven, rather than call driven."

The rise of communications apps such as Whatsapp and Snapchat, plus social media, has transformed the way people communicate, particularly millennials. Growth of new technologies, such as augmented reality (AR), which enhance the in-app experience, will galvanise this trend.

Faster connectivity

"Augmented reality has been around since the 1960s and was coined as a phrase by a Boeing researcher in the 1990s. Now it is fast becoming an integral part of living in a networked society where we have sensor laden, process rich smart phones with cameras or GPS in our car, all of which has enabled the growth of AR," he says.

"Allied to that is the faster connectivity from 4G, and hopefully, 5G wireless mobile telecommunications technology. The result is that AR today offers enormous opportunities for the telecoms sector to increase its revenue streams by partnering with app developers," he says.

In its most simple form, AR is the use of technology to overlay digital images and information on top of a real-life environment, viewed through a smart device.

"Right now everyone associates it with *Pokemon Go* but the potential is endless. For example, AR could allow you go to an art gallery, take a picture of a painting, and have an app send you back information

about that painting."

AR already plays a role in the construction industry, in terms of computer-aided design, and in retail outlets such as Tesco UK, whose Discover app allows consumers find out more about products they are interested in. "At Ikea in the US you can drop the image of a piece of catalogue furniture into a photo of your room," he says.

The challenge for telecoms companies is how to make money from such activities. "Though hugely successful worldwide, *Pokemon Go* proved very hard for Nintendo to monetise. Estimates indicate you'd have to be playing it all day to make a noticeable dint in your data usage," he says.

"That said, the greatest opportunity for telecoms companies lies in the data piece because the data that AR provides is very real and very valuable. It enables you to see where your customers are and, from a retail perspective, what their propensity to spend is, and where they spend it. These are very valuable insights into spending patterns. So, while the most obvious response by telecoms providers to the chang-

es in user trends will be in relation to (increased) data charges, the next generation of revenues will likely come from packaging, bundling and selling that data. But here too the regulatory framework is lagging the trend."

From a telecoms perspective, the maintenance of net neutrality doesn't help, he says. This is the prevailing view in which ISPs and governments must treat all data as being the same, and for which they must charge the same rate, regardless of user, content, site, platform or application.

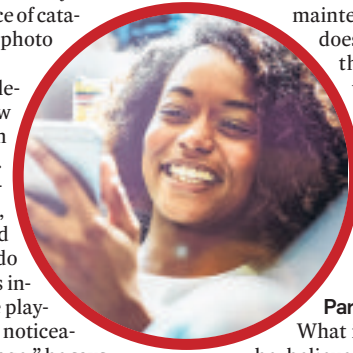
Partnerships

What is most likely to emerge, he believes, are partnerships between telecoms companies and industries such as financial services and mobile payment solutions. There is scope too to partner with companies providing smart metering of utilities. All are new departures for the telecoms sector, but all necessary he believes.

"Historically this is a sector that has relied heavily on converting pay as you go customers to contract customers, to drive their revenues, but that market is saturated now."

A combination of aggressive competition between fewer players, changing consumer trends and customers that are no longer loyal, all underpinned by a highly regulated environment, is forcing the sector to innovate.

"The good news for them is that they know these changes are coming and they are readying for it, which is why we see them coming together across Europe with 5G trials, which could be in the market by 2018. More than ever, the sector needs to innovate to succeed."



The greatest opportunity for telecoms companies lies in the data piece because the data that AR provides is very real and very valuable. It enables you to see where your customers are



Apps for savvy passengers MTT's travel experience

While the telecoms sector gets to grips with infrastructural and regulatory challenges, at a consumer level the mobile market is powering ahead.

For Brendan Bourke of MTT, a Dublin based provider of innovative mobile and digital solutions to the travel sector, it's no longer enough for a company to simply offer mobile services. "The mobile experience you offer your customers has to be brilliant," he says,

MTT, which counts global companies such as EasyJet, Singapore Airlines and American Express Global Business Travel among its client list, develops mobile strategies for organisations, and then builds the mobile apps to deliver them.

The company, which was acquired last year by US travel giant Travelport, employs 250 people in its Dublin office.

"Consumers are so mobile savvy now that if they don't like the mobile experience you offer them, they will just go elsewhere. Our statistics show that 88 per cent of consumers would switch to another app if the one they are on doesn't suit their need," says Bourke.

It's only a few years since companies were getting to grips with mobile landing pages and "dynamic" mobile enabled websites. Now they look to mobile apps to deliver experiences so rich and intuitive that consumers won't want to give them up.

"For example, with an airline it's not about just having an app that can help users through the boring stuff like check in, but one which they can use to line up playlists of music and movies, and control them via their mobile device during a flight," he says.

The same app could provide information about which gate to go to, or which carousel to collect luggage from – all unprompted. It could use a phone's camera to capture and populate booking information from credit cards or passports, and include a destination guide to help users decide where to go in the first place, and what to do when they arrive.

"When an app is so good, and reaches users at every touch point along their journey, people are never going to want to leave it. Faced with the choice of a company that offers a fantastic mobile experience and one that doesn't, consumers will increasingly choose the former. That's the power of mobile."

