
2007: The Year of Revenue Generation in Telecom

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2007 could be a year focused on revenue generation in the telecom industry.

A quick review of the news and articles that appeared in late December and early January shows that 2007 could be a year focused on revenue generation in the telecom industry. However, the question is how much of this revenue generation will be collected by and for the telecommunication service providers who are enabling much of the infrastructure that is being utilized to provide the revenue generation?

Revenue Projections Are Up

For the telecom industry, the projections for future content/application (i.e., gaming, music, content) usage revenues are up. However, exactly how far will these revenues expand?

A recent comparison of two mobile entertainment revenue projections is a good example. John du Pre Gauntt, of eMarketer, has an [interesting comparison](#) of two projections: one from Jupiter and one from Informa. Both have the 2006 mobile entertainment industry at around \$17-19 billion. However, as you move into the future, the projections start to become vastly different. Jupiter has a projection of \$77 billion in 2011, and Informa has a projection of approximately \$38 billion for the same year. That is a difference of almost \$40 billion worldwide.

The astute observation made by du Pre Gauntt is that these numbers could be divergent based on the definition of "mobile entertainment revenues" from the two organizations. Setting the differences in revenue generation aside, the overall message from both Jupiter and Informa is that the revenues from content/application activities associated with telecommunications networks such as mobile entertainment are going to start moving up quickly in the relatively near future. There are many telecommunication service providers attempting to ride the wave of this trend.

Video (On Demand) Saving the Telecom Star?

In December, Echostar, the satellite telecommunication service provider and its DISH Network division [announced](#) that they were going to expand their video on demand (VOD) offerings with films from New Line Cinemas. At almost the same time, [cable giant Comcast announced](#) that they were going to experiment with the VOD release of



movies at the same time as their release on DVD. Both of these events are viewed as an attempt by satellite and cable providers to bolster their share of the revenues associated with feature films.

Is this good news for all telecom service providers? This expansion of the DISH Network and Comcast VOD offerings comes at a time when [AT&T has announced](#) a 25+% reduction (from 15 to 11 cities) in the introduction of their IPTV rollout across the United States. While this reduction is said to be attributed to technical issues associated with the AT&T platform, this might be a reflection of the pressures that telecoms are experiencing due to the extended time required to rollout their IPTV services. While AT&T and other IPTV providers are fighting through delays, the consumer is finding options such as the premium content available from cable and satellite providers and the individualized and "unaffiliated" content providers such as YouTube.

The Skype is Limit...

Just as the offerings from Comcast and Echostar may represent added pressure on the projected video portion of the traditional telecom service provider's video revenue-generation aspirations, Skype is putting pressure on both ends of the voice revenue-generation opportunities for those same organizations.

In a recent [survey of households currently using VoIP services](#), Skype is dominating the "client" VoIP market. This comes as no surprise for those who followed eBay's \$2.6 billion acquisition of Skype. However, when you start to look at the number of households using Skype versus those using "paid" services such as Vonage and Time Warner Digital Phone, you can see exactly how much dominance Skype has in the overall home VoIP market's "install base." According to the study, Skype has 2.1 million installs, which is 26% (2.1 million vs. 1.7 million) greater than the next closest competitor on the "paid" service side.

Now, under pressure from eBay, [Skype is moving](#) away from the "free" model that it has (presumably) been using to acquire its "install base" toward a business model where calls to non-Skype phone numbers will cost approximately \$0.02 per minute. However, at the prices that Skype is offering both for connections to Skype phone numbers (still free) and non-Skype phone numbers (unlimited for \$30 per year as of 12/06), Skype is still offering voice services at a dramatically lower price structure than those offered by traditional and mobile service providers for similar voice services – attacking both the VoIP and traditional voice revenues at the same time.

Early Bird Gets the Worm

The potential for telecom revenues is going up, but who will receive this increased



revenue? Cable and satellite providers? Traditional providers via their IPTV offerings? It is possible that premium content sources such as movie studios and sports networks will provide that initial content to get the consumer hooked and then start to raise content rates to the point where service providers are again making a limited profit. If you don't think that may happen, look at how ESPN has built the business model for their edition of Monday Night Football or how HBO continues to be a considerable cash cow for Time Warner. It's also entirely possible that content providers will make their arrangements with an "unaffiliated" content provider such as YouTube or MySpace, and the revenues will go to those with the content and not those with the self-funded bandwidth.

Also, if Skype is able to capture a considerable portion of the VoIP market in the near future either via Skype-to-Skype calls or by setting a market price below what traditional or cable service providers find attractive for non-Skype related VoIP, it is entirely possible that those providers may find they have built out their offerings just to allow another "unaffiliated" content provider to grab a lion's share of the profits.

Monthly Notes:

- MBA Observation of the Month, Part I: In the continued "Googling" of America, AT&T is going to [offer free directory assistance](#) (i.e., old school search engines). However, because there is never a free lunch, these free directory assistance calls will feature advertising for goods and services. It is possible that in the future, these advertisements may be business-intelligence enabled, targeted ads. How long do you think it will be before you ask for the number for a particular pizza delivery service and are presented with the number for a competing service before you get the number you originally wanted?
- MBA Observation of the Month, Part II: In late December, it was reported that Microsoft was going to start using information from their Hotmail e-mail service to [sell targeted online advertisements](#). While this makes sense for Microsoft and those advertisers, how long do you think that the Hotmail users will allow their information to be used to "spam" them with banner ads? Do you think that Microsoft will give them the choice in the matter?

