
David versus Goliath in Telecom

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Are the deep pockets and resources of traditional telecoms the driving force for innovation and product development in telecommunications?

While it pains me to mention this, this fall the sports world provided a great example of how picking “Goliath” to beat “David” is not always the best decision. The example of which I speak is the recent [loss by Michigan to Appalachian State](#) (*btw – we won’t talk about the oregon game either...*).

This example shows that “David” can beat “Goliath,” and this message should not be ignored by those in the telecom industry. While there are some who claim that the deep pockets and resources of traditional telecoms are the [driving force for innovation and product development in telecommunications](#), I disagree. It is not a foregone conclusion that bigger telecom providers will crowd out the smaller players due to their superior size and resources. That argument ignores the fact that there is a significant advantage to product innovation, corporate agility and knowledge of customers – three things that are not necessarily done well by all large telecom providers. Mark Twain probably said it best:

["It's not the size of the dog in the fight, it's the size of the fight in the dog."](#)

For example, if it was so easy for big telecoms to innovate and enhance products, the following would have happened:

- AT&T would have offered the iPhone without the “help” of Apple
- Comcast would have offered the breadth and quality of DIRECTV as opposed to [raising prices 93% in the last 10 years](#)
- Verizon would have created Skype instead of attempting to sue Vonage out of existence
- AOL would still be the king of Internet connectivity



While Apple, Skype and DIRECTV are still not “small” companies, they are not dominant players like the “establishment” telecoms. What the established telecoms are forgetting is that as much as they might try, they cannot be all things to all customers. There is a level of products and a degree of competition that need to be taken into account.

Kotler’s Product Levels

Philip Kotler, a marketing pioneer and business school “standard,” has a model about the [five levels of product](#). By Kotler’s definition, a product is not just a tangible asset (i.e., a wireless handset or other physical object). Kotler’s concept of product can be extended to services associated with a product (i.e., the intangible asset of voicemail or the concept of customer service). In his five-level product model, Kotler talks about how a product drives all the way from a core benefit to potential for future products. For telecommunication service providers, examples of these levels can be seen for voice, wireless, video and data:

Product Level	Landline	Wireless	Video	Data
Core Benefit	Two-way voice communication over a distance	Two-way voice communication over a distance	Visual information or entertainment over a distance	Connectivity to IP-based content or services
Generic Product	Dial-tone service	Dial-tone service	Broadcast channels television service	56k dialup connectivity
Expected Product	Dial tone with caller-ID, voicemail, all-you-can-eat pricing with a certain level of customer service	Roaming, caller-ID, voicemail, bucket pricing with a certain level of customer service	Basic local broadcast channels with communications standards – ESPN, CNN, etc.	1.5mb connectivity
Augmented Product	“Free” VoIP calls via computer	iPhone	HBO, Family packages	6.0mb connectivity
Potential Product	Integrated VoIP phone that operates just like a POTS phone in terms of QoS, 911 and ease of use.	Complete mobile communication platform with voice, Internet and broadcast quality video	HDTV, video on demand, interactive video	Fiber connectivity

According to Kotler, a majority of the competition between firms takes place in the augmented and potential product spaces as opposed to the expected and generic



product levels. This comes from the fact that the value-added experiences and premium pricing exist in the augmented and potential levels. This is contrasted by the commoditization and low-margin pricing of the expected and generic products.

In the augmented and potential product areas, small telecom service providers have an advantage in terms of product and service, exclusive of the network, over the established telecoms. Some of this comes from their corporate agility to utilize new technologies and product directions. Some of this comes from the entrepreneurial and dynamic environments that the smaller firms create. Skype and Vonage are perfect examples of a smaller more dynamic climate that creates significant product value.

However, the big telecommunications service provider players have a distinct advantage in the expected and generic product spaces since they have many years of experience providing the level of service that telecom customers have come to expect. This has been backed up by recent [CFI Group research](#) that shows that customers are more willing to allow a major telecom provider (rather than a cableco) to provide products and services that I would place into the expected or generic product areas. In these areas, there is a commoditization of the core product.

Finding a Place in the Field

In the movie "[The Legend of Bagger Vance](#)," the mystical Bagger Vance proclaims the following about golf:

"You can't win the game. You can only play the game. Find your place in the field."

In my opinion, the telecom business is much like the game of golf. Telecom service providers can only continue to compete. They will never "win" (... or if they do, the justice department anti-trust division will come a knocking....). That being said, going head to head with the major telecom providers can be a dangerous business. Vonage is a perfect example of what happens to companies that tread too close to the established providers without "dotting their I's and crossing their T's." However, that does not mean that there are not enough cutting-edge technologies and viable customers to build sound business cases and make a significant amount of revenue.

The differentiator for both established and small telecom providers is the ability execute on their products and services. In this, they both need to activate, bill and provide customer service at the expected level appropriate to the product level in which they are competing.



Sky High Revenue and Expectations

In an example of telecoms finding their place, the satellite communications industry provides an excellent case study. [Iridium, the long “awaited” satellite phone company, is moving away](#) from their original business model of leapfrogging the traditional wireless infrastructure and providing satellite communication for the masses. While their fellow satellite-based competitors are still attempting to match the functionality of multi-band wireless phones, Iridium is moving to provide “niche” services for individuals and organizations that require a level of quality of service that is not impacted by the positioning of landline copper or cell towers. In this case, Iridium is using their competitive advantage in coverage and an adjusted targeted customer base to offer an augmented/potential product that established telecom providers cannot match. In addition, the average revenue per user (ARPU) that Iridium is able to get is probably the envy of many in the industry (*however, it probably helps that Motorola’s \$5b put the satellites in orbit and it “only” cost \$25m to get them out of bankruptcy...*).

With the high ARPU of these “niche” customers, Iridium will need to ensure that the timely activations and quality of service (QoS) for these services match the high expectations. For Iridium and other high ARPU niche providers, their business intelligence organizations should be focused on internal operational aspects. The key will be making sure that the augmented/potential products that they are selling are matching the expectations. This would be similar to concierge services offered by high end hotels or high end automotive brands.

Moving the Game

Another example of taking an augmented/potential product in a different direction is [YouTube](#). While no one would confuse the quality of YouTube with promised HDTV picture quality of AT&T’s U-Verse, YouTube has found its niche as an open platform for a generic video information and entertainment product that has an augmented/potential product distribution base. In this, YouTube is using a completely different business model, and many may not consider YouTube to be a competitor to the established cablecos and telecoms. Nevertheless, YouTube is making a significant splash with the next generation of consumers and their “what I want when I want it” (WIWI) demands. This is something that U-Verse’s highly involved, customer premise equipment-based distribution model cannot match.

As YouTube and other ad-based Internet video providers emerge, the important aspect of their business models will be to provide actionable intelligence on who is viewing what. While ACNielsen has been performing this task for broadcast video and radio



outlets, the access to the information of the Internet provides these organizations with much more detailed information on who is watching and where they are watching from. Access to this information will be the difference in targeted ad revenues and the traditional model used by the broadcast outlets.

Old Reliable

As for the ability to service customers, the less than glamorous, but steady customer base of smaller [metropolitan statistical areas](#) (MSA) is a great example of using the generic product. Many of these smaller landline and wireless carriers serve the lower population centers of the United States, areas that had been “abandoned” by the established telecoms in favor of the highly concentrated centers (such as New York and California) during the breakup of the original AT&T. Many of these smaller carriers cannot match the customer ARPU levels of larger MSAs. However, they still have robust and profitable business models since standard POTS, 2G wireless networks, basic “cable” and lower levels of IP connectivity can meet the majority, if not all, of the needs of their customers. They are competing at the lower end of the product and ARPU spectrums – and competing well.

The key to serving these areas profitably is for organizations to understand how to market the right generic products to them. As Gordon Daly, Director of Marketing for DataMentors, says:

“Major telecoms, with their massive marketing budgets, can play ‘hit and miss’ with their relationship marketing efforts and through sheer message tonnage achieve some level of success. Smaller players, to effectively compete in this space, will need to finely hone their marketing focus on just those prospective customers displaying the greatest demand for their products and services.”

With this mind-set, the marketing and product development organizations are going to lean on the ability of the business intelligence organization to mine the proper information from internal and external resources to maintain the relationship with their target customers.

It is the Network Stupid...

It should be noted that of the four telecom products listed in the table in this article, data transport appears to be the one current area that in the short-term (5-10 years) will still be dominated by the larger telecoms that have the ability to make significant investments in infrastructure. Wireless connectivity and Muni-Wifi options are still finding their legs.



However, the competitive balance of the fiber to the home (FTTH) versus copper environment is being monitored by the [FCC and the Congress](#) in particular.

Conclusion

With these different levels of telecom products and the associated aspects of competing for the consumers of these products, the business intelligence organizations will be ones to give the key information on the performance of the organization. This will allow any sized telecom player to understand where their products fall on the five-levels scale. Especially for the smaller players battling the established telecoms, the importance of understanding the performance and placement of their products will be key in their ability to maintain a competitive advantage in their business model of choice.

