New research from ICT Intuition, LLC

So You Want to be a DSP?

Changes, Challenges, Services and Strategies

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About the research:

As the world goes digital, the role of Digital Service Provider (DSP) becomes decidedly different than that of a traditional communication service provider (CSP). Moving up the value chain to deliver the end-to-end, “put together” digital services that both businesses and consumers are demanding requires a cultural and operational shift that encompasses everything and everyone from the core of the network to the partners providing applications and content.

Only 10-15% of digital services revenue will come from connectivity which makes the transition from CSP to DSP a necessity to protect and increase revenues. ICT Intuition, LLC and Coleman Parkes Research reached out to 120 service providers from around the world to find out how the transition is going, what new challenges are arising and what’s still missing from DSP strategies and services.

Results were captured equally from North America, South America/Latin America, Europe/Middle East and Asia/Pacific. The respondents are executives from CSPs that serve a wide range and number of customers.

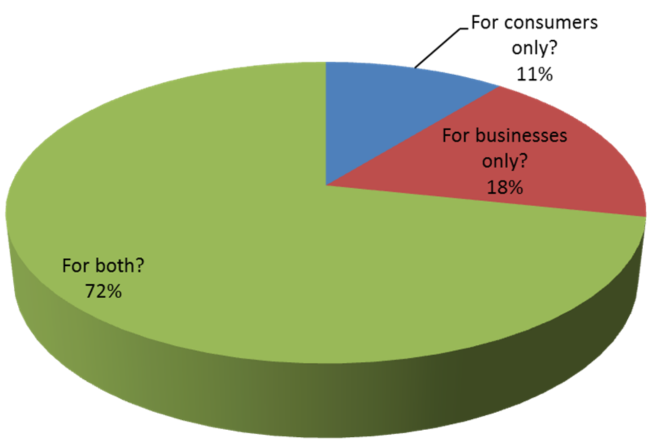
CSP to DSP is more than a name change

The transformation from Communication Service Provider (CSP) to Digital Service Provider (DSP) requires business, cultural and technological transformation at an unprecedented rate. Beyond the impact on individual service providers, changing an industry that has operated successfully for more than a century is an arduous task.

For CSPs, delivering digital services represents unprecedented opportunity combined with a nearly incomprehensible competitive operating environment. Today, any business can conceivably deliver digital services on top of any network infrastructure, yet the service providers that operate those networks are hamstrung by construction costs, operating expense and regulation.

As communications and network access become critical infrastructure, network operators are becoming more regulated. In some countries network infrastructure is becoming nationalized like power, water and other utilities. Although less extreme, and perhaps as a means to preempt nationalization, many CSPs are defining DSP strategies that divorce their network operations from their services business to establish new organizations intended to compete as DSPs.

Is there a separate and unique digital services business unit. . .



n=120

Source: ICT Intuition, LLC 2016

But there is more to becoming a DSP than creating a new business unit. Being a DSP means behaving like a retailer that can quickly and efficiently adjust to evolving markets and customer demands. It means selling and distributing products that are assembled from a constantly changing menu of devices and applications provided by a growing number of partners and suppliers. It means managing a supply chain rather than managing a network and distribution channels instead of direct sales. It means capturing and using the vast amount of data available to provide a consistent and high quality experience to every customer regardless of infrastructure or application.

As anxious as customers are to buy and use digital services it is important to understand that the transformation underway from network operator to digital services provider cannot and will not happen overnight. As customers begin to dictate when, where and what products are delivered, DSPs must recognize that the kind of fundamental transformation currently underway in the network must be extended to every aspect of the business.

Thinking outside the network

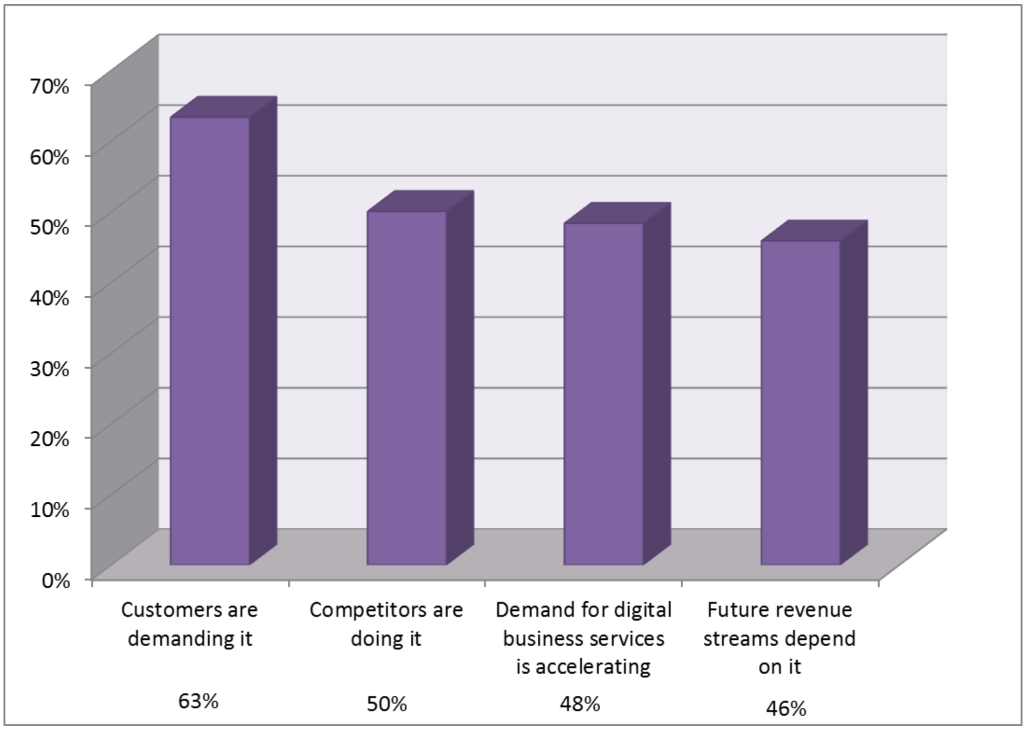
Network infrastructure transformation is well underway and most challenges associated with implementing next generation networks are generally understood and being addressed. Business transformation is also getting underway and as CSPs begin the transition to DSPs, there is a dramatic strategic and operational transformation that needs to occur.

Numerous surveys, including this one, indicate that the most significant barriers to becoming a DSP do not involve the network. Changing the culture and changing business processes, while managing costs and complying with regulators, creates a formidable task for these companies. So why do it?

Most of the service providers surveyed selected two primary drivers and across regions and demographics, customer demand remains the main force behind becoming a DSP.

While consumer demand is currently shaping the market, B2B digital services will ultimately prove more valuable to DSP revenue and competitiveness.

Which of the following are your primary drivers for becoming a DSP?



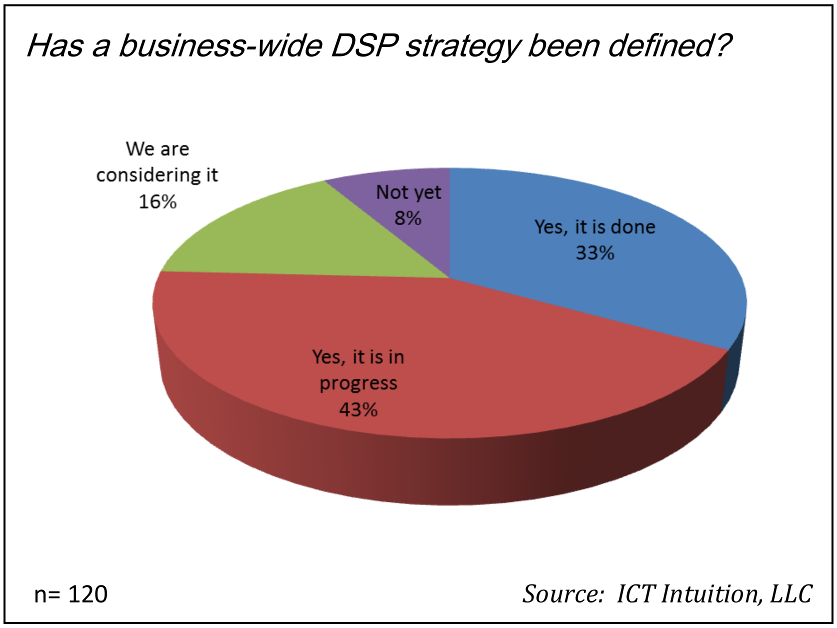
n=120 *Source: ICT Intuition, LLC 2016*

DSPs are defining transformation strategies and examining all business functions to define new processes and understand cultural, technological and system changes that will be required, but the transition to DSP will happen in stages. DSPs are approaching transformation incrementally since any network or operations solution procurement will necessitate integration of existing systems and data while ensuring on-going operations.

What's the plan?

Network infrastructure has always been deployed based on customer demand and as the volume and variety of infrastructure increases, the factors driving CSPs to invest in infrastructure have not changed. Although many CSPs believe they have already made the transition to DSP, many haven't progressed much beyond deploying digital network infrastructure.

While 63% of the service providers surveyed identify as a DSP now, only 33% have completed a business-wide DSP strategy and that same 33% are the only ones claiming that they are generating revenue based on that strategy.

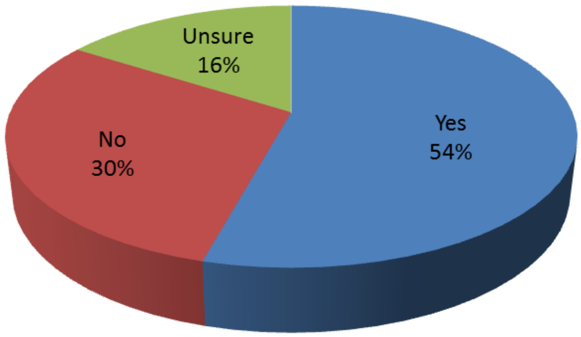


Yet, DSPs need more than a digital network. Although the network is digital, when asked about which digital services are being offered, 50% responded that they are offering network-specific services while less than 30% offer digital services that bundle in cloud applications or are targeted at specific industries.

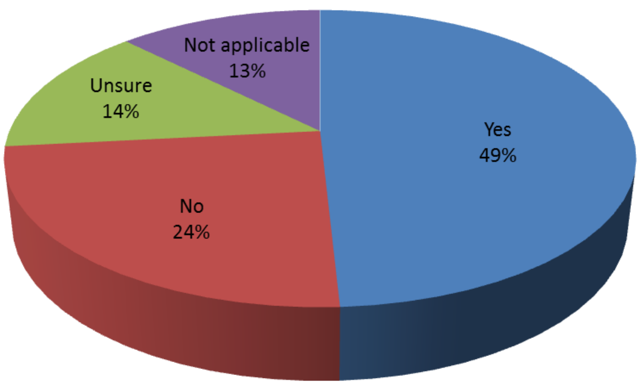
Integration is everything

Generally, it is assumed that becoming a full service retail DSP will require a diverse set of global partners to provide applications, IT infrastructure, global coverage and support yet only 30% have a fully developed partner strategy. For DSPs, owning all of the layers of the digital ecosystem would be expensive and take much too long to develop. The alternative is to leave specific technologies, services and expertise to those most able to provide them and become the digital services integrator and operator.

Are you helping business and/or government customers develop and implement digital services for their own use?



Are you helping business and/or government customers develop and implement digital services for resale (white label)?



Source: ICT Intuition, LLC 2016

Nearly an equal number of providers are helping customers that want to sell their own brand of digital services. A previous ICT Intuition survey of 1003 business leaders revealed that 71% want to sell connected services and 95% of those want to partner with a DSP to do it. However, most businesses have no desire to operate those services so the role of system integrator and digital services operator favors DSPs.

For business customers; digital services have to be easy to buy, easy to use and easy to pay for. But that hasn't happened yet:

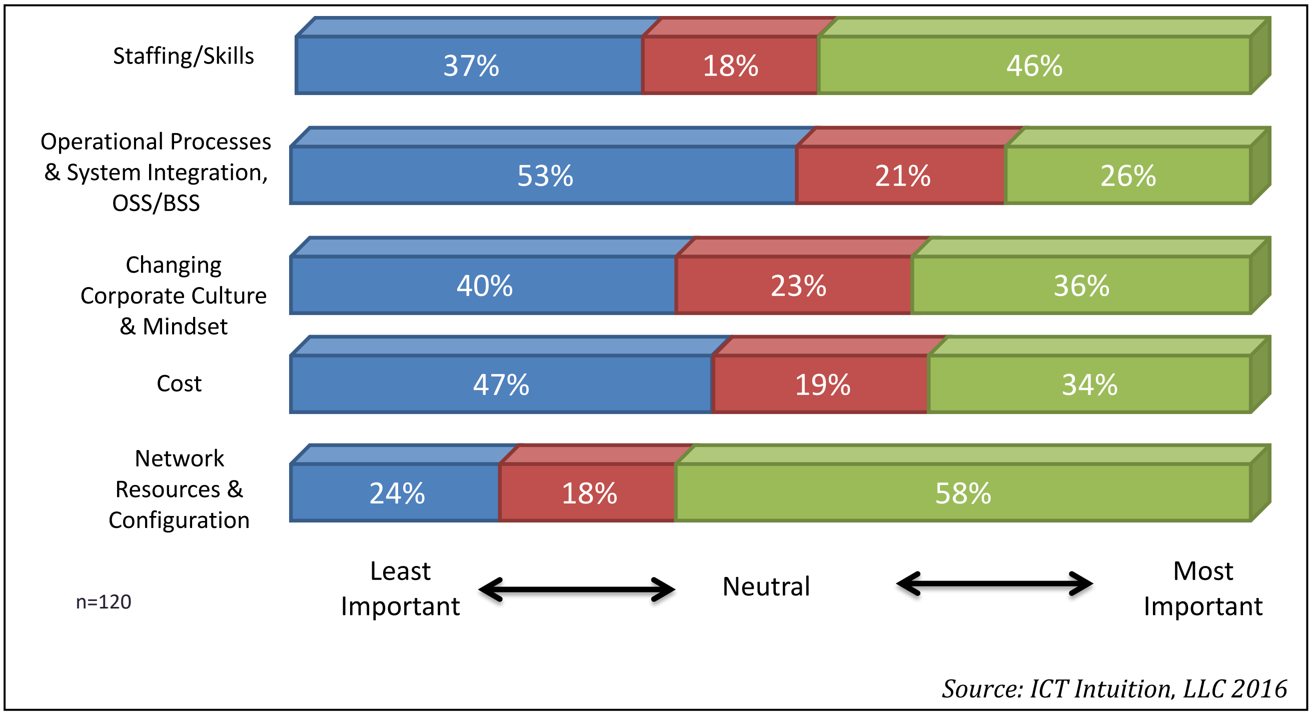
- The right applications, features and functions are not available as a connected service that can seamlessly support business users in and out of the office.
- Services are too complex and require substantial after-market integration to ensure interoperability, reliability and performance.
- Services are difficult to buy and configure. The majority of businesses do not have the staff or skills required to integrate IT infrastructure, network infrastructure, applications, storage and data into a secure and reliable operational system.

CSPs often assume that digital connectivity is the same as digital services enablement. Connectivity is only a small part of the equation and DSPs need to go over the top and bundle offerings that incorporate all of the essential elements required to build and operate these services.

Customers in general and business customers specifically, want a genuine *service* provider that removes the complexity, bundles the necessary elements into a service, and bills accordingly. For now, enterprises are forced to bundle offerings from a variety of sources and that complexity is slowing down the rate of adoption and restricting investment.

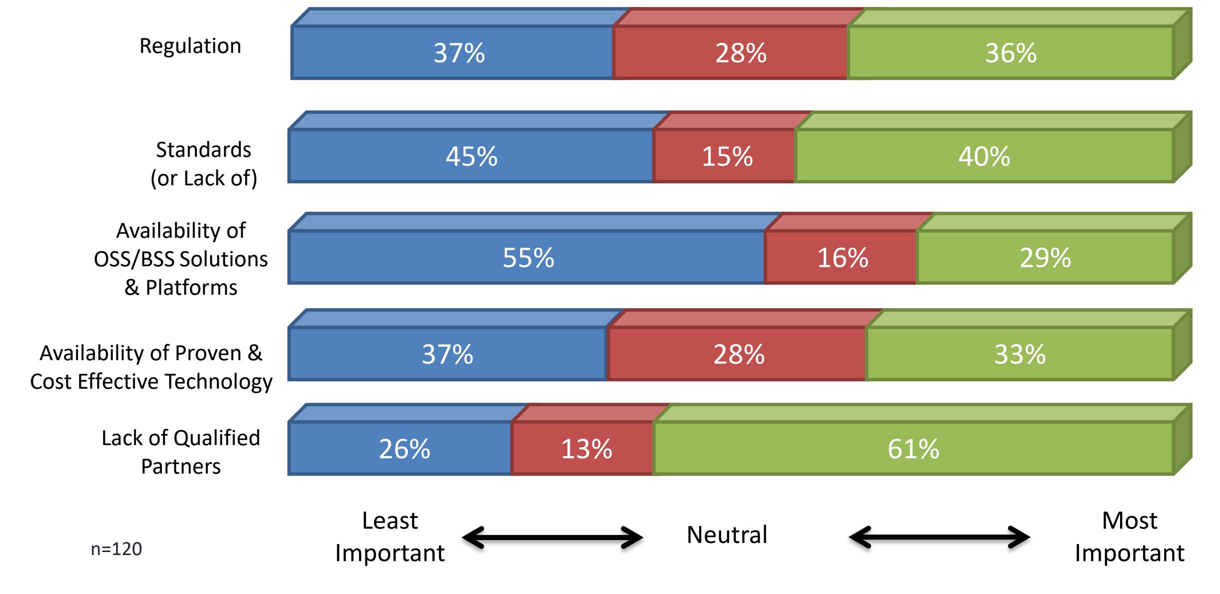
This won't be easy

Simplicity is the theme for digital services. Delivering that simplicity however, is fraught with challenges both internal and external to the business. Internally, service provider executives are still building a network that is capable of supporting digital services. After that, the biggest challenge is hiring and retaining people with the right mix of network and IT engineering skills as well as data scientists and sales engineers with knowledge of specific industries.



One internal factor, legacy infrastructure, cannot be considered a barrier to becoming a DSP. Existing network and service infrastructure and operations is a fact-of-life and something that has to be baked in to every step of the transformation roadmap. However, what also needs to be included in the DSP roadmap are schedules to retire aging infrastructure and operational systems that require more budget and resources to keep than to replace.

Regulation and lack of standards are predictable barriers to becoming a DSP, but those factors were of less concern than the availability of qualified partners. However in the defense of partners, most service providers aren't doing a very good job of supporting them.



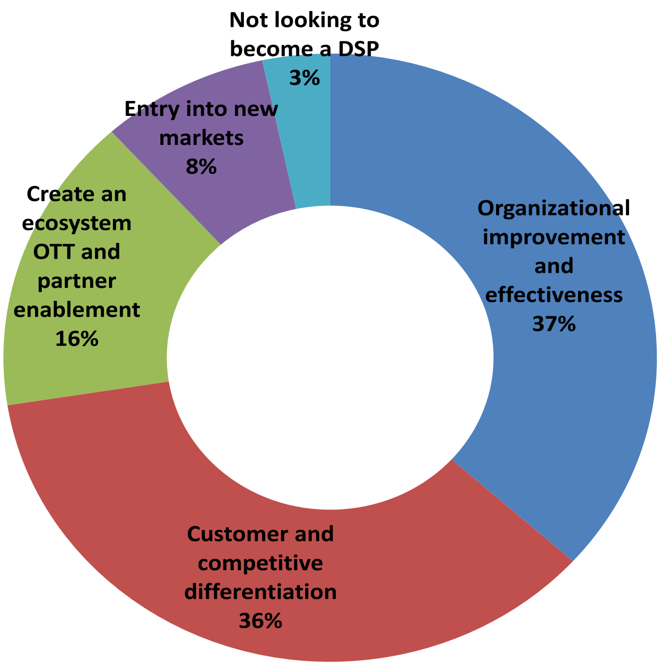
Source: ICT Intuition, LLC 2016

Less than half of the CSP surveyed provide application program interface (API) guidelines or open APIs, less than 40% provide an ecosystem to facilitate rapid on- and off-boarding of partners and 15% provide no support at all to their partners even though nearly 80% insist that partners are important to their DSP strategies.

Moving Forward

In order for DSPs to differentiate themselves, transformation has to affect nearly every part of the business. Customer purchases will soon be based on the quality and variety of products and services being delivered, and the support provided. Partners will need to be rapidly on- and off-boarded using automated processes and standardized APIs. Integration will be the new mantra and DSPs need to become relentless defenders of customer satisfaction.

In becoming a DSP, what is the one thing you most hope to accomplish?



Source: ICT Intuition, LLC 2016

All of this represents a sea change for service providers and it is critical that each starts with foundational changes to business processes, IT systems, networks and even personnel. The motivation for making these foundational changes is split between revenue generation and cost management and the opportunities to both increase revenue and reduce costs while better serving customers are very real.

Conclusions

For all the talk of digital services, only about one-third of the 120 service providers surveyed are truly committed and pursuing DSP transformation at this time. The remainder are considering it, studying it, making network upgrades or waiting to see what happens with regulatory and standards efforts.

Transformation is an expensive, painful and time-consuming effort that ultimately results in a new business culture. Cultural change takes time and constant reinforcement of consistent messages. The necessary changes will not happen overnight, but CSPs *are* transforming into the DSPs that will become trusted providers of digital services for years to come. As difficult as change is, waiting will only serve to make it more difficult in the future.

CSPs are in the unique position of being able to offer customers a vendor-neutral alternative to over-the-top providers. And they can leverage that position to monetize that trust they have earned and profit from delivering digital services that solve problems, improve productivity and generate revenue. Security and reliability are primary concerns and most competitors devote only a fraction of the time and resources spent by CSPs on security, technology refresh, support and operations.

When delivering the network delivered the product, managing the network ensured quality. As long as customers got an accurate bill, all was well. The industry is long past those times and DSP business models, not just networks and operations, must undergo a transformation unlike any that we’ve ever witnessed. That means taking 100 years of experience, harvesting the important lessons and moving forward with new business and operating models.

ICT Intuition, LLC delivers an innovative approach to market analysis from ICT analysts with decades of experience defining, managing, and delivering the business, operational, and marketing strategies critical to communication service providers, utilities, government, and the vendors that serve them.