

Enabling new services: How telecoms operators can learn from Amazon

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Telecoms operators are exploring services to generate new revenue and fend off competition from players that include global internet giants and emerging start-ups. This article discusses some reasons why the platform business model — that is, the opening up of capabilities to third parties as exemplified by Amazon's strategy with Amazon Web Services (AWS) — can be an attractive approach to services, enabling operators to maximise the value of their core capabilities.

Platform business models can help operators to become service enablers, but they require a change in strategic thinking

The transition of a traditional telco organisation into a service enabler can be challenging because it requires a shift in terms of strategy, organisational structure, culture and business models. Operators embarking on this process need to start providing modular components (such as connectivity, identity, payments, authentication, etc.) which can in turn be used by third-parties to develop their solutions, instead of end-to-end, vertically-integrated solutions. This shift must also make the most of the operators' assets and core capabilities — including network infrastructure, spectrum, intellectual property (IP), human capital and their relationships with customers. At the same time, it should insulate them from competition from OTT providers, Internet giants, start-ups, and other operators that are pursuing similar strategies.

Amazon is a good example of a platform business that drives growth from the success of third parties

Amazon's strategy with AWS is simple – build infrastructure for Amazon, then rent that infrastructure to competitors, profit from their growth, and learn from their best practices. As an example, Netflix runs its on-demand streaming video service on AWS. When subscription video-on-demand (SVoD) services demonstrated their appeal with consumers, Amazon launched its own video offering, Prime Instant Video, as a complement to Amazon Prime to make its premium subscription service more attractive to customers.

By allowing third parties to develop products and services running on their platforms, competitors can actually drive growth in new markets and opportunities for the platform host and therefore become 'co-opetitors'. Also, operators can insulate themselves from the pressure, uncertainty, and cost of responding to threats posed by other players.

A platform-centric business model enables operators to transfer innovation risk and product development costs to third parties

For an operator, the process of developing its own services is challenging because it has to compete against players with radically different cost structures (venture capital-backed start-ups, for example). In contrast, in a platform-based business model, operators do not need to develop and deploy services themselves. By enabling developers of all types (start-ups, SMEs and enterprise customers) to use their platform and assets, operators can let others take on the cost, and risk, of innovating in services. Eventually, when a particular product or business model is proven to work, the operator can then easily license, acquire or emulate it, and add it to its own portfolio (as Amazon did with Prime Instant Video). In the meantime, operators are freed to focus on quality of

service, reliability and robustness of their own platforms, as they have traditionally done for their network infrastructure and core communications services.

Competition should be customer-centric and not merely based on reacting to competitors' moves

Amazon innovates by listening to the needs of high-value customers (enterprises, governments, high-growth technology start-ups), and rapidly develops the features that they need to thrive. This has opened new customer segments to Amazon that were previously underserved. For example, Amazon was able to sell cloud services to US federal and local government entities after a USD600 million investment to ensure that the platform complied with their stringent regulatory requirements. Similarly, Amazon implemented HIPAA (electronic health data protection and privacy standards) after feedback from healthcare start-ups and large health insurers.

Although Amazon has unique characteristics, operators can still derive valuable lessons from it

Amazon's platform strategy has benefited from some characteristics that are unique to the company, including Jeff Bezos's ability to pursue his long-term vision for the company thanks to his status as largest shareholder, Amazon's investors' long-held tolerance for low profit margins compared to other technology companies due to its continuous re-investment in infrastructure (including AWS), the lack of significant legacy infrastructure, and a worldwide addressable market is unconstrained by spectrum regulation or tower infrastructure. Nevertheless, operators can derive valuable lessons from Amazon because the company's digital platform ecosystem was built around essential services that correspond to operators' core capabilities, such as messaging, connectivity and storage.

Platforms enable operators to focus on what they do best – manage scarce assets such as spectrum and infrastructure and ensure sustained quality of service. A platform-based strategy also enables operators to take advantage of the scale of their customer base — after all, telecoms operators are among the few organisations that serve millions of customers, sometimes in a variety of markets and regions.

Operators have significant advantages over digital-only organisations – real-time customer support, installation services and personalised sales are not easy for digital-only players to emulate. This is particularly important for high-value customer segments such as enterprise and government. In addition, operators know well the regulatory environment of the markets in which they operate — a particular advantage for services in verticals like financial services, identity management, or healthcare subject to regulatory scrutiny in terms of privacy legislation or data protection and sovereignty.

In spite of the many differences between operators' organisations, the platform-based business models of global players like Amazon provide examples of successful strategies, elements of which operators could emulate. Amazon's success as the largest ecommerce company in the world is to a great extent based on its Amazon Web Services (AWS) cloud infrastructure-as-a-service (IaaS) platform. An exploration of some of the reasons behind AWS' success can illustrate the advantages for telecoms operators that a platform business model brings.¹

¹ For a more detailed discussion see Analysys Mason's strategy report [Amazon's digital platform strategy: lessons for operators from Amazon Web Services](#).