Productising the service

By Ian Scales

The combination of device and service is another trend making a major impact on the services world. What are these new moves, and what might the implications of managing them be?

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When Apple's long-awaited iPhone was finally unveiled in early 2007, it attracted much attention and comment. For one thing, size was back. The device was revealed as a full-on computer with a big, burka-like touchscreen covering its entire body. But there was one, seemingly small, detail in the scheme of things, which excited many telecom industry people. The 'visual voicemail' feature allows the iPhone user to display voice messages on the screen like email rather than to hear them in serial fashion like conventional voice mail. Observers conjectured that Apple's deal with Cingular, the sole US service provider for the product, involved Cingular tailoring specific service features for iPhone users – something that doesn't usually happen in the mobile world where the network operator, rather than the phone vendor, calls the shots and the phone vendor sticks to the standards.

Whether Cingular has been doing extensive tailoring or not, it is clear that a subtle power-shift is under way in the mobile market. Apple's iPhone had sky-high brand value and Apple

knew how to use its power when negotiating with partners.

Apple's iPod music player, launched in 2001, had already proved that a hardware vendor could combine device and service in a compelling way. Its iTunes online store supplemented the iPod brand proposition of the elegant, easy-to-use music gizmo and succeeded where cheaper equivalents failed. After a slow start, it eventually took Apple just six years to sell 100 million iPods, far outstripping the success of the Sony Walkman, which took 14 years to hit the 100 million mark. In doing so the iPod has carved out a 74 per cent market share in the US. Even in Japan, it has over half the market. Its iTunes Store, launched to support iPod sales, has sold over 2.5 billion songs.

Apple clearly hopes the iPhone will carve out another lucrative niche in the mobile market and it is right to be confident. Awareness of the iPhone is huge in the US. According to research conducted by opinion pollster, Harris Interactive, 47 per cent of respondents knew about it and 17 per cent were interested in buying it – well before it was available and despite its very high pricing (US$500). According to another pollster, Piper Jaffray, 25 per cent of the US teen market would also consider a purchase. Harris determined that about a third of the marketplace is susceptible to the geeky, feature-laden power-sell represented by the Apple iPhone and the rest want something cheaper and simpler.

The lessons have not been lost on Apple's competitors. Get the marketing and packaging right, and technology and even services can be sexy and generate huge margins. Today, the idea of increasingly smart devices and software, with specialised services attached, is another powerful trend in the converging media/telecom/internet industry.

Even before the Apple announcement, it was clear that the smart phone was becoming the platform of choice for the convergence of functions such as Web browsing and music. For instance, Dell is reportedly developing a Windows Mobile-based smartphone. Rumors equip it with a full qwerty keyboard and HSDPA connectivity.

But the big mass-market challenge might not be Apple, but Google, which is reported to be manufacturing a Google-branded mobile phone for a geographically limited launch by the end of 2007. Google is reportedly aiming at volume sales and low pricing, with one million units from initial shipments and a global launch in 2008. The phone will provide a way of accessing Google services on the move and is expected to have Google applications built in. The rumors were given added force by comments by the company's CEO, Eric Schmidt, who is quoted speculating on the viability of free mobile phones subsidised by advertising.

And as smartphones go up in the world, the old handheld device category – once expected to be the convergence device of choice – comes down. The worldwide handheld device market slumped from 7.6 million devices in 2006, down 28 per cent to 5.5 million units in 2006. A double-digit descent brought about by the twin pressures of cheaper and more capable notepad computers on one side and smarter smartphones on the other. Researcher IDC says it expects the slump to continue through 2007.

But providers don't have to build their own devices to offer device/service combinations. A 'new wave' of disruptive Voice-over IP (VoIP) players is already setting up shop on latest generation smartphones. These phones are capable of housing fully-functioning VoIP clients, which can orchestrate voice packet flows across 3G data channels and WiFi connections (using WiFi mode mobile phones). As always, voice quality and reliability will be low to start with over the 3G services, but the introduction of much faster (HSDPA/HSUPA) 3G data schemes will tackle the quality problems.

It's early days yet, but there are already several players up and running. Fring is an example of the kind of disruptive player 3G operators will face. Fring is a downloadable client providing Presence, chat (IM) and VoIP on seven Nokia phones so far.

Fring claims it has developed a hybrid peer-to-peer and client/server architecture, which will let users talk across the data channel using VoIP. Users will be able to speak to other Fring users as well as use Skype and Googletalk for free (except for the provider's data charge) and will also be able to purchase Skype-out credits to talk to conventional phones.

Fring is also planning to offer its own version of Skype-out to tap a revenue stream, although it stresses that openness will be a key element in its approach. It plans to offer its own value added services and will exploit advertising. A similar play is available in the US and UK. Truphone also works on Nokia phones and uses WiFI to make calls. It is interconnected with Google Talk.

Can the OSS/BSS industry – traditionally oriented to monitoring and managing network-based activities – apply some of its expertise to the smart device market?

"Absolutely," says Tom Schaefer, vice president of marketing at Digital Fuel, which specialises in what it calls SLA management. Digital Fuel focuses on the service level agreement (SLA) as a pivot-point around which services are designed and agreed – both internally and with customers. "What we offer the service provider is a fluid way of understanding the service and the list of obligations and promises it entails," says Schaefer.

"There are all sorts of things we could be doing for the new operators in these new environments in terms of feeding back data on the customer experience – that will be a crucial capability for them."

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Martin Creaner, president of the TM Forum, is equally confident that the industry is ready to fill a gap. "In the TM Forum we've been defining how to build SLAs for video over IP and voice over IP services," he says. "We think this activity will become central as the market evolves to offer a spectrum of services – ranging from free-to-air, best effort and advertising-funded at one end of the scale, to 'full quality-user funded' voice and video services at the other."

The next five years will see a range of device/service combinations involving software agents' service-specific devices. It will be the job of the OSS/BSS industry to glue these new services into the value web.