

The OTT debate - challenging operators to remain relevant in the market



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Over-the-Top (OTT) services delivered via the internet have become part and parcel of the lives of consumers today.

From converged multimedia services, such as high-definition (HD) audio and video, to social platforms, screen sharing and other bandwidth-intensive, high data volume services, OTT has revolutionised data consumption.

However, while OTT providers reap the benefits of insatiable consumer demand, infrastructure service providers and operators are suffering as a result of the very same demand. OTTs essentially create virtual communities and virtual networks, connecting millions of people, generating huge data volumes and making significant profit, without the need to invest in infrastructure.

Network providers, on the other hand, must cater to increasing demand for bandwidth and infrastructure while continually reducing prices to cater to the needs of their customers. This unsustainable situation has created a number of debates within the ICT industry about disruptive services and the need for new services and revenue models. Operators are challenged to remain relevant in the market and must come up with new strategies to become more competitive in a consumer-driven world.

While OTTs have, without doubt, driven greater network traffic, the main challenge comes as a result of their operating model. They run their services over the plethora of existing networks and create large commercial value for themselves without investment into the network that carries the traffic. OTT service providers largely capitalise on user-generated content and turn such content into a foundation for their own value proposition.

Networks, in contrast, are faced with rising investment costs, increased customer churn and faster technology refresh cycles, not to mention the effect that OTT consumption has on their infrastructure. OTT players offer their services directly to the consumer, which erodes the traditional revenue base of the networks and drives the requirement for further investment into network expansion and network capacity. This creates a double negative effect for operators of lower revenues and higher investment requirements, and this situation is in somewhat of a downward spiral.

Failed strategy

In order to curb the negative effects on operators, some networks have resisted OTTs with the introduction of data caps, or have tried to recover revenue from OTT service providers themselves. However, this strategy failed to achieve the desired result and, in fact, alienated operators further from their customers, creating additional churn. Some operators have, as a

result, embraced OTTS and have made the use of OTT networks free, without really understanding how this loss in revenue will be replaced. Ultimately, OTT must become a key strategic focal point if networks want to remain relevant and profitable, and new models and revenue streams need to be generated.

The adoption of OTT illustrates that the balance of power has now shifted solidly toward the consumer. While OTT providers may believe that they are controlling this balance, it has been demonstrated before that the market does not harbour much loyalty toward any particular OTT service. The moment an OTT service loses relevance, or new innovation emerges, the market switches to another provider, taking the money and the profits with them. Fundamentally successful OTTs are well-designed applications with multimedia content that demonstrates mass-market appeal.

Operators should take cognisance of this model for success and apply this strategy to their own businesses. In order to stay relevant and reach the biggest possible subscriber base, networks have to move up the value chain, by not just providing the pure transport layer, but also to participate in the benefits from the application layer. In this way, they will be better enabled to participate in a market that has experienced such a fundamental shift brought about by OTT services.

In order to survive, networks need to embrace the OTT concept and build their own value-added services into or on top of it. The reality is that expecting revenues from OTT service providers is unrealistic, as is the expectation that large revenues can be gained from the users of OTT services. However, creating their own OTT services within the communities of their subscriber base is one area where there may be money to be made. In addition, operators should look toward the creation of value-added solutions for the OTT service that can be turned into a combined new revenue source. Service bundling should become a key focus with, for example, the management and security of customer data bringing additional value to the customer experience and revenue to the mobile operator.

Operators need to think outside of the box of their current models in order to remain relevant. Whatever new services and solutions are developed and become successful, the reality is that the playing field has changed substantially in favour of the market. The only sure thing is that staying the same and stagnating with regard to services will only lead to further eroding of profit margins. In-depth knowledge and understanding of market demand and market dynamics have become indispensable tools for any mobile operator in order to remain relevant and profitable.

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