

Love affair with OTT apps hurting telecom providers

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With internet connections growing exponentially, the degree of separation between netizens has shrunk dramatically. Who needs international dialling when over the top (OTT) players such as WhatsApp, Google, Skype, Viber et al. are available at your fingertips! OTT services provide audiovisual content that is accessible on a variety of devices for free or a nominal charge. Staying connected has never been easier or cheaper.

Revenue shift

Why this sudden surge of OTT providers? The explosion of e-commerce has triggered a shift of revenue in the marketplace. Telecom companies have been unable to benefit from the digital content and advertisements that travel over their networks. Instead, that value has been largely captured by newcomers that have built successful business models “over the top” of the telecom service providers’ networks. Facebook recently bought WhatsApp (which provides free messaging services to 450 million users) for a whopping US\$19 billion.

Telecom operators are losing sleep as internet communication replaces voice calls and short message service. In a survey of telecom operators conducted by mobilesquared, 100% of respondents believed that at least 11% of their customers will be using OTT services by 2016 and 42% believed that over 40% of their customers will be using such services.

The reasons are simple – economics and comfort. OTT providers have leveraged their services as “free” and subscribers are choosing to use these third party applications instead of those offered by the network operators, which involve a substantial cost. Ease of usage adds to the freebies’ allure. It is a win-win situation for the subscriber.

The losing side

As the OTT companies eat into the revenue traditionally received by telecom service providers, these providers have no choice but to invest more resources to upgrade their networks to deal with the huge increase in data generated by the OTT players. And besides creating a hole in the pocket, there is an associated loss of value. For example, Skype users attach worth to the Skype application and view their telecom service provider as a cost rather than a value-add thus diluting the role of the telecom service provider.

If the telecom service provider repositions itself as a broadband and data provider, some lost ground in terms of revenue maybe regained. However the extent of the gain will depend on the provider’s flexibility. Telecom service providers could also recapture lost revenue by increasing mobile data charges in some way or by levying a fee on companies that use their networks to offer OTT services.

Hot topic

The drop in revenue faced by telecom service providers due to the explosion of OTT services and whether regulators should get involved to salvage the situation is a hot topic internationally. As far as regulations are concerned, globally jurisdictions have regulatory mechanisms to manage networks, platforms and services. However, there is no uniform mode adopted by the various jurisdictions across the world for these relatively new services. Still, there are discussions and roundtables on how to regulate voice over internet protocol (VoIP) services.

While considering their regulatory policies, some countries (for example, Egypt, Jordan and the US) consider VoIP as data service while others view it as

voice service. The US used to have an approach similar to that of the European Union and used to classify VoIP as either “electronic communication service” or “publicly available telephone service” and subsequently moved to a more stringent system in view of the national security concerns.

Some countries tried to ban VoIP services while countries such as Bangladesh tried to implement a licensing regime classifying VoIP services into different categories. Jurisdictions such as Hong Kong, Malaysia, Singapore and Barbados have come up with guidelines and policies to regulate VoIP services in view of security considerations.

The concern here is even though VoIP is the first and foremost OTT service, no one has specifically talked about any policy regulating other OTT services such as WhatsApp. As in most of the world, India’s Department of Telecommunications and the Telecom Regulatory Authority of India have regulations for networks, platforms and services but application-related regulations are missing.

Though loss of revenue is the most obvious threat to telecom service providers in the immediate future, what is more worrying is the brand erosion and the cost the telecom service providers have to bear in maintaining a network to support the services and data delivery of applications from OTT providers. The telecom service providers will have to move beyond being just carriers of OTT services, by offering services that their paying customers will value and pay for. The ideal option is to co-exist and create a common business model to feed off each other in harmony.

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