

From Dumb Pipes to Innovation Provider: How SPs Can Tap the \$1.2 Trillion Potential of Two-Sided Business Models

IBSG Service Provider FastFacts

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Traditional business models for fixed and mobile service providers are under pressure. The recent explosion of digital media has devoured service providers' network capacity without contributing equivalent revenue. Service providers that focus solely on maximizing economies of scale and driving OpEx improvements will assume the role of utility provider, providing high bandwidth and "dumb pipes." Service providers that do not want to be relegated to the utility role must focus on developing new services, expanding their partner ecosystem, and compressing time to market for new services. By adopting a two-sided business model, these "innovation providers" can tap into an opportunity that STL Partners has predicted will total \$1.2 *trillion* by 2017 in North America and Western Europe alone. In the 2-sided model, SPs provide innovative new services to consumers on one side, and to business customers or partners on the other.

On the business-to-consumer (B2C) side, SPs can launch next-generation services that integrate web content with traditional television or mobile services and are increasingly popular with younger consumers. The goal is to provide a high-quality user experience that is compelling enough to motivate users to pay a premium price for premium services. Some of the opportunities in the consumer space include:

- **Replay TV**—Ability to view the last seven days of TV programs
- **User-generated content (UGC) TV**—Ability to view and interact with web video on TV
- **Social network TV**—Social networking on TV, enhanced with consumer telepresence
- **TV gaming**—Play highly interactive role-playing games on TV
- **N-screen services**—Enabling viewers to watch the same content on a wide variety of devices

SPs also have significant new revenue opportunities on the business-to-business (B2B) side, including:

- **Content delivery**—By offering CDN on their own network footprints SPs can eliminate more congestion points than traditional CDN providers.
- **Media value-added services**—Low-level services that prepare digital content for distribution are particularly valuable to web players and media companies. These include content ingestion; encoding and transcoding content to fit various devices, stream sizes and qualities; and metadata tagging to improve search capabilities.

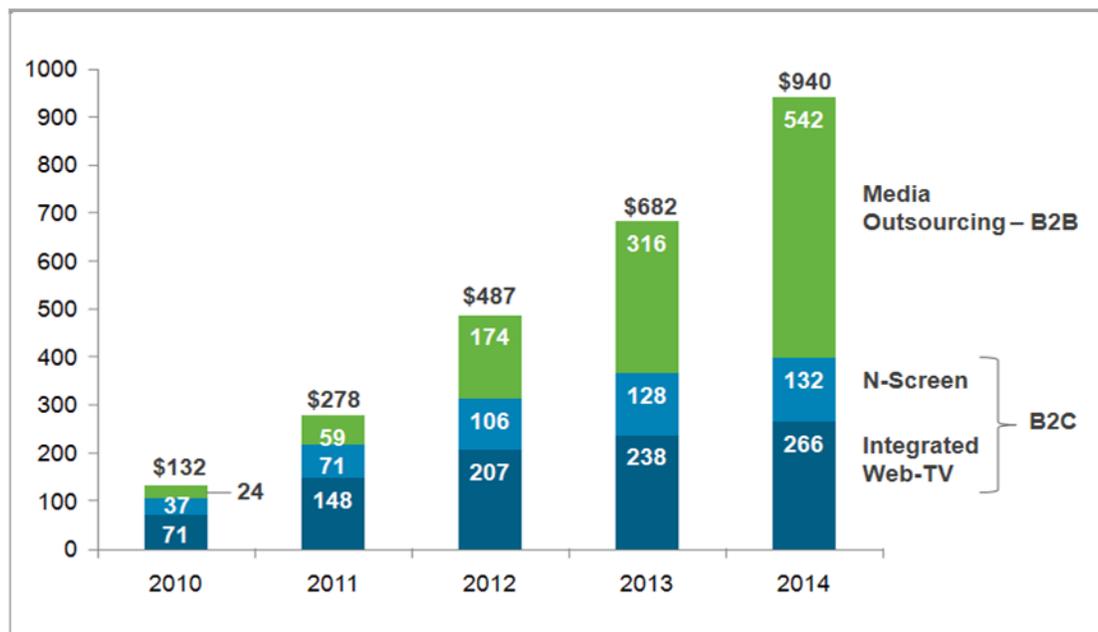


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- **Advertising management**—This includes storing, distributing, and inserting targeted ads into electronic program guides, user interfaces, broadcast and on-demand content.
- **Content management services**—Media vault services provide secure storage for all kinds of digital content, and digital rights management insures the protection of intellectual property as content is distributed to the end consumer.
- **Billing and micropayment**—These services are mainly for content owners and aggregators.

A recent Cisco IBSG engagement with a leading Japanese service provider demonstrated how the two-sided B2C/B2B business model can provide significant potential revenue in a market where mobile penetration is one of the highest in the world, and half of those under 30 watch one or more hours of web video per week. The engagement team estimated that US\$2.5 billion of cumulative incremental revenue can be generated over a five year period from a portfolio of B2C and B2B services (see Figure 1).

Figure 1. Two-Sided Business Model for a Leading Japanese Service Provider Offers Cumulative Revenue Potential of \$2.5 Billion over Five Years.



Source: Cisco IBSG, 2010

Realizing the full potential of the two-sided business model requires a tight partnership among service providers, web service providers, and technology providers, with each bringing a unique contribution:

- **Service providers** bring viewer base, media distribution, and traditional content, but they require web content for differentiation and next-generation solutions such as hybrid set-top boxes and CDN.
- **Web service providers** wish to capture greater share of living-room audience and mobile users, while also delivering a better user experience.

- **Technology providers** such as Cisco can provide not only the required solutions (content delivery network, data center, hybrid set-top box), but also broker the relationship between service providers and web service providers.

Cisco IBSG believes the two-sided business model will open up new market opportunities for service providers, and can mean the difference between becoming a provider of profitable innovative solutions, or merely a supplier of big pipes.

Learn more about the service provider revenue opportunities created through two-sided business models by going to the following resources:

- “Exploring Two-Sided Business Models for Service Providers: Creating Profitability Through Innovation” – See *FastFacts featured Content*
- “Internet Video: New Revenue Opportunity for Telecommunications and Cable Providers” – See *FastFacts featured Content*
- Blog and video: <http://blogs.cisco.com/sp/two-sides-are-better-than-one/>

More Information

Cisco Internet Business Solutions Group (IBSG), the company's global consultancy, helps CXOs from the world's largest public and private organizations solve critical business challenges. By connecting strategy, process, and technology, Cisco IBSG industry experts enable customers to turn visionary ideas into value.

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