Improving Productivity and Competitiveness: migration paths to broadband service development

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Joint TISP/WPIE Broadband Workshop
OECD, Paris, 5 November 2001
The Key Issues:

- Service Migration
  - Defining the issue
- Productivity & Competitiveness
  - A recap: what makes broadband important
- Broadband Service Development
  - Getting the Genie out of the bottle
Service Migration

Defining the issue
Service Migration: what’s the issue?

• Broadband not a single, final state - but a developing condition

  – “Always on access at work, at home or on the move, provided by a range of fixed line, wireless and satellite technologies to progressively higher bandwidths capable of supporting genuinely new and innovative interactive content, applications and services and the delivery of enhanced public services.”

UK Broadband Stakeholders Group, Nov. 2001

• How to keep the process moving forward during an economic downturn?
The Migration Process

- Deployment of broadband business services amongst large firms
  - well established for internal operations (CAD, CAM) & communications, & data transfer with suppliers & distributors

- Process of migration
  - from expensive, closed EDI networks to open Internet standards
  - from expensive leased line/ISDN to variety of platforms

- Process of technological diffusion common to IT supply chain
Productivity & Competitiveness

A recap: what makes broadband important?
Increased productivity and competitiveness...

- In large firms gains based on
  - increased knowledge of customer needs (via distributed ordering systems)
  - reduced inventories of components, wider sourcing of components
  - slimmed down internal operations.
  - visually-rich, more diverse & instantaneous content

- Difficult expensive systems integration - but process continues amongst leaders
...now migrating to consumer markets ...

- Being led by major media companies
  - digital TV
  - digitisation of traditional audio-visual services
    - broadband optimises cross-selling of content & reduced unit costs of production
- dotcom services
  - now dominated by single suppliers
  - niche markets
... and SMEs (including SoHos)

- Immediate competitive terrain
  - with increasing economic uncertainty, more immediate and greater revenue possibilities than consumers
  - no particular group of service providers clearly dominant

- large software companies (IBM, Oracle, SAP, Cap Gemini, Logica)
- dedicated media companies or divisions
- telco j/vs or dedicated divisions
Macroeconomic Productivity: a structural hiatus?

- Manufacturing and services in an Information Economy downturn
  - manufacturing can cut inventories
  - services have little option but to cut people directly
    - productivity savings quickly realised (already being seen in US?)
    - accentuated by e-business as growing proportion of services sector?
      - e-business services’ virtual inventories
Sectoral Productivity - the growth question

- IT manufacturing and services
  - relative dislocation from traditional sectors (& economic cycle) as Y2K, dotcom & CLEC demand disappear?
    - driven by quick product cycle of Internet hardware manufacturing & increased services’ cyclicality
  - demand may not re-emerge with cyclical upturn in US, but with next major product cycle - broadband
    - spending on faster PCs and bandwidth-hungry applications
Productivity: the path to & promise of broadband

- The path - the false carriage/content dichotomy
  - networking & channeling the key vis-à-vis traditional broadcasting
    - potential economies of scale
    - potential economies of scope
  - competitive dynamic driving service providers towards broadband to increase value-added

- The promise - more precise targeting of cultural and “taste” preferences/needs
Broadband Service Development

Getting the Genie out of the bottle
Broadband service development - the revenue/cost bottleneck

- Advertising - declining revenues in economic downturn
  - exacerbated in dotcom sector
- Subscriptions
  - still unproven, except in niche markets
- Content - high costs
  - films, games & betting the migratory services, but high acquisition costs
  - broadband audio-visual production - costs can increase by 600-1000% over narrowband
Broadband cost/revenues: global openings?

- Insufficient national demand to develop broadband services
  - low economies of scale
  - low economies of scope (still mass-product markets)
- Global aggregation service development strategies
  - SME/consumer bundling - major media companies
  - corporate/SME bundling - major software companies
  - telcos exiting global bundling to focus on “core” businesses?
- Education, health & e-gov’t. as national “cultural” markets
  - exceptional national economies of scope & scale possible?
Developing broadband content & services: UK public/private partnerships

- Broadband Stakeholders Group
  - Content and Demand Generation Task Force
    - focus on education & health

- Information Age Partnership - policy dialogue on growth
  - Software, Digital Content and Related Services Innovation and Growth Team
    - formation of Ofcom will be a key issue

- Developing international dimensions?
  - Bi-lateral, multi-lateral (which forum/fora)?