

putting the

value into VAS:

transforming the worth
of legacy services

Author: Dean Ramsay, Practice Lead
Editor: Ian Kemp, Managing Editor

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setting the scene

It is a rare occurrence in telecoms that a service model conceived decades ago can turn from being something of a hinderance to becoming a benefit to a communications service provider (CSP). Value added services (VAS) are varied and disparate, their commonality being that they were brought about to augment core connectivity services and not to make revenues in their own right.

As such, VAS that have not been phased out are generally a cost to CSPs and an additional operational responsibility. But what if they could be flipped into a source of revenue?

VAS have played an important role in telecoms since the 1990s when ISPs started providing consumer internet access bundled with internet browsers, email and instant messaging. Beyond the obvious boost to customer experience, wrapping VAS around core connectivity bundles provides an opportunity for CSPs to significantly improve their retention rates.

One fixed network operations director at a UK CSP that we spoke to said: “VAS have always been the darlings of the CMO office. On the whole they are not difficult to run operationally as it’s just IT and storage, but it is still a cost line on my balance sheet every year. You’d be surprised how many are still around from 15 years ago.”

Typical examples of telco VAS include: online data storage; content subscriptions (video-on-demand, music streaming and so on); proprietary messaging services; partner deals (such as cheap cinema tickets); gaming services; free social media; data traffic; and carrier-branded email. The cost to the business of these services varies, but this last example of CSPs’ own email services can be costly for operators but has proven to be a good retention tool. Subscribers who have had the same email address for decades do not want to change it, and consequently often continue with their connectivity subscription.

“Value added services are still a cost line on my balance sheet every year.”

But CSPs face a dilemma. Simply shutting down such services would result in churn for many subscribers; but in increasingly competitive broadband markets, maintaining them has an impact on the profit margin attributed to core connectivity.

Some service providers have opted to outsource their email service, which is then charged at a monthly rate to the customer. The churn rates from this move are surprisingly low, as the demographic generally using such services are older, more willing to pay a small monthly charge and less willing to abandon their email address.

The net result is that the CSP transforms a cost center into a new revenue stream, retains its customers for the core paid services – more often than not, home broadband – and offloads the operational responsibility of running the email VAS to a third party (more on these services in chapter 3). And it's a model which could be replicated for other VAS which CSPs are considering getting rid of.

In this e-book we look at several CSPs which are having success with this model, analyze the challenges and opportunities in the VAS market and consider potential impacts on CSP finances.

In increasingly competitive broadband markets, maintaining VAS has an impact on the profit margin attributed to core connectivity

CSPs search for new revenue streams

The cultivation of new lines of business is proving to be a much more difficult prospect than the optimism of the 5G era would have led us to believe. TM Forum research shows that the main growth areas for service models outside of traditional core connectivity are largely limited to IoT, security and cloud services. Even here, growth is not exploding and is starting from a low base.

The chart here is from our report [Telco revenue growth: taking it to the next level](#) and shows the sentiments of 208 respondents to our worldwide survey.

The main growth areas outside of traditional core connectivity are largely limited to IoT, security and cloud services

which products and services represent the best opportunities for generating revenue growth in your organization?

cloud computing

IoT

security

Significant opportunity

52%

49%

51%

Moderate opportunity

37%

40%

37%

Insignificant opportunity

11%

11%

12%

Many potential new growth models are hindered by CSPs' inability to move quickly enough to seize the lion's share of nascent value chains. If we look at mobile private networks (MPNs), for example, modern mobile network operators (MNOs) have everything needed to provide this service model. MPNs are a strong growth segment for enterprises and in public spaces such as transport hubs, yet MNOs are not currently the primary suppliers.

Organizations such as network equipment suppliers, specialist startup service providers, and in some cases cloud service providers and systems integrators, still lead the MPN market. Read our report, [Mobile private networks: exploring the CSP opportunity](#), to find out more.

The drive to move operations into the cloud, with cloud-native software systems, will in time bring CSPs into a more competitive position, but we are not at that tipping point yet. As such, the telecoms industry is still in the mode of cost-cutting and improving operational efficiency.

One of the central exercises in this effort is to look at the cost for legacy lines of business and to make a calculation based on some key questions:

- Is the service still performing well as intended?
- How many development resources does the service consume?
- How much resource does it take to support the service on an ongoing basis?
- Would re-deploying these resources onto more profitable services be a significant improvement?
- How expensive will it be to develop an end-of-life service roadmap?
- What would the impact be on customer experience, and will customers churn as a result of closing this service down?

Using VAS to combat market pressures

The use of VAS is still a popular strategy for large telco brands. We estimate that in 2022 CSPs worldwide collectively derived around \$50 billion directly from VAS, and used VAS in their product portfolio to generate an additional \$100 billion in core service revenues. In addition, VAS helped CSPs to increase their customer retention by around a quarter and drive customer acquisitions by up to 50% in some cases.

When it comes to consumer services, providing VAS often leads to increased core connectivity revenues, customer satisfaction and retention. So while the VAS strategy for many telcos involves a cost of operation, a range of positive attributes offset that spend as the graphic below shows.

We estimate that in 2022 CSPs worldwide collectively derived around \$50 billion directly from VAS



Generates extra demand for core connectivity services, primarily by increasing the amount of time a subscriber spends using their mobile device or broadband connection



Has a positive effect on profit by providing a touchpoint with the customer, easing upsell of additional services



Makes the range of services provided to the customer in a bundle seem larger and superior to a competitor's offering



Aligns the telco's brand with popular social media or multimedia brands



Allows telcos to garner customer data related to their social and shopping habits, increasing their attractiveness to potential partners, such as online retailers

In the next section we look at some examples of VAS and how they fit into the changing telco landscape.

different kinds of VAS and their impact

Broadly speaking there are two types of value added services: standalone, and those that are directly linked to and promote other services. As the name suggests, standalone VAS do not need to be directly linked with a telco's core services to be a worthwhile addition. They are designed to generate synergies in the portfolio and directly affect a metric like customer retention, but they can have that impact with or without core services.

A good example of a standalone VAS is O2 in the UK providing discounted cinema tickets for post-paid customers. This is a clear benefit for people who regularly visit cinemas and can lead to attracting new customers and retaining existing ones, but using that service has nothing to do with the subscriber's mobile tariff. Consequently, many standalone VAS services are based around a mutually beneficial commercial arrangement with a partner company.

Service-dependent VAS, meanwhile, are more common, are interlinked with the core connectivity service and are mostly seen as better able to add value to the overall customer relationship. For example, Vodafone subsidiary VOXI in the UK is aimed at younger demographics and provides free social media usage on all of its contracts. Whenever the subscriber uses a social media app, the data usage for that session does not count towards their tariff, which is a significant saving for some users on prepaid contracts without unlimited data usage.

Another example of VAS being interlinked with core offerings is services that are bundled with over-the-top (OTT) media content such as Netflix or Sky Sports. Providing such streaming services in a bundle leads to a dramatic rise in data capacity needed in a network. However, as the Covid-19 pandemic proved, CSPs' networks have the resiliency in place to support them.

Many standalone VAS services are based around a mutually beneficial commercial arrangement with a partner company

More often than not, VAS is a cost center for CSPs and measuring value can be tricky. Because of that, decisions around retaining or discontinuing VAS lines have traditionally been made based on customer engagement and an attempt made to keep the cost as low as possible. For example, if subscribers are heavily engaged with a native app that provides news, weather and general information, the telco will assume it is of value and keep that VAS.

The way we collect customer data, however, has changed in recent years. Complex calculations are now put in place for most active VAS to measure customer satisfaction, complaints, churn rates, social sentiment response, and a host of other KPIs. This is measured against the cost of service for that VAS to make a decision about its value.



The email opportunity

One value added service which would come out of evaluations in good shape is the free email that CSPs provide to their consumer broadband customers. These services are:

- Still performing as intended, providing a mature service which is well understood
- Require little ongoing developmental resource as they have little in the way of a feature functionality roadmap
- Require some support resources, but nowhere near as much as a typical telco connectivity service.

Re-deploying resources for email VAS mostly consists of legacy server storage which may otherwise be decommissioned in favor of a cloud solution. It would not be expensive to create a “sunsetting” plan for email VAS applications, but broadband customers’ attachment to their email address may be one of the key factors in their loyalty to their service provider.

What’s more, email services, although not used widely among younger demographics, still continue to grow globally (see graphic on the next page).

	2022	2023	2024	2025	2026
 Worldwide Email Users (millions)	4,258	4,371	4,481	4,594	4,730
 Daily Email Traffic Total Worldwide Emails Sent/Received Per Day (billions)	333.2	347.3	361.6	376.4	392.5

TM Forum, 2023 (source: Radicati Group)

The operations director we talked to said: “Sometimes you just have to take a tough stance with VAS like email. If you pull the plug you may lose a few thousand customers as a result, but if pulling the plug on a relatively cheap and easy to run VAS means losing tens of thousands of customers, then you just don’t do it. There’s a risk calculation to be made.”

All of these calculations are, of course, based on degrees of damage limitation. If this situation could be flipped into a revenue opportunity, it would change the commercial relevance of the VAS within the company.

In the next chapter we look in more detail at why email VAS could be turned into a commercial advantage.

flipping to a commercial service

Many ISP email accounts have been abandoned by users as they have moved to over-the-top (OTT) email services such as Google's Gmail. But over time the decline in usage has flattened out as the remaining core user base is reached.

The key demographic of these remaining users is older people who are often very attached to their email address. Changing away from this primary means of communication is not as simple as it might be for younger, more tech-savvy generations that predominantly use smartphone apps.

The opportunity here for CSPs is that they can start to charge this group for the email service separate to the connectivity services it was originally bundled with. As such, we are seeing some CSPs turning legacy cost centers into an additional consumer revenue source.

It seems remarkable, given what we know about the nature of modern telco customers, that anyone would agree to pay a monthly fee for something they have enjoyed for free for decades. However, the demographic element is a factor which should not be underestimated.

The customers who are less likely to churn as the VAS becomes a paid service share several characteristics:



As with a memorized phone number or postal address, they have an email address they know well and is known by their friends and family as a primary means of communication

It seems remarkable, given what we know about the nature of modern telco customers, that anyone would agree to pay a monthly fee for something they have enjoyed for free for decades



They have a long email history, with attachments and contacts all stored in the application



Their current email address is often used for login details for website authentications



They can typically afford a nominal monthly fee.

Converting orphaned email accounts

In addition to current customers, there is another email user group which service providers often call orphans. These are previous customers that have left but have opted to keep using the email service, and they no longer have any billing relationship with the ISP. There is no reason to continue to offer this group an email solution for free, so switching their service to a paid one has no potential downside.

Service providers are either trying to encourage them to rejoin as a connectivity customer with email bundled in, or to switch to a monthly email contract for a small fee. The majority of orphans decline the offer to rejoin, but some accept and the service provider gains premium customers for its core services and loses the cost of providing a free service to non-paying customers. Those that agree to pay a small fee provide the telco with an additional source of revenue they wouldn't have had.

In the next chapter we show how some CSPs have already managed to turn previously free email into revenue-generating value added services and give some case study examples.

a blueprint for future services?

Email services could provide CSPs with a blueprint for flipping the commercial model for other kinds of legacy VAS which currently have a cost associated with them. There are thousands of VAS for which a similar transformational approach could be taken, potentially having a positive impact on a CSP's bottom and top lines as well as customer satisfaction metrics.

The largest obstacle to telcos making this move is the perceived damage that flipping the service will cause. But in the example of email, we have shown that a carefully targeted approach and understanding of different responses from different customer demographics and behavior profiles is key to formulating a transformational strategy.

We expect CSPs to look at more ways to derive revenues from VAS in the coming years, rather than just simply phasing them out. Potential services that could be targeted include online data storage, instant messaging, VPN services and online security services.

In the case studies on p.14 we outline how several operators have already had success in turning email VAS into revenues.

Company	BT	Eir	Elisa
No of accounts	150,000	200,000	200,000
Monthly charge	£7.50/user	€9.99/user	€2.90/user
Annual revenue	£13.5m	€4-5m	£6m+

We expect CSPs to look at more ways to derive revenues from VAS in the coming years, rather than just simply phasing them out

Operators turning email VAS into revenues



Eir

Eir (formally Eircom) is the largest CSP in Ireland and provides a wide range of telecoms, ISP and ICT services for consumers and businesses. The company made the decision to end its free email services and switch to a paid service at €5.99 per month, increased to €9.99 in 2021, potentially generating €4-5 million in new revenues per year.

Around 15% of the previously active mail user base made the decision to start paying to retain the services, with a further 5% given free access due to their status as schools or charities. If we look at this €9.99 fee in the context of the company's consumer (blended) ARPU of around €50, for that small subset of users the willingness to hang on to their email address constitutes a large percentage of their monthly spend.



Elisa

Finnish incumbent telecoms service provider Elisa has also recently made the move to migrate all its customers from bundled free email to fee-paying services. The company now has around 200,000 users paying €2.90 per month for their email service, which represents up to €7m of additional revenues annually.

Its customer base was notified 30 days before the switch to the paid service that they would start to be billed and given an opt-out option via a self-service portal. The conversion rate from this approach was around 60%. Elisa was already charging some orphans for email, but there was a large group that was not being charged, and the conversion rate to the paid service for this group was around 25%.



BT

BT currently charges orphans £7.50 per month, up from £5 in 2018 and before that £3.75. It is estimated that BT has 100,000-150,000 customers paying for this service, resulting in revenues of between £9 million and £13.5 million annually.

BT has a relatively low churn rate for its broadband services at around 1.3% and invests heavily in acquisition and retention. In a high ARPU market like the UK, the incumbent has a good amount of leverage to be able to push the pricing on its services.

Moving email from a cost center to a profit center

The number of emails sent and received exceeded 333 billion per day in 2022, and that number could increase to more than 392 billion by the end of 2026. Coupled with this, more than half of the world's population - 4.2 billion people - now use email, with this number predicted to increase by 500m (to 4.7 billion) within the next four years.¹ As a result, email is far from dead, as some have suggested, and has never been a more important way to communicate.

Despite this, email is often not seen as a strategic play and more of a cost center by CSPs, especially when compared to areas such as 5G, fiber and other Value-Added Services. This is because it has associated annual costs necessary to maintain the services and often generates zero revenue, making it hard to justify budgets. However, Open-Xchange (OX) believes there is a real opportunity for CSPs to grow revenue and profitability across their email user bases.

Shifting market environment

Originally, the internet was only used for browsing websites and email. As a result, companies offering internet connections were under pressure to include an email account as part of their access packages.

These bundled email services initially had very high levels of adoption, but the market has changed dramatically since the 1990s. And, with the arrival of Over the Top (OTT) email products, including Gmail and Outlook, the majority of internet users - especially those under 50 - have moved away from ISP-provided email addresses. As a result, some ISPs no longer provide email.

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¹ Radicati Group, Email Statistics Report, 2022-2026 (November 2022); online, available at: <https://www.radicati.com/?p=17936>

Email is still essential

Despite this, an email address is still an essential component in people's online life and the data suggests that people have an average of just under two email addresses each. The reason for having multiple accounts is that people connect different accounts to different types of use, e.g., personal correspondence and subscriptions, sensitive information, including banking, and shopping.²

The other thing to bear in mind is that almost all websites, and many communications platforms, require an email address to register as a username (as a result of email addresses being globally unique). In addition, it is also required by most applications for password recovery.

Will people pay for email?

As OX sees it, CSPs typically have three types of email accounts across their user base: active accounts, which have regular traffic and significant data volumes; inactive accounts, which have little traffic and more than likely have another email account from an OTT provider; and orphan accounts, where users no longer pay for the original service (usually broadband) but keep using their email account.

Many active email accounts are those that were provided as part of a package from their internet provider, so moving to a new email address could be a challenge. As a result, most would be prepared to pay to retain their address.

This is primarily because they do not want to lose their email history and contacts, and it can be a challenge to migrate these. In addition, once migrated they will then have to change all of their login details that used their previous email address – and they will keep finding forgotten subscriptions and logins where they used their old email address.

² Lifewire (May 2021) <https://www.lifewire.com/how-many-email-users-are-there-1171213>

Many older users simply do not have the skills to change email addresses and migrate everything to a new one. They are also likely to have email addresses that they identify strongly with e.g., john.smith@myinternetprovider.com.

There is some indication that the ISP-provided email address also creates a level of 'stickiness', so older users do not change their ISP because they would have to change their email address (and wouldn't be able to keep their email address because they do not own the domain).

As a result, orphan accounts offer a commercial opportunity for CSPs, and many have already recognized this situation and put plans in place. As part of this, they contact the orphan account holders and ask them to link their email service to an existing billing account (in case the link was lost), to pay for the email service going forward or to purchase a service where email is included (e.g., broadband, TV, mobile package etc.).

While the majority of users may decline to pay, our experience tells us that a significant minority will choose to pay to retain their email service and CSPs will see no significant end-user churn. This simple approach can quickly turn an email service from a cost center to a profit center.

Email is no longer free

In addition, as indicated in the market analysis, a number of ISPs in the UK and Europe have made the decision to stop offering email as a free service, even to existing customers. Those with a free account either have to start paying for email or terminate their service.

Again, the majority of existing free users declined to start paying, but there was a significant number of users that did pay to retain the service, ending up in a net gain and creating a profit center from email provision.

Take a structured approach

Once you've made the decision to charge for email, it is essential to use a structured approach, in order to maximize profitability and mitigate risk as much as possible:

- **Better than free** – end-users must get an attractive new email solution, which will help to drive adoption and for them to see value in paying for email.

- **Proven methodology** – you need to make it as easy as possible for end-users to begin using the new service, so it is essential to use proven methodologies that are suitable for your specific market/needs, especially when it comes to migration.
- **End-user communication** – a critical element of any change program, communication must be planned carefully and based on real-world user migration experience.
- **Work with the right partner** – running this scale of project internally is complex (from billing, through provisioning to integration) slow and costly. However, working with an experienced partner like OX, who has a proven platform, skills, and methodology to deliver advanced email services, is a cost-effective option.
- **Increased time to market/revenue/EBITDA** – working with a partner like OX will result in a much faster project to move to a commercial email service, as OX has the experience and skills to deliver the project quickly. This will result in revenue being generated faster and most of this revenue can be pure EBITDA, if OX takes on the full operations stack of the email service.

Conclusion

Email has been seen as a cost center for many CSPs, and customers have traditionally expected to receive an email address and email service when they sign up for access products.

OX see that people (particularly those in older age groups) have an emotional attachment to their email addresses, as it forms a central part of their digital identity, and their mailboxes contain their communication history and contacts. This makes it concerning for CSPs to consider charging for services that were previously free.

While these concerns are justified (even just for orphan accounts), our experience of working closely with customers over the last 15 years has shown that CSPs see no significant end-user churn as a result. OX have also proved that, with a well-structured approach and technology partner that understands the challenges, it is possible to turn email service provision from cost center into a profit center.

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Meet the Research & Media team



Author:

Dean Ramsay
Practice Lead:
dramsay@tmforum.org



Editor:

Ian Kemp
Managing Editor
ikemp@tmforum.org



Chief Analyst:

Mark Newman
mnewman@tmforum.org



Editor in Chief, Inform:

Joanne Taaffe
jtaaffe@tmforum.org



Head of Operations:

Ali Groves
agroves@tmforum.org



Digital Marketing Manager:

Anna Kurmanbaeva
akurmanbaeva@tmforum.org



Commercial Manager:

Tim Edwards
tedwards@tmforum.org



Global Account Director:

Carine Vandeveld
cvandeveld@tmforum.org



Sponsor Success Manager:

Maryssa Ramsey
mramsey@tmforum.org



Digital Media and Events Coordinator:

Maureen Adong
madong@tmforum.org



Content Operations Manager:

Ellie Hsu
ehsu@tmforum.org

Published by:

TM Forum
4 Century Drive,
Parsippany,
NJ 07054
USA

www.tmforum.org

Phone: +1 973-944-5100

Fax: +1 973-944-5110

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