

# Where has the Margin Gone?

*In the latest in a series of opinion pieces, Matt Townend from Island Telecom Consulting examines the market and where the next areas of growth are going to come from.*



**Matt Townend**

I am writing this piece after having yet another conversation with a friend of mine who is the Managing Director of a mid-sized reseller. He was saying not only are the margins being constantly squeezed on the traditional fixed and mobile voice business he has been involved in for years but he also has to deal with the totally unpredictable behaviour of some of his traditional suppliers.

The mobile operator he has been using has changed their commission structures and their

approach to the channel 3 times in the last 15 months. As for the fixed and data side of the business, it gets no better there with players merging and in some cases pulling completely out of the channel.

Although his hardware suppliers have been a little more consistent, points of margin have been eroded over a period of time.

His question to me was "How should I focus my business to ensure I can grow and survive in the future?"

So before he can afford to focus on new innovations and potentially new areas of business he needs a solid base for his existing business. The behaviour from carriers as described above is bizarre; have they not heard the largest growth opportunity is in the SME market in the UK. The only way I can see to reach that goal is through a solid indirect strategy.

The first thing a reseller can do is to look in detail at their current suppliers. Examine their contractual commitments with suppliers ensuring their commitments to you mean they cannot pull the plug on the business quickly and without penalty. Also try to build a partnership and get top level insight into their go-to-market strategy.

Some of the carriers are looking to rationalise their channel, to serve only certain partners with a significant base. So you may well need to either consider acquisition of other bases, or leverage your buying powers by working with other similar sized organisations.

The last six months has seen significant acquisition activity both in the traditional voice and network integration space with new larger players arriving. We have seen Azzurri purchase a number of players only to be bought up themselves by Irish firm Calyx, which has also acquired Matrix. Redstone have also been on the acquisition path with Xpert and then Symphony. This consolidation is going to only increase pace in the coming 12 months.

Once you have secured as best as you can your existing base revenues the question is where the next large revenue and margin opportunity is going to come from. I would pick a focussed technical solution area or vertical segment to develop - ideally a natural step from

your existing business and experience. I have chosen a couple of areas as an example where I think there are going to be significant growth.

## Flexible working environments:

It's clear that the UK work force is requiring more flexible working conditions from its employers. The requirement and necessity to work in an office 9-5 Monday to Friday, is no longer as prevalent as before. This is being driven both by social, technological and supply and demand factors. Already over 6% of the UK business population work from home regularly or permanently and this is only set to increase in coming years.

This change is offering opportunities to the reseller both in voice and data services. For example the requirement to offer intelligent voice routing, and contact centre services is rising, as employees are not at a fixed location. Companies such as TeleWare and Opal already offer a very established range of services in these areas, with a good value and margin proposition for the Channel.

Also we are seeing the growth in mobile and home user services with the need to provide business broadband and VPN services, as well as mobile data and applications.

As a partner, putting together a clear flexible working proposition is certainly an area where we are going to see both growth and margin.

## Security and Disaster Recovery

Another area where most analysts are predicting strong growth is that of security and disaster recovery. This is an area that is growing fast, but is often not addressed well by vendors or resellers. As we see the rise of Centrex telephony services and hosted applications the ability to offer affordable Disaster Recovery services to companies, is widening beyond the initial niche set of customers.

## Telecom & IT skills

I think the key opportunity is going to be how you sell services, applications and the skills of your business. The core transport elements will all be based on IP and will continue to be under margin and revenue pressure.

However the good news is the speed of innovation is only going to increase, which means if you can develop new services, partner with application vendors and sell your own expertise both in terms of integration, implementation and as a source of trusted strategy advice. You may find that your business migrates into being a people and consultancy led business in the future.

**More Information:**

[matthew@island-telecom.co.uk](mailto:matthew@island-telecom.co.uk)