

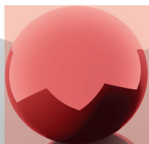


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CONVERGENCE LETTER

Are telecoms taking on water?

Two worlds that are converging on the same sources of growth



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The water and telecom's sectors already share a common past (SFR was an offshoot of la Compagnie Générale des Eaux), and current indications suggest that an operational « convergence » is developing. In the same way the French telecommunications market underwent deregulation in the 90s followed by the electricity sector in the first decade of the 21st century, it's now the turn of the water sector to undergo huge change. This change is even more interesting to watch as it appears that water companies are following the telecoms route; not only are they service operators but they have also started offering solutions that were up until now left to the telecoms sector.

The telecoms ecosystem has changed profoundly and now includes media, content suppliers, infrastructure, and service operators and providers. Similarly, the water sector's convergence on other markets is a new source of growth for both business sector and public sector markets.

■ Water revenues under threat

In order to understand the way the water market has evolved, one needs to take a look at recent changes in its economic model. In France there are two types of water management: *DSP* or public service delegation and public boards (direct management of water services by local authorities, like Paris). Today the French water market is shared among three actors (Veolia, Suez Environment and its subsidiary Lyonnaise des Eaux and SAUR), and public service delegation concerns three quarters of the French population. However, a decision made in April 2009 by the Council of State will lead to a massive renegotiation of these contracts and a noticeable trend of a return to networks of local authority managed water. Despite the fact that the state had to reach out to the private sector to rebuild and manage networks after the Second World War, the public service delegation model is being increasingly called into question in favour of local authority based water management. Grenoble took over its own water management in 1999, Castres and Cherbourg in the 2000s and Paris has been running its own water distribution since January 2010.

Elsewhere, pressure on lower water prices and a reduction in consumption by households thanks to more economic and efficient household appliances pose a serious threat to water company revenues. Water and energy consumption reductions in the residential sector have been estimated at 17.2 billion Euros between

now and 2015 according to French government objectives set out at the Grenelle Environment Forum.

And lastly, local authorities are eager to give their citizens access to services connected to water distribution. During the current contract renewals more and more of the PSD (public service delegations) contracts include services like those offered by the Ile de France Syndicated Water Service (SEDIF): information on water quality provided on demand in under 48hrs, alerts for over consumption, leakage inspection services... However they expect the water companies to supply these services free of charge!

■ **New challenges: controlling consumption and the smart house**

Given this context, water companies have to rethink their economic model and this has an effect along the whole water value chain (i.e. production, distribution, sanitation and treatment). The chain is enriched upstream with remote access telecom infrastructures being set up; downstream it extends to service and content provision so that each household's consumption is better managed. The water companies' objective is now to reach their end users rather than their direct clients (i.e. the local authorities).

Remote meter reading – carried out using sensors connected to water meters and receivers set up on roofs – and associated interfaces (smart phones and PC tablets) mean that new services can

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be developed: real time consumption recordings; daily, monthly or yearly consumption analysis; consumption comparisons between several buildings; leakage detection; and customer assistance (for example in the new services on offer, an emergency call will be sent out if an elderly housebound person doesn't use any water for a whole day); etc. The infrastructure set up can also extend to providing this type of service for all forms of energy consumption (gas and electricity), as well as in other sectors in order to monitor hot or cold chains, for facility management services (Dalkia) and company service providers (like collective catering services such as Sodexo).

Over and above their core business, water companies are becoming infrastructure providers, data enrichers, as well as solution and web application and content providers using modern terminals, all services that traditionally were carried out by the telecoms sector at large. These large groups are in fact developing their subsidiaries in this direction and encouraging competition in the water sector. Hence, Lyonnaise des Eaux launched a range of services for homes known as Dolce O: an online shop where consumers can buy products to help them control their consumption (like rain water collection devices), an e-invoice service, and the ability to read meters remotely or subscribe to household appliance guarantees.

■ The path to new all-inclusive offers?

As telecom boxes and offers and interfaces to control different fluid consumption see the day, a new market space is being created in household services and this is where telecoms and utility companies can both play a complementary role.

This space is an answer to the ever growing expectations of consumers who want to be able to have overall control of their household expenses. It is a procedure similar to the passage from different web, telephone (both landline and mobile) and television providers to quadruple play offers.

By creating all-inclusive offers for telecoms and utilities, water companies will be able to widen their client portfolio and increase their value by selling services that go over and above simply providing water, building their catalogue of services and diversifying their sources of revenue.

These overall telecoms/utilities offers would give consumers a better ecological perception of telecoms companies thanks to solutions that facilitate the way consumers control overall household energy consumption. Such a process consolidates their position along the whole value chain from content publishing to data and infrastructure supply.

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From a consumer's point of view, the client experience would be simplified as a single interlocutor would manage all energy consumption. An off shoot of this would be simplified billing where a consumer would have only one bill or report detailing each aspect of their household consumption thus giving them stricter control of their consumption and a chance to optimise expenses.

To resume, telecom and water companies reap triple benefits: increased customer loyalty as the client is linked to every type of consumption; higher value clients as they pay for new services; an increase in the company's customer portfolio.

■ Different paths

If the loyalty and growth source issue is the same, the path to it is different.

Telecom companies have technical know how for data rendering and content supply far superior to that of water companies. They are also more mature in terms of new service and new packaged B2C product marketing.

Water companies are almost the opposite. They have a legitimate position in their core business but need to learn new services, especially in the B2C and SME sector and carry out internal trans-

formations for an evolution that at the moment only represents a very small percentage of their turnover.

This type of transformation could be of interest to convergent water companies who are currently developing value added services for their clients based on their assets. It is also the case for new market players whose challenge for survival is to specialise in a niche market and find partnerships with sectors that are closely related to the telecoms sector.

This evolution is not only happening in the B2C or SME sector. The phenomenon has also extended to the B2B sector via the construction of intelligent or smart cities. Telecom and utilities operators are ideally positioned to become key players in the construction and management of these cities. The economic potential of smart cities gives them the opportunity to capitalise on their existing offers and is a source of growth for diversified revenue. Beyond even future smart cities, the city today is becoming a digital space in general. There are dual technological and environmental benefits illustrated by the presence of captors, traffic indicators and pollution monitors. Taking this further, companies are now offering data management services in order to supply recommendations and decision making tools (like citysense, a mobile application that supplies an urban activity map for the city of San Francisco), to decide whether it is worth going into a particular area of the city based on the levels of CO₂.

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Today the applications available have not yet made a visible impact on the environment because they are still little developed. However, convergence provides the base of a mix of media, telecoms and the environment. It will in turn enable each of us to make profound changes in our lifestyles and no longer be simply a question of information sharing.

History looks as if it is repeating itself and water is going to go through the same mutation as telecoms did. The only difference is that telecoms actors will have a role to play this time and will be able to position themselves on the market becoming either a partner or a competitor for water companies. The question is: a separate model or true convergence?

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