WHERE NEXT FOR MACHINE-TO-MACHINE?

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In speaking with clients around the world, I'm often asked about the M2M ecosystem. Where to play? A horizontal strategy or deep vertical solutions? How is M2M changing, how do we scale our business?

Manifold M2M

M2M is a broad church. It covers multiple industries and business models.

Arguably it is too broad to usefully frame and deliver strategies to drive meaningful value for telecoms players, particularly as demand, technologies and government actions constantly change the definitions of industry verticals.

Telecoms players face choices on how to play beyond providing airtime as the M2M unfolds. Platform–focused or vertically-integrated business models? Is hardware in or out? Smart-metering or automotive?

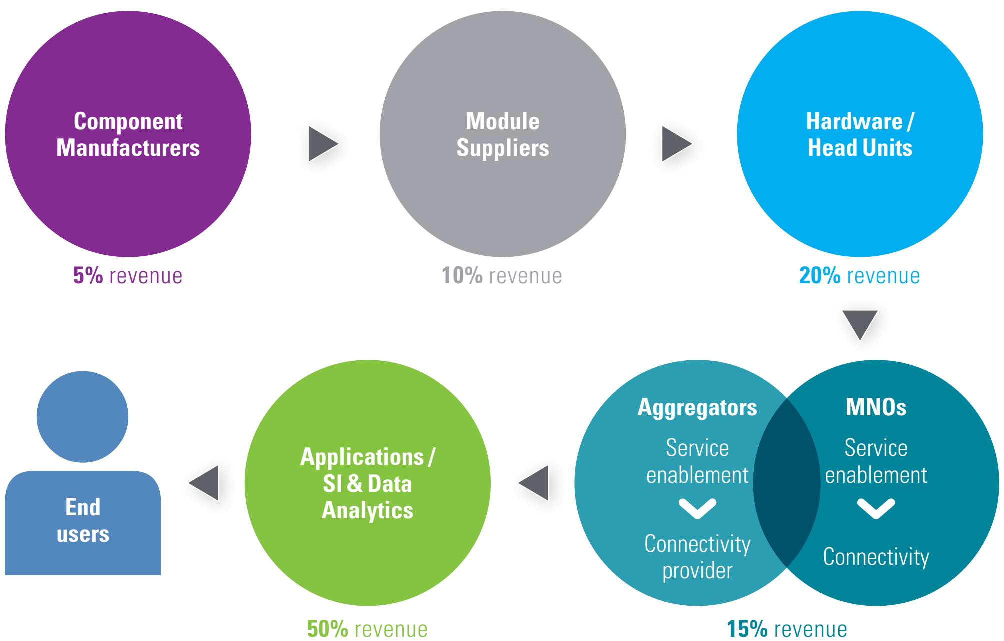
We think there are some promising routes for greater M2M scale and success

Value share across the M2M chain

M2M services often connect objects to an internet of things, either wirelessly or through fixed line or mesh connections. Think CCTV cameras/ alarms, energy meters, cars and consumer electronics.

KPMG research shows that to date, mobile network operators (MNOs) and aggregators typically capture around 15% of the revenue of a M2M-enabled service, providing mostly airtime/connectivity and related enabling services such as SIM-card provisioning (figure 1).

Figure 1: Typical revenue shares across the M2M value chain



Much more revenue is earned by providing applications, data analytics, reports and services that integrate say wireless modules into end-user devices, be they cars, tablets, or health-monitoring devices (at around 50% of revenue). Hardware and components generate the remainder.

For operators facing long sales cycles and a need to recover R&D, sales and delivery costs at this level of revenue is too small.

Whilst market drivers continue to favour M2M - falling equipment prices, the emergence of remotely programmable SIMs - the complexity of targeting different industry value chains means the operators risk becoming stranded in a small scale business.

Emerging business models and strategies

Breaking out of connectivity, by accessing or controlling more of the value-chain with partners, in-house or bought-in capabilities, affords the opportunity to build revenue and margin at scale.

So which routes and industry verticals are more attractive?

Our strategy and M&A work with operators and investors around the world has given us a sense of the more promising routes:

- **Industries with significant governmental or regulatory influence are often more attractive.** For instance the UK government let over £2bn of contracts in 2013 as part of its 15 year Smart Metering programme. The successful prime contract winners, a mobile network operator (Telefonica UK) and a mobile infrastructure leader (Arqiva), built a case that leveraged core assets whilst aligning wider software providers and integrators in end-to-end propositions. eCall regulations are also driving significant M2M deployments in the original equipment manufacturer (OEM) and aftermarket parts of the automotive sector too. By contrast, MNOs have found healthcare more difficult. Lack of player alignment and regulatory 'push' has lead to fewer sales, over longer time frames.
- **Turn SIM/traffic data into valuable information to benefit more industries.** Enterprise customers don't want to waste time and money working out how to interpret data about SIM cards in their kit. Operators should offer APIs, data analytics and reporting for application providers to package data and offer their own customers insights into fuel consumption, van locations, and driving behaviours (just as private-equity owned Masternaut does for fleet owners). Investing in platform-focused functionality should lead to more valuable sales.
- **M2M doesn't always mean wireless only – think enterprise-wide.** M2M solutions support enterprises drive productivity and efficiency gains by tracking people and assets, improving security and limiting outages. M2M sales are therefore key to wider telecoms/ICT propositions that can be sold directly to large enterprises, perhaps encompassing cloud-based connectivity and applications, devices, meshed and fixed line solutions, service monitoring and SLAs – more valuable than just one-off wholesale deals.
- **Channel partners help sell more.** In other cases, sales could be made indirectly, by using aggregators and other resellers to reach high value, low volume segments around the world. All in a way that a single operator just can't profitability reach. So its horses for courses.

The right set of answers will of course differ with each players starting positions, assets and appetite to invest in one of the fastest-growing telecoms and IT segments worldwide.

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