

## MOBILE BROADBAND

# STEALTH REVENUES

Mobile operators need to take a share of revenues from adjacent industries, ideally in ways that are invisible to the end-user.

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Mobile data traffic will increase 17-fold to 41 exabytes globally in 2020, up from 2.3 exabytes last year, according to new statistics from Machina Research. However, as company director Matt Hatton pointed out - while chairing a Sybase-sponsored roundtable, bringing together key executives from the mobile broadband world in London last month - revenue will grow just four-fold over the same period, reaching almost €300 billion in 2020.

**As network operators, how do you resolve that? How is the industry evolving?**

**Steve Haines:** You've got to look at different models to see how you can network share. And that's got to include the mobile operator, particularly when you look at the next wave of LTE development and the locations you've got to put into that. It's a scale business. You can't afford to have too many independent networks in a scale business.

**Derek McManus:** There's not enough revenue for everybody to do it on their own. The industry has to change its operating model. A 17 times increase in volume and only a four times increase in revenue: that's a non-sustainable model. There has to be more collaboration across the industry and I don't just mean at the telco end. Who's going to



work together? That's the exciting part. Everything Everywhere is a great step forward in terms of bringing some sense to the market, but the challenges of those businesses coming together are there for everybody to see. We know what we want from this industry, but we know it has to be with other players. There's a lot of dancing going on between players.

**Glyn Baker:** There's a lot of dancing, but no one's actually getting off the chair and going into the middle of the floor.

**McManus:** Most of the operators that come to the UK at the mobile level are as efficient as they can get within their own entities. They can't get any more efficient so they have to make structural change to keep that growth going. And that's as much to fund investment as it is to maintain margins.

**Glyn Baker:** It's not that our consumers are necessarily pulling services down; they're being pushed down. The problem is the launch of these new services that just get thrown out onto the Internet - [music

service] MyPlay was a classic example. Nobody cares about the infrastructure on the content side, and then we have to pick up the pieces.

**McManus:** The two things you're after are services the customers value and a relationship with customers that's sustainable. The content players have got one of them and we've got the other. Can we get our act together and stop everybody getting to that relationship before we get to that value? The challenge we face today is how do we pick up the pace and get that economy to scale to go after other industries. There's a bigger competition between our industry and the financial services industry and the advertising industry and the content industry. That's the big battle and if we don't get it right, they'll just wash over us and we'll become a dump site.

**Is there a readiness from consumers to pay for a higher quality of bandwidth?**

**Baker:** No, not at all. They just want service. When we launch LTE properly,

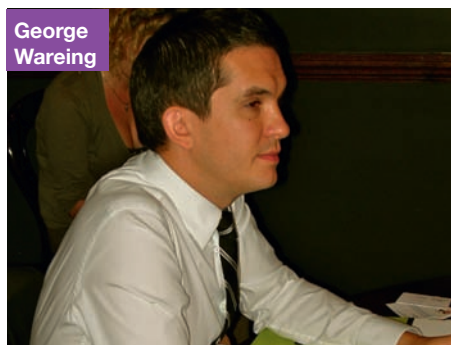
we're not going to be able to raise the price by 10 times. We might be able to raise it by 20% to give people bundles of way more bandwidth and way more capacity. I think we're a long way away from service differentiation.

**McManus:** It's a bit like paying to use [EasyJet's] Speedy Boarding at Luton airport. We're in the shelter of the storm; right now there isn't a glut of supply so there are challenges and problems that everybody faces because of that. When LTE kicks in, there will be a glut of supply. In a world of a glut of supply, would I want to pay for Speedy Boarding if I turned up at Luton and there was nobody there? No, I wouldn't.

**Is there anything enterprise customers would pay for that consumers maybe wouldn't?**

**Baker:** I don't think any market is really concerned [with paid-for QoS]. Nobody's getting forced to invest really heavily in infrastructure. Every operator I know is still questioning the need to deploy LTE. It's not like it's the most burning issue. There's far more on 3G and whatever else.

**Matthew Finnie:** Skip the bandwidth bit. What enterprises really want from mobile is the same thing they've always asked for: one bill, one tariff that's sensible right across the footprint. They can't get that. We operate in 29 countries right across Europe and we have 29 different mobile contracts. We try to work with the same one but you cannot get any kind of discount.



George Wareing

**Dirk van Bavel:** Enterprises always look for the discount. In the consumer market, ultimately segmentation will happen based on things like speed, but it depends on the maturity of the market. We are enjoying the fact that customers are picking up smartphones. It's not the time to make the choice even more complex; people don't know how much they're going to use, so it makes absolutely no sense to start talking about high priority, low priority and so on. However, when nearly everybody is using this daily, they will have a good knowledge of what they want and at that point a better fitting package - rather than a 'one size fits all, please go ahead and explore' - will definitely make more sense. And that's the time when speed-based or other parameters will kick in to the propositions.

**McManus:** Right now 3G can't provide quality of service. Technically you can; you can put parameters and it will ostensibly tell you you're getting quality services but as a customer, would you see it? No. So would you pay for it? No.

**Baker:** It's extremely difficult to differentiate because there are so many variables to do with networks, like how many people are standing in the same cell area. That's not very easy to predict.

**McManus:** And the investment to provide it is just not viable so it's not going to happen in 3G.

**John Sims:** The concept of going through the fast line at the airport is easy to understand. But what if they



Steve Haines

presented it to you as: 'you're going to have 0.08 [passenger/luggage] screeners per square foot here and you're going to have 0.12 over here, which do you want?' How do passengers relate that to what they're doing? It doesn't make sense. Sometimes the industry gets challenged by how to present it to the consumer so that they know what is more valuable. Sometimes it's too complex and it's not well understood by the average guy in the street.

**McManus:** The difference between delivering voice and text in the old world and delivering mobile data is phenomenal. The consumer doesn't get megabits, doesn't get bandwidth, doesn't get any of that. It's just press the button and it should work. They don't understand why it doesn't work. I don't think, as an industry, we quite understand that.

**Haines:** Unfortunately, we're thinking like network people and we need to think like users. And don't think like a marketing person because at the moment you're talking about the early adopter market which is complex and therefore a little bit geeky. I know we can't deliver it yet, but as a user I would pay a premium for always best connected. I don't know what that's worth - £5 a month, £2 a month?

**Baker:** But you watch what happens to churn when an operator sticks their head up and says we're going to charge five quid [more].

**van Bavel:** Operators need to take care of giving the right promise to their customers because otherwise you create dissatisfaction and you have people churning off your network. First of all a premium only works if 98% of the people are not on the premium and secondly, it only works when you can explain easily what it actually means.

**George Wareing:** There are a lot of analogies between the fixed-line space and the mobile play. We tried to do the same with fixed broadband. Virgin

differentiates on always having the highest speed, [but] people don't actually buy that. Once they're customers, they're very happy with it and as a result you have low churn, but it's not at all for [customer] acquisition.

**Is there an opportunity to charge content providers using your networks to provide a better experience for their customers?**

**Haines:** At some point, quality content will kick in. At some point Sky subscribers will insist on the quality of the content they receive on any device and they will pay for it through their monthly subscription.

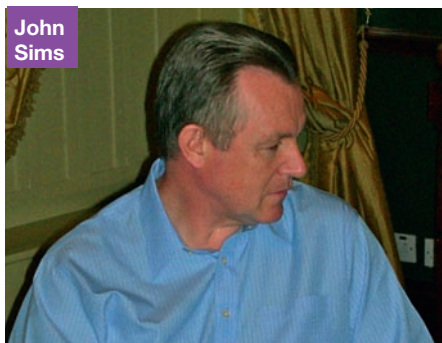
**Baker:** I wish we were going faster and having a good CDN strategy. That's the next thing we should look at. If Google or Sky or whoever wants to launch a high-quality service on my network, however the technical infrastructure works, why wouldn't we charge them money to do that? We don't go enough to these people and say we can offer you a really great differentiated service for your apps, for your services, for wherever else it may be, but you have to pay some money.

**Haines:** If Sky, Disney, all these people want to guarantee the quality of their product to me as an end user, they are going to have to work with an intermediary that has a CDN. So the big question is if.

**Matt Hatton:** It's diplomatic to say we will deliver you more if you pay us. We'll provide you with a platform to provide a better service to your customers. Rather than saying you're hoovering up all our bandwidth, you need to pay us money.

**Could you benefit from providing a seamless mobile broadband experience internationally?**

**McManus:** The biggest issue on data roaming is bill shock. But as prices come down, people are on Facebook on the beach in Greece, whereas before they



**The telcos are innovating considerably more than a lot of the content guys**

didn't touch it because they were scared of big bills. So data usage will go up.

**Baker:** The industry is well advanced in starting to deal with the data roaming issue. Everybody wants free roaming internationally. OK, give us all the money back we paid for licences and we'll offer that. The market wasn't built like that and therefore when Neelie Kroes, or whoever the latest EU commissioner is, bangs on about that, we just have to say, 'you didn't build the markets like that: you can't have it both ways.' [Users] just need to be able to understand consumption in the roaming space. I don't think the answer is just to give them everything. The industry wasn't built like that.

**Finnie:** If you were to do what the incumbents did with DSL, which is turn it into a wholesale offer. If you were to do that with your mobile networks, which are your access networks as well, then someone else can come in and buy a big lump of infrastructure. What's to stop Google, for example, establishing itself right across the European footprint, as it's trying to do in the US?

**Baker:** Commercially, a lot. We're not stupid.

**Finnie:** But there are four or five big operators in Europe and it only takes one.

**McManus:** Those five operators want market stability. It's not a cartel; it's

common sense. Two years ago the mobile operators didn't speak as much as they do now. The partnership that we announced between ourselves, Everywhere and Vodafone for media and financial services is a fantastic example of the industry saying: if we don't get our act together, this will disappear. That's going to happen more and more. As an industry we have to have a platform to attract revenue and to compete with other industries. It's like ticketing in the airline industry. If they'd continued to do their own ticketing, it would have been a disaster. So they decided to do ticketing as a platform. And that's all we're doing. We're doing media and financial services as a platform for the industry.

**van Bavel:** NFC will only work if you build an ecosystem among all operators. It makes no sense otherwise.

**McManus:** We should stand back and take credit for the way the industry is evolving to meet the pace of change.

**Finnie:** But there are content providers strolling into our territory saying, 'we're not regulated, because you can't regulate content'.

**McManus:** I look at it really positively because it's pushing us to be an over the top player. I have a team who do apps and we look at all sorts of things completely differently. The business model of apps is to give it for free so [the team leader's] going about the business saying I want



Derek McManus



Dirk van Bavel

to give voice for free! And it's a really healthy debate. And I think you've got to give us credit for the pace at which we're moving. We're a big, lumbering, high-scale investment industry that's moving a lot quicker than it did a year ago even.

**Finnie:** There is a convenient polarisation from the media and analyst perspective to say that these are the reluctant regulated old telcos and you've got the new shiny content guys coming in and they're driving the industry. The telcos are innovating much more than a lot of the content guys are who are largely waiting for the innovations to occur. We're doing a lot of work in cloud computing. The big innovation is not the computing side, it's actually on the network side. That's where the clever smarts are. So I think we can blame ourselves for being hopeless at communication. Look at Amazon's results. What's the really, really profitable part of Amazon at the moment? The bit that's blind, it's the computing side which was a by-product of a bunch of people saying how do we deal with the Christmas rush? Let's build cloud computing.

**McManus:** We should be much more positive about the evolution of this industry because we are in a phenomenal place. There are lots of people who want to be where we are, including the Googles and Facebooks. And if we all work together and be positive, it's boom!

**Where are we seeing the biggest changes in the market?**

**McManus:** Customer expectations are the thing that's moving the quickest.

A customer of ours [with an iPhone] said, 'I pay you guys £40 a month but I get nothing for it'. And that was a real moment for me. That's where we get a bad reputation because we are seen to exploit the customer. And we need to work better at [marketing]. We, as an industry, have only just started to put the price up for the first time in 25 years.

**Baker:** In Austria we're seeing the market adding things like service price in, so charging €20 a year just to have a contract. You're right, prices are starting to stabilise. I think the operators are starting to fight back a bit now because we're having to. How you manage subsidisation is clearly very important. What length of contract can you get away with? How do you ensure that people are getting what they need rather than what they think they need?

**Wareing:** I think part of that comment from the user who thinks they get nothing [for their £40] comes from the fact that everyone uses the same set of apps on a different device but largely does the same sort of thing with it. So if you were to unlock bandwidth for the user, that wouldn't be something they'd necessarily pay a premium for, but would it be something that they would see as a point of differentiation?

**McManus:** I don't think any of the UK operators can afford to build a network that differentiates them clearly from the rest. They can't afford to be off the pace one way but they just can't afford to push the pace the other way. I think value is going to be different. Value in

the industry, looking back, was about connectivity and being able to talk to people. Value, going forward, will not be about that. The £40 a month is the thing that says I don't value connectivity anymore. The relationship between the mobile operator and the customer has to change. And that's why we're looking at financial services, we're looking at media, we're doing things like Priority Moments on O2. It's all about creating a different value proposition that the customer wants to buy into because connectivity isn't going to do it anymore.

**Baker:** But you can guarantee that the thing that will have most impact on net adds in Q4 will be who's got the highest stock of the iPhone 4S. We had [the iPhone] in Germany. We were way, way ahead of the market. In the UK, it's the people who got the iPhone first. And we see it in the US. Consumers are clever but they're still very attracted by bright and shiny objects.

**Haines:** As a consumer, I'm really under pressure because I pay my £40 a month to O2, pay my £30 a month to Virgin or BT, pay my £30-£40 a month to Sky... All of a sudden my communication and entertainment needs are costing me £150 a month.

**Finnie:** Everyone's got the same 40, 25, 35 quid going in and out, wherever it's going, so it's a question of who's going to sweep that up and who's got the best access to that customer. Why is Internet banking so useful? Because it's convenient - I don't have to go anywhere to use it.

**McManus:** The amount of money people will spend on mobile services is probably not going to go up but why can't I have the money that they spend on financial services? Why can't I have the money they spend on health? There's a whole set of industries all converging on the personal relationship with an individual. How do you exploit it? That's the challenge.

**Baker:** [There's an opportunity] with things like payment because it's not visible.

When we were looking at payments a few years ago we didn't actually want people taking money out of their £40 a month and spending it on other services because that eroded our margins. So we could get into more the NFC model, where we're taking 5% of the transactional value from someone else, not from the consumer.

**With users paying various sums to various providers for communications services, to what extent does mobile broadband fit into a bundle of services?**

**Wareing:** The more products people take, the churn decreases. If we look back six or seven years, we were trying to target the highest ARPU customers, so premium content and as many services as possible. What we found was you just weren't able to compete with Sky on movies and sports. So the segmentation brought us back to looking at the mid-market that didn't really want that premium content, but also saw all of these things as a utility. So it's about bundling things together, if you can get it right with a single bill, a single online interface or platform, great customer service.

**Finnie:** That's the same with the enterprise; churn becomes harder if we're not just selling one product; if they've got all their computing with us and they've got all their communications with us, then it's just hard to shift. Users are driven by convenience, so if you've got a mobile device that has everything on it, it boils down to ergonomics then.

**So is it simply stitching services together and providing a discount, a single bill and a single customer service?**

**van Bavel:** I don't think so. It's about relevancy. In France we are bundling mobile broadband dongles together with ADSL. So it's positioned as occasional on the move [usage] when you are not at home and it sells very well. It's one of the biggest sales elements for the dongle business in France. We also tried to link it together with voice, but the sales people say it is just not working

because the customer doesn't come with that mindset. In Austria where we have the smart SIM, where the data bundle is shared among two SIMs, it is positioned as the second SIM for a tablet and then the bundle works again. So it's all about the relevancy of the proposition.

**Baker:** That's a good point. One of the trends that we're seeing is, and this goes against the point of convenience, a bigger average number of devices per consumer. How do you manage the tariffing and how do you manage bundles and all those kinds of things? We want to be in every single device, but there are plenty of challenges to do with that, not least just on the good old billing side which is the biggest irritation we've all got.

**van Bavel:** But it needs to remain relevant. A Kindle also has a SIM card in it but it makes no sense to try to get your SIM card into that Kindle because the customer just doesn't see the SIM card.

**Baker:** One of the things about Kindle that's made it so successful, within its market, is invisible pricing. You've got network connectivity but it's just not visible.

**Sims:** That goes back to your comments about financial services. When people are doing financial services and you're getting a piece of it, it's like the Kindle model; you get a piece of it but it's going on invisibly.

**McManus:** The B2B2C [business to business to consumer market] is where you've got to go because almost every business has mobility as part of their strategy. And you can be the partner of choice and make that become real. Technology has never been easier to develop. Funding it is a different matter, but developing it has never been easier. That's the big opportunity.

**Baker:** So, anything where effectively we're not the people who are taking the actual money, that's the point. There's £40 to spend on mobile and that's it. The

more we can get out of service providers, whether it's Google on the wholesale networks or whether it's Barclays Bank or whatever, that's where potentially there's revenue growth.

**Hatton:** One issue though is that those adjacent industries actually aren't that big. We lose sight of how big telecoms has got. You think OK, if we can just take a proportion of the revenue coming from advertising, a portion of the money coming from the music industry, then it will lift it up. The music industry is a twentieth the size of the mobile industry so you could boost your ARPU by 5% if you took the value of every CD or DVD or whatever, sold anywhere in the world.

**Haines:** But if your cost to serve it is purely incremental you could go for it.

**Sims:** And it's not just one thing. You've got to insert yourself across a lot of different industry segments, with financial services as an example, payments; these things cut across a lot of different industries.

**McManus:** The big opportunity is because of this thing [iPhone]. I know where I travel to, who my friends are, what my takeaway on a Friday night is, what football team I support, what my buying habits are. I know everything about me because of this. That's the opportunity because it's here with me all the time. So it's not looking at one industry; it's about how do you take that and the relevance that you can provide, and how do you add value so the customer wants to have that relationship with you? The opportunity is massive. This is the only place, including Google and Facebook and everybody else, where you know everything about what the customer does; the only thing. There isn't anything else.

**Baker:** And don't forget that those revenues you're talking about might be small but there's no network investment, there's no customer service. So, another €10 million from Kindle or wherever, that's good money, not bad money.

**Back to the RAN... When it comes to LTE, will we see full overlay coverage to 70%-80% of the population or will LTE be used for localised coverage and so forth? Where's the balance between the two?**

**McManus:** We haven't had the licensing yet, but I think regulation in the UK will force a lot of that. But the days of cellular coverage being provided by things on rooftops have gone. Mobile networks will get data bandwidth into places where people want to consume it. You'll have a contiguous macro coverage but you'll provide data where it's needed by getting a lot closer to the customer. Small infrastructure can get data bandwidth to the point where it's needed - small cells, femto, pico, it's all the same thing. You will have a level of bandwidth geographically and the regulator will define that because

pay again to use a service that someone else has provided for me to supplement the service that you haven't provided. That model's just not sustainable. I know there are other operators that use femto a lot more widely than we do, but it's not catching the consumer's imagination. WiFi is [also] part of the solution.

**Baker:** WiFi gives consumers the ability to press a turbo button in theory, a priority boarding button. You don't quite know how long the queue's going to be but it just gives you the opportunity to switch. I honestly don't think we need to make it more complicated than that. Just give someone the ability to log onto this hotspot and we'll bill it to your account. It's really simple. But who knows how long [WiFi's] got because networks are going to develop at different rates.

## Why can't I have the money that people spend on financial services? On healthcare?

there's a sliding scale of economics for population coverage and that has to be regulated.

**Haines:** It will be a trade-off between what you pay for the licence and the coverage obligations really. There's going to be a 5% gap in fibre coverage. LTE can provide the answer to that. You can provide [LTE] to the village pump, so you can provide the backhaul.

**What about operator approaches to femtocells? Is there an argument for the network operator getting femtocells into people's houses or does WiFi do the job?**

**McManus:** I think femto has a niche, such as for provision of wireless coverage for small businesses on the edge of a village or town. And it will be part of the portfolio of solutions that you provide to customers. But femto isn't the answer. I still have a real problem with [the concept]: You haven't built the network I need; you're now asking me to

**McManus:** When LTE comes in, will WiFi as we know it now exist? Probably not. Customers just want to experience seamless connectivity. And I don't think right now one player will be able to do all of it. Guys, you need to get your operating models sorted out, you need to work together to make this thing work because doing it on your own isn't viable.

**Wareing:** The key challenge is that it's going the same way as fixed. Knowing where you need to put demand at one time means you need a joined-up network strategy, fibre to macro cells and microwave is not the answer alone; you also need quick-to-deploy pico cells, small cells.

**McManus:** And that's the big opportunity mobile operators have because they know what data is. And data is where data always has been. Where people consumed data in the early days of GPRS is pretty much the same place they consume it today. It's just the volumes have exponentially grown.

**What is the biggest issue that network operators need to resolve in terms of delivering mobile broadband profitably over the next five years?**

**Haines:** In a word, monetising data usage.

**Wareing:** Differentiation. Everyone is moving quickly but there's no one that stands out with a really differentiated service proposition.

**van Bavel:** First of all, it's about quality. Quality must increase because that's an expectation. Secondly further down the line it's about the propositions that need to evolve. When the market becomes more mature, they need to become more segmented. And I think thirdly the biggest, in terms of differentiation, is evolving your brand relation and the interaction with your customers.

**Baker:** For me it's simply about execution. Things like adjustment to the way that the financial processes within the business are working. It's that simple. I think we know that what we need to do is just get on with it.

**Finnie:** It is somewhat structural. If [the market] acted, even at an operator level, on a more continental, multi-region level, I think that would accelerate mobile broadband. From our perspective, it would be good if [the mobile operators] could act as an entity, as opposed to 20-something entities.

**Sims:** To be able to get more share of wallet in a stealth way; not to get them to go from £40 to £45, but to get into the commerce streams that are happening and then, the Kindle model, be able to get in there in a stealth way, take a piece of it and increase your revenue share that way.

**McManus:** It's experience, value and relevance. But for me the biggest challenge is the speed at which we can change the industry model. ■