

Don't cry for me Barcelona

Views on 2009 edition of the Mobile World Congress



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As the telecoms industry is weathering turbulent times, the Mobile World Congress – Barcelona 2009 focused on both opportunities and risks for the year ahead: hot topics of this year's edition included mobile broadband, application stores, the new financial environment and smart cooperation.

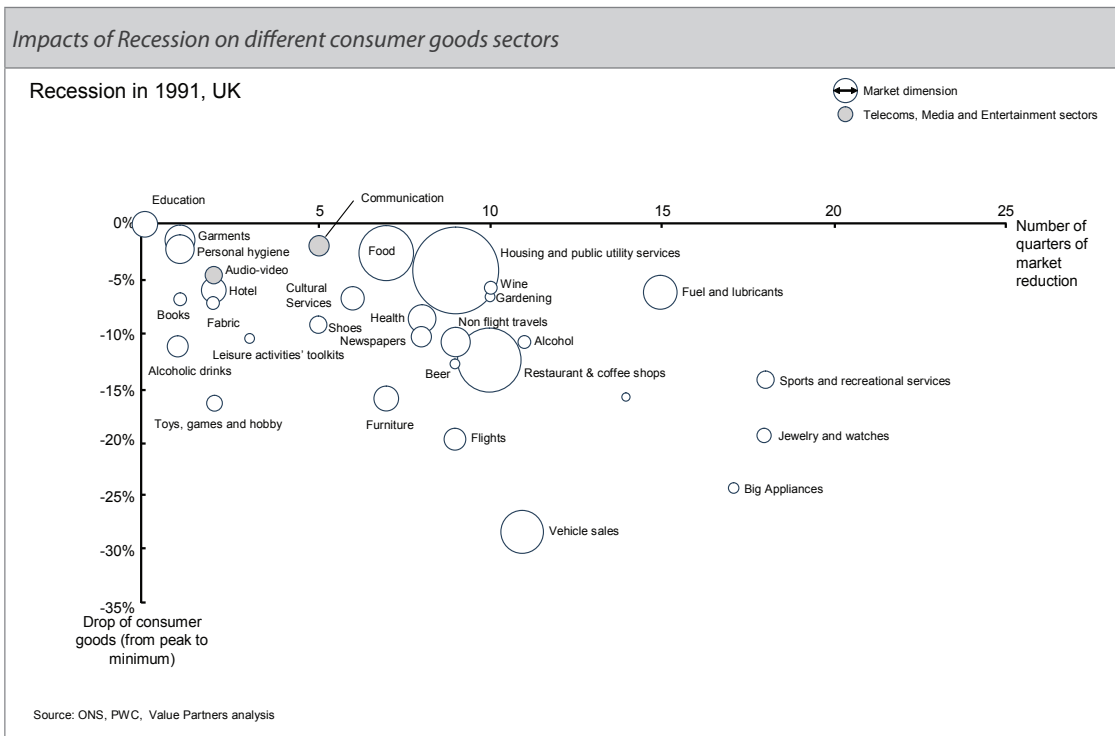
Will telecoms lead the way to economic recovery?

More than ever, the 2009 edition of the Mobile World Congress in Barcelona was an important test of the mood of an industry starting to feel the pinch of the economic downturn. As expected, the event was indeed less glorious than past editions, with attendance down 20% from last year and, arguably, few groundbreaking announcements.

However, despite the general gloom, the mobile industry still showed many reasons for optimism. In fact, a few chief executives, including Vittorio Colao, Chief Executive, Vodafone, pleaded for government action or a lift of "regulatory activism" to encourage investment in networks, and help the telecoms industry to pull countries out of recession. Recovery plans in the US and Western Europe have put forward infrastructure spend as the best route out of the current crisis. Acceleration of broadband penetration (even in Europe) and potentially via mobile to maximise the reach, could be one of these flagship investment plans.

Historically, the telecoms industry has proven very resilient to economic downturns (see exhibit below). Once again, the industry seems well-positioned today: relatively robust financial position of operators (after restructuring post-2001), strong cash flow generation, multiplier effect of telecoms on the overall economy (GDP growth and job creation), in addition, of course, to the significant growth prospects from emerging markets (connecting the unconnected) and from mobile broadband (more capacity, more speed, more services: it is a fact that today's customers can do much more than those of 10 years ago when mobile phones were used for voice and SMS only).

That is not to say that there are not risks and challenges ahead. Price decline, the above mentioned regulatory "activism", service commoditisation, and, most importantly, the "services monetisation challenge" are key concerns for the industry. For this reason, it is imperative for key players of the Mobile Ecosystem to move towards increasing "Smart Co-Operation" in order to extract the maximum value from this sector. It is important, also, to identify the right model that balances the interests among all players (leading to neither "walled garden" nor "dumb pipe illusion" scenarios).



Is there still money out there?

To optimally exploit the growth of mobile broadband, significant infrastructure investment is needed; indeed, there was much debate in Barcelona on access to capital for telecom operators. Clearly, money has dried out in the debt market with banks commanding shorter terms/ higher spreads, transforming debt into a premium product, with issuance limited to the higher end of corporate ratings. The good news for telecoms is that, relatively to other industries, operators still have decent access to debt – although short, of course, of debt financed M&A activities.

On the Private Equity and Venture Capital front, the deal flow has sharply fallen in Q4 2008 (close to a 50% drop in North American VC deal value) – with similar expectations for Q1 2009. While the investment philosophy has changed (favouring a more conservative approach, smaller deal size, and focus on the growth equity stage), money is there and many funds have cash that needs to be invested. Overall, the VC community seems still on the look-out for innovative ideas in the mobile sector (which represents 15-20% of VC deal value) as many strong companies were funded/ built during recessions (e.g. Facebook, YouTube in 2001 and 2003).

Tipping point for mobile broadband

From a service standpoint, mobile broadband clearly overshadowed most of the other topics of the conference. The general consensus was that the tipping point had been reached for mobile broadband during H208 with a 5x increase in data traffic on major MNOs' networks. Driven by changes of consumption (increased take up of mobile social networks, widgets etc.) and the fast pace of smartphone adoption, the growth of mobile broadband has significantly outpaced its fixed counterpart. Telstra, for instance, with more than 600k mobile broadband users (generating US\$ 57 ARPU per month) saw its non-SMS data revenues overpass SMS revenues in 2008.

A parallel could surely be drawn between the state of the mobile networks in 2009 and what happened in the fixed network in the late 90s, with data traffic overtaking and, eventually dwarfing, voice traffic.

A majority of operators, regardless of the current technology they are employing, seem to agree on the convergence, in the long run, towards LTE. Beyond GSM operators, this decision has been followed by CDMA operators (Verizon) and in China, with China Mobile also endorsing a TDD version of LTE following the recent

announcement of TD-SCDMA deployment. Tactically, though, the most likely scenario should see operators to continue to “sweat” their existing technology and upgrade to HSPA+, before running LTE from 2011. Some carriers, on the other hand, like Verizon and Telia Sonera, have committed to even earlier LTE development, possibly by the end of the year.

In all scenarios, LTE is bound to be, at least initially, seen as a “hotspot” technology, similarly to 3G in the early days. The key concern for LTE, despite strong fundamentals (improved QoS, increased spectrum efficiency), is the cost of deployment in the proposed expansion band at 2.5GHz. At 2.5GHz, network roll-out costs will be close to 5x higher than at 700MHz, raising, of course, questions relating to the allocation of the Digital Dividend. In a recently published report, ‘Getting the most out of the digital dividend’, Value Partners identified a €95 billion boost for the European economy if TV Spectrum is used for Mobile Broadband Services

Backhaul is the next frontier

With high growth in the volume of traffic already on the way at the edge of the network, the next big investment area for MNOs will be in the backhaul network. Any remaining TDM backhaul is bound to be gradually replaced by flexible Ethernet backhaul or multi-platform solutions allowing traffic to flow using microwave, fibre, DSL etc. For instance Telstra foresees that, by June 2009, 75% of its backhaul will be Ethernet based (vs. 60% today).

Will mobile money transfer be the next killer application?

On the service side, Mobile Payments played a significant part in the 4-day event. In particular, strong emphasis was given to the Mobile Money Transfer, as a means of providing “unbanked” customers with typical consumer financial services. The upside potential is huge: today, almost 1 billion people in the world do not have a bank account. The global remittances market is worth about 300 bn USD and is expected to grow up to 1 trillion USD by 2012, of which the “unbanked” size will be 5 billion USD.

Within this context, the role of new emerging players like the Remittance Service Provider (RSP) that ensure the end-to-end control of the entire financial process (Messaging, Settlement, Distribution) is definitely the key success factor.

Among the RSPs we can find both specialised players (like Amdocs Trivnet, OboPay or eServ Global) typically focused on messaging services or divisions from traditional financial institutions (like Visa, Citi or Western Union) that manage the whole business model (from messaging to distribution).

Handsets: in iPhone’s shadow

While the catalyst of mobile broadband growth has been the uptake of smartphones, Apple was once again notably absent from the show, at least physically as the iPhone, was, of course, at centre stage. In fact, all vendors had put touchscreen at the core of their handset strategy, with many more copycats of the iPhone in the pipeline: LG’s Arena with a sleek “Cube” interface, Samsung’s revamped line of handsets (Omnia, Ultra etc...), powered by their TouchWiz user interface etc. Nokia showcased the new N97 smartphone, due for release in June 09, a hybrid touchscreen and sliding keyboard, resembling a lighter version of the HTC “G1” Android phone. The award of the iPhone lookalike should probably, however, go to Huawei, who unveiled an Android-based smartphone with a striking resemblance to the Apple handset (due for release in 3Q 2009). Obviously, with just 1% (or less) market share, Apple still has a long way to go in the mobile industry. However, judging from the smartphones showcased in Barcelona, the Cupertino company still holds a 9 to 12 month edge over its competitors in terms of user friendliness, design and robustness of the interface. Market results are also pretty clear: about 13 million iPhone users download as many applications as 1.1 billion traditional mobile users.

More industry collaboration, really?

Closely linked to the handset discussions, Barcelona also saw the continuation of the proliferation of Mobile Operating Systems, with no clear winner, as yet. No less than nine OS are now available for mobile, either from software developers (e.g. Windows and LiMo – Linux), vendors (e.g. Nokia’s Symbian or Palm OS) or new entrants (Google’s Android). Microsoft updated its mobile strategy with a new version of its OS, a new User Interface and mobile browser, alongside a suite of services (e.g. My Phone). Rebranded Windows Phone (vs. Windows Mobile),

the new OS, still bears some of the legacy of older versions which will need to be addressed by the software giant (including freezing and latency issues). Google's OS, Android, is also getting more and more endorsement, from all vendors except Nokia (protecting its own Symbian OS). HTC released the latest Android phone, "Magic", endorsed by Vodafone, with some improvements on its predecessor H1 (less chunky).

Barcelona witnessed, too, the proliferation of Applications Store with many players vying for a share of a potentially attractive market, successfully opened up by Apple. High-profile launches of Application Stores included Nokia's Ovi (open platform to content providers based on a 70% revenue share model) and Microsoft's Windows Market Place. Operators also decided to join the race with China Mobile unveiling its Mobile Market initiative or Orange and O2 also set to launch their own app stores.

Despite this proliferation of individual initiatives (OS and Application Stores), many pleaded for more collaboration within the mobile industry to optimise costs and to share the risks without hindering innovation (which remains crucial for sustaining growth). Notable propositions here included the development of a common technology roadmap (e.g. through LTE), sharing of joint investment and experimentation.

As mentioned previously, operators like Vodafone and Telefonica pledged "smart cooperation", while AT&T and Microsoft praised the benefits of full open ecosystems for platforms, OS and devices. More surprisingly, even long term rivals Nokia and Qualcomm decided to overcome old feuds to join forces on the development of 3G devices. The most concrete, albeit less glamorous, example of smart cooperation within the industry, however, is likely to be the introduction of "one-size-fits-all" phone chargers by 2012. By then, in fact, the majority of phones shipped will support micro USB interface, with energy efficiency plug, based on OMTP (Open Model Technical Platform) standard.

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