

Mobile laptop users are much more than a minority revenue stream for mobile operators - 02 September 2008

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Some recent articles have characterised mobile data as “a minority revenue stream for operators for a few years”. This understates the importance of mobile broadband via USB HSPA modems to mobile operators.

In mature mobile markets such as Western Europe, revenues from voice services have started to decline. There is little or no further growth in voice user penetration and downward regulatory pressure on mobile termination and roaming rates have offset any gains from fixed to mobile voice substitution. Yet, in order to maintain the share price, operators have to deliver profitable growth. For many operators in Europe the only source of revenue growth is mobile data and specifically HSPA. For other operators, including US American operators the majority of growth now comes from mobile data.

Operator	Country	Quarter	Total Revenue	Data Revenue	Data Share of Growth
TIM Italy	Italy	Q1 08	-6.1%	114.9%	Only Growth
Telekom Austria	Austria	Q1 08	-2.1%	13.9%	Only Growth
T-Mobile	Germany	Q1 08	-2.2%	2.7%	Only Growth
Orange	France	Q1 08	3.7%	20.9%	99%
Telefonica	Spain	Q1 08	2.4%	3.1%	Only Growth
Telia	S, N, DK, FI	Q1 08	18.1%	28.4%	24%
Telstra	Australia	Q4 07	14.6%	146.1%	74%
Singtel	Singapore	Q1 08	15.3%	36.4%	66%
Verizon	USA	Q1 08	12.8%	48.9%	66%
AT&T	USA	Q1 08	17.1%	57.3%	54%
Orange	UK	Q1 08	-3.6%	4.8%	Only Growth

Mobile PC connectivity is part of the effort to deliver revenue growth in mature markets. There are two other factors which make mobile PC connectivity attractive from a profit margin perspective. First, in contrast to voice there are no out payments for interconnect. Secondly, operators can now source USB HSPA modems for less than €50 and a substantial share of sales is through direct channels, such as web sales, resulting in a low cost of customer acquisition. Thus mobile PC subscriptions deliver a reasonable margin despite the lower ARPU.

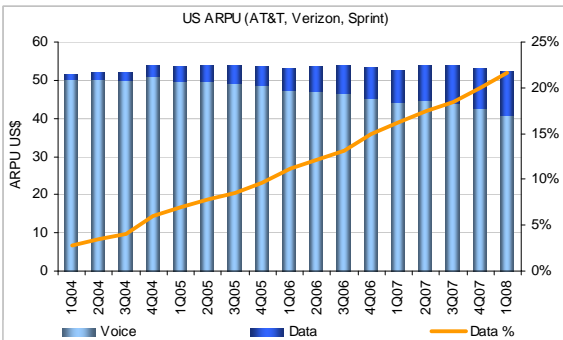
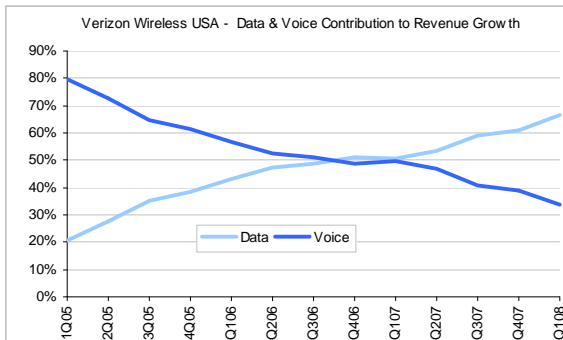
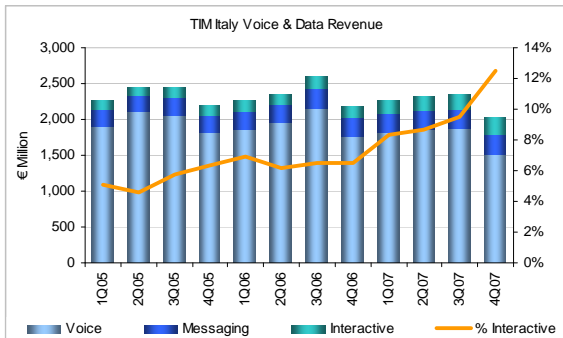
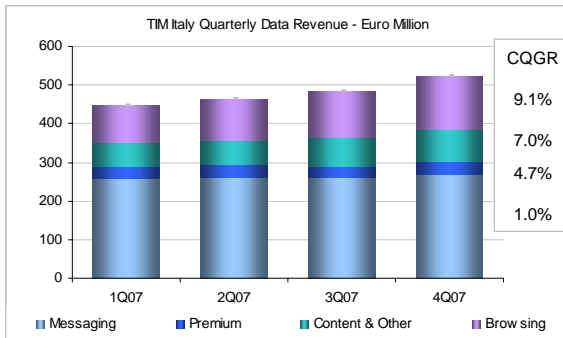
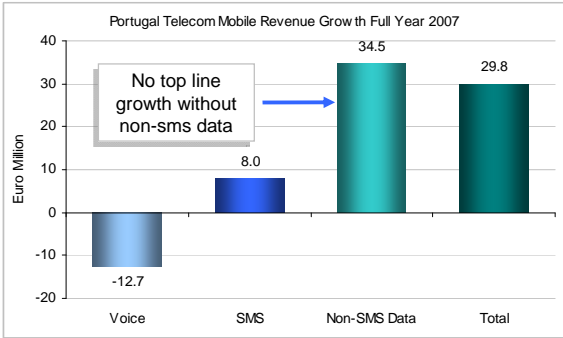
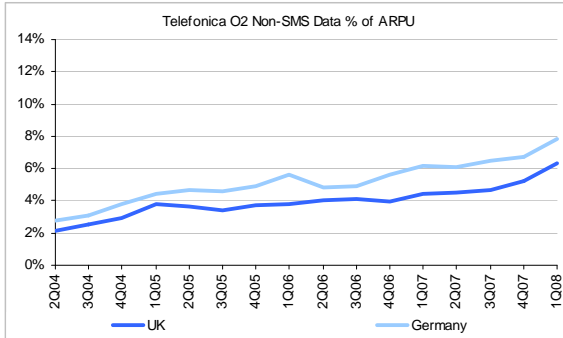
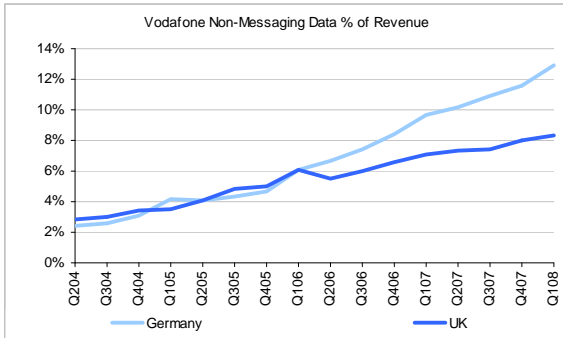
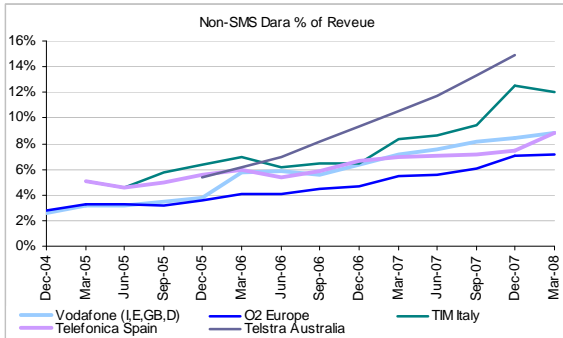
There is of course the issue of incremental capex. While most 3G networks are under-utilised at the level of the radio access network, i.e. there is spare capacity, operators now have to invest in upgrading backhaul. However, innovative backhaul solutions such as ADSL mean that backhaul capacity can be delivered at an acceptable cost.

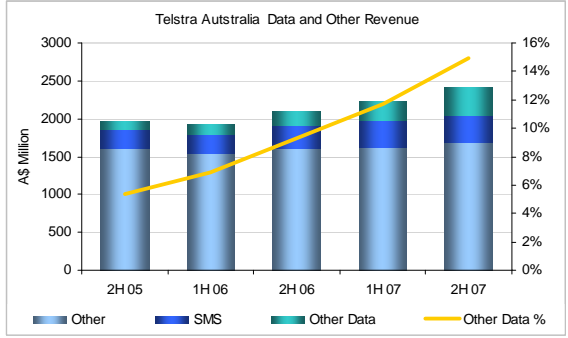
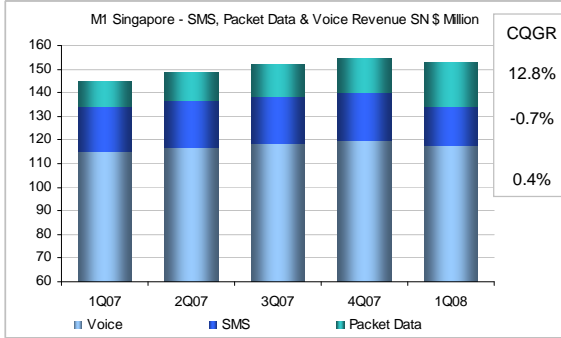
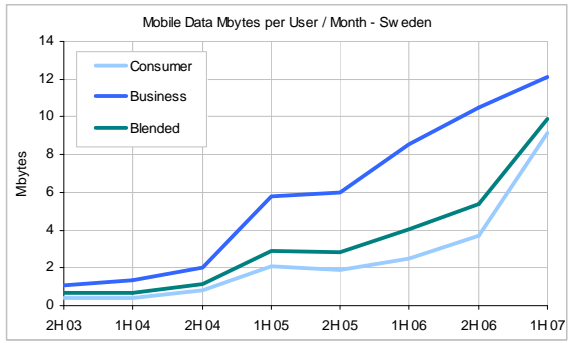
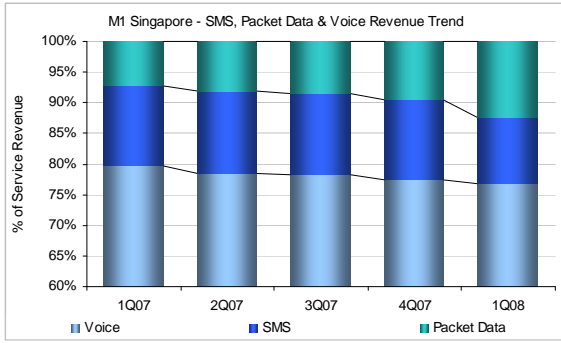
For incumbent mobile operators another important aspect of targeting the laptop market is to gain an early lead prior to potential new market entry made possible by the auction of new spectrum (700 MHz, 2.6 GHz, 2.5 GHz etc). New entrant business plans, for example for WiMax operators, rely significantly on mobile PC revenue. The new entrant business plans will start to look less compelling if the mobile PC market is already significantly penetrated by incumbent mobile operators.

Lastly, mobile operators who do not have a PC offering may risk losing valuable voice customers as they take all their business elsewhere. Once this is factored into the investment appraisal, the return on investment in mobile broadband looks attractive.

As data conveyance cost, in terms of € per bit per Hertz, continues to fall with successive HSPA versions and later LTE, a potential scenario for the medium to longer term is that the most successful mobile companies will be those who operate the most efficient bit pipes. Economies of scale, i.e. having large numbers mobile PC data customers, will be a significant factor in achieving this goal.

Selected Mobile Data Benchmarks





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