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Monday, 15 January 2007

It's that time of year when magazines do their survey of the immediate past and look forward to the immediate future. For the Mobile Business version of this review we invite views from some of the industry's key players; we also like to look back at last year's opinions to see how things panned out.



THE PANEL'S TOP TWELVE TRENDS

- 1] Consolidation at all levels of the industry: networks, distributors, retailers
- 2] Customer lifetime value increasingly a more important issue than acquisition
- 3] Selling to business offers major opportunities, especially with smartphones and new applications, but will become much more competitive. B2B will see gains for Windows and more success for HTC.
- 4] More product launches as manufacturers improve speed to market
- 5] More fashion phones as design increasingly becomes as important a differentiator as feature set
- 6] Mobile instant messaging especially to take advantage of the 460m internet-based IM users
- 7] Convergence networks moving beyond mobile services, especially with bundled mobile and fixed broadband
- 8] Streamed TV gathering momentum with more and better offers from networks
- 9] Mobile communities along the lines of MySpace and YouTube
- 10] Music – more integration between mobile and music industries, more promotion of downloading thanks to high-speed data connections
- 11] Consumer internet driven by high-speed 3G and unlimited access tariffs
- 12] Non-telephony functions on more handsets – especially satnav

What do you see as the significant changes in the mobile phone business during the past year?

Gareth Limpenny, MD, Frequency Teleco: The drive by the networks to make **major changes to their channel structures** has been the most significant feature for the industry this year.

This has been highlighted by the drive to increase their share of business from the retail channel. As business becomes increasingly more competitive and online sales take a greater share of the business, we believe this will be a continuing trend.

Other major changes – including Vodafone's acquisition of Yes Telecom, the reduction in the number of distributors and the deal with 4U that pushed Carphone out of the picture – point to a more aggressive cost-management stance that is likely to be mirrored by other networks.

Theresa Williams, Marketing Manager, Hugh Symons Communications: There are two things that impacted on the industry this year. Firstly are the **tighter controls** the networks are putting in to ensure they get less fraudulent connections. We've seen virtually all of them clamp down on distance sellers, with even more rigorous credit-checking and control over sales scripts.

Second, there's the way the **networks are attempting to regain control of the independent retailers and channels**. 12 months ago no-one would have put money on Vodafone pulling out of Carphone Warehouse. It remains to be seen whether this decision will prove a smart strategic move or whether it backfires as customers resent having choice taken away.

John Barton, Sales & Marketing Director, LG Mobile UK: Undoubtedly the most significant change in the mobile industry this year has been the shift towards a much greater proportion of sales and customer retention coming from the **networks' own stores**. Where this hasn't yet happened in such a comprehensive fashion there is an avowed intention to make it happen next year.

This development comes as the networks face the challenge to straightforward mobile services from alternatives such as VoIP, coupled with the recognition that some of their distribution partners are competitors as well as routes to market.

Faisal Sheik, fone doctors (and Mobile Business columnist): 2006 has seen the **balance of power shift towards the five big networks**. Whether they're culling dealers (and even multiples), or undercutting the whole indirect channel through direct stores, all the networks are trying to send out a loud and clear signal: "we run the show and what we say goes".

It's so bad now that stories of networks poaching or undercutting dealers barely register. T-Mobile started things when it devalued FlexT at launch by offering 25% off "if you go direct". O2 had Long Weekends, Orange had free broadband, and even the network which promised never to undercut dealers got in on the act - take a bow, 3. At least Carphone can't complain about Vodafone undercutting it!

Barry Nash, Director of Sales & Marketing, Elite Mobile: 2006 has been an exciting year of new developments from the handset manufacturers, with particular **improvements on speed to market** with new models - no doubt due to the smaller consumer window in maximising new product launches.

Ender Yavas, Head of Product Management, Samsung Mobile: During 2006, there was a significant push towards **slimness** in handsets. Consumers could assume that quality, performance and features would suffer as phones become slimmer. However, you only have to look at the quality and design of the latest slimline phones and the features they offer to be impressed. For example, our latest stylish candy bar the Samsung X820 measures in at a mere 6.9mm, sports a 2mp camera, and is made of magnesium and fibreglass infused plastic which makes it very strong.

Another significant change in the sector was the extension of **mobile contracts**. During 2006 the industry saw operators start pushing 18 month contracts, and as a result these are quickly becoming the norm.

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Simon Ainslie, MD, Nokia UK: Nokia has moved the desktop media PC into your pocket with our Nseries and other manufacturers are now **moving away from single function handsets** in a similar direction. The Nokia N95 underlines this trend.

**"All the networks are trying to send out a load and clear signal: "we run the show and what we say goes" ...
Faisal Sheik, fone doctors"**

Many operators have recognised this and are delivering innovative services which utilise the capabilities of these new devices, such as 3's X-series fixed-cost mobile broadband offering.

Tanny Price, MD, Avenir Telecom: **Market consolidation** has recently been accelerated by the ripple effect of a series of bold moves by the networks, retailers and distributors.

This undoubtedly presents challenges for the channel – but such rationalisation is common sense in today's climate, and it has been successfully replicated in other industries. Stripping out less profitable routes to market while growing value within those that remain is an old favourite with shareholders as an indicator of increased efficiency and profitability.

For example, look at the networks' move to support their direct retail channels: Vodafone's decision to reduce its distributor base: or in Avenir's case, choosing to focus energies on working with dealers who share a similar vision - all these decisions are made with rational, commercial thought to secure long-term growth for all.

Tom Veldman, LogicaCMG Telecoms: In 2006, we have seen operators place great emphasis on internet-like mobile services. The launch of **mobile instant messaging (IM)** as a rich mobile messaging service has complemented existing messaging and SMS. A number of brands including Orange and 3 have announced mobile access to existing IM communities, but other European operators such as Telecom Italia Mobile and Telefónica in Spain have taken the approach of establishing their own IM communities from scratch.

Jay Seaton, CTO, Airwide Solutions: With the ease and immediacy of **mobile messaging**, 2006 has seen the mainstream adoption of new applications such as picture sharing, text voting and a variety of mobile marketing campaigns.

However, while other applications have emerged, the majority (more than 80%) of operator's revenues still come from SMS. This is particularly true in countries with fast developing mobile networks, such as the Philippines where a typical day sees over 400m text messages sent.

Of equal importance has been the emergence of **mobile theft, fraud, viruses and spam** that have resulted from mobile devices becoming increasingly sophisticated and expensive. As messaging services continue to grow and become more complex, there will be a stronger need to implement a comprehensive range of features such as blacklisting, anti-spoofing and anti-flooding to prevent revenue leakage, preserve customer satisfaction, reduce churn, and avoid identity theft.

Windsor Holden, Senior Analyst, Analysys: It's interesting to note how many **mobile operators are moving into the fixed arena**. Operators have recognised that mobile-only substitution strategies cannot currently deliver data throughput rates to compete with fixed broadband services, and so the major players are therefore going into partnership with, or acquiring, the fixed players in a bid to counter the FMC plans of the telcos.

Bradley de Souza, Head of Telecommunications, CA: There were two very significant changes in 2006, the introduction of **flat tariffs** and **flat rate 3G**, both of which will go on to dictate how mobile phone operators and resellers do business in future.

In 2006 T-Mobile came up with 'mix and match' tariffs, meaning consumers could choose what they want to be 'fixed to' as opposed to having it dictated to them.

This approach has been a massive success for T-Mobile and, as yet, has gone unanswered by competitors in the market.

Similarly, flat-rate data (3G) has been a long time coming; but it arrived in 2006, mobile Internet, Instant Messaging and email on your phone are no longer the domain of road warriors.

How do you see the mobile industry progressing in 2007?

Sheik, fone doctors: More of the same, with **dealers becoming second class citizens**. How should we respond? By working closely together, hopefully in a dealer union/buying group. Expect lots of consolidation, especially in distribution.

Price, Avenir Telecom: The **distribution industry is polarising between those who are focusing on B2B and B2C**. As more distributors set their sights on the B2B sector as an opportunity for growth, the next year looks to be fiercely competitive. However, those who have a history within this niche will have the advantage of building upon existing knowledge and sharing this for developing a base of current, quality dealers that understand the market themselves.

Securing quality connections and balancing this with volume is now a given. Again it makes good business sense; increasing loyalty and spend rather than investing in short-term, low revenue customer acquisitions is common-practice that extends far beyond the mobile industry.

Understanding the theory of developing a customer base, increasing value and reducing churn is simple enough to grasp. But actually delivering against this while simultaneously scoping new opportunities for growth is more difficult – that is where we will see the shakeout.

Networks are moving from mobile provision to full communications solutions: All the networks are branching out of being plain mobile providers and **moving towards becoming providers of complete communications solutions**. And for distributors, it is essential that we have a supportive role that helps them to facilitate this – particularly within the B2B sector.

Hart, RIM: Having access to **tools other than email when on the move** lets individuals and organisations become more efficient.

There's been a cultural shift in working life, both physically – more people are working away from their office desks and across time zones - and in terms of business expectations, where speed and agility is a key driver. People are turning to mobile technology for a solution and applications that speed up processes and make people more efficient are proving incredibly popular.

In 2006 the industry has made a concerted push to deploy services and applications from which end-users can generate real value. **Opening up corporate tools** such as CRM and sales force support as well as **operational systems** like timesheet and expense forms to mobile employees can provide tangible efficiency gains.

Employees can access and feed into real-time data which enables them, and those back at the office, to make more informed decisions. However it's not just organisations that are benefiting from these applications.

Nash, Elite Mobile: The distributor will remain a vital part of the market and will continue to be important to the networks, especially as a conduit to the independent dealer channel and in particular its links with the SME sector.

2007 will in particular see a growing challenge for all of us to take advantage of developing technology that puts **new applications into existing handsets** as well as creating new devices. In this way, good distributors will further widen their one-stop shop capability for a growing multitude of channels, especially the independent dealer sector.

Nick Read, Vodafone: In the business space, Vodafone customers can expect to see a step-change in the delivery of mobilised enterprise applications, secure remote access via a laptop or handheld data devices from fixed or mobile locations, and specialised managed services that will keep these advanced communications services running seamlessly and securely - effectively **mobilising the working nation**.

For consumers, there will be a further shake-up in the access market as we introduce **complementary bundles of the highest quality mobile and fixed broadband services** - further evidence that customers are demanding a total communications package that serves their needs wherever they may happen to be.

As a company, all this means that Vodafone will be embracing a **wider portfolio of services** than ever before, whilst retaining our core vision of a mobile-centric lifestyle that we have always believed will be at the heart of the future of communications. These trends will reshape the way we do business - the pace of change will increase and operating models will need to adapt to capitalise on the opportunity. In an ever increasingly fast paced life, the mobile device will become the gateway to organising and making the most of it.

*"Vodafone will be embracing a wider portfolio of services than ever before ...
Nick Read,
CEO, Vodafone UK"*

Barton, LG Mobile: The scene is set for the top five **manufacturers to continue their dominance** with all of those outside of this elite group finding it difficult to gain any foothold. Further **casualties** from within the secondary tier are possible.

2007 will see the consolidation of **design and fashion** as principal reasons for the purchase of a mobile phone, seen every bit as important as the feature functionality of the device. LG Mobile will deliver on both counts building on the success of the award winning Chocolate phone."

Veldman, LogicaCMG: During 2007 we will see operators trying to **escape from value-eroding price competition**, changing to much more relevant and **targeted messaging offerings** through enriched and personalised functions such as presence and a dialogue-based user experience.

Building on their IM launches, I would like to see operators focus on creating **success from mobile IM**. Operators can take advantage of the 460m IM users, adding them to over 2bn existing users in the SMS community. There is a lot of potential in both messaging applications for 2007!

Yavas, Samsung Mobile: During 2007, we expect to see the majority of tier one manufacturers introduce **slimmer** mobile phones. We also expect competition to get fiercer in the **slider** market.

In terms of services, we think that 2007 will be the year where **streamed mobile TV** really gathers momentum. The increased availability of exciting mobile TV content and even more attractive propositions made by operators could transform TV as it currently exists and highlight a new way in which consumers can enjoy content on the move.

Seaton, Airwide: While SMS has paid for itself many times over, 2007 should see **messaging** revenues evolve beyond simple text-based services. But we will see a continued shift of operators deploying more sophisticated revenue-generating services such as personalisation on that SMS foundation, rather than waiting for other messaging technologies to gain traction. 2007 will be the reality-check year for IMS, with the realisation that it is nothing more than a reference architecture, not an answer into itself.

In addition to deploying new revenue-generating services on their proven SMS infrastructure, operators will increasingly recognise that they need to evolve their infrastructure towards tiered architectures that dramatically reduce operating expenses while also protecting their brand from increasing mobile security threats, and this will be the first step in an evolution to IMS.

Fran Heeran, Valista: I expect to see the emergence of the popular internet **community-based services** such as YouTube and MySpace on mobile. This will probably be driven through partnerships with carriers looking for market differentiation and hoping to tap into the youth market already hooked on these services via the internet. This trend has already begun in the US with Verizon's partnership with YouTube.

Microsoft's persistence with **Windows Mobile** and its emergence on an increasing number of handsets, driven in particular by specialist smartphone vendors such as HTC, will see it gain increasing market share - most notably (and perhaps obviously) in the business sector. This will, in turn, stimulate the **corporate mobile applications** sector which has yet to reach full potential.

Ainslie, Nokia: The mobile market continues to move at a frenetic pace, with **convergence** the key driving trend. 2007 will see an even greater emphasis on the move towards seamless internet functionality (known as Web 2.0) and we see **the end of the single function product** (i.e. cameraphones) in favour of mobile devices which do it all, and do it all very well.

2007 will also be the year that services on mobile devices really take off thanks to better connection options, and mobile consumers will be able to enjoy many of the **experiences they are used to on a PC**. Next year, we're also likely to see the launch of more exciting, experience-based applications from the mobile operators.

Limpenny, Frequency Telecom: We believe the **business will move even faster** in the coming year and those selling products and services will need to be able to adapt quickly with greater flexibility to survive.

These attributes will be needed more than ever by the independent dealer. Traditional strengths in customer care and service must be communicated. Good distributors will help them to win business as they provide a channel that the industry cannot afford to lose. We must also hope the independents can resist the continuing assault of customer theft by the networks.

Williams, Hugh Symons: In terms of distribution, I see independent dealers needing to adhere to the networks' drive for retention, increased Customer Lifetime Value, and higher ARPU.

Quality really is the key going into 2007, and if the channel delivers I can see the networks rewarding that business with **higher upgrade commissions**. Often network moves of this type are perceived negatively by dealers as the financial rewards all gear towards driving new connections, whereas by changing habits in the short term should reap long term benefits when the channel as a whole delivers.

Name one key area of product development for the next year

Price, Avenir: Since the idea of **convergence** emerged back in the 1990s, its failure to become an instant cash cow has led to some uncertainty about its future.

However, as the networks increasingly provide packages that combine mobile, data and broadband services, the move towards convergence is finally gaining momentum. This will be the key area of development and potential growth for 2007.

At its core is the need to ensure that converging technologies actually add relevant value to end-users. We will create excitement around convergence when businesses can see how it improves efficiency and productivity.

Nash, Elite Mobile: There will be a number of significant product developments in 2007, especially for music products and fashion accessories. But I also believe that we will see the expansion of, and increased consumer demand for, **satellite navigation** within handsets, especially with the growth of 3G services.

Sheik, fone doctors: The big opportunity? **Consumer internet over 3G**. Well done to T-Mobile's Web'n'Walk and 3's X-Series for being ahead of the game.

A manufacturer to watch next year? HTC – Windows everywhere! Wild speculation for 2007? Apple Mobile ...

Limpenny, Frequency Telecom: **Data** will be the area for growth next year. We've seen how BlackBerry has made tremendous inroads into areas outside the large corporate market. With the availability of new data handsets from other manufacturers, prices will fall and demand will increase. The interesting point is, will we begin to see a decrease in SMS traffic as mobile email reaches the masses?

Yavas, Samsung Mobile: Smartphones – they are the best platforms through which to deliver key services such as navigation solutions and push email, and are increasingly being seen as both a business and consumer proposition.

Ainslie, Nokia: It is no accident that the N95 has **built-in location mapping**; this will be the start of a theme which will eventually grow to represent the new face of the industry. The new wave of services will need to be time-, content- and location-critical to succeed.

Holden, Analysys: As 3G adoption accelerates throughout the year, we are likely to see a much wider user base for **services such as music and streamed video**. Usage levels are likely to be boosted by other factors such as an increase in the number of specialised handsets, a greater array of content (including user-generated content) and a greater public awareness of and familiarity with operator portals.

Fran Heeran, Valista: Mobile music seems to be the area for significant growth. As handsets evolve to offer greater storage and function as an acceptable music device, in combination with faster networks and more affordable data costs the market looks poised to take off.

If Apple's much rumoured iPod phone is indeed announced in January as expected it will contribute very significantly to the growth of the market. Having such an iconic music player brand will take the concept of a combined phone and music player mainstream.

Williams, Hugh Symons: We say it every year but I'll say it again – Those dealers who really get behind **data** will be the long-term survivors. With SME being the key target audience for independents and an area where the networks have very little penetration, it's a potential goldmine. At Hugh Symons Communications we are certainly going to be focusing heavily on structuring our service development and marketing initiatives in this area to support our dealers and, in turn, deliver the quality business the networks are after.

Last year's pundits

They said: "The crucial factor for 2006 is for mobile to become fully integrated into the marketing mix" Steve Procter, MobyCards

What really happened: Bodies like the Mobile Marketing Association gained credibility, and there were a couple of well-received industry conferences. But mobile messaging hasn't yet made the expected breakthrough, except for music promotions.

What's next: Expect to see many more free-content-in-exchange-for-receiving-ads deals. Middle term tip: free mobile services on a fully ad-supported MVNO.

They said: "Mobile payment will come into its own" Ramesh Kumar, ActiveMedia Technology

What really happened: Simpays hasn't been replaced, but increasingly there are options for secure back-end processing of payment for tickets, car parks, and other service-oriented offerings.

We say: The arrival of Visa in this marketplace will surely boost the appeal of mobile payments; the likes of eBay and Amazon will set the precedent of accepting cash commitments by phone.

They said: "More consolidation among the traditional Tier 1 and 2 operators" Fran Heeran, Valista

What really happened: Not a lot, though Virgin Mobile was acquired.

We say: It's only a matter of time. Rumours continue to swirl around Hutchinson's 3 subsidiaries in Italy and Britain, with Vodafone reportedly interested.

They said: "Increased activity in the MVNO arena with media and other consumer brands entering the space" Fran Heeran, Valista

What really happened: Disney changed its mind about a UK MVNO launch, but Virgin Mobile sold out to a triple-play player.

We say: The content/brand proposition still looks good, and there may be niche markets for MVNOs. But all the action will surely be in the high-risk high-return world of multi-channel offerings.

They said: "Handsets will increasingly be perceived as lifestyle solutions. This presents a growing variety of opportunities. One example: server-based satnav solutions" Barry Nash, Elite Mobile

What really happened: Satnav took off – but primarily as standalone units for cars. Server-based satnav (such as Elite's Navig8 add-on) remains a niche offering, hampered to date by slow data rates.

We say: HSDPA will revitalise the server satnav market, but in any case more and more phones are appearing with satnav and mapping capabilities built in.

They said: "The idea of a truly mobile broadband experience will be something that people become more familiar and comfortable with" Tim Miles, Vodafone UK

What really happened: Mobile broadband is only just starting to appear; inclusive tariffs like Web'n'Walk are the current fave among mobile internet users.

We say: Tim Miles' predictions were 12 months early.

They said: "Instead of being offered (expensive) new handsets as a sweetener to remain with a network, many mobile owners would rather have the cost saving passed on them directly in the form of cheaper calls" James Myring, Continental Research

What really happened: The nearest we got to discounted calls was a collection of cheap PAYG handsets, a mass of complicated add-on tariff offers, and slightly more flexibility in mixing texts and voice. Not many users paid less.

We say: Fat chance of loyalty genuinely being rewarded with cheaper calls. But fixed-rate tariffs and perhaps the chance to shift some calls on to free VoIP services like Skype hold out the promise of reduced overall costs for the heavier user.



John Barton
Sales & Marketing Director, LG Mobile UK



Jay Seaton
CMO Airwide Solutions



James Hart
Director of Marketing, EMEA, RIM



Barry Nash
Director of Sales & Marketing, Elite Mobile



Theresa Williams
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ENDER YAVAS
Head of Product Management, Samsung Mobile



Gareth Limpenny
MD, Frequency Telecom



Fran Heeran
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