



## Contents

[Universal Access and Accessing the Bottom of the Pyramid](#)

[Power of the Brand: Brand Relevance](#)

[Mobile Search and Advertising: Promising, but not quite there yet!](#)

[Mobile Network Evolution: Heated Debate on Wimax and LTE](#)

[Enterprise Mobility: A Period of Transformation](#)

[Social Networking and Web 2.0](#)

[Fixed-mobile convergence](#)

[Mobile Devices: Simply the Platforms](#)

[Mobile Content: Are we finally there?](#)

[Mobile Finance: Banking the Unbanked](#)

[Network Outsourcing and Managed Services: What is there NOT to outsource?](#)

The biggest event in mobile communications worldwide wrapped up in Barcelona on February 14th with much fanfare. Delta Partners attended the conference sessions and herewith is the wrap up report in which we discuss the main topics of the event that are most relevant for the MEA region.

### Universal Access and Accessing the Bottom of the Pyramid

Continuing from previous years, the bottom of the pyramid got quite a bit of attention at the MWC in Barcelona, with speakers discussing the revenue opportunities at the bottom of the pyramid as well as cost effectively serving this segment.

DTAC, a Thai mobile operator, as well as Grameenphone of Bangladesh, and Bharti Airtel of India all drew a close correlation between the direct and indirect (intangible) effects of mobile penetration growth on the overall GDP of the country. In Thailand, DTAC claimed that mobile contributed 4.75% of GDP in 2007, up from 2.5% of GDP in 2004, driven mainly by the indirect (intangible) benefits mobile brings in terms of productivity improvements at lower income levels of society.

DTAC's approach to targeting the very low income rural segment is by focusing on rural buying patterns in the country, which tend to be through local small grocery shops that carry a wide variety of basic daily needs in very small daily consumable packaging. Based on this pattern, DTAC developed very low value top-ups that cater to the rural need to control spending on a day-to-day basis. DTAC also considers the seasonality factor in the income level of the farmer (driven by harvest cycles) and targets its marketing efforts around the times when farmers have cash at hand from the harvest.

Grameenphone framed the argument for reaching to the bottom of the pyramid around the concept of decentralization of economic power in low income countries. Historically, top-down aid concentrated power in the hands of authorities with the people not seeing much of the benefits. With communication, the masses in low income countries are now empowered and are able to increase their productivity, which in turn reinforces their ability to consume mobile services. As such, Grameenphone sees a virtuous cycle created by mobile

Grameenphone sees a virtuous cycle created by mobile communications at the bottom of the pyramid, where the mobile acts as a productivity tool that helps the consumer develop income that enables him to spend more

communications at the bottom of the pyramid, where the mobile acts as a productivity tool that helps the consumer develop income that enables him to spend more on mobile services.

To overcome the chicken and egg problem of lack of initial buying power, shared access, or community access, was advocated by all the speakers, while Grameenphone also discussed microcredit to finance the purchase of mobile phones by individuals who repay the loan with money they generate from selling minutes on their newly acquired phone to their village community. Grameenphone claims 250,000 entrepreneurs conducting this retail phone business in 60,000 villages in Bangladesh, giving access to over 100m users. It also claims that its Community Information Centers (Internet, fax, phone services) average \$500 in revenue per month, a \$70 profit per CIC, and 60% of them reaching breakeven within 1 year of operation.

Bharti Airtel highlighted its rural market initiatives such as voice SMS, vernacular SMS, money transfers, banking for the unbanked, partnerships with a fertilizer company to reach farmers, agricultural helpline and tips, prices, and weather alerts. On the cost side, Bharti highlighted its network outsourcing and managed services as a key enabler of its \$0.025/minute tariff rates.

China Mobile drew a correlation between the need to cut costs to serve the bottom of the pyramid with the strategic objective of the operator to become green. Hence, reduced packaging, more efficient network equipment using alternative energy sources, and standardization, as well as recycling handsets, are all initiatives that China Mobile has put in place that drive it to become more green while enabling it to run a leaner organization that can serve the bottom of the pyramid more efficiently.

On the network side, there were discussions of village coverage solutions by NokiaSiemensNetworks, where management and provisioning is done on a local level via a franchising system. The system can autonomously set up and complete all local calls in the village, and the entrepreneur keeps all the profit from these local calls, while the operator generates revenue from outbound/inbound calls from/to the village.

Initiatives on the cost side for serving the bottom of the pyramid were highlighted as: reducing the total cost of ownership of the infrastructure, including capex (BS costs, civil works, and deployment costs) and opex (energy); reducing the CPE costs focusing on silicon and software cost reductions, and use of dual-mode WiMAX/EDGE devices, and reducing device power consumption; and reducing handset and equipment tax rates.

With the vast majority of the populations in the African continent living at or below the poverty line, serving the bottom of the pyramid in Africa is an immense challenge for mobile operators. The lessons learnt from these few case studies presented in MWC in Barcelona indicate that the opportunity is there from the revenue side, as long as there is innovative approaches to capitalize on the opportunity, and so long as the cost elements are kept strictly under control and innovation also happens from the cost perspective. Unlike many other consumer goods, mobile communications is a tool that improves productivity, and thus looking at the bottom of the pyramid purely

Looking at the bottom of the pyramid purely from an GDP/capita or current income level perspective would remove a vast and potentially lucrative customer segment from the addressable market.

from an GDP/capita or current income level perspective would remove a vast and potentially lucrative customer segment from the addressable market.

### Power of the Brand: Brand Relevance

Discussions of brand in the mobile world zoomed in on the challenges of maintaining a brand image in emerging markets. MTS Group (Russia based) and Bharti Airtel (India) discussed the challenges they face in creating a compelling brand image in their respective markets.

Both MTS and Bharti Airtel agreed on a fundamental difference between emerging markets and the more advanced European markets in terms of branding: Brand relevance is much more important in their respective markets than associating the brand with a differentiated value proposition.

According to MTS, there are inherent differences between the more advanced (namely, European) markets and emerging markets (Russia and CIS) that impact the way brands are perceived. European markets have a characteristically large and relatively homogeneous middle class, comparatively slower economic growth rates, and a mobile market that is predominantly a market share game. As such, individuality is valued by the customer base and is the central driver of the brand positioning in these markets.

In emerging markets, in other hand, lack of a large middle class and enormous disparities in wealth (in Russia, the income levels of the 10% richest and 10% poorest vary by a factor of 16x, versus 4x in Western Europe, while in India, top 10% accounts for 40% of the income, and the bottom 70% accounts for only 20% of the income) make these markets more challenging for brand positioning.

In such diverse markets, brand consistency is a major challenge. Bharti Airtel tackles this challenge by making the brand local, building it at every customer touch point and with every customer segment, while maintaining some degree of brand consistency through visual, oral, and emotional consistency.

For MTS, there are several factors driving its brand strategy. The MTS approach is to position the mobile as a basic needed utility, offers value, is iconic, ubiquitous, available everywhere, means different things to different cultures and income levels, and is trusted to perform reliably under pressure. From a marketing angle, MTS strives to ensure that marketing can both help build the affinity and engagement as well as making the tactical sell. For MTS, the key word for its brand strategy is relevance, not differentiation.

Bharti Airtel also emphasized brand ubiquity, claiming its brand is the most ubiquitous brand in India. Bharti Airtel's brand values can be summed up as: fresh and can-do; being in touch and on the customer's side; and symbolizing India's quest for progress and growth while maintaining the community and family ties that matter most.

Bharti Airtel made a very clear distinction between its brand strategy in urban versus rural areas. The network reach and coverage, distribution and retail characteristics of rural India, and the lack of media outlets impact

Brand relevance is much more important in their respective markets than associating the brand with a differentiated value proposition

Bharti Airtel's brand strategy in rural India. For example, in order to compensate for the lack of traditional media reach in rural India, Bharti Airtel partnered with Nokia to deploy about 200 Nokia-Airtel vans that cover 60,000 villages providing on the ground services and solutions that create excitement. Another example is its alliance with IFFCO, the largest fertilizer company in India, providing simple content around commodity prices to farmers.

The implications for the MEA region from these two emerging market case studies presented at the Barcelona event are significant. The pan-regional players in the MEA region have operations across many countries with very diverse cultures, values, and income levels, both within the individual countries as well as between the countries. As the pan-regional operators strive to develop a unified brand across their different country operations, as is the case with Etisalat, MTN, and Zain, they need to be very cognizant of the challenges their diverse customer base will bring on their strive for brand consistency. The ability to balance the ability to be consistent across all customer segments and operations while making the brand relevant to all the customer segments is essential for a successful brand strategy for these pan-regional players.

Pan-regional operators ... need to be very cognizant of the challenges their diverse customer base will bring on their strive for brand consistency brand with a differentiated value proposition

### Mobile Search and Advertising: Promising, but not quite there yet!

Given the huge growth expectation to become an \$11 billion industry by 2011 (IDC), Mobile advertising was one of the hottest topics addressed in Barcelona's GSMA conference by leading online search portals, media buying agencies, vendors and operators alike. From the operator side, Vodafone UK claimed a 2% click-through rate on banner ads on its mobile internet pages - which is 10 times more than fixed-line internet response rate - and UK operator 3 claimed a staggering 9%! Online players and vendors are also proactively targeting the mobile advertising opportunity. Yahoo!, the online search portal that is advertising driven, announced that it's one year-old mobile search application "OneSearch" is already reaching 600 million subscribers across the networks of 29 partner operators, while Google has already signed up 34 handsets and software partners to install its own operating system on as many handsets as possible. According to Google, Apple's iPhone, on the other hand, is seeing 50x more searches than any other mobile handset, with its users' ARPUs almost double the average due to large data packages consumed, according to AT&T US. According to Google, this evolution of handsets customized for heavy data usage will eventually grow mobile searches (and its revenue driver, mobile advertising) to overtake fixed-line internet searches.

The key advantages of mobile as a medium for advertising were highlighted by several of the participants at Barcelona. With 3 times more mobile phones globally than PCs, broader reach is the obvious advantage of mobile advertising over the online version. An operator's ownership of valuable demographic and psychographic user information, combined with the mobile search portals' geo-targeting and behavioral ad placement techniques can be utilized to enhance targeted advertising for segmented audience groups, resulting in improved relevancy and effectiveness over traditional media,. Interactivity that is possible via a mobile device and search portals/applications deliver highly on "user engagement" - a key term in successful advertising.

With 3 times more mobile phones globally than PCs, broader reach is the obvious advantage of mobile advertising over the online version

Yet, mobile advertising has quite a few challenges to overcome. Limitations caused by small device screens, limited data input methods, complicated device-user interface, lack of unlimited data tariffs and slower connection speeds can lead to a slow and complicated transition. In addition, there is the real possibility of erroneously replicating the intrusive and irritating nature of spam and irrelevant pop-up banners, which can cause irreversible damage given the fragile and personal nature of the user-device relationship. Last but not least, the current lack of standardized metrics and KPIs for successful mobile advertising campaigns that can compare them with traditional media could delay brands' recognition of mobile advertising's great potential.

Limitations caused by small device screens, limited data input methods, complicated device-user interface, lack of unlimited data tariffs and slower connection speeds can lead to a slow and complicated transition

According to various speakers at the event, key success factors in overcoming these limitations and achieving optimal growth lie in interface simplicity, proliferation of reliable high-speed networks and billing transparency via flat data rates. As for the fear of spam replication, extreme care with regards to adverts type, frequency and relevancy is crucial. And on the issue of standardizing metrics and KPIs, all 5 UK mobile operators have agreed to pool their subscribers' internet usage data in order to define metrics that will further enhance the measurement of advertising results for media planning purposes - an initiative that not only reflects a big step forward toward the acceptance of mobile advertising, but will also allow for direct comparison of mobile to other traditional media.

Moving forward, it is still unclear who will drive the mobile advertising market or when it will become a significant revenue contributor. With so many players across the value chain including operators, vendors, content owners, search portals, media houses and advertisers, the question remains unanswered. However, one apparent conclusion agreed between most speakers at the event is that exploiting the mobile advertising market is dependent upon partnerships between all stakeholders to help grow the market. The current collaboration between Google and several vendors, as well as data-pooling initiatives taken by UK's operators are just a few of the obvious strategic partnership actions taken by players today.

One apparent conclusion agreed between most speakers at the event is that exploiting the mobile advertising market is dependent upon partnerships between all stakeholders to help grow the market

There are still very big question marks about the viability of mobile advertising in emerging markets such as the MEA. While some of the region's more advanced markets (GCC) could probably sustain a mobile advertising business model along the lines of the models being developed in Europe, the rest of the region lacks many of the factors that are traditionally thought of as driving the market. Specifically, the low penetration of data and rich content-capable handsets, low uptake of mobile data packages, and general low ARPU customer base would lead one to believe the region is not ready for m-advertising. However, there are factors that make this new medium much more relevant in these emerging markets than in the more advanced markets. Namely, the lack of any alternative well established and wide reaching media within some of the countries of the region, the immaturity of traditional advertising media, together with the wide availability of mobile handsets imply that there is a real potential of positioning the mobile as a medium that can reach a much broader audience than traditional media in emerging markets. The trick for the MEA operators and other stakeholders is, however, the advertising model that can leverage these unique advantages of the mobile medium, while mitigating for the

challenges of poor mobile data uptake, lack of high end handset penetration, and low ARPUs among the customer base.

### Mobile Network Evolution: Heated Debate on Wimax and LTE

You might have never heard of LTE, but in Barcelona, it was the hottest discussion topic when it comes to the evolution of mobile networks. Once standardized, LTE promises to become the next generation (4G) evolution of the current 3G and 3.5G standards. That, of course, means more bandwidth than HSPA (3.5G). LTE promises a whopping 100Mbps downlink (according to Ericsson), 3-4 times faster than HSPA.

Bandwidth is not the only advantage of LTE though. LTE promises a simpler and more cost efficient approach. In LTE, there are only three user states that need to be recognized, idle, active, and detached, as opposed to the more complex approach in UMTS (3G). The ability of operators to reuse cell sites and infrastructure are critical elements of the design criteria that are guiding the standards process of LTE. LTE should become commercially available, if it lives up to its hype in Barcelona, during 2009-2010.

LTE should become commercially available, if it lives up to its hype in Barcelona, during 2009-2010.

There was also noise from the operator community. China Mobile, AT&T, and Verizon threw their support behind LTE, while Sprint Nextel and KDDI in Japan threw their support behind WiMAX. Vodafone, for its part, argued for bringing together the two most promising 4G technology standards, WiMAX and LTE, under one single standard in order to make standards development and eventual network deployment by operators more efficient.

Vodafone... argued for bringing together the two most promising 4G technology standards, WiMAX and LTE, under one single standard

According to Vodafone, the expectation is that the demand for mobile broadband will be larger in emerging markets, and thus unifying the LTE and Wimax standards can produce benefits for deployment of mobile broadband in emerging markets.

As operators such as Mobily, Vodacom, MTN South Africa, and many others are increasingly focused on capturing a piece of the broadband opportunity in the MEA region, the evolution of the LTE standard and convergence of the LTE and WiMAX standards can provide a further boost to the economics of serving mobile broadband in the MEA region.

...the evolution of the LTE standard and convergence of the LTE and WiMAX standards can provide a further boost to the economics of serving mobile broadband in

Operators in the region need to assess the impact of LTE and WiMAX in terms of additional revenue streams and cost efficiencies it can bring to serving the pent up demand for broadband in the MEA region, while taking into account the potential challenges for such technologies to gain mass adoption, particularly the cost of the CPE, delays in standardization, and cost of deployment.

### Enterprise Mobility: A Period of Transformation

With many of the sessions were focused on consumer oriented solutions, whether for advanced markets or emerging markets, an enterprise-focused session at the MWC in Barcelona was much needed. The central theme of the speakers, whether BT or Orange Business Solutions or IDC, was that the enterprise is now at a period of transformation: Consumer mobility trends are creeping into the work environment at a very rapid pace and enterprise CIOs need to cope with the change and adapt.

Today's enterprise is facing a unique combination of internal, external, and technological challenges. External challenges were summarized by Orange Business Solutions as new business models, channels, and ways of generating value, while internal challenges include new ways of working (the prosumer effect), new organizational structures (geographically dispersed management team), and increased mobility of the workforce. All of these, combined with the technological trends of fixed-mobile convergence, proliferation of devices, network technologies, storage, and applications all add up to a very complex set of challenges the CIO needs to address.

Enter the enterprise mobility solutions opportunity. BT focused on the opportunity within enterprises for fixed-mobile convergent voice solutions (particularly unified communication), while Orange focused on the data aspect of enterprise mobility, namely remote access (VPN), mobile email, mobilizing enterprise applications, machine-to-machine, m-payments, and location-based services. Each presented case studies of enterprises that have adopted several of these solutions and the benefits it had brought. Some highlights include in-car SIMs that enable traffic alerts, maintenance alerts, etc, or home healthcare SIMs that enable remote monitoring of patients, or contactless payment systems trialed with railway companies or football stadiums, and fleet tracking. On the voice side, BT presented its Corporate Fusion offering which integrated with existing PBXs within enterprises.

What the panel essentially agreed to was the need to get a deeper understanding of the CIO's challenges, and develop the solutions needed using a set of strategic partnerships: operator-operator partnerships that widen the network reach for MNC clients for example, as well as partnerships with software vendors and device vendors, particularly software-as-a-service (SaaS) vendors that will enable the operator to develop software for its customer base or mobilize existing enterprise software.

With the SMB and enterprise segment constituting a large portion of the revenue base of mobile operators globally, operators cannot risk not addressing the mobility needs of the corporate customer. Within the MEA region, mobile email services have been the first data product launch by mobile operators for the business segment, followed by the mobile data card offering in such markets as the GCC, North Africa, and even selected sub-Saharan African countries. While these first steps in enterprise mobility solutions still have a long way to go before reaching saturation, operators in the region need to start developing value propositions beyond basic mobile email and mobile Internet access if there are to sustain growth in the enterprise segment. To do so, innovative solutions around mobilizing enterprise applications, vertical focused solutions such as fleet management or home healthcare monitoring are ways of gaining incremental ARPU from the business customer. However, given the lack of expertise among the operator community in the region, alliances and partnerships, particularly with device and software vendors and systems integrators will be key to deliver such solutions to the market.

Operators in the region need to start developing value propositions beyond basic mobile email and mobile Internet access if there are to sustain growth in the enterprise segment

## Social Networking and Web 2.0

Yet another of the key themes of the MWC in Barcelona was the creeping of social networking into the mobile space. To indicate the wide prevalence of this phenomenon online (the so-called Web 2.0), MySpace and Facebook attract 53m and 10m visitors each month only from the US. Nearly 60% of teens 12-17 years of age, and 80% of young adults (18-21 years old) are using such social networking sites today.

Why should mobile operators be interested? For starters, social networking is a high and frequent usage activity, is very valuable to the customer segment that uses it, and is a low cost way for an operator to create digital content that is relevant to customers and current. All of this can translate into potential revenue streams for the mobile operator through traffic uplift and new services adoption.

The role of the operator in enabling social networking on the mobile includes empowering the customer to create and consume the content and enabling community creation, better understand the customer needs and develop targeted value propositions.

The panel agreed that the key success factors in bringing social networking into the mobile space is to focus on value creation rather than on charging models in the early stages, to focus on innovation, leveraging mobility features and not just replicating the online experience, excelling in the user experience, making it relevant, targeted, and, critically, cross-network, and using brands to engage customers and build trust.

According to 3UK, there are several ways for a mobile operator to enter the social networking space, depending on its need for speed-to-market. An operator can set up its own platform on-portal, outsource the platform off-portal, or an in-between solution (partner providing a platform on the operator's portal, such as Facebook's new partnership agreement with Vodafone UK). 3UK argued that there is no silver bullet in the operator's choice of approach, since the market is still in the very early stages of development, and it is more of a try-and-see approach.

The key challenge down the line is how to monetize this growing opportunity. Users today expect the service to be free as it is online, are hypersensitive to premium charges, and there is a high risk of bill shock if it is a traffic based revenue model. Some short term solutions suggested included flat-rate data subscriptions, advertising/sponsorship models, or a paid model where the data traffic is included to avoid the bill shock.

The key challenge down the line is how to monetize growing opportunity in social networking on the mobile

Facebook mentioned in the panel discussion that they are surprised at the level of usage of their social networking site from emerging market countries, particularly places such as the Middle East, and Turkey. The social networking trend online is one that is gaining rapid traction among the younger and more affluent segments in the Middle East. In markets where the Internet has a relatively high penetration such as the GCC and South Africa, and where the population is predominantly young and likely to increase their usage of Web 2.0, mobile operators in such markets should consider the benefits of enabling social networking for their customer base as a means of increasing stickiness. However, the revenue potential is still questionable as the business models are not clearly defined yet. The more innovative mobile operators in the region who are keen to protrude an image

of innovation and youth might consider jumping on the social networking bandwagon, while others are probably better off taking a wait and see approach.

### Fixed-mobile convergence

There are four layers of convergence happening in the telecom industry today: voice and data convergence, fixed and mobile convergence, media and networks convergence, and telecom and IT convergence.

From the discussions in Barcelona, it seems that fixed-mobile convergence is still at the very early stages, with only a handful of operators venturing into commercialized services, although there is quite a bit of activity from the vendor community in developing the technologies that would support fixed-mobile convergence offerings.

It was implemented by a few international players like Korea Telecom, Swisscom and BT but according to the 3GSM in Barcelona, 2008 will officially be the year that convergence comes to age.

Facing churn and declining ARPUs, mobile-only players in highly mature mobile markets are increasing considering ways of leveraging FMC to create ARPU lifts and increase stickiness. This, combined with the increased need to ubiquitous access across multiple access networks and multiple devices to the same content (think TV, social networking, email, etc), and the recent growth in VoIP adoption and technological developments have all created the perfect storm for the emergence of FMC opportunities, according to BT.

There has already been quite a bit of activity in Europe with mobile-only operators acquiring fixedline broadband players to gain access to the broadband market (Vodafone acquired 2 million fixed telephony customers, 270,000 broadband customers, and nearly 400,000 direct access customers in Italy and Spain), or acquiring WiMAX licenses to serve fixedline broadband services to customers in the MEA region. IDC believes that this trend is the prelude to eventual true FMC offerings where calls and content is seamlessly accessible from fixed and mobile networks.

The widest array of FMC offerings today are done by a fixed-only player, however, BT. BT Fusion, Office Anywhere, Digital Vault and Snap & Send photo solutions are only a few of the FMC dependent offering BT has on the UK market today.

The MEA region has seen some activity from mobile-only operators seeking entry into the fixedline broadband access market already, with MTN's acquisition of XS Broadband or Zain Bahrain's or Umniah's WiMAX license acquisition. The region is quite some time away from truly seamless FMC offerings, but if IDC's predictions are correct, these first steps are the prelude for increased future efforts to bring synergies between the fixed and mobile access networks that enable services that leverage the best of both worlds.

The region is quite some time away from truly seamless FMC offerings

### Mobile Devices: Simplify the Platforms

While every vendor had come out with ever newer mobile handset models operating on an ever wider variety of operating systems during the event in Barcelona, Vodafone's CEO called for the reduction of the number of mobile operating platforms from the current 30-40 down to 4 or 5, in order to simplify the handsets and allow operators and content providers a narrower selection of platforms to enable their applications on.

CEO called for the reduction of the number of mobile operating platforms from the current 30-40 down to 4 or 5

And of course, the big elephant in the room was Apple's iPhone and Google's Android. Almost every speaker at the event mentioned one of these two, or both, as examples of how the terminal devices in mobile are revolutionizing the adoption of mobile content, entertainment, and advertising.

The shortage of content in general in the MEA region is one of the key inhibitors to further adoption of mobile content. Reducing the number of operating systems that content developers and aggregators have to customize their content for could ease the content production cycle in the MEA region.

### Mobile Content: Are we finally there?

While the emergence of mobile content as a real revenue booster for operators has found its way into the conference agenda of the event in Barcelona for every year of the past 3 years, the consensus among the big mobile operators and content developers and aggregators seems to be that the market for mobile content is finally become an attractive ARPU booster. Softbank, a leading player in the mobile and content space in Japan, as well as Telstra Australia, both showed impressive adoption patterns of mobile TV, social networking, music, and gaming among their user base, and Softbank believed that in the near future, voice will be offered for free by operators who will be playing more aggressively in the content space. Other operators reported impressive usage of social networking and search, but poor results for mobile TV, where content availability and fragmented technology standards was blamed for the poor uptake.

However, the key discussion item with regards to mobile content, whether it is search, TV, gaming, music, or social networking, was still the revenue model that works best. The question was what content is best suited for the advertising revenue model versus the content usage model and the pure traffic revenue model. Not surprisingly, the over the top content providers such as Google and Yahoo! are advertising driven and have seen impressive growth in usage and ad revenues.

The question was what content is best suited for the advertising revenue model versus the content usage model and the pure traffic revenue model

These players favored open platforms by mobile operators where the user can access the over the top services via any mobile operator, and preferred all-you-can-eat data tariffs that encourage high usage of over the top services. Yahoo! and Facebook both preferred to have operator partnerships whereby they could get premium visibility and ease of access to their portals from the operator's own portal or via buttons dedicated to their service (such as Yahoo! Mobile on Softbank's handsets or Facebook icon on Blackberry). Yahoo!, in return, shares its advertising revenue with operator partners, while the operator keeps all the traffic revenue.

Operators such as Softbank where concerned about being left out of the revenues generated in content, and becoming the "dumb pipe" that only transports the traffic

Operators such as Softbank were concerned about being left out of the revenues generated in content, and becoming the “dumb pipe” that only transports the traffic, and believed that operators should be more proactive in engaging in the content space now that the content adoption is in high growth. The idea being that while content was in the early stages of development and operators did not have much experience and proven revenue models in that space, leaving the content play for over the top providers was viable and encouraged adoption (although many operators actually took the opposite and erroneous approach of creating walled gardens of on-portal content). As content becomes a serious revenue generator though, Softbank believed that operators should be more engaged in enabling and even developing content in order to ride the revenue growth of content. As such, partnering and engaging over the top service providers become vital.

Over the top service providers have mainly ignored the MEA region so far as they focus on the more lucrative content markets in Europe, North America and Asia. However, as mobile content become a more important driver of ARPU growth, particularly in the more advanced markets of the GCC, we can expect operators to look at these emerging business models to ensure they do not become simple “dumb pipes”. We are in fact already seeing mobile operators such as Qtel and Etisalat playing in the mobile content space with their Mosaic (<http://mobile.mozaic.qa/>) and Weyak (<http://mobile.weyak.ae>). content portals.

### Mobile Finance: Banking the Unbanked

Perhaps one of the most directly relevant topics for our region is financial services over the mobile phone. The M-PESA service from Safaricom (Kenya) was highlighted as a successful case of offering mobile financial services (money transfers/remittance) to the unbanked populations. The company plans to partner with other operators around the globe interested in this solution and has already done so in Afghanistan and Tanzania.

Designed for the unbanked population of Kenya, the M-PESA has seen solid uptake by this segment due primarily to the lack of money transfer infrastructure in Kenya. Launched in March 2007, the service has 1.6m registered customers, with average transfers of Euro 1m/day, and an average transfer per event of Euro 30/transaction. Safaricom highlighted its key success factors to be its wide network of agents, critical mass of users, keeping transaction costs low, putting in place steps that limit fraud, educating customers, and addressing financial and banking regulatory issues early on. Financially, Safaricom claims that operators interested in money transfer services should not expect to make money in first 2-3 years as you build the network of agent and do SIM swaps, and that the main focus should be the stickiness and loyalty the service creates rather than the ARPU impact it might have.

South Africa and the Philippines were put forward as examples of markets where mobile finance has grown tremendously as well.

Other example of mobile finance focused on the high end segments, such as BankInter’s mobile banking initiatives and LogicaCMG’s contactless payments trial with KPN, a partner bank and supermarket, whereby

Launched in March 2007, the service has 1.6m registered customers, with average transfers of Euro 1m/day, and an average transfer per event of Euro 30/transaction

One of the banking solutions offered to the MVNO customers is the ability to measure the distance between a customer’s mobile SIM and his credit card, enabling fraud prevention and creating credit cards that work only in certain areas

customers pay using mobile and the payment is deducted direct from their bank account. BankInter showcased an MVNO they have launched in Spain over Orange Spain's network, and in partnership with KPN (which provides the banking software platforms). One of the banking solutions offered to the MVNO customers is the ability to measure the distance between a customer's mobile SIM and his credit card, enabling fraud prevention, creating credit cards that work only in certain areas, among other services.

The MEA region has both very advanced markets for financial services (GCC) and very underdeveloped markets (Africa) where these above examples can serve to generate opportunities for mobile operators to enter the mobile finance market for the high end customer and low income customer segments in the region.

### **Network Outsourcing and Managed Services: What is there NOT to outsource?**

From the panel discussion on network outsourcing and carrier managed services in the Barcelona event, it seems that operators in more advanced markets are considering outsourcing many elements of their business operations that were previously considered sacrosanct.

3UK (part of the Hutchinson group), which operates a purely 3G network in the UK, discussed all the different outsourcing options for a mobile operator in a market where competition is lowering prices, the network is no longer a differentiator, and economies of scale on the cost side are becoming increasingly vital. 3UK outlined elements such as the network access (physical sites, towers, antennas), transmission, core, applications platforms, and even BSS (billing) for which strategy should be developed inhouse, while the design, planning, building, and operating could be outsourced.

Aside from the obvious and well covered outsourcing opportunities such as tower management, 3UK highlighted the possibility to outsource the NOC, outsourcing the transmission through wholesale partnerships with an existing player, outsourcing the data center, and even the IT infrastructure such as BSS. The bottom line is that in a 3G environment, these elements are becoming increasing complex to develop and maintain, not to mention the capex and opex consideration involved.

The concerns operators tend to have when considering outsourcing are fairly standard concerns. Specifically, the challenge of managing the transformation, fear of losing competitive advantage of the network, uncertainty on how to set up a joint network entity, governance and operational models, employee/union concerns, fear of losing strategic flexibility, managing multivendor networks, and fear of being locked into one outsourcing supplier.

According to the panelists, operators should not consider the network a key differentiator anymore in highly saturated markets where all the key mobile players have good coverage. Network coverage in such cases rapidly decreases as a differentiating factor. In such markets, network performance, quality of service, and throughput differentiation also decreases as call metrics approach industry standards and architecture is standardized.

3UK highlighted the possibility to outsource the NOC, outsourcing the transmission through wholesale partnerships with an existing player, outsourcing the data center, and even the IT infrastructure

On the carrier managed services side, managing, developing, optimizing, and expanding the network and IT assets, as well as sites and transmission networks were key opportunities discussed by 3UK and Ericsson. In addition to the network, managing and developing multimedia service environments including service delivery and billing were other managed services opportunities.

The key advantages highlighted in outsourcing and carrier managed services was opex reductions, capex avoidance, structural separation of the business and thus the freeing up of cash, spectrum re-farming, and enabling the operator to free up resources to focus more on customer service.

The pitfalls to avoid and watch out for highlighted by 3UK and other panelists were contracts that have a slow savings realization, or ones that actually end up draining resources and distract management attention too much and thereby defeating the purpose of outsourcing to free up resources, or even a slow and complicated launch, or not having specific motivating KPIs in the contract for the vendor.

Perhaps the most telling story of how outsourcing and carrier managed services can be of relevance in the emerging markets was Bharti Airtel, one of India's leading operators. The operator highlighted how outsourcing, network sharing, and managed services are helping it reduce its costs to such a degree that it can afford to serve the market with \$0.02/minute call rates and still maintain a very good EBITDA margin.

While traditionally the opening of the value chain in MEA was talked about in terms of the downstream (customer facing) activities such as new service providers (MVNOs, carrier select/preselect, prepaid calling cards, ISPs, content SP and aggregators, call center outsourcers, etc), the trend towards outsourcing and carrier managed services is a clear indication that the upstream (backoffice, networks, operations) elements of the value chain are also opportunities for 3rd party players in the MEA region.

This Newsletter is a production of Delta Partners Intelligence Unit. For any questions or comments, please contact [intelligence@deltapartnersgroup.com](mailto:intelligence@deltapartnersgroup.com)