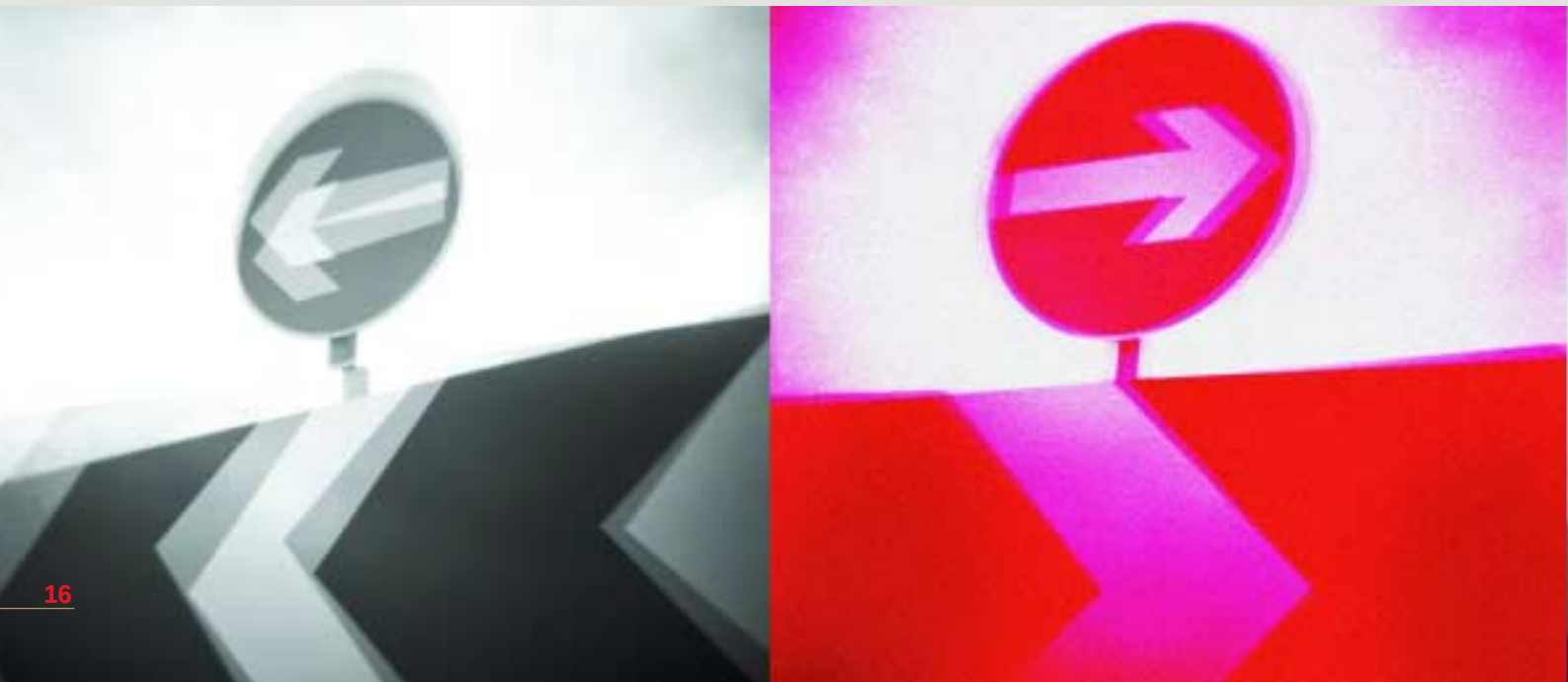
CAN GPRS ON TRACK?

Europe's operators need to improve their GPRS strategies radically if they are to avoid a repeat of the WAP experience. Carl Williams, vice president, media at Strand Consult, argues that they could learn some lessons from South Korea

In 1869 the construction of the first transcontinental railroad was completed when the tracks from the east met with those from the west at Promontory Summit – linking the United States from coast to coast.

But as you can see from the photo on page 19, the locomotives were already there. They had been there all through the building of the railway, transporting workers, supplies and material to the front line as the railroad tracks were being laid.

Amazingly, just five days later the first passenger train service started. Although there had been immense hurdles of all types in the building of the railroad, it only took five days before the railroad tracks were in use. The infrastructure was merely the transportation method for the locomotive; the train was the service that was marketed and sold to the passengers. The prices ranged from first class tickets with stylish service at $111, second class tickets with a little service at $80, and



GET BACK

third class tickets without any service worth talking about at just $40 dollars. Three different services and price ranges for different types of customers – that sounds like innovative thinking!

You can see where we're going with this analogy. In a wireless context, we only have to look back as far as the launch of WAP to discover the disastrous consequences of attempting to market a communication protocol in isolation. WAP without services is like a track without a train. It's hardly a proposition likely to have customers rushing to sign up and shell out. And they didn't.

It soon became clear to investors and customers that WAP really did not herald the arrival of the mobile internet. It was merely a communication protocol for virtually non-existent services. And why were there no services? Because there were no revenue sharing models to entice content providers to create anything halfway innovative for the WAP platform.

So WAP was oversold and mismanaged. Nobody disagrees much with that. And, of course, no one in his or her right mind would make the same mistake twice, and expect to keep their job the second time around.

Which brings us to GPRS.

If anything, GPRS has been an even bigger failure than WAP. Let's take an example from just one European market. In the first year following the launch of services, GPRS generated a grand total of €23,000 for all four Dutch operators. This is barely enough to pay for the lunches of the engineers who installed the equipment. To a greater or lesser degree, this dismal pattern has been replicated right across Europe.

Maybe we should remind ourselves why GPRS was meant to be so important to GSM operators. GPRS was supposed to give mobile users a taste for enhanced data services that would whet their appetites for even faster, richer services over UMTS. The key point here is that GPRS is GSM's first packet offering. This is the technology that gives users the always-on advantage, but only makes them pay for data transmitted and received – not how long it takes to down or upload or how long they remain online.

GPRS was also meant to be the technology that would rejuvenate WAP. The GPRS user experience of WAP – and emerging technologies like MMS and Java – should be a significant improvement over circuit switch GSM. In addition to improved data speeds and greater efficiency, users should only be billed for the cost of the actual data size, not the time spent online.

But perhaps the most significant change that GPRS ought to have brought about is a shift away from technology focus towards a more service-orientated focus. After all, customers really don't need to know ▶



how content and services are actually transmitted to their mobile terminals. What matters are ease of use and the intrinsic value of services and content. In short, it's time to forget about the delivery mechanism and acronyms and focus on the service portfolio.

Encouraging consumers to use GPRS and later UMTS services is not about marketing the characteristics of packet technology, but promoting the enhanced service portfolios that are supported by that technology.

Keeping in mind those distant memories of the transcontinental railroad with its train services running five days after completion, and the not so distant memories of the launch and poor success of WAP, how are Europe's operators doing with their marketing and sales of GPRS?

> "The trouble is that Europe's operators simply do not have a strategy to sell 2.5G mobile phones to their customers."

Well, let's assume that the industry had collectively learned its lesson from the damaging experience of WAP. In an ideal world, operators would be promoting the diversity of innovative services now available to both businesses and consumers. Such campaigns would emphasise how much time mobile users could save or how well they would be entertained or informed by these new services. And such diversity of services would be available as a result of the creative, incentivised agreements forged with the content and applications community.

On the other hand, suppose the industry learned nothing from the WAP experience. There would be the misguided marketing of the technology instead of services, with campaigns continuing to promote the mobile internet concept, along with variations on the 'always-on' theme.

Although, spiritually, the industry has undoubtedly adopted the latter approach, in truth it's difficult to be sure because throughout Europe the marketing of GPRS has been close to non-existent. In fact, most surveys are hard pressed to find any consumers that have any idea what a GPRS phone might be, what services it might be able to access or what it could be used for.

It's difficult to be surprised by this state of affairs. Once again, there are only very few services on offer as, once again, operators struggle to get their revenue sharing business models in place. It goes without saying that Europe's operators refuse to even contemplate any sort of revenue share with the content community on actual data traffic – something that the South Korean operators offer as a matter of course. In addition, some marketing for new GPRS enabled mobile phones does not actually even mention that the phone enables access to enhanced services and many customers who have a GPRS enabled device have not activated the GPRS function!

In Europe, nearly 60 per cent of customers go into a shop knowing that they want to come out with a Nokia mobile phone in their hands. Most will often be persuaded on the basis of the cheapest deal they can get. As a result, 80 million consumers have come out of the store with a Nokia 3310. This is a device that offers no future revenue possibilities from any 2.5G services – services that many operators are banking on bringing in 30 per cent of their revenue within a couple of years. The trouble is that Europe's operators simply do not have a strategy to sell 2.5G mobile phones to their customers. Worse still, many are tying subscribers into 12 or 24 month 2G contracts that in practice further inhibit their ability to recruit 2.5G customers.

One of the biggest challenges for Europe's mobile operators is to present their customers with a good reason not to buy a 2G phone. Clearly the logical way to accomplish this is to create a demand for compelling services that simply can't be accessed via a 2G phone. This is a strategy that has long been the mainstay of the computer industry. For example, how many consumers would be interested in a PC that didn't enable access to the internet? It wouldn't matter how cheap it was, such a product would be literally unsaleable. Likewise, who would invest in internet access for their PC if the Web offered nothing in the way of compelling content? But the fact is everyone wants access to internet content and every new PC is sold with Web access as standard. Furthermore, no one has had to subsidise all the PCs connected to the internet in private homes around the world – content and services have been the drivers.

In the same way, if customers went to mobile phone retailers to ask for a service package consisting, for example, of an email application, a city traffic application and a games deal – and all were new 2.5G services – the shop would have a difficult time trying to sell them a 2G device. In this kind of scenario, the phone becomes a secondary consideration. The customer

first chooses a services and content package to suit his or her needs and then selects from the 2.5G range of mobile devices – which might be handsets or PDAs – that support the services the customer wishes to use.

This is how the market works in South Korea. Strand Consult has recently published two reports about this dynamic cellular market that we believe is two to three years ahead of Europe. South Korea operates CDMA rather than GSM networks and the big difference here is that at present CDMA operators can offer their customers somewhere around 75kbps download speeds. GPRS networks deliver around 35kbps.

In around 18 months since the launch of services, 44 per cent of South Korea's mobile users (16 million out of 36 million subscribers) bought new 2.5G mobile phones and started using 2.5G services on them. And in South Korea mobile phones are not even subsidised. There's no doubt that better-than-landline data speeds were a large part of the attraction. But at least as important was the fact the operators had ensured there was plenty of compelling content available for the launch of their 2.5G networks. Even the smallest mobile operator had around 300 content providers who were offering around 5000 services.

Another reason Europe's operators would profit from getting customers to switch to new 2.5G advanced mobile phones is that our research from South Korea shows that voice traffic actually increases when customers start using enhanced data services. The reason is quite simple. What would you do if you received an MMS of a bear eating your friend's tent? Call him of course!

It seems clear that for GPRS to work, three main elements need to be in place alongside the infrastructure:

- content and services
- business and revenue models
- differentiated pricing on GPRS data traffic

The priority now for Europe's operators is to ensure that compelling content and services are available over GPRS. These new service packages require innovative marketing, preferably in conjunction with the content owners and service providers.

Also on the marketing front, operators need to look seriously at differentiating the price of data traffic depending on the type of data service. This is an approach that has already been successfully implemented in South Korea, where the data traffic price for video is cheaper than, for example, sending emails. In addition, the Korean market also prices GPRS data in 'packets' of half a kilobyte, which makes it easier for customers to understand precisely what they are paying for.

The good news is that technical solutions already exist that can handle differentiated GPRS billing. In fact, some operators are already using a similar business model for premium SMS – ie. services that allow users to transfer graphics, ringtones or other extra content for a fee above the usual SMS charge. It clearly makes no sense for the premium SMS business model to be in place, but for operators to adopt a less compelling marketing proposition for GPRS services.



Promontory Summit, 56 miles west of Ogden Utah territory. May 10, 1869

Courtesy C. Wesley Cowan

On a more positive note, a few European operators have recently adopted differentiated billing models to GPRS and the knock-on effect has been a greater focus on services and less emphasis on technology. The latest research from Strand Consult suggests that by 2005, European non-voice ARPU could account for 32 per cent of mobile revenues and have a total value of €23billion. Of that, under €2billion will come from SMS-based mobile services and the rest from new technologies based on MMS/WAP and Java. However, for enhanced mobile data services to really take off will require a significant change of mindset by Europe's operator community. The alternative is to sit back and watch GPRS disappear down the same track as WAP. ■

Strand Consult's latest report is ***'How to make money on mobile services'****, a picture of the current and future market for mobile services in Europe.*

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