

Mobile Communications | Europe

Strategic intelligence on mobile operators & markets
February 16, 2009 • Issue 486



by a mixture of fixed and mobile, wired and wireless means.”

The government is inviting further comments on costs and benefits of connectivity at different speeds before setting out plans for the level of service it believes should be universal. The government plans to issue a final report in the summer.

In the UK, a universal service obligation has traditionally been imposed on incumbent BT for the provision of voice and basic data services, but the government is considering whether this commitment could be shared more widely in future for broadband.

EU debate

At EU level as well, there is a discussion about whether to include broadband in universal service obligations. Last September, the Commission issued a communication to open a European debate on the future of universal services in 2009.

There are hurdles to overcome, however. The Commission is considering whether the growing popularity of mobile telecoms services means that the current universal-service obligation, limited to access at a fixed location, is becoming less relevant.

In addition, the growing popularity of broadband suggests that the service might well follow the same track as mobile in becoming near-universal through market forces in the medium term. In the Netherlands, for example, high broadband penetration means the government does not currently consider further measures necessary.

Some observers have suggested that countries with lower levels of infrastructure development will suffer under a broadband obligation, and it is questionable how much return operators can make from rolling out to small numbers of subscribers in rural areas. Further, it will be some time before there is a resolution on the matter at EU level, by which time many countries may already be approaching universal coverage.

Meanwhile, at end-January the European Commission earmarked €1 billion for investment in rural broadband projects in the EU. Brussels expects to approve all member states' programs that it decides to fund by end-2009.

Martin Selmayr, a spokesman for the Commission's Information Society and Media directorate, says it is too early to say who will be involved in the funded projects, but that all broadband infrastructures that can achieve the goal of 100% coverage will be considered.

He says the principle of technology neutrality means that “mobile, or any other technology, may be part of a mix of technological solutions for the provision of broadband in rural areas.”

Gareth Willmer gareth.willmer@informa.com

Analysis ■

Lycamobile on course to beat subscription target in UK debut year

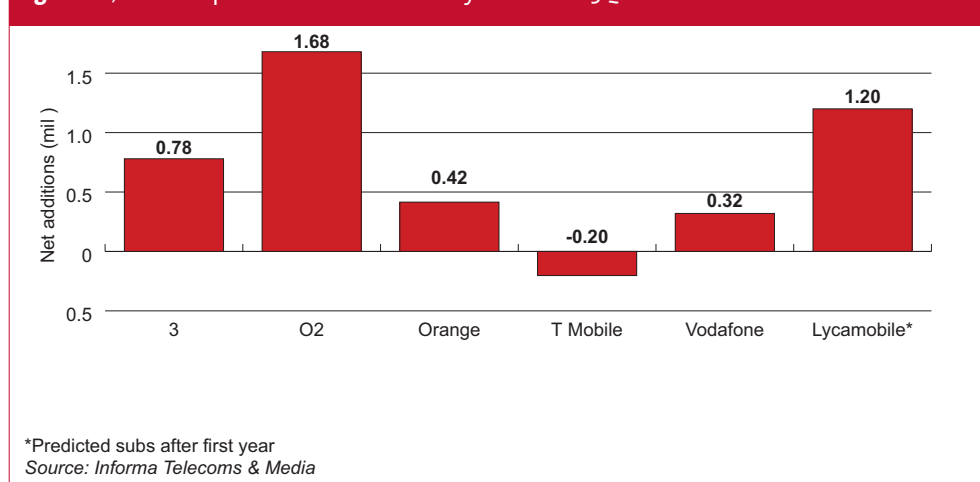
“Ethnic” MVNO Lycamobile is well on course to exceed its target of a million subscriptions within a year of its UK launch last September, according to the company.

Lycamobile offers a prepaid SIM-card service that targets ethnic communities via cheap international calls, an MVNO model that is gaining traction across Europe. The privately owned company is present in six other markets in the region, having initially launched in the Netherlands in 2006.

In the UK, the MVNO runs on the network of Orange and provides international calls from £0.04 (US\$0.06) a minute. Milind Kangle, CEO of Lycamobile, says it is already a “foregone conclusion” that the company will surpass its first-year customer target in the UK and could have as many as 1.2 million subscriptions by September.

To put this in perspective, the number would be larger than the net additions gained by each of the country's five mobile operators bar O2 in the year to end-3Q08 (see fig. 1). It would also equate to 40% of net additions over that period, according to Informa Telecoms & Media data.

In addition, the figure is more than a quarter the number of subscriptions gained by

Fig. 1: UK, mobile operator net additions in year to end-3Qo8

leading UK MVNO Virgin Mobile since its launch more than nine years ago.

Kangle expects Lycamobile to soon become the UK's largest ethnic MVNO player by overtaking rival Lebara Mobile, which launched in the country almost a year earlier. Toward the end of 2008, Lebara Mobile announced that it had gained 600,000 customers, a figure that Lycamobile expects to pass in the next month or two, although it does not give its current number.

Throughout Europe, Lycamobile has amassed almost 3 million subscriptions, more than double the number it announced six months ago. Kangle says the figure means the company is by far Europe's leader in the prepaid mobile market for international calls, and it is aiming to lead on a global level as well.

Lycamobile is in a strong position to achieve its target of 7 million global customers by 2011, particularly as it plans to launch in an additional three European markets this quarter, followed by a further four or five global markets by year-end (see fig. 2). The company is later looking to move into Central and Eastern Europe.

Kangle would not give Lycamobile's ARPU figure, but says it is almost 50% higher than the global prepaid average.

Fig. 2: Lycamobile's European and global launch strategy, Feb-09

Already launched	Launches planned in 1Q09	Other launches planned in 2009
Belgium	Austria	France
Denmark	Italy	Germany
Netherlands	Spain	Canada
Norway	–	US
Sweden	–	–
Switzerland	–	–
UK	–	–

Source: Lycamobile

Competitive positioning

In the UK, Lycamobile is offering a rate of £0.04 a minute to landlines in a large number of European countries, as well as to destinations including Australia, Brazil, Canada, the US and Thailand. For Canada and the US, the same price is available for calls to mobile phones. And in India, for example, mobile and landline rates cost £0.07 and £0.05 a minute, respectively. International SMS messages are priced at £0.10 (see fig. 3).

"Our strategy is to match the cheapest price in the marketplace for international calls," says Kangle.

Kangle says that 80% of calls using the company's service are to international destinations. The company is currently offering domestic rates of £0.08 a minute to landlines and £0.10 to other mobiles. There is also a promotion of free per-minute calls and SMS messages between Lycamobile subscribers, although there is a charge for connecting calls.

Fig. 3: Lycamobile UK's selected international tariffs, Feb-09

Country	Mobile call price (£)	Landline call price (£)
Argentina	0.07	0.04
Bangladesh	0.07	0.05
Canada	0.04	0.04
Chile	0.13	0.05
Colombia	0.10	0.05
Czech Republic	0.14	0.04
Denmark	0.15	0.04
France	0.15	0.04
India	0.07	0.05
Japan	0.10	0.05
Pakistan	0.09	0.09
Poland	0.09	0.04
Puerto Rico	0.07	0.07
Sri Lanka	0.08	0.08
Thailand	0.06	0.04
US	0.04	0.04

Note: All prices are per minute. £1=US\$1.43

Source: Lycamobile

Lycamobile believes it has a competitive edge over its rivals partly because of its position as the mobile arm of Lycatel, a company that is already well established in the international prepaid-calling-card-market. This gives Lycatel a ready base for cross-selling its mobile service to, as well as a broad distribution network.

"We are synonymous with the international calling market," says Kangle, adding that Lycamobile's rivals have not previously had calling-card businesses. Globally, Lycatel has more than 9 million customers in 17 countries, and its mobile expansion strategy is based on launching in those countries where it already has a presence.

Kangle says that some 25% of all outgoing calls from the UK are carried by Lycatel products. He also says, for example, that the company carries almost 60% of calls to India and a third to Ghana and generates more than 1.6 billion minutes of global voice calls each month.

Lycamobile's prepaid SIM cards and top-ups are available in close to 120,000 UK outlets and can also be purchased online. The company sells its SIM cards mainly through smaller retail outlets, including convenience stores and news stands, where Kangle says it is easier to target ethnic communities.

He says that 60-70% of top-up sales are subsequently via larger mainstream stores. Lycamobile top-ups are available through retailers including Sainsbury's, Morrisons, Phones 4U and Londis, and Kangle says the company is constantly approached by potential new sales channels.

Marketing push

The MVNO has carried out substantial marketing activity in the UK, having spent almost half the £10 million it allocated for this purpose at launch. The company has advertised its products through multiple channels, including billboards, bus stops and the London subway system, as well as via the ethnic press and TV channels. It has also placed its branding on a large number of stores.

Lycamobile has additionally launched numerous promotions to stimulate uptake. For instance, last October it ran an offer during the Hindu festival Diwali, which provided calls from £0.03 a minute to Indian and Sri Lankan landlines. The company also recently introduced a promotion for Chinese New Year, offering calls to landlines and mobiles in countries including China, Indonesia, Malaysia and Singapore for as little as £0.02 a minute.

Kangle says that Lycamobile's existing back-end infrastructure enables it to rapidly change its tariffs and launch promotions, with a staff of almost 120 people handling in-house technical platforms in the UK and India. He says the company can introduce new prices almost immediately, compared with about a week for operators.

Lycamobile's back-end capabilities and relationships with partners also enable it to terminate calls at attractive rates, says Kangle.

Kangle does not comment on the terms of Lycamobile's relationship with Orange, but the company has used measures to ensure that it secures high-quality MVNO deals across its footprint. Lycamobile's strategy has been to consider entering a market only when at least two operators are willing to pitch to it and to also seek full MVNO models for maximum flexibility.

Meanwhile, Lycatel sees opportunities to cross-sell other products to mobile customers. For example, the company also has a service called Lycafly, which enables customers to book flights, hotels and holidays, and is running a small introductory initiative to offer subscribers deals to travel back to their country of origin.

Kangle also says that Lycamobile will introduce content such as ring tones and wallpapers in a number of markets at the start of the next quarter.

He says, however, that the operator's main current focus is on achieving critical mass and contends there will be room for just one large player in the ethnic-MVNO market in the long run. Kangle adds that he believes Lycamobile is in a good position to emerge largely unscathed from the economic crisis, partly because of the attractiveness of its products in the current climate.

Gareth Willmer gareth.willmer@informa.com

Analysis ■

Serbian m-payment service slow to meet uptake targets

Europe's first multioperator mobile payment service based on Visa credit-card accounts has attracted only about 180,000 users after 15 months of operation. The initiative was launched in Serbia in November 2007 and although uptake is now equivalent to almost 10% of the country's approximately 2 million Visa credit-card holders, the companies' original target was to have reached this figure by mid-2008.

The service is offered nationwide in Serbia by all three of the country's mobile operators in partnership with 11 banks and is managed by payments processor First Data. Its wide scope makes it accessible to a greater proportion of the population than initiatives in other countries that are run by a single operator and bank. But its scope also appears to have slowed its development, which has largely relied on the banks' promotional efforts.

The service was originally set up by mobile payment company Upaid, but management was transferred to First Data in November. It continues to use Upaid's software platform, however.

The main reason Upaid withdrew from the project was that it lacked a local presence in Serbia and had been running the program from the UK.

Since taking over, First Data says its presence in the local market has helped it to better manage relationships with the banks and operators; it has also developed plans to extend the program to users of MasterCard credit cards and new applications.

Although Upaid said at launch that it intended to incorporate payment for services such as movie tickets and utility bills within approximately a year, the program remains limited to prepaid-account top-ups, which the user initiates by sending an SMS to a predefined number.

Upaid's plan was to extend the program only after 20-30% of Serbia's Visa card holders had signed up, as this would give it the necessary scale to make the cost of establishing and managing such services viable.

The service currently remains limited to users of Visa cards, which reportedly account for some 70-75% of the credit-card market in Serbia. In April or May, the program will be launched commercially for MasterCard users. At the same time new Java-based services will be launched, which will initially be available only to these new MasterCard users but later extended to the wider Visa-card user base.