

Leader: Put the fat cat on a diet

Simon Dux
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The message for Vodafone's competitors on all fronts is clear: scale or die This does not look good for end users, whether they are business or residential.

Vodafone's recent profit figures of more than £10 billion deserved a sharp intake of breath. The mobile operator has really become the company shaping the industry. But the pressures they can bring to bear on the market are not benign. Size may be good for Vodafone and its shareholders, but just how good is it for the wider market?

For the wholesale, MVNO and corporate markets, Vodafone's scale may not translate into a bonus. Indeed other mobile competitors will be forced to beef up to Vodafone's size. This has already started happening in the US market, albeit for slightly different reasons.

Regulators are fixated on clamping down on wireline incumbents, but across most of the developed world, broadband is reasonably priced - depending on the market - and voice calls are cheap.

Well, regulators, how about looking for significant market power in the mobile industry? The last link to all handsets is a monopoly, pure and simple. Unlike the fixed world, it is an enduring monopoly. Fixed to mobile termination rates are coming down slowly, but what about mobile origination?

A case in point is Vodafone's new Passport pan-European roaming rate, which allows its customers to use inclusive minutes and calls at domestic rates while travelling. A fixed connection fee covers interconnect for Vodafone. On the face of it, customers making longer calls will gain significant savings. But Morgan Stanley concludes other operators cannot afford to stimulate roaming while wholesale costs remain high. In Europe, wholesale roaming for Vodafone is an internal cost.

The European Commission is investigating mobile market wholesale rates at the moment, but Vodafone says this is only the first step of a more aggressive strategy on roaming. Great if you have competition, but mobile calls are still expensive overall. The EC has generally been positioning the MVNO market as a route to mobile competition, despite the recent glitch when it overruled the French regulator, which was trying to enforce MVNOs in that market.

But Vodafone has caused a jitter with its Simply "no-frills" launch.

Vodafone says the aim is to target older non-users with a simple phone service, but it can also be viewed as a segmentation threat to MVNOs like easyMobile. The latter is looking for 300,000-400,000 customers over two to three years to break even in the UK.

Vodafone is focused on customer retention and is well positioned to fight for customers who have at least a marginal NPV if it needs to. Vodafone demonstrated this in the UK by offering a 10% extra free top-up for prepayers spending £15 - aiming at the higher-end prepay customers.

The high cost of mobile services is stifling innovation for enterprise users, too.

The EVUA has already pointed out that, despite enterprises managing to save 30-50% on their IT investments thanks to open platforms and rationalisation over the last few years, mobile services have swallowed these savings up and threaten to eat up even more enterprise budget as companies become more mobile.

A recent pan-European survey commissioned by BT showed that while enterprises have said they are going to become increasingly mobile, they are concerned about the cost implications that will follow. In the UK and France, around two-thirds of CIOs surveyed predicted a rise in mobile workforce costs with some even expecting 25% increases.

As 3G grows, economies of scale will mean that Vodafone is better placed than rivals to negotiate favourable deals with content producers and aggregate a wider array of content. So the 3G market in Europe will be grossly impacted by the pace at which Vodafone rolls it out.

It will have to protect margins. Given the company's bottom-up approach to business plans across its units - which sometimes drives us wild at Total Telecom, when we are chasing down company spokespeople only to hit a brick wall - gains will be steady.

The message for Vodafone's competitors on all fronts is clear: scale or die. This does not look good for end users, whether they are business or residential. And with 60% of voice traffic poised to migrate to mobile operators by 2010, according to some analysts, regulators had better be watching.