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Mobile operators pin their hopes on Internet services ...

... in an attempt to boost lackluster data revenues

A minimal increase in data ARPU has failed to offset the dramatic decline in voice revenues throughout western Europe, pushing mobile operators to focus on finding value in mobile Internet services. But operators could face the prospect of being removed from their content partners' value chains, with many providers likely to become MVNOs.

Data ARPU across the region's largest operators reached just more than 18% of total ARPU for the three months to end-June, equivalent to about US$7 a month (see fig.). But data ARPU from non-SMS services accounted for a smaller proportion – about US$2.45 a month – evidence that operators have yet to find a compelling mass-market data offering.

Research from web-hosting company Hostway says that 73% of UK consumers never access the Internet from their mobile handset, a figure similar to those found throughout western Europe. Experts say it acts as evidence that operators still need to win over a huge section of mobile users.

"WAP services were [initially] poor and resulted in the end-user getting frustrated, which meant they didn't use the service again," said Eran Wyler, CEO at content-technology provider InfoGin. "[If operators] want to push user take-up, then they need to take the role of a smart pipe and provide Internet access through suitable devices and networks. They are not content providers."

Stephanie Pittet, telecoms analyst at Gartner Research, has a similar opinion. "Initial services at launch were poor, network coverage was poor, content was not great and there was severe disparity in pricing," Pittet said. "Selling new services based on this old legacy is extremely challenging."

Pittet says that unless operators begin "limiting their input" in their mobile Internet services, the mobile Internet could become another niche data service. "Mobile operators have proved they do not have the ability to be at the center of the mobile data value chain," she said. "They simply do not have the skills or expertise to do everything. If they want mobile Internet services to work, then they need to [give some] control to content providers that have already made their name in the Internet space."

But operators are reluctant to adopt a smart-pipe role, for fear of losing their places in the value chain. Although T-Mobile's Web'n'walk plan – which offers unlimited access to any web site for a flat rate of £7.50 (US$14.30) a month – is much closer to the open Internet environment than Vodafone's Live service or O2's Active service, the operator says that its role will continue to be important.

"It is easy to become a pipe if we let ourselves, but our [position] will be to add simplicity to the process, as well as ensuring a combination of effective handsets and simple browsing experiences," said Richard Walmsley, brand manager of Web'n'walk at T-Mobile.

Walmsley says that the key difference between today's mobile Internet services and the WAP model is the availability of compatible handsets. "The handset paradigm has caught up in western Europe, and the handsets are now there to support the services that operators are pushing," he said.

But despite their desire to maintain a strong presence in the mobile Internet value chain, operators' ability to differentiate their mobile offerings from their competitors' will be thwarted by reluctance to partner with a single big-name player.

"Operators have to work with several content providers, including Yahoo, Google, etc., and they are scared that those content providers will themselves become MVNOs, MVNOs with years of experience in the Internet sector," InfoGin's Wyler said. "The operators worry that the content provider would then take [the operator's] mobile Internet audience with them."

But one major European operator told *Global Mobile* that content providers "would fail to emulate the relationship operators have with their customers" and that it "did not fear the entrance of [content providers] to the MVNO space."

Content provider Disney, which has an exclusive content deal in place with UK operator O2, has indefinitely postponed its proposed MVNO in the country. The provider refused to say when, if at all, the MVNO will launch. GM

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Percent of ARPU from data services, western Europe

Operator	% of ARPU from data, 1Q05	Data ARPU, 1Q05 (US$)	% of ARPU from data, 1Q06	Data ARPU, 1Q06 (US$)
Vodafone	16.40	9.11	18.52	9.45
T-Mobile	14.50	5.90	16.75	5.97
Orange	17.90	9.26	18.83	8.53
O2	24.70	12.89	25.40	11.69
Telefonica	13.40	5.82	13.50	5.03

Note: Figures include SMS and MMS data and represent an average of all western European operations
Source: Informa Telecoms & Media