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Vodafone live! Shows It's Mobile Services That Count

Abstract: *The success of Vodafone's consumer platform shows mobile operators and phone makers must work closely together to deliver services that are practical, fun and easy to use. Marketing technology alone won't hook customers.*

By Ben Wood

Recommendations

Mobile network operators should learn from Vodafone live!'s example:

- Market services, not technology.

- Offer a wide range of feature-rich phones in different price ranges to appeal to every customer segment.

- Forge strong links with phone manufacturers to secure the features you need.

- Issue guidelines on how phone makers can use elements of your brand identity and meet your user interface needs. This ought to distinguish generic phones from the crowd, make them easier to use and boost usage.

- Source content locally as well as globally to meet the needs of individual markets.

Vodafone should:

- Strive nonstop to develop and improve, as any return to complacency could swiftly blunt its competitive edge.

- Strike the right balance between Vodafone live!'s free and chargeable content.

- Recognize that the main threat comes not from NTT DoCoMo's exported i-mode services, but from those of your traditional competitors like T-Mobile, O_2, TIM and Telefónica Móviles.

- Develop a wide range of relationships with phone manufacturers and developers of content and applications, not least for future video messaging and location-based services.

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World's Top International Mobile Service Looks Set to Expand Rapidly

The Vodafone Group launched Vodafone live! — its multifaceted mobile service platform for consumers — on 24 October 2002. At first, it supported only three models of phone in Germany, Holland, Italy, Portugal, Spain and the United Kingdom. Ten months on, it supports twice as many phones, operates in 13 countries (see Table 1) and has over 2 million subscribers (Table 2 shows figures for the last three quarters). They accounted for 10 percent of Vodafone's handset sales during this period.

The service has won worldwide critical acclaim, been imitated by top competitors like T-Mobile and O$_2$, and looks set to expand rapidly. Vodafone plans, we believe, to introduce it to 24 of its so-called "properties" by mid-2004 and to have between 9 million and 10 million subscribers by then. These properties are likely to include both Vodafone networks and those of its partners, such as Mobilcom in Austria and Radiolinja in Finland.

Table 1
Countries Where Vodafone live! Has Been Launched (as of August 2003)

Country	Launch Date
Australia	April 2003
Egypt	March 2003
Germany	October 2002
Greece	January 2003
Hungary	February 2003
Ireland	November 2002
Italy	November 2002
Netherlands	October 2002
New Zealand	April 2003
Portugal	November 2002
Spain	October 2002
Sweden	December 2002
United Kingdom	October 2002

Source: Vodafone

Table 2
Subscriber Numbers for Vodafone live! — 4Q02-2Q03

	31 December 2002	31 March 2003	30 June 2003
Germany	150,000	405,000	580,000
United Kingdom	90,000	240,000	420,000
Italy	60,000	227,000	300,000
Spain	-	-	189,000
Australia	-	-	26,000
Others	80,000	220,000*	235,000
Total	**380,000**	**1,092,000***	**1,750,000**

* Gartner Dataquest estimates
Source: Vodafone and Gartner Dataquest (August 2003)

Vodafone Has User-Friendly Vision to Boost Data Revenue and Fight Churn

By early 2002 it was clear that mobile operators had to change strategy to stand any chance of meeting their target of deriving between a fifth and a quarter of their average revenue per user (ARPU) from data services. Faced with a maturing market and the failure of Wireless Application Protocol (WAP) and general packet radio service (GPRS) to interest subscribers, they needed new ways to boost data revenue and reduce the number of subscribers lost to competitors.

Vodafone's response was an ambitious plan, begun in late 2001, for a service called Vodafone live! It was created using original ideas, new initiatives and parts of the failed Vizzavi portal (a joint venture with Vivendi that Vodafone took over in August 2002). The aim was to promote useful services like news, sports information and picture messaging, not mystifying technologies like WAP and GPRS. This shift was fundamental to the service's design — and long overdue for the mobile industry.

Vodafone knew it had to capitalize on its lead by taking control of the customer relationship — especially in the area of billing — before one of its competitors did. It realized the new service had to be easy to use almost as soon as subscribers took the phone out of its box. This meant putting as few barriers as possible between them and the service. They had, for example, to be able to access key features even when their phone wasn't connected to the network and use the mobile portal without registering their details.

This user-friendly approach was crucial to the service's success, but needed firm technological and market foundations. Vodafone had advantages here, too:

- It was — and is — the largest multinational mobile operator for both revenue and subscriber numbers. (China Mobile has more subscribers, but doesn't operate internationally.)

- Its Global Products and Services division was able to define user platforms for Vodafone's international operations, with key services like the Multimedia Messaging Service (MMS) compulsory and others, like instant messaging, optional. This division also established two key technological links: GPRS roaming and MMS interoperability between its networks.

- It had influence with mobile phone manufacturers, including Japanese ones (through its ownership of the J-Phone network) and especially Sharp, with which it created the service's flagship phone.

Vodafone Works With Manufacturers to Create the Phones It Needs

Early in the development of the new service, Vodafone recognized how important the features and usability of mobile phones would be. In particular, it knew that if subscribers were to access services without connecting to the network, it needed a say in the design of the phones' user interface. This meant working closely with the manufacturers.

Sharp Reaps Rewards for Early Cooperation

Vodafone only partly got its way in the first three phones. Nokia would make only minor concessions on its 7650 handset — much to Vodafone's frustration. Panasonic agreed to small changes to the GD87's user interface and a special key to access Vodafone live! services.

Sharp, however, agreed to work closely with Vodafone. Together, they (and Finnish company Satama Interactive) tailored the interface's menu structures and service design. Sharp's reward was good sales: its GX10 and its successors, the GX10i and GX20, have been among the bestsellers of the Vodafone live! range. Vodafone, for its part, saw higher ARPU from Sharp's phones than from Panasonic's and Nokia's. The latter was the worst-performing phone in terms of sales and ARPU.

Nokia Would Benefit Too, If It Gave More Ground

The tense relationship between Nokia — the mobile phone maker with the most market share — and Vodafone — the mobile operator with the widest coverage — has occasioned much debate. Nokia's reluctance to grant concessions on the 7650 was, however, true to form. Its approach to phone personalization has differed markedly from makers like Panasonic, Sagem, Sharp and Sony Ericsson by consistently resisting operators' requests to adapt the user interface.

This is understandable, because Nokia wants consistency across its product range. It also considers the interface a core part of its brand identity, on which its success has largely been built. However, Nokia and Vodafone would benefit from working together more — not least because of the significant brand equity that would result.

Nokia does seem to be taking small steps toward a more responsive position. The recent update to Nokia Mobile Software's Series 60 user interface is its most flexible yet (see "Nokia Dominance Continues with New Handsets and Broad Strategy," TELC-WW-DA-0167).

Success Sparks Eagerness to Meet Vodafone's Criteria

Once Vodafone live!'s early success was apparent, manufacturers flocked to Vodafone, eager to have their phones included in the range. Even so, Vodafone wouldn't have got the keen prices and specifications it needed without huge buying power. This enabled it to specify criteria that phones must meet to qualify for inclusion.

They must support MMS (via GPRS), because picture messaging is the flagship service. Hence, they also need an integrated camera and a color screen.

They must support mobile Java for games (though Panasonic's GD87 did not). Vodafone is keen to use Japanese games that are successful on its J-Phone network, and requires phones to support Java 2, Micro Edition (J2ME) — an open standard that provides a programming framework for mobile applications — and its Mobile Information Device Profile (MIDP) version 1.0 component. (For details of J2ME and MIDP, see "Mobile Java: A New Opportunity for Data Services," TCMC-WW-FR-0121).

Vodafone also requires support for the proprietary Java extensions known as the Vodafone Service Class Library (VSCL 1.0), which are based on the J-Phone Specific Class Library (JSCL) — an application programming interface defined in June 2001. These extensions support features such as sound, animation, vibration, definition of animated "sprites" and access to some telephony functions.

Future phones in the Vodafone live! range will have to support J2ME's updated MIDP 2.0 component, which is a standardized solution for many features specified in VSCL 1.0. However, for some features Vodafone still has proprietary requirements, detailed in its new VSCL 1.1 guidelines.

Among the other features required are:

- Polyphonic ring tones using standards like Scalable Polyphony MIDI (SP-MIDI) and Yamaha's Synthetic music Mobile Application Format (SMAF). (Vodafone claims over 5 million ring tones were downloaded in the service's first six months).

- A user interface that observes Vodafone's guidelines for, among other things, the number of key strokes needed to take and send a picture message; the keypad layout and browser — it must be easy to view and navigate the icon-based color portal; and the time it takes portal pages to load both over the air and from a cache.

- Pre-configured settings for every operator partner. Ideally, configuration for each Vodafone "property" must be included. If this isn't possible, the manufacturer must configure the phone for the market it will ship to.

To help manufacturers meet its needs, Vodafone has a large team to work with them on phones from the earliest development stage. This enables it to plan well ahead; for example, it fixed its product lineup for Christmas 2003 — to be launched in September and October — in April of the same year. We expect this lineup to include a wide range of phones, some with remarkably low prices of between $100 and $175 (see Tables 3 and 4).

Vodafone has, we think, learnt from the success of operators in Japan and South Korea, whose close work with phone manufacturers led to subscribers making more use of mobile data services. Similarly, Vodafone's close partnerships give it significant advantages over its competitors, especially the smaller ones. For, not only has it got in quickly — important because makers won't offer equivalent support to more than a few operators — but it has won the chance to secure large numbers of the latest phones at the earliest opportunity.

Table 3
Mobile Phones for Vodafone live!

Current	Expected in 2H03
Nokia 3650	Motorola V5xx (a version of the V500)
Nokia 7650	Motorola V600
Panasonic GD87/GD87i	Nokia 3200*
Sagem my-X6	Nokia 6650* (3G capable)
Sharp GX10/GX10i/GX20	Nokia 6600*
Sony Ericsson T610	Panasonic X60*
	Samsung E-710
	Samsung Z100* (3G capable)
	Sagem My-vX (product name not finalized)
	Sanyo (model number unknown)
	Sharp GX30
	Sony Ericsson Z600

* These phones may only be offered in certain countries, and some of them may not be included at all; Nokia's will only be included if they meet Vodafone's criteria for personalization of the user interface.
Note: This list is not exhaustive.
Source: Vodafone and Gartner Dataquest (August 2003)

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Table 4
Mobile Phone Prices and Specifications for Vodafone live!

	Entry level	Midrange	High end
Estimated price	$100 to $175	$175 to $275	$275 to $400
Screen resolution	120 x 180 pixels	120 x 180 pixels	176 x 208 pixels
Number of screen colors	4,000 minimum	65,000	65,000 to 256,000
Camera capability	Quarter VGA	VGA and video capture	VGA and video capture
Expandable memory	No	Yes	Yes
Java	Support for VSCL 1.0 and MIDP 2.0 Can store 10 applications	Support for VSCL 1.0 and MIDP 2.0 Can store 20 applications	Support for VSCL 1.0 and MIDP 2.0 Can store 20 applications
Messaging	SMS, MMS, IM and e-mail	SMS, MMS, IM, video MMS and e-mail client for corporate use	SMS, MMS, IM, video MMS and e-mail client for corporate use
Network support	GSM 900, GSM 1800 and GPRS Class 6	GSM 900, GSM 1800, GPRS Class 10 and HSCSD	GSM 900, GSM 1800, GSM 1900, GPRS Class 10, HSCSD and W-CDMA
Connections	Serial cable and IrDA	Serial cable, IrDA and Bluetooth	Serial cable, IrDA, Bluetooth and USB
Sound	16-note polyphony	40-note polyphony	Over 40-note polyphony
Video	No	Video playback (H.263)	Video playback (H.263), capture and streaming (3GPP)

3GPP = Third Generation Partnership Project; GPRS = general packet radio service; GSM = Global System for Mobile Communications; HSCSD = high-speed circuit-switched data; IM = instant messaging; MIDP = Mobile Information Device Profile; MMS = Multimedia Messaging Service; SMS = Short Message Service; USB = Universal Serial Bus; VGA = video graphics array; VSCL = Vodafone Service Class Library; W-CDMA = wideband code division multiple access
Source: Vodafone and Gartner Dataquest (August 2003)

Vodafone's Commitment to Asian and Japanese Makes

Vodafone says it wants users to have a wide choice of phones, and so won't exclude any maker as long as it meets its requirements. This is the reason it gives for not supporting Microsoft Smartphone 2002 products — it's not an ideological position, but because they don't yet meet its criteria for inclusion.

However, Vodafone's decision to move Bob Collymore, its head of mobile phones, to Japan reflects, we think, a special determination to work with emerging Asian and, in particular, Japanese manufacturers.

Another reason for Vodafone's desire to work with these young phone makers is probably to ensure that they stick around to deliver third-generation (3G) phones, rather than focus on Japan or leave the market entirely.

But ODMs Have Yet to Attract Vodafone

Vodafone, unlike Orange and O_2, has yet to work with original design manufacturers (ODMs). It thinks that, although they offer competitive prices and pose no long-term threat to the prominence of its brand, they lack the experience of larger, more established makers in areas like the user interface, general design and overall quality. It may also doubt whether ODMs can provide the service — for example, 24-month warranties — and logistics skill expected of Vodafone live! partners.

Vodafone Finds Data Services and Content for Its High-Tech Phones

For Vodafone live! to succeed, Vodafone had to complement its strategy for handsets with another to identify key services, secure content and decide how to deliver it. Here, the operator learnt an important lesson from the poor performance of the Vizzavi portal: it is especially hard to sell services and content to a user base as geographically diverse as Vodafone's, because content preferences vary greatly by country.

But Vodafone's choice of core services and content had to consider more than that. It also had to persuade customers to buy advanced phones — with new features like bigger, color screens, built-in cameras and polyphonic sound — and use them more for data services. It's the union of new technology with appealing services that has made Vodafone live! so compelling for consumers.

Picture Messages and Games Create a Bright Start

Vodafone chose picture messaging as its flagship service, because of its ability to offer both an emotional and a technological attraction to customers. It was a good choice. The runaway success of the Short Message Service shows the potential of mobile messaging services — they meet a basic human desire to stay in touch. In view of this, MMS may well encourage groups of people to use Vodafone live!

Vodafone chose mobile gaming as its second key service mainly to appeal to its intended initial market: affluent, sociable, urban 18 to 25 year olds with a liking for new technology. Again, it was a good choice. By the end of March 2003, Vodafone live! users had made over 1 million game downloads. The use of Java was key to success here.

Simple Billing Takes the Byte Out of Payment

Vodafone implemented a billing system that is easily understood. It charges by the transaction (or "event"), not by the number of bytes transmitted. This is a sensible idea, as long as Vodafone strikes the right balance between free and chargeable content. It won't want subscribers to stop using the service in the belief that it charges for everything.

Vodafone Localizes Its Content for Wide Appeal

Vodafone live! offers at least 100 partnered content services, covering topics like news, sport, weather, entertainment, travel and finance. Content, only 40 percent of which is sourced globally, is localized for each Vodafone "property." This is a strategy similar to that of Hutchison 3G's "3" networks — they too source most of their content locally.

It is sometimes cheaper and easier for operators to buy content rights for individual markets than to negotiate a global deal. Also, it is often easier for a local team to meet a market's need for content and to manage its format and delivery.

Gartner's ability to measure the success of Vodafone live!'s mix of services and content is limited by a lack of statistics for usage and revenue. However, we note that Vodafone's launch advertising targeted different services at different markets. Picture messaging was promoted most in Holland, Hungary, Ireland, Sweden and the United Kingdom; gaming was the focus in Germany, Greece, Italy and Spain.

Vodafone Must Defend Itself Against the Chasing Pack

Vodafone live! has established itself as the leading collection of international mobile services. Now Vodafone has to maintain its lead, because its key rivals are increasing their efforts to catch up.

Initially, Gartner expected the biggest threat to Vodafone live! to be the i-mode services exported by NTT DoCoMo and delivered by KPN in Holland and Belgium, E-plus in Germany, Bouygues Telecom in France, Telefónica Móviles in Spain and KGT in Taiwan. But these services have performed extremely badly, for reasons that include a limited range of phones and users' inability to access content outside the dedicated i-mode portal.

Hence, Gartner believes the main threat comes from Vodafone's traditional competitors, like T-Mobile with its t-zones service, O_2 with O_2 Active, TIM with M-Services and Telefónica Móviles with e-moción. In addition, the recently formed Mobile Alliance, which includes most of these operators, will help them match Vodafone live!'s international reach for voice and data roaming (see "Europe's Mobile Alliance Offers Easy Roaming But Higher Risk," FT-19-7761).

To defend itself, Vodafone is pursuing a high-profile branding campaign, not only for Vodafone live! but also for the Vodafone name itself. As a result, almost all its main "properties" now use the unified Vodafone brand. This campaign includes sponsorship of Manchester United Football Club and the Ferrari Formula 1 team, as well as agreements with sportsmen like David Beckham and Michael Schumacher. Also, in countries where Vodafone lacks a majority stake in a network, it is licensing the Vodafone name, Vodafone live! and other services.

Vodafone must do more than this, though. It has to retain its existing customers. Already, half of Vodafone live!'s users are people who have upgraded from another Vodafone service, and most new ones will be doing the same.

To retain them, Vodafone has to secure content from leading providers for its wide range of services (outlined in Figure 1). This is vital, because Vodafone needs to keep its content fresh, appealing and reasonably priced. To do this, Vodafone must invest heavily in attracting a wide range of content and application specialists as partners; they will be faster and more creative — the operator's job being to build the best possible delivery mechanism.

Vodafone has already launched an application development program, but will face stiff competition from companies who are established in this field, like Microsoft and Nokia. It must therefore present potential application and content partners with compelling business cases, based on its abilities to bill 1.5 million users and share revenue quickly.

It will need these partners not just to support picture messaging and gaming, but to introduce new services. These are likely to include video messaging (trials are already under way) and location-based services.

Figure 1
Main Service Menu for Vodafone live!
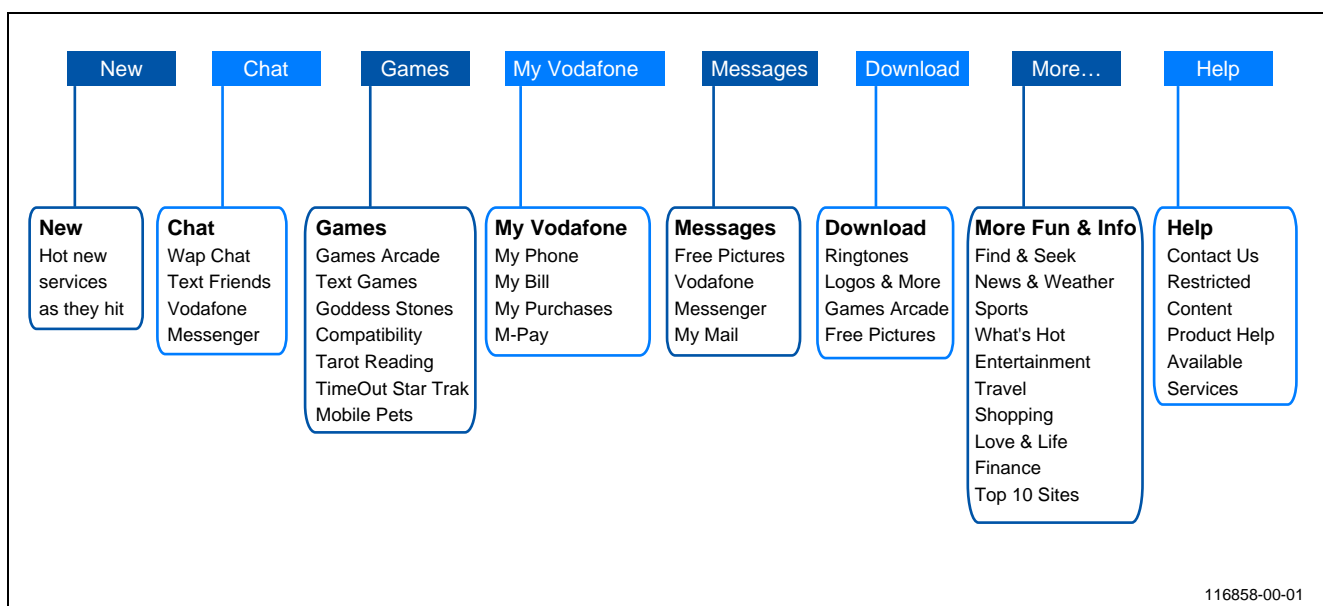
Source: Vodafone and Gartner Dataquest (September 2003)

Vodafone live! May Guide Customers Toward 3G

Gartner thinks Vodafone will use Vodafone live! as the vehicle to introduce wideband code division multiple access (W-CDMA) 3G services in 2004. We believe it is working with Samsung and other manufacturers on 3G phones for a W-CDMA service optimized for Vodafone live! This approach mirrors the one it took with Sharp.

Vodafone is likely to launch it in a manner similar to NTT DoCoMo, which markets i-mode services rather than personal digital cellular (PDC) or W-CDMA technology. Thus, instead of an explicit 3G launch, Vodafone will encourage subscribers to adopt 3G as their demands exceed the capability of current technology.

Rapid advances in camera technology provide a simple example of how this approach would work. Currently, built-in cameras for Vodafone live! phones support 110,000 pixels. The range launching later in 2003 is expected to include cameras that support 330,000 pixels, and phones supporting 1 million pixels are already available in Japan. These advances let users take higher-resolution pictures, but current GPRS technology takes about four minutes to send just one. Users ought, therefore, to be keen to adopt 3G for its greater bandwidth and faster transmission.

Vodafone considers this a good example of how it can entice subscribers to 3G by offering them higher-quality and more cost-effective service.

Complacency Would Cost Vodafone Its Advantage

Vodafone live! deserves its place as the best case study on service delivery for mobile operators. But Vodafone must ensure that early success does not breed complacency.

Vodafone will have to maintain the service's momentum and time-to-market advantage in the face of new challenges in relation to technology, service delivery and content. Failure to do this would swiftly blunt its competitive edge, as its rivals are not standing still.

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