

A Study of the Mobile Value Added Services (MVAS) Market in India

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Abstract

The Indian mobile telephony market has grown at a rapid pace in the past six to seven years. Declining call tariffs in conjunction with favorable regulatory policies have led to a tremendous increase in the subscriber base, crossing the 100 million mark in 2006. While the growing subscriber base has positively impacted industry revenues (which have risen consistently over the past few years), operator margins also have shrunk, pulling down "Average Revenue per User" (ARPU). As ARPU declines and voice gets commoditized, the challenge is to retain customers, develop alternative revenue streams, and create a basis for differentiation in high-churn markets.

In the wake of changing industry markets, telecom operators are looking at "Mobile Value Added Services" (MVAS) as the next wave of growth, and a large chunk of revenues is expected to flow from VAS in the near future. Market growth drivers on the supply side include declining ARPU, brand differentiation needs, and growing focus on entertainment-related content; demand-side drivers include the booming Indian economy, increasing user comfort with basic mobility services, personalization of content and devices and cheaper handsets. From the early days of "Person-to-Person Short Message Service" (P2P SMS), the industry has witnessed an emergence of a growing portfolio of services including graphics/wallpapers downloads, ringtones and caller ring back tones (CRBT), SMS contests, and games. In India, the revenue from MVAS (excluding P2P SMS) amounted to USD 43.8 M in 2004, and is expected to increase to USD 348.8 M in 2009, at a compound annual growth rate (CAGR) of more than 50%. Entertainment VAS is expected to drive the growth of the market going forward with Video/TV and games registering the highest growth rates among other segments in the near future.

The growth of industry also has led to the development of an entirely new business eco-system: supporting industries such as content development and aggregation. A typical value chain in the MVAS industry encompasses content creators, providers, aggregators, technology enablers, and operators. Given that the industry is young and evolving, the rules of the game are yet to be laid down. As a result, revenue sharing arrangements across the MVAS value chain have emerged in favor of the operators. Operators typically retain the largest chunk (around 60%) of revenues, followed by 15% to 25% for content aggregators, and 10% to 15% for content creators. The share of operators is expected to decline from the current 60% to 30% by 2010, with other players across the value chain accounting for almost 70%, as compared to 40% at present. The revenue sharing model in the future in India is expected to replicate the model seen in developed MVAS markets such as China, Japan, and Europe.

The future implementation of MVAS in India will encompass several new and exciting areas such as mobile internet, location-based services, and regional content-based services. Maturity of the MVAS market also will give impetus to the market for M-commerce applications in India. Favorable government policies and advances in technology are encouraging providers across the MVAS value chain to explore innovative ways to address the mobile telephony needs of India's rural population.

Boston Analytics research indicates that the Indian MVAS space will witness a high growth trajectory, creating tremendous opportunities for all stakeholders. However, all stakeholders across the value chain need to work collaboratively to overcome growth barriers and create an ecosystem that generates fair rewards for all.

The key challenges are to establish the required content authentication standards, and enact laws pertaining to copyright protection. Further, a transparent revenue-sharing arrangement set out under the aegis of an industry apex body such as the Telecom Regulatory Authority of India (TRAI) would bring more clarity to the potential rewards for all stakeholders, thereby ensuring equitable participation across the value chain. As far as content is concerned, there is a need to go beyond music, music, and sports, to cater to the needs of all consumer segments.

This research report explores the Indian MVAS marketplace and seeks to provide a systemic view of the industry, while addressing issues across the MVAS value chain in India.

Liberalization of the regulatory regime and increasing competition in the last decade provided momentum to the Indian telecom industry

The Indian Telecom Industry⁽¹⁾

Evolution

The pre-1990s era witnessed the evolution of telephony and the strengthening of government presence in telephony, along with the introduction of private capital into the manufacturing of telecom equipment. A defining step for the industry was the setting up of the Department of Telecommunications (DoT) in 1985. A year down the line, the government also established Videsh Sanchar Nigam Limited (VSNL) for international telephony, and Mahanagar Telephone Nigam Limited (MTNL) for telephony in metropolitan areas.

The New Telecom Policy (NTP) 1994 proved to be a landmark step, as it allowed the entry of private telephony operators into the market. In 1994, the government set up the Telecom Regulatory Authority of India (TRAI) to regulate the growing telecom sector in India.

The year 1999 saw the launch of the NTP-99, which introduced a revenue sharing system between the operators and the government (in contrast to the prevailing license fee regime). GSM services were also launched in this year, signaling the dawn of mobile telephony.

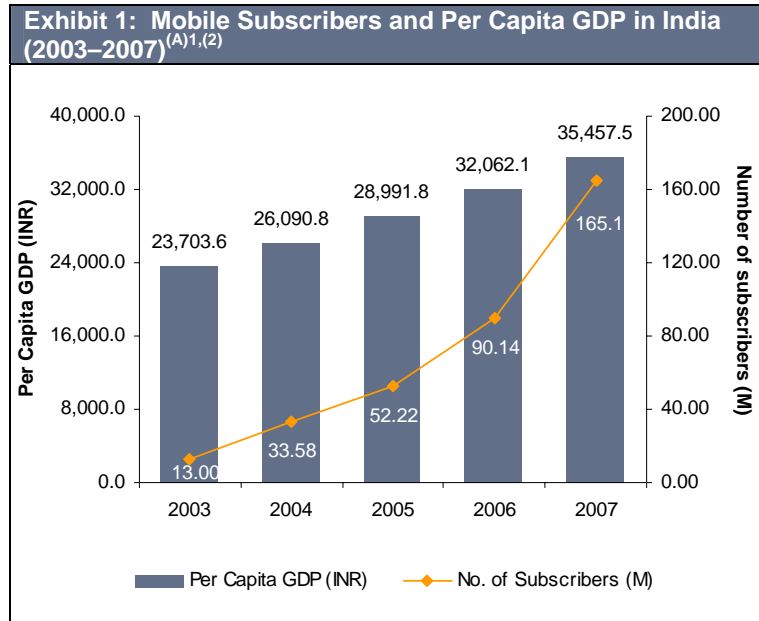
The year 2000 witnessed the corporatization of DoT and the establishment of the Bharat Sanchar Nigam Limited (BSNL). However, one of the most remarkable achievements of the Indian Telecom industry at the turn of the 21st century was the tremendous growth of the wireless telephony market.

The DoT was the first formal body set up by the government with the responsibility of handling issues relating to policy, coordination, and licensing of various forms of telecommunication, including telephone, telegraph, data, wireless, facsimile, telematic services, and others.

The formation and subsequent capitalization of the DoT has smoothened the functioning of BSNL by allowing a speedier decision-making process, facilitated by minimal government intervention. An example of the benefits derived is the growth in the number of direct exchange lines by over 20% and the reduction in the waiting list for telephones from over 4.0 M to around 3.3 M in the first year after corporatization.

Rising per capita GDP and reduced call tariffs have made mobile services more affordable in India, thus pushing up the subscriber base

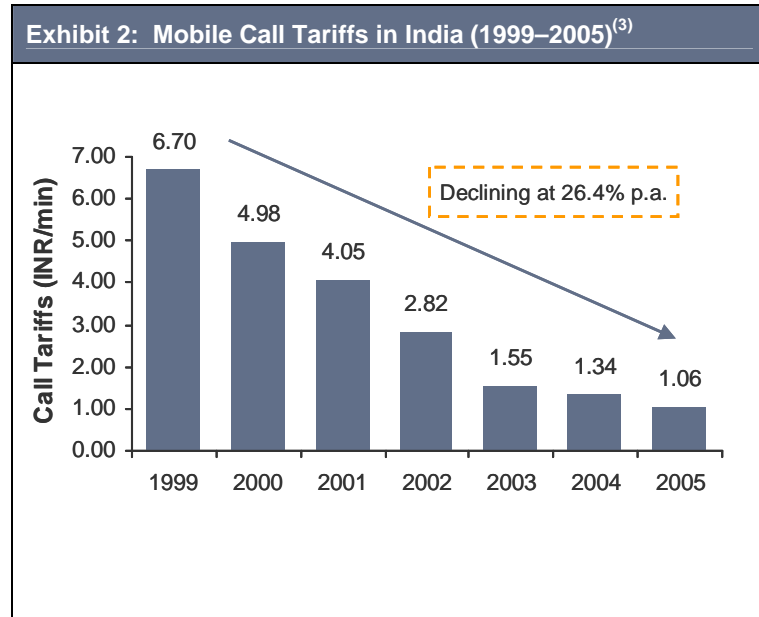
Exhibit 1: Depicts the growth in the mobile subscriber base and per capita GDP in India from 2003–2007.



- The Indian mobile telephony market has grown at a tremendous pace in the past five years, from 13 M subscribers in 2003 to almost 165 M in 2007, registering an annual growth rate of approximately 88.7%⁽²⁾.
- The widespread adoption of mobile telephony remained unparalleled in scope to other segments of the Indian telecom sector, driven by the ever increasing population of users who chose personal mobility. For the first time in 2003, the mobile subscriber base grew more than the fixed line subscriber base (in absolute terms) signaling wider acceptance of mobile telephony.
- **The call tariffs have been reduced at a rate of more than 26% since 1999**, from INR 6.70 per minute in 1999 to INR 1.06 in 2005.
- On the policy front, the introduction of the **“Calling Party Pays”** regime in conjunction with the reduced call tariffs has significantly reduced cost-in-use for mobile subscribers.

^(A) Figures are as of March of the respective years

Exhibit 2: Depicts the decline in mobile call tariffs in India between 1999 and 2005⁽³⁾



- The user base has been adding almost 4 million subscribers per month on average, with the mobile subscriber base crossing the 100 million mark in 2006⁽¹⁾.

Consequently, the contribution of the telecom sector to India's GDP increased from 1.5% in 2000 to 1.9% in 2006⁽⁴⁾. This was in part due to the liberalization of the foreign direct investment (FDI) regime in India. The year 2003 saw a boost in the inflow of foreign investment to this sector, with the FDI cap being raised from 49% to 74%.

Key Performance Indicators⁽⁴⁾

In addition to the above, the following performance indicators are indicative of the impressive performance of the Indian telecom sector between 2000 and 2006:

Quality: The quality of telephone services has improved significantly over the years, as seen in a 23.8% reduction in faults per 100 main lines during 2000–2006.

Affordability: A 45% decline in the average price basket for residential use has made fixed telephony more affordable. India has one of the lowest mobile tariffs in the world. The tariffs have declined from USD 0.16/minute (INR 6.70/minute) in 1999 to USD 0.03/minute (INR 1.06/minute) in 2005⁽³⁾.

Access: Coverage and usage of fixed telephony grew strongly, as seen in the 40% growth in telephone main lines and 50% in international voice traffic. The number of mobile subscribers per 1,000 people grew by a substantial 2000% during 2005–2006.

Improved quality and increasing affordability have facilitated growth in usage and coverage of telecom services

Network:

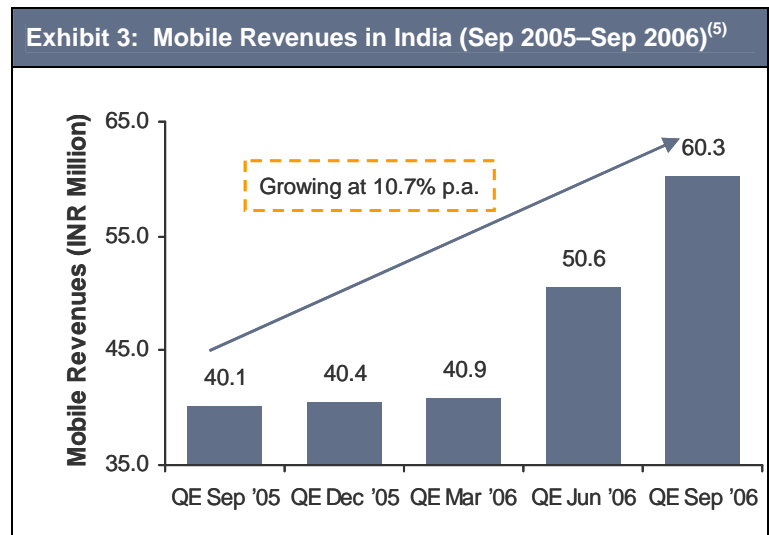
- Code Division Multiple Access (CDMA) as an alternative technology evolved during the period 2000–2006, with the country-wide network consisting of six players.
- The industry, initially characterized by fragmentation, has witnessed consolidation with a number of regional operators taken over by larger operators.

The Changing Landscape

The growing subscriber base has positively impacted industry revenues, which have risen consistently. Mobile revenues in India rose from USD 0.92 B (INR 40.1 B) in the quarter ended September 2005 to USD 1.30 B (INR 60.3 B) a year later, registering a growth rate of 10.7%⁽⁵⁾.

Exhibit 3: Depicts the increasing revenues from Indian mobile telephony market (Sep 2005–Sep 2006)

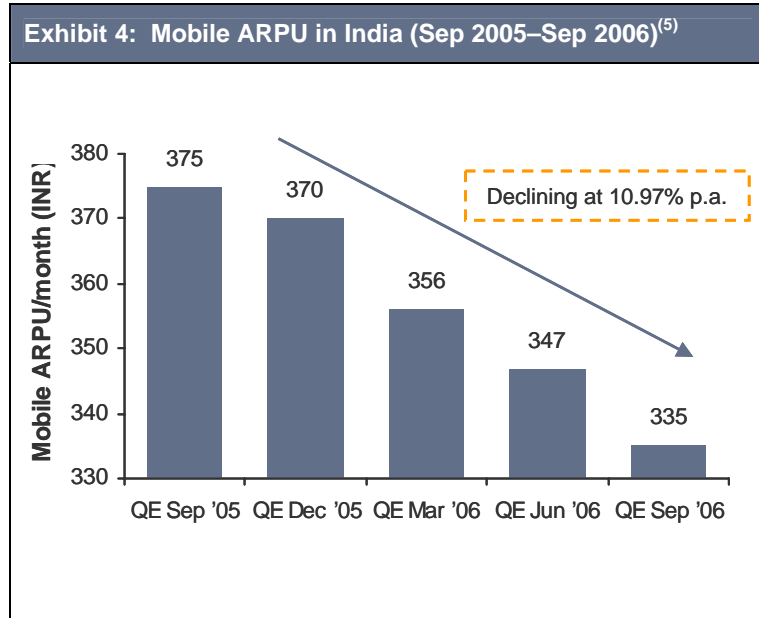
While the growing affordability of mobile services lead to a significant growth in revenues, operator margins declined by 68% (as compared to a 30% decline in call costs) in 2005–2006



However, the flipside of the growth in the revenues as depicted above has been the declining Average Revenue Per User, or ARPU, which has declined at 2.7% on a quarter-by-quarter basis, from USD 8.58 (INR 375) in the quarter ended September 2005 to USD 7.21 (INR 335) a year later⁽⁵⁾.

Exhibit 4: Depicts the decline in the mobile ARPU in India on a quarter-by-quarter basis

The steep decline in operator margins also pulled down the mobile ARPU, which declined at a rate of 10.97% between 2005 and 2006



While the decline in ARPU can be attributed to the marketing initiatives of telecom companies such as the “life-time incoming free scheme ^{2(B)}”, the market structure of the mobile telephony market in India has played a key role in altering the industry profit dynamics. The dominance of the pre-paid segment has created volume for the industry, but has put a downward pressure on tariffs. Further, customer retention has also become increasingly difficult, as loyalty is getting diluted given the low switching costs between service providers⁽⁶⁾.

As voice has become more commoditized, the challenge is to retain customers, develop alternative revenue streams, and create a basis for differentiation in a high-churn market

The constant decline in tariff structures over the past few years has lead to the creation of a large subscriber base, along with increasing “Minutes of Use” (MOUs) from the existing base. However, the industry is approaching a threshold where MOUs no longer will be elastic in responding to reduced rates⁽⁶⁾.

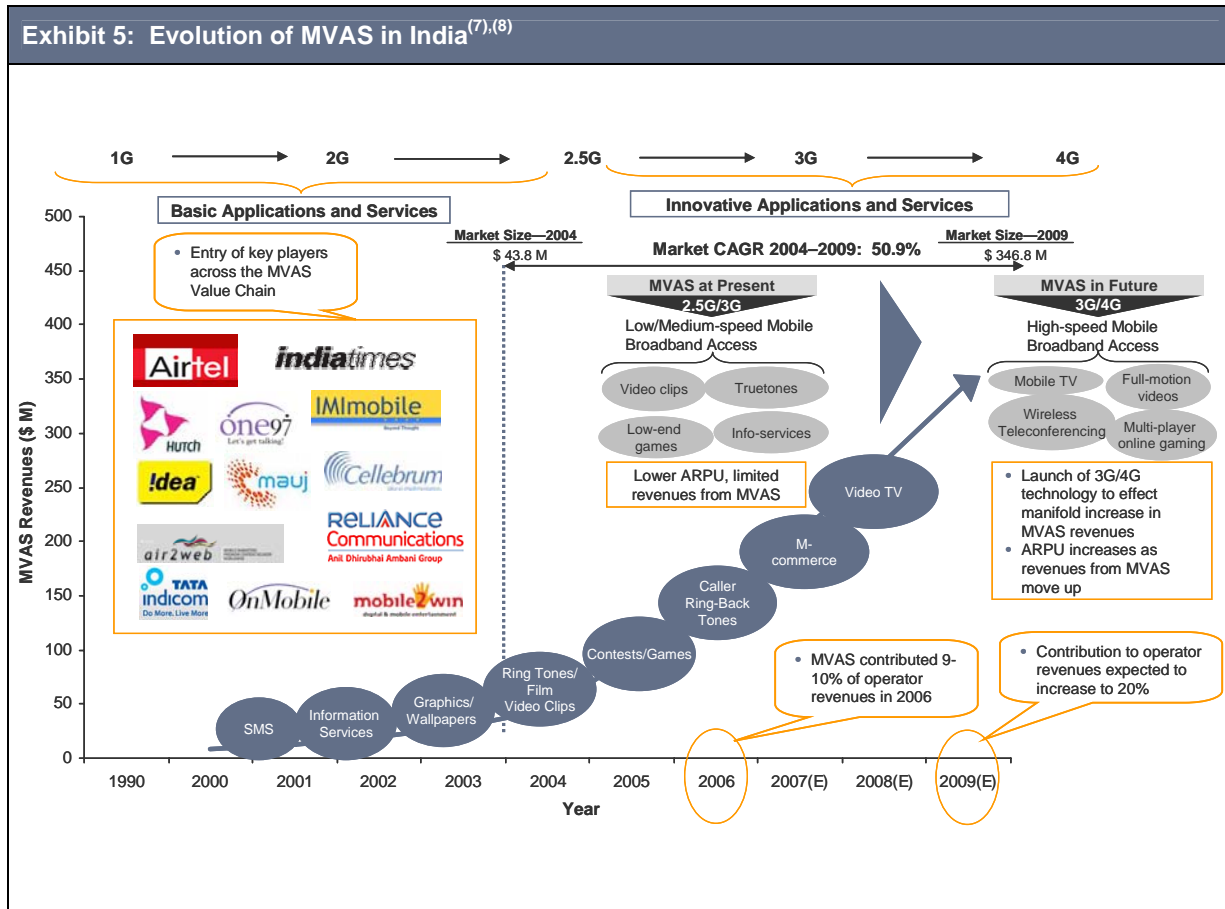
In the wake of the changing dynamics of the Indian telecom industry, mobile operators in India have been faced with two clear challenges:

- To retain customers in a predominantly pre-paid, high-churn market
- To develop alternative revenue streams and create a basis for differentiation as voice becomes commoditized

^(B) The lifetime validity for incoming calls scheme refers to a scheme launched by national operators such as Airtel, Hutch, Idea Cellular, etc. where for a one-time payment (ranging between INR 900–1000 depending on the service provider), allows the user to receive incoming calls “free for a lifetime” on the condition that the user recharges the card once every six months.

Mobile Value Added Services in India

Exhibit 5: Depicts the evolution of the MVAS industry in India (1999–2010E)



Operators are therefore looking towards MVAS to provide growth impetus to mobile ARPU, and achieve higher growth in mobile revenues

Industry Definition

Mobile Value Added Services (MVAS) are those services that are not part of the basic voice offer and are availed separately by the end user. They are used as a tool for differentiation and allow mobile operators to develop another stream of revenue⁽⁶⁾.

The nature of value added services changes over time. A VAS may become commonplace and commoditized such that it ceases to provide a basis for differentiation. For example, P2P SMS was the only form of VAS in the early days of adoption of mobile telephony in India. Given the current state of the industry P2P SMS has ceased to provide a meaningful tool for service differentiation, and therefore has not been included for calculating the market size for the purpose of this study⁽⁶⁾.

In addition to supply-side drivers (such as the declining ARPU, brand differentiation needs and growing focus on entertainment-related content), **demand-side drivers** (such as the booming Indian economy, increasing user comfort with basic mobility services, personalization of content and devices, and cheaper handsets) **are also driving the growth of the market**

Growth Drivers⁽⁶⁾

Given the challenges posed by the Indian mobile telephony market as highlighted in the section above, MVAS is likely to become a tool for additional revenue, service differentiation, and customer retention. Telecom operators are looking at MVAS as the next wave for growth and a large chunk of revenue is expected to flow in from VAS in the near future. **The growth in the market will be propelled by operator initiatives, as well as by the following macro-economic factors.**

The booming Indian economy: India has emerged as one of the fastest growing economies in the world, with spending on infrastructure and consumption growing at a rapid pace. Growing employment opportunities have resulted in a significant increase in disposable income, leading to a growing acceptance of new technologies and expenditure on communication⁽⁶⁾.

Increasing user comfort with basic mobility services: The Indian mobile telephony market has attained critical mass due to the increasing affordability of mobile services, as well as the increasing comfort with basic mobility services. A large chunk of users are comfortable with operating their mobile phones, and would progress into demanding more value-add beyond basic voice applications, driving the next phase of growth.

Personalization of content and devices: For a large number of subscribers, the mobile phone has become an extension of their persona. The success of “caller ring back tones” is evidence that users are willing to adopt services which offer them the possibility of personalization⁽⁶⁾.

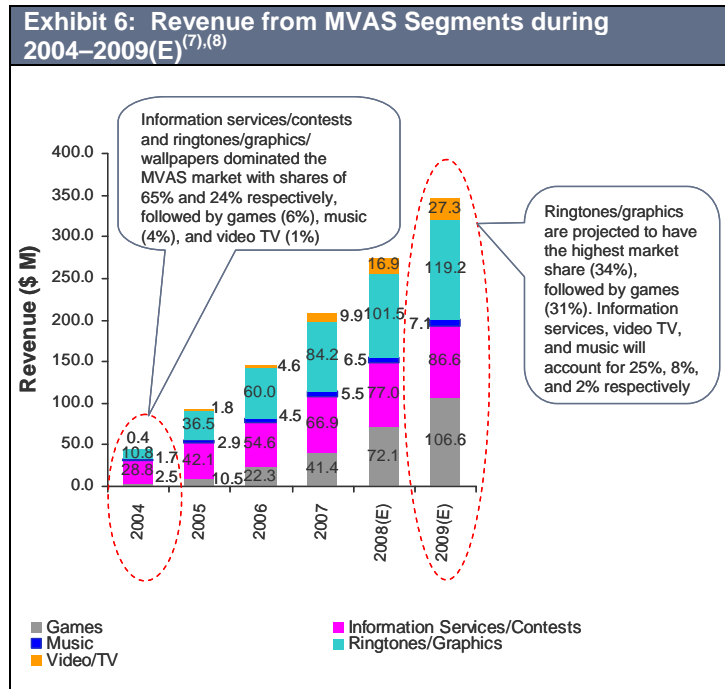
Market Size^{(7),(8)}

The evolution of the MVAS market has proceeded in parallel with the changes and advances in the telecom industry. From the early days of P2P SMS, the industry has witnessed a growing portfolio of services to include graphics/wallpaper downloads, ringtones and caller ring back tones (CRBTs), SMS contests, and games.

In India the revenue from MVAS (excluding P2P SMS) amounted to USD 43.8 M in 2004, and is expected to increase to USD 348.8 M in 2009, at a CAGR of over 50%.

Video/TV and games are likely to drive the growth of the MVAS market going forward

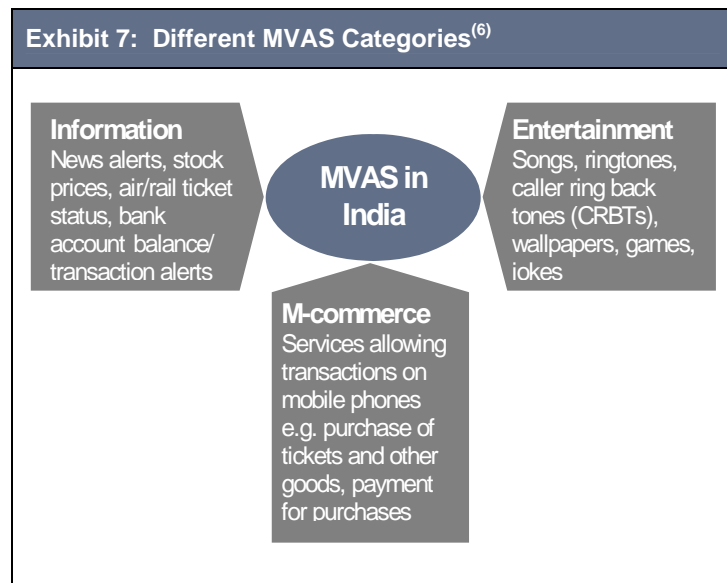
Exhibit 6: Depicts the revenues from different MVAS segments from 2004–2009(E)



SMS contests: Television is an integral part of the daily lives of average Indians. The proliferation of global television channels has changed TV viewing from a passive activity to an interactive activity. Daily soaps, music, and contest shows provide the option for viewers to participate through SMS⁽⁶⁾. The popularity of contests can be gauged from the fact that during November 2004–March 2005 Indian Idol (a singing competition hosted by Sony Television) received over 55 M votes via SMS, amounting to a total revenue of USD 3.75 M (INR 165 M) at USD 0.07/SMS (INR 3/SMS). Of this amount, telecom companies earned USD 2.61 M (INR 115 M), and Sony TV earned about USD 1.14 M (INR 50 M). Further, a popular television game show “Kaun Banega Crorepati,” hosted by a famous film personality on Star Television, generated 58 million SMSs over a period of three months. These shows have increased the familiarity of low usage segments such as housewives and the senior population with SMS utilities.

Music: Mobile music comprises ringtones, caller ring-back tones, and music clips. Indians are known for their affinity for music and movies. According to a key official of Sony–BMG, approximately USD 0.22–0.26 M (INR 10–12 M)—about 5% of an album’s sales—can be generated from mobile revenues. A popular radio station, Radio Mirchi, receives approximately 40,000–50,000 SMSs daily with requests for songs to be played on air. Saregama (an Indian music company) generates 50% of its revenues from ringtones offered through its catalogue.

Exhibit 7: Depicts the different MVAS categories

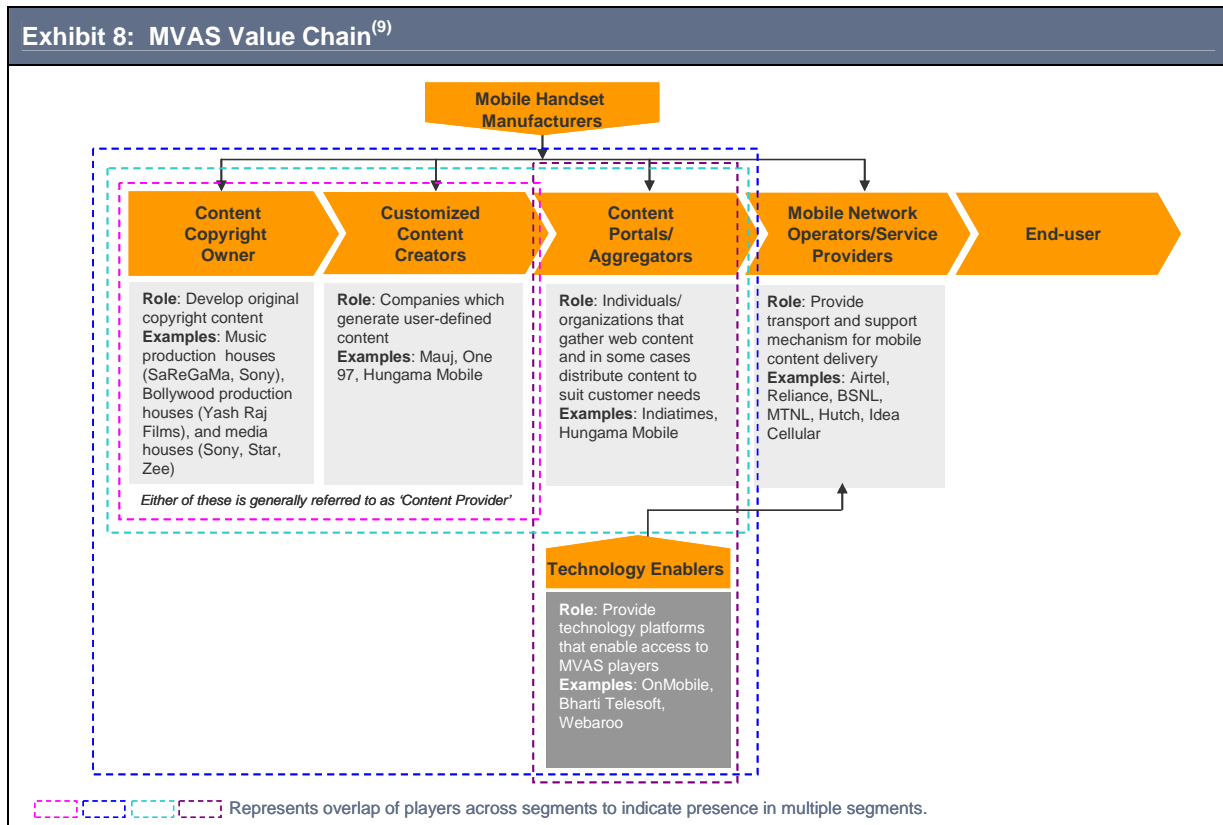


Video/TV and Games: As depicted in Exhibit 7 above, advanced MVAS has just started to find market acceptance. These services include mobile TV/video, full-motion videos, wireless teleconferencing, multi-player online games, and M-commerce. These services typically require high bandwidth and a superior level of support technology than the currently available 2.5G. The introduction of 3G/4G in the near future is therefore expected to facilitate a wider portfolio of VAS available to mobile users. The video/TV and games segment of the MVAS market are expected to register the highest CAGR during 2004–2009.

The MVAS Business Model Industry Value Chain

MVAS has also resulted in the emergence of an entirely new business eco-system giving rise to supporting industries such as content development and aggregation⁽⁶⁾. There are multiple stakeholders playing across the MVAS value chain many with overlapping roles and functions. A well demarcated value chain of MVAS is yet to evolve.

Exhibit 8: Depicts the typical MVAS industry value chain.

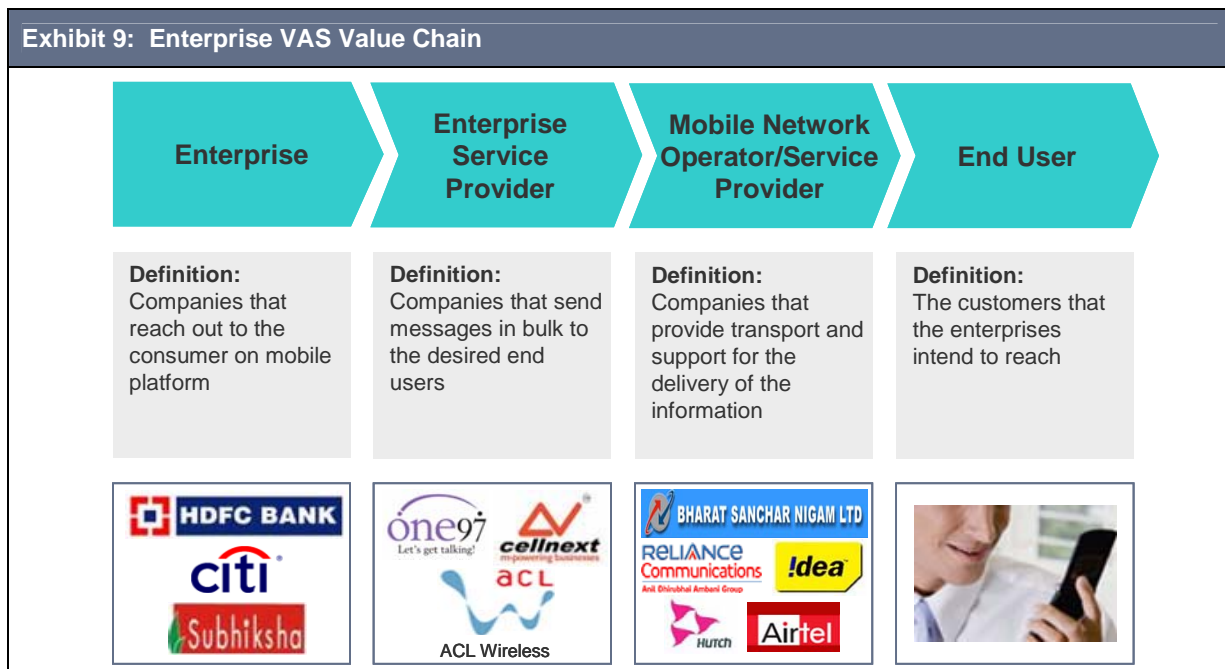


A typical value chain in the MVAS industry includes content creators, aggregators, telecom operators, technology companies, and mobile handset manufacturers

- The main stakeholders involved in the VAS value chain are
- **Content copyright owners:** At the first level of the MVAS value chain are the content copyright owners, which develop original copyright content. Examples include music production houses (SaReGaMa, Sony), Bollywood production houses (Yash Raj Films), and media houses (Sony, Star, Zee, etc.)
 - **Customized content creators:** Refers to companies that generate customized content for users through their own portals. Examples include Mauj, One 97, and Hungama Mobile.
 - **Content portals/aggregators:** These are individuals/organizations that gather web content and in some cases distribute content to suit customer needs. Examples include Indiatimes and Hungama Mobile.
 - **Mobile operators:** They provide transport and support mechanisms for delivery of mobile content. Examples include Airtel, Reliance, BSNL, MTNL, Hutch, Idea Cellular, etc.

- **Technology enablers:** On the other end of the value chain are technology enablers. These provide technology platforms that enable access to MVAS. Players include OnMobile, Bharti Telesoft, Webaroo, etc.
- **Handset manufacturers:** Mobile handset manufacturers have also started playing an important role, through their interaction with all other stakeholders across the value chain. Their activities include embedding software links in their handsets, allowing direct access to content portals, creating services customized to the need of certain regions, etc. Key players in the Indian market include Nokia, Motorola, and Samsung.

Exhibit 9: Depicts the typical enterprise VAS Value Chain



The enterprise VAS value chain comprises enterprises, enterprise service providers, mobile operators, and users

MVAS has also provided a platform to enterprises to communicate with existing and potential customers using technology as a common denominator.

In the context of MVAS, **enterprise service providers are companies that reach out to the consumer through the mobile platform.** Enterprises across a wide range of industries such as financial services, retail, real estate, cargo and courier, and FMCG companies are using VAS as a marketing and customer development tool⁽⁶⁾. The flow of information from the enterprise to the end-user can be either via automated alerts or user-generated requests.

Though the inflow of revenue per unit may be low in the case of Enterprise VAS (usually USD 0.07/minute or INR 3/minute), this segment is likely to drive a sizeable contribution to the total MVAS market, given that an increasing number of industry verticals that interface directly with the consumer continue to adopt this channel as a means to communicate with their customers.

Enterprises across a wide range of industries such as financial services, retail, real estate, cargo and courier, and FMCG companies are using VAS as a marketing and customer development tool

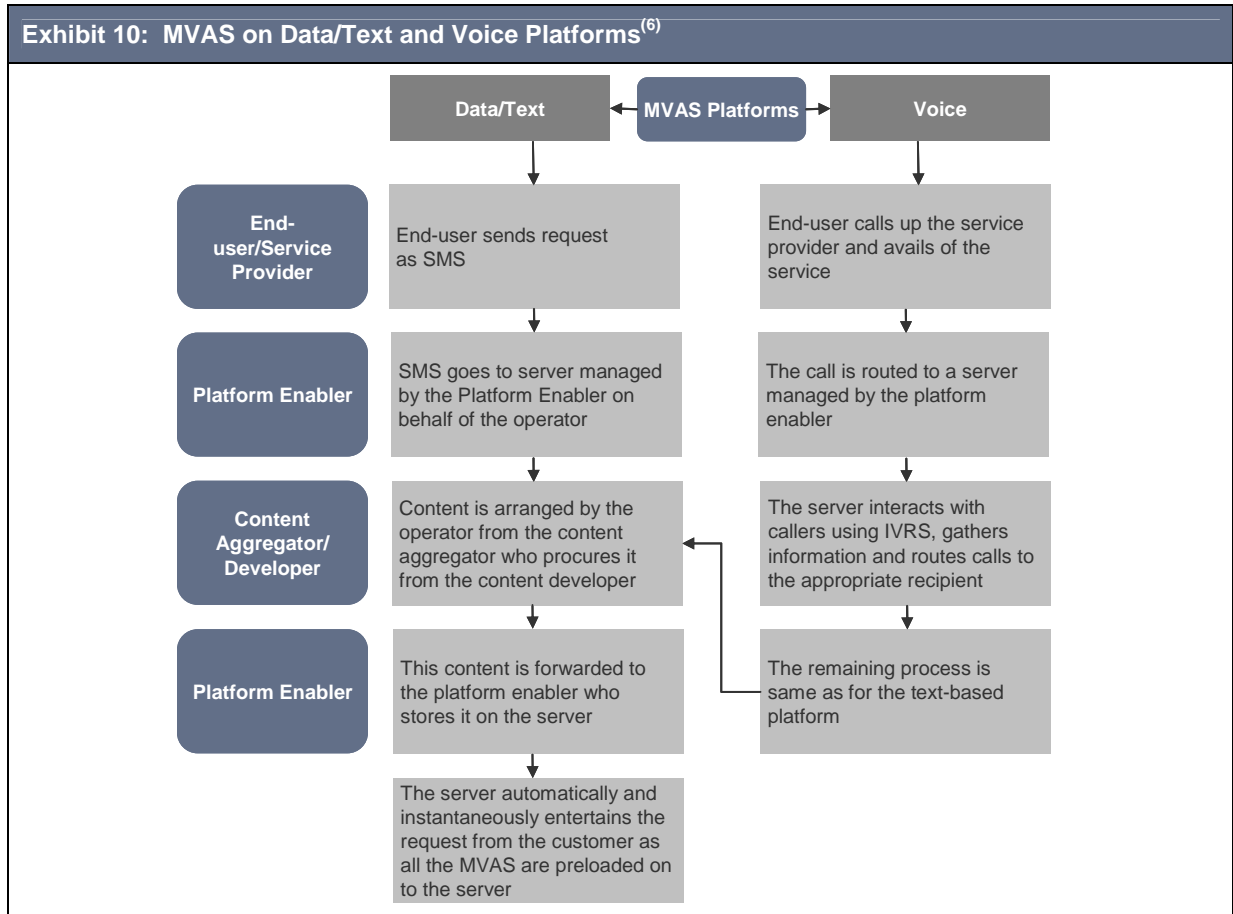
Other players in the Enterprise VAS chain include

- **Enterprise services provider (ESP):** Provides the interface between the enterprise and the mobile operator. ESPs are companies that send messages in bulk to the target end-users. Examples include One 97, Cellnext, and ACL Wireless.
- **Mobile operators:** provide transport and support for delivery of information from enterprises to end-users through the ESPs. Examples include Airtel, Reliance, BSNL, MTNL, Hutch, Idea Cellular, etc.

MVAS Platforms

MVAS on Data/Text and Voice Platforms⁽⁶⁾

Exhibit 10: Depicts the MVAS delivery on data/text and voice platforms



Voice-based services require more efforts from the operators and generate more revenues compared to text-based services

Even though voice-based VAS requires more effort to be expended by telecom operators, voice VAS generates more revenues compared to text-based services.

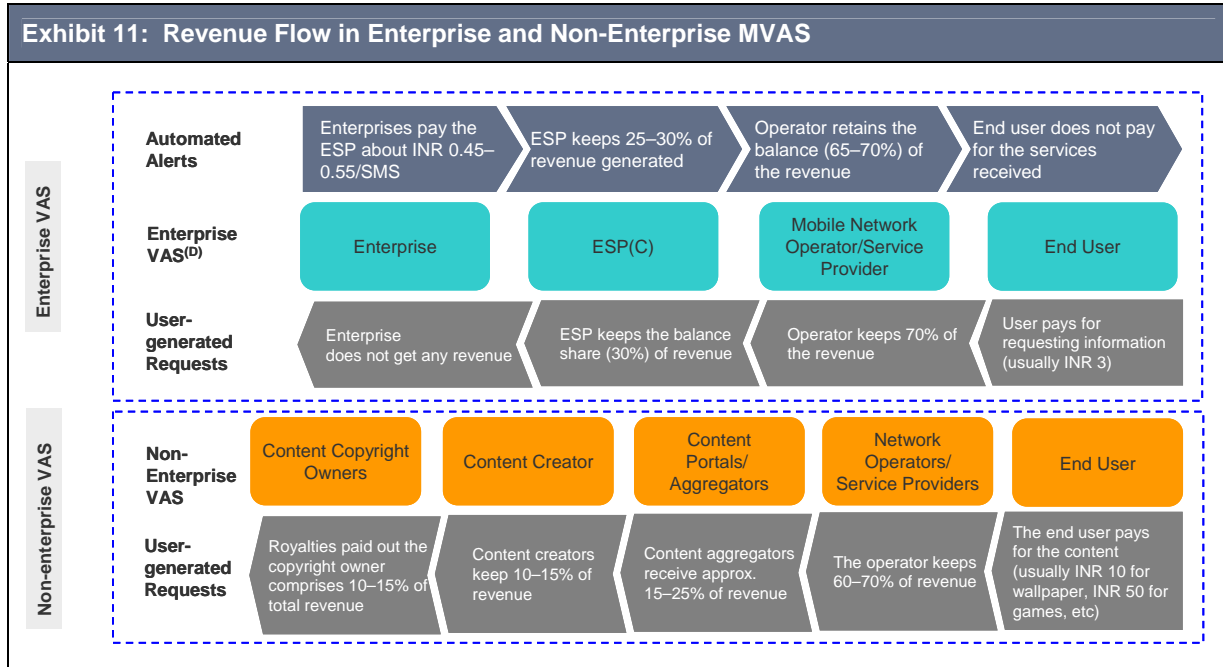
Per-unit voice-based MVAS generates more revenue than text-based MVAS on account of the following:

- The call charges are higher at USD 0.15/minute (INR6/7 per minute) for voice-based services versus USD 0.07/SMS (INR 3/SMS) for text-based services
- Selecting the service normally takes more than a minute
- Thus, for the same service, voice-based MVAS will generate significantly higher revenue than text-based MVAS

As the penetration of MVAS grows in rural India, the necessity and importance of “Interactive Voice Recognition” (IVR) systems will increase. Rural users will be more comfortable with an interactive voice platform in the local language as opposed to punching numbers to exercise their options.

Revenue Sharing in MVAS

Exhibit 11: Captures the revenue flow in the case of enterprise and non-enterprise MVAS



Operators retain almost 70% of the revenues across the value chain

Current Revenue Sharing Arrangements

Operators typically retain the largest chunk of revenues across the value chain. Revenue sharing arrangement for non-enterprise MVAS is typically 60–70% for the operators, 15–25% for the content aggregators, and 10–15% for content creators. Further, royalties paid out to the copyright owner accounts for 10–15% of the total revenues.

In India, operators dominate the revenue sharing arrangements due to the following reasons:^{(8),(10)}

- **Control over data inside pipe:** Operators randomly block access to sites, thereby hampering content players' reach.
- **“Walled Garden” in handset equipment:** The browsing environment in the handsets controls information and web access by users, thus reducing direct communication avenues between the user and content providers.
- **Too many contenders for a small pie:** There are numerous small content players grappling for business in the various MVAS segments, e.g., sports alerts, ringtones/music, etc.
- **Lack of adequate copyright protection:** This hampers the growth of branded content and hence reduces the bargaining power of content providers.

Similar to non-enterprise MVAS, even in the case of enterprise solution services, the operators retain almost 70% of the revenue, while the remaining 30% accrues to the service providers. The revenue sharing arrangements in India are significantly different from those in evolved mobile markets such as China, where the share of the operator ranges between 20–30%, and the aggregators and content owners keep a majority of the pie. However, stakeholders across the value chain are using diverse strategies to boost their revenues.

Exhibit 12: Depicts the competitive landscape of the MVAS industry, and different strategies of players across the value chain

Exhibit 12: Competitive Landscape of the MVAS Industry ⁽¹⁾															
Player	Hungama Mobile		IMImobile		Star India		One97		VoiceGate		OnMobile		Paymate		
	Inception	Current	Inception	Current	Inception	Current	Inception	Current	Inception	Current	Inception	Current	Inception	Current	
Segment Presence	Technology Enabler		■	■			■	■	■	■	■	■	■	■	
	Content Aggregator	■	■		■		■	■				■			
	Content Provider		■			■	■	■	■						
Products/Offerings	USP	Movies/Music Industry: Exclusive content		End-to-end Solutions: Voice and Data platforms allowing integration of voice and data access points and products		Exclusive Content: Owns/Acquires copyrights		Regional Content/Music: In 12 Indian languages		Specialized in Voice-based Services: Voice mail, voice logging, voice recording, etc.		Wide Array of Offerings: SMS and voice platforms; Content aggregation and sourcing		Secure Payment System	
	Products/Services	Operator logos; Picture messages; Bollywood wallpapers/ringtones/games; Applications; Information services		Technology platforms, software, applications		Entertainment: Movies, music, sports Information: Banking, travel, news, etc.		Mobile content, network VAS, enterprise business services, marketing and revenue sharing applications		Interactive voice response systems		Contests, infotainment, interactive media, M-commerce, missed call alert, Msearch, music, mobile marketing, voice SMS		M-commerce: Online shopping, purchasing movie/airline tickets, payment of bills using mobile phones	
Future Plan	Mobile Movies: Take Bollywood movies to mobile phones		Customized Solutions: Partner with key operators/device manufacturers and offer customized solutions		Target Youth: Interactive games, Wallpapers/Ringtones/Video mails based on youth entertainment programs		Innovate: With regards to content, information, and intelligent transactions		Integrate: Enter content aggregation and content development arena with portal VG4Mobile and invest in state-of-the-art studio		Strengthen Partnership: Work closely with network operators and content providers		Expansion: More tie-ups with banks and widen scope of payment services		

Most players in the MVAS industry are targeting specific market segments with differentiated positioning strategies

Evolving Strategies of Shareholders across the MVAS Value Chain

Stakeholders across the value chain are adopting innovative strategies to gain a chunk of the revenues.

Content copyright owners and content creators⁽⁸⁾: Creators of original content have traditionally commanded a revenue share significantly less than that of mobile operators. Media companies are fast emerging to play the role of content copyright owners and content creators. Currently, media companies command 30% of the revenues, while operators and content aggregators account for 60% and 10% of the total revenue respectively. Of late, media companies have been making a case for a higher share of the revenue pie. However, for obvious reasons operators have a conflicting viewpoint on this.

Media companies want a bigger share of the revenue pie

The operators believe that since they make the investment in the network and control access to the consumers, they should be in a commanding position, and retain a major chunk of the revenues from MVAS. The President of the Applications and Solutions Group of a leading telecom group argues⁽⁸⁾:

- At the international level, operators pay revenue share only on the basis of actual downloads.
- In India, the figure of revenue share is calculated including network usage and subscription fee, and therefore, the percentage that comes back to the operator needs to be larger.

Media companies contend that the fragmented and oversupplied content market will work in their favor for the following reasons:

- It is easier for media companies to procure quality content in a fragmented market when compared to mobile companies who do not have much experience in this domain.
- As the need for differentiated content (specifically with TV, music, news, and more audio-visual content) gains importance, media companies are expected to gain momentum and enter into alliances with other players.

Media Companies Gear Up for MVAS⁽⁸⁾

- Big media firms (Star, Sony, and Bennett Coleman and Company Limited) set up dedicated divisions for mobile entertainment in 2006.
- In January 2007, Star India introduced “PLUS” offering a variety of television entertainment contests and latest happenings on SMS.
- The CEO of a leading Indian media house believes that mobile telephony will eventually bring in 30% of the company’s revenues.
- The Director (Interaction) of an Indian media buying and planning firm believes that the work of media companies is primarily “brand centric.”
 - For example, if an FMCG player’s creative and media plan demands a mobile play, in the form of a contest, poll or plain branding, then the media planning firm will look for content or partnerships that can be leveraged to promote the brand on a mobile phone.

Wider portfolios and integration along the value chain could improve MVAS revenues of content aggregators/providers

Content aggregators/providers^{(12),(13)}: Content aggregators are aggrieved by similar concerns as content owners with respect to revenue sharing across the MVAS value chain. They have sought to counter this issue by widening their portfolio of offerings and integrating along the MVAS value chain.

On Mobile's Business Strategy⁽¹²⁾



On Mobile has moved beyond its traditional role of being an MVAS technology enabler with a wide array of platforms, applications, and professional services. The company now offers ringtones, sports alerts, horoscopes, and other services. Its call interactive media portal found use in popular television shows such as quick contests (Kaun Banega Crorepati) and singing competitions such as (Indian Idol and Super Singer).

Star Television's Business Strategy⁽¹³⁾



In January 2007, Star Network launched its PLUS service, a 24-hour mobile platform allowing single-point access through a mobile telephone to television, shopping, banking, and other useful services.

Handset manufacturers: Handset manufacturers have also partnered with players across the MVAS value chain to create a sustainable basis for differentiation.

Handset manufacturers are partnering with players across the MVAS value chain to enhance their products

Nokia Partners with Content Owners and Aggregators⁽¹⁴⁾



Nokia has tied up with Indiagames.com and Mauj to offer downloads (along with free previews) of ringtones and games.

The company has also entered into an agreement with Malayala Manorama, a leading regional newspaper, to offer direct access to content from the newspaper through its handsets sold in the southern part of the country.

Samsung has Tied Up with Content Aggregators⁽¹⁹⁾



Samsung has tied up with Indiagames and Mauj and to launch the Samsung Fan Club Website, which offers ringtones, wallpapers, and Java-based games.

Operators have tied-up stakeholders across the MVAS value chain to enhance their offerings

Mobile operators: Like other players across the value chain, mobile operators too are following the path of integration across the MVAS value chain.

BSNL



BSNL has entered into an agreement with Indiagames.com to offer online games on demand to BSNL subscribers.

Airtel^{(16),(17),(20)}



Airtel has entered into the following tie-ups to enhance its service offerings

- ESPN—an international sports channel, for live match alerts
- Sony Entertainment Network—for voting for television contests
- IMI Mobile—for Tamil voice portal with ringtones, greetings, and other services

Walt Disney⁽¹⁵⁾



Walt Disney entered into agreements with Airtel, Hutch, and Reliance Communications to offer comic strips and full-length stories on mobile phones.

Cellebrum⁽¹⁸⁾



Cellebrum—a technology enabler, tied up with Idea, Reliance Communications, and Spice to offer background music services through IVRS.

Declining call tariffs and ARPU, coupled with shrinking margins, are putting tremendous pressure on the mobile operators to work in collaboration with other stakeholders to sustain their revenue growth. In order to achieve this, the operators will be required to suitably reward other stakeholders by reducing a substantial part of their current revenue share. Further, other stakeholders have integrated across the value chain and are in a better bargaining position for higher revenue share as compared to the past.

Barriers to Growth of MVAS in India

The challenges emanate from the fact that this segment of the Indian telecom industry is still in a nascent stage and the rules of the game are still evolving. Further, apart from the operators, there is a large number of small players operating across the value chain. The challenges posed to the industry that are likely to hinder projected growth are as follows:

Authentication standards: Presently, there are no authentication standards set out for operators and aggregators that apply to the download of content⁽¹⁰⁾. This needs to be addressed by the institution of standards by an industry governing body such as the Telecom Regulatory Authority of India (TRAI) to authenticate the flow of information. This will help create trust among different stakeholders across the MVAS value chain.

Copyright protection: As stated earlier, the regulatory framework for copyright protection continues to remain weak despite the extension of existing copyright laws to content, with several instances of violations. In the wake of inadequate remedial action on this front, the MVAS segment is likely to be disadvantaged.

The industry requires a stringent regulatory framework in place, to encourage the flow of branded content to consumers. This will instill trust and confidence among various stakeholders across the value chain, leading to increased revenues from data services in the long run.

Low feature handsets: Despite considerable growth in mobile subscriber base, low feature handsets continue to remain the order of the day. The purchase decision for handsets continues to be driven by basic utility for voice⁽⁶⁾. According to the India Mobile Handset Usage Satisfaction Study 2006, an integrated digital camera, FM Radio, and speaker phone features remain the most likely upgrade drivers. Features such as Tri-band, Bluetooth, Infrared Port, etc., are growing, but are far from developing mass appeal⁽²⁶⁾. The lack of widespread adoption of feature-rich mobile handsets is a barrier to the growth of MVAS in India.

However, in the recent past, prices of feature-rich handsets have declined sharply owing to increasing competition among manufacturers and technological advances. There will be a move towards advanced feature handsets in the future even if need and lifestyle do not justify it⁽²⁶⁾.

Low “General Packet Radio Services” (GPRS) connectivity: GPRS connectivity in India continues to be low given limited handset capability and operator constraints. There is a large population of users who are not familiar with accessing GPRS. Despite its limitation in terms of number of characters (160 characters) and being more cumbersome, SMS continues to be the most popular delivery channel. In comparison, GRPS will provide a rich as well as user-friendly online experience. This can only pick up once the penetration of feature rich handsets grows, and operators provide free GPRS connection⁽²⁷⁾.

Transparency in revenue sharing arrangements: The current revenue sharing arrangements favor the operators, and are in stark contrast to the business models in established markets such as China, Japan, and Europe. The market is highly unregulated and the absence of an apex body has led operators to pursue obfuscation strategies.

The Indian MVAS industry needs to take a close look at best practices in developed markets to design a fair revenue distribution system, whereby creators/owners are adequately rewarded for creating higher quality content⁽¹⁰⁾. There is a need to create a transparent framework that clearly sets out balanced revenue sharing arrangements, with a fair system of payouts to different stakeholders across the value chain.

Excessive focus on entertainment-related VAS: The MVAS market in India continues to be focused on entertainment (movies, music and sports) catering to the needs of the younger consumer segment. Going forward, there is a need to focus on information VAS and transactional VAS (M-commerce), ensuring even growth among all consumer segments.

The Future of MVAS in India

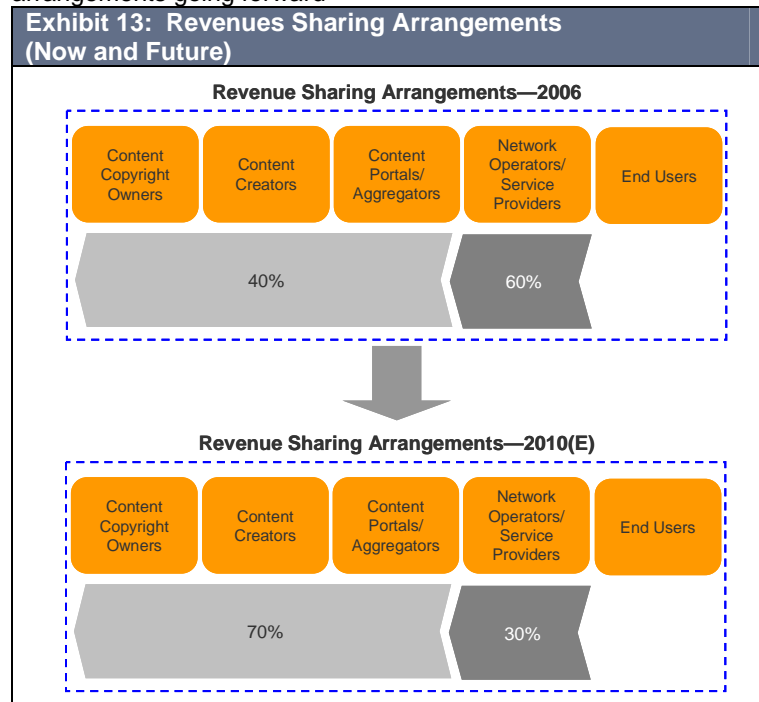
The revenue share of operators is expected to decline significantly by 2010

Revenue sharing arrangement in the future⁽¹⁰⁾: The current revenue sharing model gives limited incentive for growth of the MVAS ecosystem; hence, operators will need to encourage other players by sacrificing revenue share.

Operators will have to use MVAS to differentiate themselves from competitors and hence will become more dependent on content providers and aggregators for quality content.

Content developers and aggregators are identifying ways for delivering higher value to the operators. The popularity of high-end informational and transactional activity will increase the bargaining power of content providers, as will the introduction of 3G. Multiple small content aggregators will consolidate and grow stronger, and will thus be in a position to demand a higher revenue share.

Exhibit 13: Captures anticipated changing revenue sharing arrangements going forward



The share of operators is expected to decline from the current 60% to 30% by 2010, with other players across the value chain accounting for almost 70%, as compared to 40% at present. The revenue sharing model in the future in India is expected to replicate the model seen in developed MVAS markets such as China, Japan, and Europe.

NTT DoCoMo: Case Study⁽²⁹⁾⁻⁽³²⁾

NTT DoCoMo is Japan's leading wireless communications provider and one of the world's largest mobile internet providers. The company launched "i-mode—mobile internet services" to address the offset decline in voice-based ARPU and maintain subscriber growth. The new services gained considerable popularity, with the subscriber base growing from 1 million in August 1999, to almost 45 million in August 2005.

i-mode enables users to access customized content over a packet-based network. On the i-mode server, there are both "official" and "independent" content sites. As of January 2005, i-mode provides access to 6,700 official sites and more than 80,000 independent i-mode sites. As per the contractual agreement between NTT DoCoMo and content providers, the former collects the content charge from the subscribers and retains a commission of 9%, while passing on the rest to the content providers. However, in the case of "independent" websites, users must pay the owner directly for the content. The company's revenue sharing arrangements with Internet content providers have provided significant incentives to the latter in developing high-quality content, and revenue sharing is been widely regarded as a key to i-mode's success.

The applications of the future include regional content, mobile internet, and location-based services

New application areas^{(6),(21)-(23)}: Applications with respect to the future of MVAS in India will include several new and exciting areas such as mobile internet, location-based services, and regional content-based services.

Mobile internet will gain ground with leading players in the internet content space as they configure their sites for access through mobile phones. The setting up of a special "mobi domain"^(C3) will also promote the widespread usage of GPRS applications.

Location based services comprise among others, GPS services, social networking services (Friend Finder), and information services (Mobile Yellow Pages, City Sightseeing). According to Juniper Research, worldwide carrier revenues from location-based services will climb from around USD 1 B in 2005 to nearly USD 8.5 B by 2010, registering an increase of 53% per annum.

Maturity of MVAS is expected to give impetus to M-commerce

Mobile content customized to a certain target region is also being looked at as a source for higher mobile penetration and revenues in both rural as well as urban areas. The diversity in languages (24 different languages) and dialects (1,642 dialects) in India creates a large potential market for regional content. Companies have been very receptive to this trend, and are developing innovative strategies to capitalize on regional opportunities. Recent initiatives include Nokia's agreement with Malayala Manorama for a mobile-based vernacular news portal for subscribers based in Kerala, and Airtel's launch of a VAS portal in Kannada with ringtone downloads, song downloads, and dedications^{(17),(21)}.

Government policies and advances in technology will help to make rural India a lucrative MVAS market

^(C) The Internet Corporation for Assigned Names and Numbers (ICANN) has approved the ".mobi" domain suffix for the exclusive use of cell phone users accessing the Internet⁽²⁸⁾

The growth of M-commerce⁽²⁴⁾: Maturity in MVAS will also give a strong impetus to market growth for M-commerce applications in India. The services presently offered in India include information based services (account balance and activity alerts, foreign exchange rate notifications, etc.) and transaction services (securities trade, cash roll-overs, debt trade, stop-payments). Their growth, however, is limited by low user awareness and confidence-in-use, and by infrastructural constraints and high pricing. What is needed, therefore, is close cooperation between the telecom industry on one hand and banks on the other.

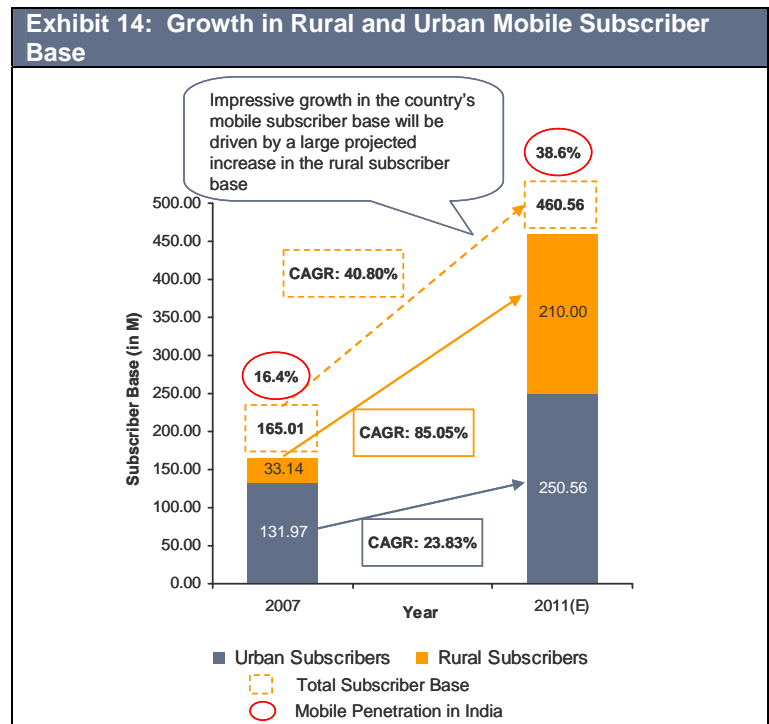
Support from the telecom industry for new services will help extend their reach to new customer segments (e.g., M-commerce in rural areas) and this will increase their profitability. Such partnerships between banks and the telecom industry also facilitate mainstreaming and differentiation of new services and offered.

MVAS for the rural market⁽²⁵⁾: India's rural market represents a segment with huge potential for MVAS. It is predicted that rural subscribers will grow at a CAGR of 85% during 2007–2011, as against the urban subscriber base which is expected to grow at just under 24% during the same period. Success here, though, is dependent on the interplay of a multitude of complex factors.

On one hand, Government policies will probably play the most critical role in growth of MVAS in rural India. These will affect penetration drivers such as the level of competition in the sector, tariff and non-tariff barriers for ICT products, and use of Universal Service Obligation Funds for development of rural telephony.

The subscriber base in these areas will require customized services such as crop price alerts, microfinance scheme information, installment due alerts, etc.

Exhibit 14 depicts the projected growth in rural and urban mobile subscriber base in India from 2007 to 2011



The Way Forward

India's telecom industry has posed unique challenges for mobile operators. MVAS has emerged as a great opportunity to rescue the industry from the declining ARPU. From the above analysis, it is clear that the MVAS space is set to witness a high growth trajectory, creating tremendous opportunities. However, stakeholders across the value chain will have to work collaboratively to overcome barriers and create a business ecosystem that generates fair rewards for all the players.

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