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Value-added voice services update

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Expert advice

Value-added voice services update

This is an update of our previous research, *Value-added voice services* (published in January 2004), in which we gave an overview of value-added services (VAS) that were available at the time and their impact on operators and customers. In this update, we will focus on the latest VAS that have been introduced and their impact on the market.

Key messages

Fixed communications evolving towards multimedia

Over the last year, the most noticeable development in value-added voice services has been the addition of images and video, bringing a new dimension to fixed line communications. Belgacom, Deutsche Telekom, France Telecom and Telecom Italia have already launched fixed multimedia messaging services (MMS) and/or video calling services, mirroring recent moves by mobile operators.

Convenience and control are other key themes

Another development is the launch of services that enhance customer convenience and/or control, thus saving them time. Examples of this include the launch of Tutto 4* by Telecom Italia, which bundles the existing 4* information service with additional value-added services (VAS), as well as Verizon's Call Intercept and Telefonica's distinctive ringtone service.

Move towards IP to enhance the capabilities of the fixed line

Spurred by rising broadband penetration, operators such as Telecom Italia and France Telecom have started to use DSL to enhance the capabilities of the fixed line. Telecom Italia's Alice Mia proposition transforms a single line into several personal lines, while France Telecom has chosen to complement voice with video over DSL, with MaLigne visio. The unified messaging services recently launched by SBC and Verizon are also IP-based, enabling the creation of a single mailbox for messages from various sources. Although not strictly fixed voice VAS, these services offer a glimpse of things to come, as the emphasis shifts towards IP-based VAS.

Take-up rates expected to vary drastically between VAS

Whereas we expect certain services, such as Telecom Italia's Tutto 4*, to be successful due to their widespread appeal, take-up of fixed MMS and video calling services, which already confined to niche markets, will be constrained by the need to replace existing customer premises equipment (CPE). Providing a rental option for CPE should lower barriers to entry, as will promotional offers.

No major impact on revenues…

Faced with a continuing decline in their fixed voice revenues most operators, particularly incumbents, are keen to generate additional revenue streams through VAS. Operators can add indirect revenues resulting from call stimulation and CPE upgrades to revenues directly generated through the services. Although every little bit helps, these revenues are insufficient to stem the tide and restore their fortunes.

…but may offer differentiation and lead to stickiness

As more traditional VAS such as voicemail and call waiting have now become commonplace, new VAS are needed to bring differentiation. Some operators, notably Telecom Italia, have been particularly successful in combining innovative VAS with next-generation CPE. Redefining and enhancing the fixed line user experience has helped with its customer retention.

Evolution of new value-added services

As traditional VAS (such as basic voicemail and caller display) have become universally available to consumers, operators continue their efforts to introduce innovative VAS to differentiate themselves and encourage additional spending on fixed lines. Operators are also emphasising how VAS can make the user's life easier with features such as the unified message service and single access to all VAS.

Multimedia comes to fixed communications

Operators are demonstrating through their VAS that the fixed line is no longer just a means of audio communication and can now encompass images and/or video, bringing a multimedia dimension to users. Like their mobile counterparts, some fixed operators have recently launched fixed MMS and videophone services.

Fixed MMS

As a natural evolution from their fixed SMS service, both Telecom Italia Wireline and T-Com (Deutsche Telekom) launched fixed MMS in May 2004.

The service enables users to send messages combining text, sounds and images. T-Com also enables the multimedia message to be delivered as a postcard at additional cost.

Figure 1 gives key highlights of both operators' fixed MMS service.

Figure 1 **Fixed MMS comparison**

	Cost of CPE (euro)	**Cost of fixed line MMS (euro, per message)**	**Cost of mobile MMS (euro, per message)**
Deutsche Telekom	199.99–229.99	0.39	0.39 (up to 300Kb)
		1.29 (MMS postcard)	1.49 (MMS postcard)
Telecom Italia	189.90	0.25 (fixed-to-fixed)	0.60
		0.45 (fixed-to-mobile)	

Source: Operators

Although each service is also accessible through an Internet portal, it is easier to use suitable CPE to benefit from the service. Telecom Italia's Pico MMS phone costs euro189.90, and T-Com offers either the T-Sinus 711 MMS (analogue phone) for euro199.99 or T-Sinus 721 MMS (ISDN phone) for euro229.99.

In order to encourage take-up, both operators have priced their service more competitively than the equivalent proposition from their mobile counterparts. Whereas it costs euro0.60 to send an MMS from a TIM mobile, it only costs euro0.25 to send a fixed-to-fixed MMS, and euro0.45 to send a fixed-to-mobile MMS.

Although T-Com's service costs the same as T-Mobile's, at euro0.39 per MMS, it enables users to send messages up to 500Kb in size, as opposed to 300Kb per T-Mobile MMS. At euro1.29 per MMS postcard, T-Com's service is euro0.20 cheaper than T-Mobile's.

Video calling

Another recent development is the launch of video calling by several operators. Belgacom launched its service in November 2003, followed by Telecom Italia in June 2004 and France Telecom at the end of 2004. What is particularly interesting is the different approaches used by the respective operators, which are highlighted in *Figure 2*.

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Figure 2 **Fixed video calling comparison**

	Characteristics	Cost of CPE	Pricing
Belgacom	Service delivered over PSTN through Visto monitor, which is plugged in between the phone and the phone point	euro249.50	Standard call charges apply
Telecom Italia	Service delivered over PSTN to videophone	euro199.00 or euro299.00 for two (promotional offer) Also available on a rental basis for euro3.58 pcm	euro0.06 per minute for duration of video call
France Telecom	Service requires DSL line and videophone, bundled with VoIP	euro390.00 for LR8772 (euro180.00 in promotional offer) or euro419.00 for L8882 (euro199.00 in promotional offer) for videophones + euro79.00 (euro1.00 in promotional offer) for modem L8882 also available on a rental basis from euro7.00 per month, or euro99.00 for those who subscribe to unlimited call plan	from euro19.90 (euro14.90 in promotional offer) for calls to one specified number, to euro33.00 (euro29.90 in promotional offer) per month for unlimited calls

Source: Operators

- Belgacom launched its service in November 2003, using the simplest approach: customers add video-calling capabilities to their existing CPE by plugging in a separate Visto monitor. There is no additional cost to the service, as video calls are charged at the same rate as standard voice calls.
- Telecom Italia’s service requires a videophone, which also offers access to other new services such as fixed SMS and MMS. Video calls are charged at a special rate of euro0.06 per minute, which is cheaper than standard peak rate national calls but more expensive than other local or national calls.
- France Telecom delivers its MaLigne visio service through DSL, rather than ordinary PSTN lines, and bundles video calls with IP telephony in its call plans.

Both Telecom Italia and France Telecom have reduced barriers to entry by providing a rental option for CPE, and France Telecom has a wide range of promotional offers to stimulate take-up of the service.

Bringing more convenience and control to customers

Single access to a range of VAS

Launched in September 2003, Telecom Italia's 4* service offers voice-activated, menu-driven access to Telecom Italia products and services, as well as general information and emergency services. *Figure 3* provides further information on the various components of the service.

Figure 3 **Telecom Italia's 4* services**

Menu	Sub menu
VAS	Voice messages, voicemail, contacts, wake-up call, exact time (speaking clock) and white pages (directories)
Products and services available to purchase	Business: Smart, Teleconomy, ISDN and VAS Residential: Alice (ADSL), Hello Sempre, Hello Forfait, ISDN and VAS
Information	Pharmacy, taxi, traffic, restaurant, hotel, museum, cinema, news, weather and stock exchange
Leisure	Background, ringtones, music messages, horoscope and quiz
Emergency	Police, carabinieri (paramilitary police), fire brigade, guarda di finanza (finance police), coastguard, telefona azzuro (child abuse helpline), anticendio boschi (hotline to report forest fires) and ambulance

Source: Telecom Italia

Only one number is needed to access these services, all of which are available to the end user. Telecom Italia improved its 4* service by launching the Tutto 4* proposition, in January 2004. For euro2.95 per month it bundles 4* giving subscribers unlimited free-of-charge access to the 'services' and 'information' sections of the 4* service. Caller ID registry and Chat SMS offers unlimited free fixed-to-fixed SMS and voice messages.

Other services

Some of the more unique services launched by certain operators are now being more widely adopted and/or improved:

- in 2000 BT launched its Anonymous Call Rejection service, which bars all calls from lines where the number is withheld. Four years later, US operator Verizon launched an improved version of the service called Call Intercept, in which unidentified callers are prompted to record their identity before the phone rings, following which the customer can decide how to deal with the call. The service costs $5.95 per month

- in 2004 Telefonica launched Timbre Distintivo de Llamadas, its distinctive ringtone service, in which individual ringtones can be allocated to pre-specified numbers. This is very similar to an existing service from SingTel.

IP-based services are becoming more common

We have already mentioned that France Telecom was using DSL to extend the capabilities of the fixed line to offer its combined video calling and IP telephony service. The boundaries between traditional fixed voice VAS and IP-based VAS are becoming increasingly blurred as convergence between the two increases.

Alice Mia transforms the fixed line

Launched by Telecom Italia in October 2004, Alice Mia offers the following features and benefits to broadband subscribers:

- up to five users being able to access the Internet concurrently
- up to three simultaneous telephone conversations
- up to five personal telephone numbers
- intercom facility
- ability to send and receive SMS and MMS.

The service, which costs euro4.95 per month, includes a wireless DSL modem/router, one personal phone number (additional personal numbers are available for euro1 per month) and a subscription to the Tutto 4* package. It should appeal to families, enabling them to expand the capabilities of their fixed line at a low cost, through DSL.

Unified messaging gaining ground in the US

So far, only a handful of operators, including Deutsche Telekom and SingTel, have been offering unified messaging services to the mass market. However, at the end of 2004, US operators SBC and Verizon launched IP-based unified messaging services, enabling customers to access messages from multiple sources (such as fixed line, mobile, voicemail, faxes and emails) through a web interface or a voice-activated portal. *Figure 4* gives key highlights for both services.

Figure 4 **Unified messaging comparison**

Proposition	Features	Cost, pcm
Verizon iobi	Integrated communications manager enabling users to access and manage fixed and mobile calls, faxes, text messages, voicemails and emails through a web or voice-activated portal	$7.95 (basic voicemail is a pre-requisite for the service, and is charged separately at $6.23–$7.95 per month, depending upon state)
SBC Unified Communications	Integrated communications manager enabling users to access fixed and mobile calls, faxes, voicemails and emails through a web or voice-activated portal	$10.95–$12.95, depending upon state (a Lite version, which excludes mobile, is available for $7.95–$10.95, depending upon state)

Source: Operators

- SBC has been encouraging its All Distance customers to migrate from standard voicemail to unified messaging, offering it as an upgrade for an additional $3 per month (or $1 per month for the Lite version).
- Verizon iobi, which offers more management features such as call forwarding, complements existing voicemail services and is therefore more expensive.

Take-up of services

Wide variations in take-up

Constrained take-up of new multimedia services

Very little information is available on the take-up of services such as fixed MMS and video calling, as they are so new.

However, the experience of mobile operators suggests that take-up of MMS has been slow and is likely to remain so. We estimate that MMS accounted for 0.6% of global mobile messaging traffic in 2004, rising to 1% by the end of 2006. In spite of a much larger installed base of compatible phones, mobile operators have so far failed to stimulate sufficient interest among their customer base, which does not bode well for fixed operators. In spite of their cheaper services, fixed operators face bigger hurdles than their mobile counterparts, such as:

- lack of an installed base of compatible CPE – fixed operators will have to convince their customers to upgrade their CPE to use the service, often at considerable cost (although the availability of a rental option would soften the blow and encourage adoption, as subsidised handsets have done for mobile operators)

- lack of mobility – due to their portability, next-generation mobile phones can replace cameras, enabling customers to spontaneously take pictures whilst on the move (for example on holiday) and send them to others. This is obviously not possible with fixed phones, even cordless ones.

We have similar doubts about the future prospects of video calling. Recent data from Telecom Italia indicates that 60,000 videophones had been sold or rented within three months of their launch. Although this may sound like an impressive figure, it only represents around one third of a percent of Italy's fixed phones. In spite of the availability of the videophones on a rental basis for euro3.58 per month, the service faces competition from Internet-based services using webcams. Therefore, the service is only likely to appeal to niche segments such as families with elderly relatives in other parts of the country who do not have a computer.

Easy access to services is the key to success

One of the most successful new VAS is Telecom Italia's Tutto 4* service. Within nine months of its launch, 1.6 million customers had signed up to the Tutto 4* and Chat SMS packages, representing 6% penetration of Telecom Italia's fixed connections. The service can be easily accessed through existing CPE, and customers only need to remember one number, through which they can access a wide range of information and services.

IP-based services set to grow

We anticipate that IP-based unified messaging services will be a success in the US, as they add value to the growing number of customers who are taking up operators' bundled fixed, mobile and Internet propositions.

Increasing broadband penetration and convergence should fuel the growth of similar services in other regions, as well as that of new IP-based services.

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Impact of VAS on operators

Impact from direct revenues is likely to be small

VAS will generate direct revenues, either in the form of subscriptions or usaged-based fees. *Figure 5* highlights the pros and cons of both approaches.

Figure 5 **Subscription versus usage-based pricing**

	Operator	**Customer**
Subscription	Pros: regular, recurring revenue stream	Pros: encourages use of the service, as cost not related to usage
	Cons: revenues not related to usage	Cons: may not appeal to low users
Usage-based	Pros: links revenues to usage	Pros: links charges to usage
	Cons: irregular revenue stream	Cons: discourages high users

Source: Ovum

As can be seen above, both pricing strategies have their advantages and disadvantages. In some cases, a hybrid approach may be the best, as it enables low users to only pay for what they use, whilst providing the operator with a predictable revenue stream from high users.

The impact of direct revenues from new VAS is likely to be small. In spite of widespread adoption, traditional VAS have so far failed to stem the decline in fixed voice revenues. New VAS are unlikely to make a significant difference in the short term, due to low penetration levels.

Less tangible effects will be more important

Indirect revenues are much harder to quantify than direct revenues. They include:

- additional revenues derived from call stimulation – the recipient of an MMS may call the sender to thank him/her
- revenues from CPE upgrades – the provision of CPE is profitable for operators, with average margins estimated at 35%.

It is even more difficult to place a value on other intangible benefits. By launching new VAS, fixed operators can:

- differentiate themselves from their fixed line competitors – through a range of unique, more innovative VAS, operators can add value to their core propositions and thus enhance customer retention

- defend against fixed-to-mobile substitution – by replicating, and in some cases improving, services offered by mobile operators, fixed operators can encourage some mobile-to-fixed substitution by recapturing some of the calls customers make through their mobile when they are at home.

As a result of its strategy focused on reinventing the fixed line through innovative VAS and CPE, Telecom Italia has managed to maintain, and even grow, its market share of fixed traffic, whilst minimising the decline in its fixed voice revenues.