

Search Engine To Mobile Operator: "Do You Want A Partner?"

As the mobile phone space explodes, defying all early forecasts on growth, there's a mad scramble for a piece of the pie. Entrenched device manufacturers need to reinvent themselves fast, as rank 'outsiders' like Apple, with its iPhone, and Google, with the Gphone, flex their muscles.



The handset space will soon become the latest battleground for not just existing device makers, but the 900-pound gorillas from the Internet world, including Skype and Google

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famed VoIP providers, Skype (now a division of Ebay) and mobile phone operator group 3 have just launched a mobile handset that allows Skype users to make free Internet calls to each other while on the move. The companies announced that the new 3 Skypephone could also send free Skype

instant messages, and that they hoped to sell "several hundred thousand" units worldwide in the fourth quarter of this year. Looking ahead at the next year or two, they expect to sell several millions.

The phone is being launched in nine markets including Britain, Australia and Italy, with a roll-out into other countries under consideration. In Britain, the phone costs 49.99 pounds (\$102.6) on a pay-as-you-go basis, and is free for 3 contract users. It has been put on sale in 3's stores. According to the operator, the phone's non-Skype tariffs will be the same as on its other phones, with call minutes and text messages priced the same way, and the phone will have a special Skype button.

Skype expects the launch to boost its 246 million-strong registered user base, as the service will now be available to people without computers.

According to a Wall Street Journal report this week, Google is well on track with its secretive Gphone project, and is already in talks with Verizon, Sprint and T-Mobile in the US, and some European carriers as well. Speculations are rife that it is in talks with High Tech Computer Corp (HTC) for device development partnership, but this has not been confirmed yet.

The handset space therefore will soon become the latest battleground for not just existing device makers, but the 900-pound gorillas from the Internet world, including Skype and Google. Notice that each one brings its own strengths to the table, and has the potential to shake up the market in ways one is yet to imagine.

Ebay, with its landmark \$4.3 billion 2005 acquisition (of which it wrote off \$1.2 billion this month) has had its share of challenges with Skype, which was touted as a natural voice option for the millions that buy off the Internet commerce portal. While it is not clear if even a small percentage

of eBay users actually use Skype as a part of the transaction, the write-off clarifies that eBay actually over-valued Skype significantly. According to Wireless Week and some company reports, Skype is currently generating a revenue of less than \$100 million per quarter. Not to mention the debacle of the major outage that cut off Skype service in August for nearly three full days. Although essentially a free service, in the Internet world, even a free service cannot fail with impunity, and dependability is everything. Skype disappointed a large following with its unexpected outage -- and worse, the manner in which the after-event explanations were made. At any given time, it is believed that about 7 to 9 million Skype users are active (most of them generating zero revenues). Skype eventually admitted that the outage was due to a software bug from their side, and managed to fix it. In the larger scheme of things, this might have been a tiny blip, soon to be forgotten. But memories of this will haunt Skype as it begins to look at operator associations with real mobile carriers who are carrying live traffic.

The mobile handset space

The handset space has seen more invasions from non-traditional players in the recent past than any other. Apple's iPhone was the first, Skype bundled in with 3 as a Skypephone was next, and Google's Gphone will be the next one coming up. So what is so attractive about a device market that has been around for so long? The attraction is, of course, due to the fact that the mobile device frontier seems to be adding about a billion users every fifteen months or so. And that Web 2.0 is quite likely to move into the mobile domain, as much as Web 1.0 was in the PC domain.

So, does this mean that traditional handset vendors like Siemens,

Company	Price/Share \$	Market Cap \$Bil
Apple	188.6	163.5
Ebay*	35.88	47.44
Google	702.79	219.5
Microsoft	36.53	346.71
Motorola	18.49	41.4
Nokia	39.75	153.4
Yahoo	30.86	40.7

* Ebay owns Skype
Prices of Oct31
Compiled:Tonse

Panasonic, and others who exited this business saw this coming far ahead, or were there plain business considerations behind their exit from the handset business? Did Ebay see this coming and decided to get its piece of the action early on? What about Microsoft? Having identified that its next big game will be on the mobile (Win CE) and personal entertainment/digital home space (Xbox /IPTV integrated digital home player), it is still struggling with the mobile piece of the pie. Yahoo, with such a long spell in the Internet arena, including a really solid Web 1.0 performance, has still found the mobile device arena somewhat elusive.

A quick look at the market value of some of these major players is indicative of the perceived power of these players in the emerging Web 2.0/mobile Internet space, and their ability to influence the future handset markets.

Just Google it

Google is, in that sense, much less familiar with the business of carrying voice minutes than Skype. While Google has enormous strengths including a phenomenally powerful stock that touched \$700 a share last week, it seems this company can make no mistakes! Google's approach has some significant possibilities for the telecom world. If an ad-based revenue

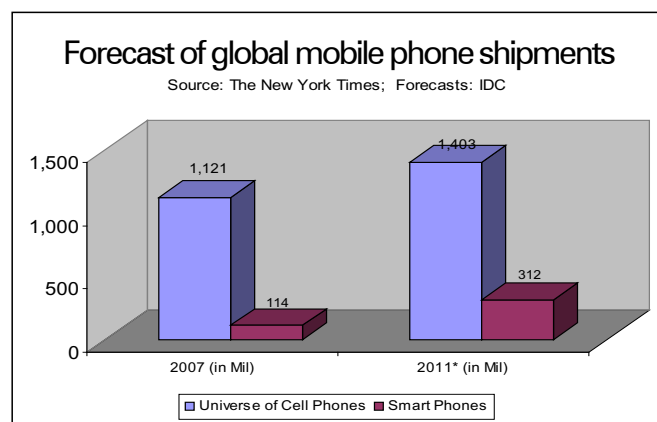
model can create one of the world's most powerful companies, then it is no surprise that traditional device makers are shaking in their boots at the thought of what Google might do next to their business.

The amount of value perceivably packed in this essentially search-engine company, built on the basis of free service backed by ad-based revenues, is mind boggling. The power of a Google phone that could deliver a mobile platform in the hands of millions of individuals, with a Google Mobile suite of Productivity applications built in, will be the most interesting development in the global mobile industry. Does this have anything to do with the sub-700 MHz spectrum discussions that Google is involved in with the FCC?

In September 2007, Google announced that it is heading a group of telecom companies on the Unity initiative: a trans-Pacific under-sea cable project. In July 2007, Google CEO Eric Schmidt wrote to the FCC that Google would be interested in bidding in the 700MHz spectrum auction. Of course, they had the following conditions:

Open applications: Consumers should be able to download and utilise any software application, content, or service they desire;

Open devices: Consumers should be able to utilise a handheld communications device with whatever



wireless network they prefer;

Open services: Third parties (resellers) should be able to acquire wireless services from a 700 MHz licensee on a wholesale basis, based on reasonably non-discriminatory commercial terms; and

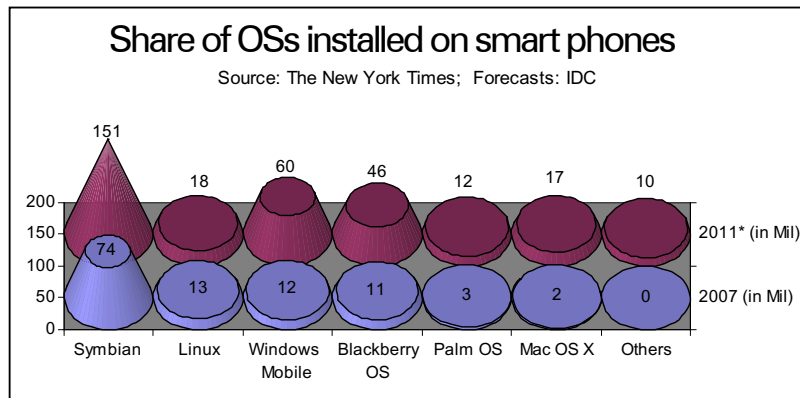
Open networks: Third parties (like Internet service providers) should be able to interconnect at any technically feasible point in a 700 MHz licensee's wireless network.

Google stated that should the FCC adopt all four licence conditions requested above, Google intends to commit a minimum of \$ 4.6 billion to bidding in the upcoming 700 MHz auction.

So what could Google be up to?

There is already news that Google is putting together an 'open handset alliance', bringing together a combination of key eco-system partners including operators such as T-Mobile and Sprint, device makers such as HTC, OS vendors such as WindRiver (RTLinux), chip set vendors, and Google's own application suite in its version of an 'open-phone', which will be centred around the 'big G'.

According to Andy Rubin, the gadget guru at Google, who is heading the project, "This is a great opportunity for him to touch a couple of billion lives" (considering that many handsets are currently around). One possible strategy that Google may adopt is that it may give away its Google phone OS (likely an RTLinux-based open mobile OS) to device makers, and offer a suite of Google Mobile apps around it. This should be a stark reminder



to Microsoft, since this is exactly what it did in 1994-95 to Netscape, edging out the Netscape browser by bundling Internet Explorer free with the Windows OS. If Google does this, Symbian and Microsoft will likely bear the brunt. The business of the application service providers (ASP) of a cell phone may also be affected significantly, and the face of the eco-system will change dramatically. The figure above shows the smartphone market by operating system.

With the spectrum, the device, the brand name, a footprint as large as the Internet, a \$200 billion market capital, an unfathomable global consumer base and aggression to match, Google could shake up quite a few businesses. Including, of course, that of the Nokias, Sony Ericssons, Motorolas and Blackberrys of the world. Not surprisingly, the device makers are getting set to defend their turf.

Nokia: Defending its turf

On August 29, Nokia introduced Ovi, the company's new Internet services brand name. With the introduction of Ovi, Nokia clarified its intent to move from a focus on mobile devices to offering a range of Internet services. Ovi enables consumers to easily access their existing social network, communities and content, as well as acting as a gateway to Nokia services. As part of Ovi, Nokia announced the Nokia music

store and N-Gage, two services that make it easy for people to discover, try and buy music and games from a blockbuster range of artists and publishers, including exclusive content only available through Nokia. Also under the Ovi umbrella is Nokia Maps, a navigation service that offers maps, city guides, and more, directly to

compatible mobile devices.

Nokia has been building its enhanced services strategy quietly for over a year now: In 2006, Nokia bought gate5, a German maker of mapping, routing and navigation services software. In October 2007, the company paid a whopping \$8.1 billion for digital market mapping company Navteq. Nokia has an installed base of about 900 million phones, likely to touch a billion devices by Q1 2008. The idea is to extend location, music and other value-added services to these devices globally.

Back home...

It will be even more interesting to watch developments in the Indian mobile industry, as the nation adds over 7.5 million subscribers a month. The Indian opportunity is far too big for any one of these global players to ignore, all of who are active in India. But the Indian mobile giants are watchful as well. Airtel partnered with Google recently to launch mobile search on its GSM service. Reliance already offers Blackberry on its CDMA network. But the borders are getting smudged as search-engines get into device-play, and device-players start offering value-added services. In a world where competitors and partners interchange at the touch of a key, this will be one incredible game to watch! More on this in the weeks ahead....[\[1\]](#)