

Challenges And The Future Of Growth Of VAS In India

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ABSTRACT: The mobile subscriber base is growing at a scorching pace in India, India is now the 5th country in the world to have crossed the 100 million mark in subscriber base and has in the last two months become the fastest growing mobile market in the world. As average revenue per user decrease from voice drops, and voice becomes commoditized, Telcos are increasingly looking at data as an additional revenue stream. The end users have also embraced VAS and it contributes between 5-10% of the revenues of different Telcos. Thus Mobile VAS has become an important element in the growth of mobile telephony in India.

This report explores the key issues around the value chain of Mobile VAS in India and provides a much needed holistic perspective to macro and micro issues in this space

INTRODUCTION

Mobile phones today have moved beyond their fundamental role of communications and have graduated to become an extension of the persona of the user. We are witnessing an era when users buy mobile phones not just to be in touch, but to express themselves, their attitude, feelings & interests.

Customers continuously want more from their phone. They use their cellular phones to play games, read news headlines, surf the Internet, keep a tab on astrology, and listen to music, make others listen to their music, or check their bank balance.

Thus, there exists a vast world beyond voice that needs to be explored and tapped and the entire cellular industry is heading towards it to provide innovative options to their customers. Spoilt by choice, the mobile phone subscribers are beginning to choose their operators on the basis of the value added services they offer. The increased importance of VAS has also made content developers burn the midnight oil to come up with better and newer concepts and services.

CHALLENGES TO THE GROWTH OF VAS IN INDIA

There are several major challenges which need to be overcome for sustained growth to be initiated. The major challenges that need the immediate attention of key stakeholders are:

FOCUS ONLY ON YOUTH AND ENTERTAINMENT

Usage of VAS has not spread evenly across demographic profile of customers.

Currently the youth segment is driving the VAS market as can be seen from the rapid growth of Entertainment VAS (mass service) and not so rapid growth of mCommerce and Infotainment VAS (customized service). In light of this trend the stakeholders are also playing safe and concentrating on mass services for which content is easily available and chances of failure is less. But this has hampered the growth of other services which are not getting enough time, effort and investment from the players.

For the VAS market to bloom fully, applications need to be created for niche segments, as these are the services which will create real value for the subscribers.

PIRACY OF CONTENT

Another reasons for players playing safe and not investing in novel applications and content is because this market is greatly affected by piracy This is acting as a barrier for companies investing into content development.

One of the solutions to increase customer retention is by providing exclusive content to them, however this is hampered by piracy. Thus piracy is hurting the operators both ways, neither can they stop customer churn by exclusive content development nor can they go in for

investment in innovative applications to spread their demographic reach.

LACK OF INFRASTRUCTURE

There are a lot of services which cannot be introduced in India because of lack of supporting infrastructure. E.g., Absence of location based VAS. Location based VAS is still not possible due to the lack of digitized map of India. Applications like live video-sharing are yet to arrive in the Indian market. In evolved markets like Finland & Korea, a user can shoot his own video and simultaneously show it to his friend in some other city. This kind of application would take some time to arrive in India.

To avail of new and high end VAS, technologies like 3G need to be installed. However, 3G networks are not mere upgrades of 2G networks; rather, entirely new networks need to be built and frequencies need to be assigned to mobile operators.

PREFERENCE FOR LOW FEATURE HANDSETS

Though the mobile subscriber base is growing, a large chunk of the market is opting for basic low feature handsets in spite of the fact that handset prices are coming down. There is a mindset to purchase the handset for basic utility service which is voice. But these handsets are not in a position to support a large number of VAS. Since in many VAS like MMS, both the sender and receiver handsets need to support MMS, the scope of such VAS gets limited.

This is further impeding the introduction of high end VAS. There are many services which are not performing to their potential despite their usefulness and there are some which cannot even be introduced.

HIGH COST TO THE END USER

Currently the cost of most VAS is high. This is mainly because of the fact that VAS market is lead by Entertainment VAS which has a high perceived value. People are paying for it as they perceive it highly but over a period of time as they get used to it, the willingness to pay high amounts may come down.

ABSENCE OF UTILITY SERVICES

These are those services which have a high practical value. But currently due to lack of familiarity & awareness from the end-user and lack of investment, effort and marketing from the supplier's side is resulting in very few such services being available in India.

Such services mainly fall in the category of mCommerce and to some extent Infotainment. Customers are also currently not comfortable with mCommerce. As the comfort level increases which can be brought about by encouraging government action like robust policies, laws etc, we will see exponential rise in VAS usage. The future belongs to services providing value to the customer exploiting the mobility factor.

TRANSPARENCY IN REVENUE SHARING

Transparency is a big issue faced by the entities in the Mobile VAS value chain. The market is highly unregulated and there is no transparency in terms of contact payouts and royalties.

There are at least 10 entities involved between customer and Content Owner (e.g. artist) and the flow of revenue is not transparent. Other entities feel that mobile operators take a very high share of the overall revenue, this affects the content development market with lower incentive to the developer to provide higher quality content. The difference is especially stark when compared to developed markets where pay-outs are well defined and more balanced.

UNDERDEVELOPED WAP MARKET

The key issues constraining the development of the WAP market are:

- Lack of WAP enabled handsets & limited incidence of active usage of WAP
- Speed of connectivity which prevents an enriching experience
- Limited customization of existing portals for WAP usage and limited content for WAP access.

WAP usage is extremely limited & currently most operators do not seem to be aggressively focused on increasing usage. Current user experience with WAP is limited to download of rich content like logos & games. We feel that extensive WAP usage can take off given the significant growth in the number of

Internet users in India (38 million in Sep 06- Source: IMRB Research).

More number of evolved Internet users would be willing to look at accessing the Internet on mobile if appropriate content was available. However the WAP portals of most operators offer limited content and therefore cannot deliver a meaningful online experience on the mobile for the end user.

SPAM

There are high volumes of spam in the VAS market currently. Spam is an uninvited message urging the consumer to avail of some service. Example "Bid for a Laptop by messaging your bid amount to XXXX"

SPAM has a high nuisance value and can discourage users to avail of a genuine service as they feel that once they have availed of a service & their number becomes a part of a database, their inbox will be flooded with uninvited messages.

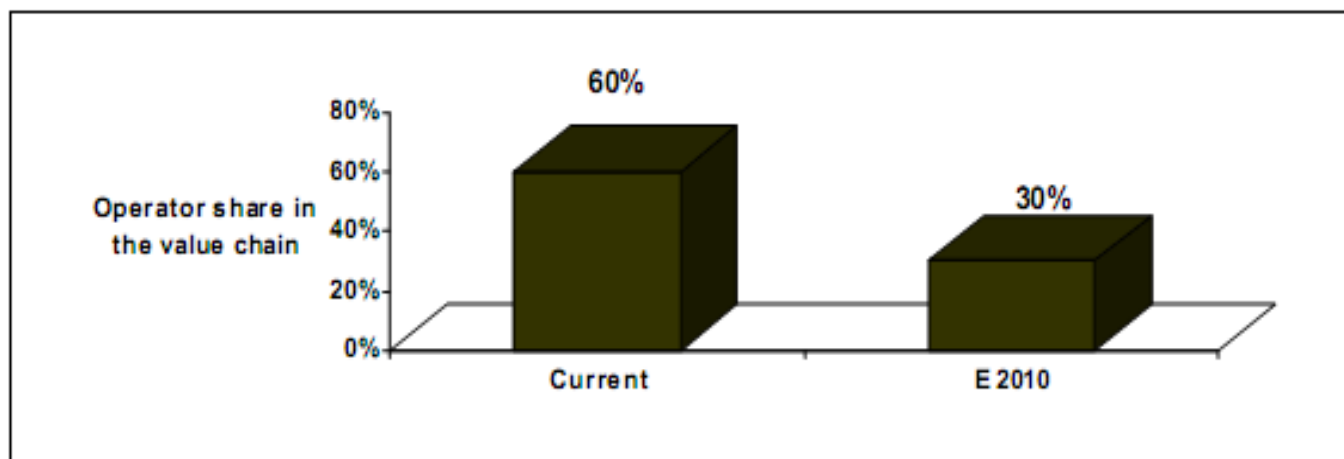
As an industry initiative there is a pressing need to take charge of as it goes against the long term interest of the

industry. Taking cognizance, some operators have already started offering a service to their subscribers where they can choose not to receive any promotional SMS's.

The future of VAS in India

In India, VAS will see a lot of structural changes, consolidation and emergence of cutting edge services:

Mobile operators will lose prominence in the value chain as the market for Content Aggregators will consolidate and with their better bargaining power, this will ensure a revenue shift from Operators to Aggregators in the value chain. The VAS market will reflect revenue sharing arrangement in markets like China more closely.



In VAS content, we will see revenue from entertainment VAS come down from the levels. End users want control and interactivity and therefore the applications to look out for in future will be user generated content and m Commerce. However mobile gaming will continue to grow and will contribute a higher share to the VAS pie.

Regional content is giving a significant boost to the content market especially in the entertainment category. Regional content is getting popular both in voice and non-voice services. Players have anticipated the trend and this is leading to regional content development. With increasing mobility penetration into the heartland of India, significant VAS revenues will be driven by regional content from B & C class towns.

Internet on mobile will become a more feasible option as leading players in the internet content space especially configure their sites for access through mobiles; this would be further strengthened by the new trend of .mobi domain

being set up. Thus GPRS usage should pick up significantly