Chapter 6.22
Strategies of Mobile Value–Added Services in Korea

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ABSTRACT

As the growth of the mobile market decreases and the market competition intensifies, mobile carriers have been trying to find new business models to retain their profits and expand their business boundaries. Development of value-added services increases the chances of keeping the growth with mobile carriers. This chapter discusses the motivation of mobile value-added service in terms of value chain and mobile adoption. Six mobile value-added services presented in Korea are introduced: (1) short messaging service (SMS), (2) personalized call-ring service, (3) mobile music service, (4) mobile video service, (5) mobile payment (m-payment), and (6) mobile games. The major characteristics of those value-added services are discussed with "4Cs": (1) customization, (2) content-focused, (3) connectedness, and (4) contemporary. This chapter also discusses digital multimedia broadcasting (DMB) as a new value-added service and the impacts of value-added services on the mobile market. This chapter is concluded with three plausible strategies of mobile carriers: (1) real-time, market-responding strategy, (2) content-focused market strategy, and (3) various bundling service.

INTRODUCTION

Worldwide, the number of mobile subscribers reached 1.7 billion in 2004 (International Telecommunications Union [ITU], 2006). The compound annual growth rate (CAGR) from 1980 to 2004 is 59.54%. The number of subscribers keeps increasing due to the increase of subscription in the under-developed and developing countries. How-

ever, recently the growth rate of subscription has decreased. Since 2002, the growth rates dropped to under 20% (See Figure 1). It means that the mobile service market is approaching the mature stage. In several European and Asian countries, penetration ratios are around 80-100%. According to ITU World Telecommunications Indicator 2004, 45 out of 170 countries which reported the penetration ratio of mobile service shows more than 70% (ITU, 2006).

From the perspective of a mobile carrier, the reduced growth rate means a decrease in potential profits. In terms of market competition type, the decrease of growth rate leads to retention-based competition, not to subscription-based competition. From the financial view, the margin would be reduced. Mobile carriers would concentrate on retention of subscribers and on an increase of billing payments per subscriber. For this reason,

the focus is now on average revenue per user (ARPU) and attempts are being made to increase ARPU by introducing premium services. Premium services are defined as services that provide added value for which the service provider can charge a premium (Brenner, Grech, Torabi, & Unmehopa, 2005).

What kinds of value-added services can be technically provided? Can they contribute to the profit of mobile carriers? And which kinds of comparative strategies can make sense in the market? Those questions become major issues which should be answered regarding those value-added services.

In this chapter, current trends and strategies of value-added services to keep or increase ARPU of customers for mobile carriers are discussed. This chapter is structured into seven sections as follows: in the second section the motivations of

Figure 1. Growth rate of number of mobile subscribers worldwide
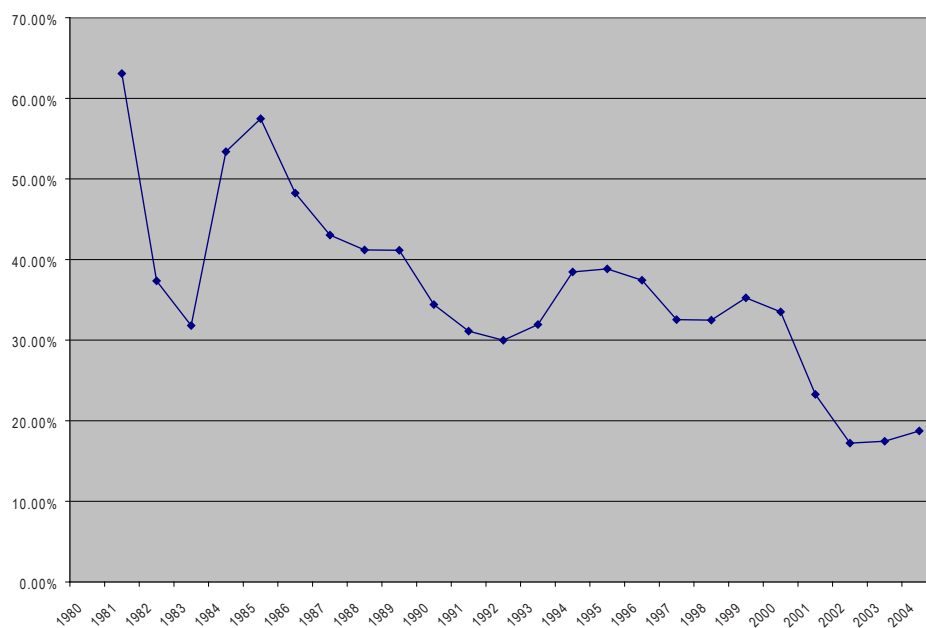
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