

Chapter 2.26

Market Configuration and the Success of Mobile Services: Lessons from Japan and Finland

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ABSTRACT

This chapter introduces a novel analytical framework called Mobile Services Matrix (MOSIM), which is used as the basis of a comparative analysis between the Japanese and the Finnish mobile services markets. The results indicate that as the mobile industry shifts from highly standardized voice services towards more complex mobile data services, the vertical/integrated market configuration (i.e., the Japanese model) appears to be more successful than the horizontal/modular configuration (i.e., the Finnish model). A brief overview of the UK market shows that the leading UK mobile network operators are transforming the industry towards a more vertical, operator-driven market configuration. The role of national regulatory framework in this industry evolution process is discussed.

INTRODUCTION

There is a paradox in the mobile services industry in Europe today: Even though the industry will be experiencing a major transformation during the next few years, for the time being the business is going too well for the senior management of many telecom operators to take action to redefine their business models and strategies in order to be well positioned in the new era of mobile multimedia services (aka mobile Internet, mobile data services, or nonvoice services).

Take Finland, for instance. Once the Internet bubble burst and business risks that were built into the growth strategies of the leading telecom operators were realized, the growth-oriented senior management was replaced with new management teams with a strong focus in cost cutting and downsizing. Financial markets expected operators to clean up their balance sheets after notorious UMTS licence auctions and other

unsuccessful attempts to become serious players in the international mobile market. As a result of this development, Finnish operators have delayed their investments in new services and networks (for instance, the first UMTS service for commercial use was launched by TeliaSonera in October 2004, even though Finland was one of the first countries in Europe to allocate spectrum for 3G!) and sold those parts of their operations that are not considered to be their core business. Against this background it is easy to understand why the leading Finnish network operators opt for the current situation where they keep on making nice profits in the saturated market instead of actively seeking to change the competitive arena. Although this approach is understandable from individual companies' point of view, recently there has been much discussion as to whether this kind of risk-avoiding strategy will turn Finland into a yesterday's hero when it comes to actively building the brave new world of mobile services. Operators can rest on their laurels for a few more years, but the longer they neglect developing their business models for the competition of the future, the more painful process lies ahead of them. Some people within the industry have realized the destructive nature of the current price-driven competition in the Finnish market: a representative of TeliaSonera expressed his concern that many of the players in the mobile market are there to cannibalize the market with their aggressive pricing schemes, not to develop the market in order to secure healthy business also in the coming years (Tietoviikko, 2004). The industry seems to ignore the fact that the worst is yet to come, as new disruptive technologies such as voice-over-WLAN, WiMax, and free Internet telephone services such as the Skype service become increasingly popular in the coming years, especially now as eBay acquired Skype in order to enhance their online auction platform.

Unfortunately mobile operators are not the only ones sticking to old voice-centric business paradigm and earnings logic. Even the national

regulatory authorities fail to see the need to adjust the regulation of mobile markets to the changes in technology and in the business environment in general. While the mobile phone usage has slightly increased (i.e., the minutes of use), in mature markets like Finland, the decrease in call tariffs has led to a situation where average revenue per user has remained flat or even decreased. Although 2004 was regarded as highly exceptional due to the introduction of mobile number portability in Finland, there is a widely shared view that call tariffs will continue to fall at a rate of 20–30%.

The current development in the traditional mobile voice market has made the leading operators to turn their eyes on nonvoice services. However, so far the European operators have not managed to turn mobile multimedia services into a similar success story as their Japanese counterparts. This raises the question why, despite the similarity in services and content offered, have nonvoice mobile services not taken off as expected? Based on a comparison of two very different mobile markets, namely Japan and Finland, this chapter argues that the lack of success of mobile Internet services in Europe is more a result of wrong business models and industry structure than it is about quality of individual services or products. As mobile services evolve from highly standardized and commodized voice-based communication services (i.e., person-to-person communication) towards the personalized and complex world of digital content and services (i.e., mobile multimedia or person-to-content type services), new challenges emerge also for the creation and delivery of mobile services. I argue that mobile data services represent a "complex good," which Mitchell and Singh (1996) define as "an applied system with components that have multiple interactions and constitute a nondecomposable whole." In a complex system like this, the overall performance depends on component performance, as a chain is only as strong as the weakest link. In the closely integrated and interrelated world of mobile Internet services, not only must all components meet users'

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