

Video calling to remain niche for now

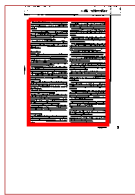
GARETH WILLMER

Less than 5% of western European mobile subscribers make video calls, according to industry observers, who believe the 3G service will remain peripheral for at least the next three-to-four years.

Even 3G operator 3, which originally marketed video calling as a flagship service, admits that it is not currently a core focus.

Few official statistics on take-up of the service are available, possibly because operators have little positive information to reveal.

But the relatively low penetration of 3G phones in Europe has probably contributed to the uninspiring level of adoption.



3G subscribers, for instance, account for only around 10% of the region's mobile users, according to some estimates, which means the pool of potential video-call users is limited.

But some analysts suggest that 3G penetration is not the only issue. Niek van Veen, an analyst with Forrester Research, says that video telephony will remain a niche service for some time because video calls are far less practical to make than normal voice calls.

A report by Analysys echoes this assessment. "[T]he ergonomic complexity that mobility brings to video telephony means that its usage may never be particularly high," it states.

Content focus

European 3G operators, moreover, seem a lot keener to promote their content services, which are seen as more lucrative, as well as other novel forms of communication.

3 UK, for instance, is focusing more on content such as music and games, which are typically single-user applications that are easier to popularise.

O2 UK shows even less enthusiasm for video calling, saying that the service was never expected to become a major business opportunity owing to its impracticality.

Quality issues have also been a factor in the slow take-up, in addition to the considerable time typically taken to set up a video call – between eight and 12 seconds on some networks.

Picture quality, for instance, has tended to be grainy, which, alongside poor lip-synchronisation and video corruption, has contributed to the limited appeal of video telephony.

As a result, the few consumers in Europe that do make video calls appear to do so irregularly.

A white paper published last year by a US-based vendor in the video-telephony field, Dilithium Networks, ranks video telephony and video conferencing below most other 3G services in terms of three criteria: consumer interest, willingness to pay and anticipated usage.

This is despite the fact, as van Veen notes, that a fairly significant three out of five consumers in Europe are aware of the service, according to Forrester's research.

Latent potential

Some, like Mitch Lewis, vice-president of marketing and product management at Dilithium Networks, reject the notion that video calling is destined to remain a niche service.

He largely blames European 3G operators for pricing the service "way too high" and inconsistently, adding that it has rarely been marketed or promoted effectively.

As consumers appear unwilling to pay a premium for video calling, one approach is for operators to introduce more packages that bundle video calls with free voice minutes.

On some UK video-calling tariffs, video calls outside bundles are charged as much as 20p (€0.30) per minute more than a voice call.

3 UK, at least, has started bundling video calls with voice calls. On one £25 monthly tariff, it offers 25 free video-call minutes in addition to 200 minutes of pure talk time, 100 texts and 25 picture/video messages.

And O2 UK has started pricing video minutes the same as voice minutes, outside as well as inside bundles.

Lewis says that 3G operators should also try introducing more promotional offers that include, say, 30 or 60 days' worth of free video calls.

Additionally, since people seem more comfortable video-calling friends and family than strangers, Lewis suggests that operators should push video calling in any offers aimed at friends and family.

More innovative solutions might also be necessary to kick-start the market. 3 UK, for instance, already offers a webcam service that enables customers to use the video-calling facility to view other rooms in the house, as a security feature.

With a growing number of people purchasing webcams for use with PCs (over a broadband connection), there could be even greater opportunities for such applications to flourish.

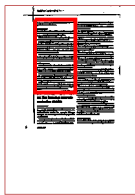
The growing interoperability of fixed and mobile devices could represent a further opportunity. As Dilithium points out, Microsoft's MSN portal has carried more than 500 million video conversations and 6.9 billion webcam sessions (over PCs) in the past year.

Japanese mobile operators, meanwhile, have sought to get around people's reluctance to make video calls to strangers with the use of "avatars".

These are cartoon characters or representations of famous people that appear instead of the face of the user on a video call and replicate the user's movements through face-recognition software.

Another service, deployed by operators such as Vodafone Portugal, lets users place a video call to the company's customer-services department.

This has made it easier for a customer-services assistant



to demonstrate how to fix a particular problem or use a specific feature on the phone.

Mass market?

One of the biggest drivers of this market, however, could be adult services, an area that a growing number of content aggregators in Europe are looking into.

Dilithium's Lewis, meanwhile, points out that the pay-back on video-calling services can be substantial.

In France, for instance, there are around 4 million 3G subscribers, of which around 5% use video services. Each user in this category makes about five minutes' worth of video calls a month at €1 a minute on average, which Lewis says would have paid back the original investment in the service within five months.

Dilithium also says that major strides have been made in video-call quality, both in the area of lip-synchronisation and video corruption. It adds that the set-up time for a video call has been reduced to as little as one second in some cases.

Lewis also notes that video-call minutes globally this year are triple the number recorded in the same period last year. Further, Dilithium expects the figure to rise from 1.3 billion minutes in 2006 to 11.7 billion in 2008.

Vodafone UK was one operator that noted positive results with video calling. It claims that video-telephony usage is rising, and that there is a "steady increase" in take-up, although it provides no statistics.

Some industry observers, though, say that the service has the potential to become mass-market, while pointing out that the next generation of mobile phone users will probably be more enthusiastic than the current one.

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