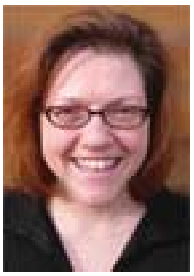
Advisory Report

CurrentTRACK Mobile Broadband Europe Small Business Services Insights, Q2 2010

August 27, 2010



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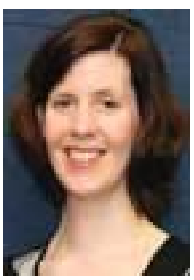

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Issue

The European small business market is still poorly served for distinct, business-centric mobile broadband services. Although most operators across the CurrentTrack service's 17-market footprint retained their overall rating from Q1 2010 into Q2 2010, only three of the 57 providers profiled saw their rankings improve, while 21 were downgraded. This was largely a result of operators' continuing lack of new service innovation and failure to differentiate services, bundled products and messaging for the small business segment. Small business plans are still generally mere replicas of operators' consumer portfolios, with fewer tariff options across the board, and sporadic demonstration of value-add (i.e., bundled PC security software, online storage, IT user management, group share bucket tariffs, white list/black list management with roaming mode cancellation functionality, etc.). With a few exceptions, operators are still failing to grasp the unique marketing opportunities and service requirements present within the small business segment.

Current Perspective

The Q2 2010 CurrentTrack Mobile Broadband Small Business tracker compiled and assessed the service portfolios of 57 operators across 17 markets in Europe. Like the sister CurrentTrack Mobile Broadband Consumer Market service, the small business market service tracks pricing, portfolios, competitive momentum, channel use and market positioning in detail, resulting in an overall rating for each operator's performance within the Q2 2010 period. (For more information on the results of the Q2 2010 Consumer market tracker, please see CurrentTRACK Mobile Broadband Europe Consumer Services Insights, Q2 2010, August 9, 2010).

In Europe, operators are consistently failing to put enough thought into service creation for the small business segment. In the majority of small business portfolios assessed over Q2 2010, mobile operators simply duplicated services from their consumer portfolios over to their small business portfolios, with very little recognition of this segment's special requirements. For this reason, the small business mobile broadband market is still being driven by the same service and promotional trends as witnessed in the consumer market, with a focus on pricing competition and short-term promotions, rather than proposition innovation. Small businesses are still effectively being treated as consumers, and sector-specific value-added service benefits such as IT manager control, bucket-share tariffs, bundled security and online storage commonly available to larger businesses are still not trickling down to the small business market (1-50 employees) in any significant way.

Operator Performance, Q2 2010

Within the CurrentTrack service, each operator was given a points-based rating indexed for mobile

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broadband strength within Q2 2010, based on five assessment criteria: Pricing, Portfolio, Channels, Positioning and Quarterly Competitive Momentum. As witnessed in previous quarters, results across the board were generally poor. Operators which consistently score a 'highly competitive' or even 'aggressive' rating for consumer mobile broadband frequently fell into the 'neutral' or even 'non-competitive' categories for their small business services.

Across five key western European markets (France, Germany, Italy, Spain and the UK), just one operator was awarded a competitive rating for small business mobile broadband in Q2 2010 (Telefonica O2 Germany). None were awarded an aggressive rating (see table 1: European Operator Q2 2010 Performance – Mobile Broadband, Small Business Segment). Conversely, six operators saw a rating downgrade over the quarter, while one improved from non-competitive to neutral. Those providers with higher rankings across all 17 markets, and those that have shown improvement, have made some effort to align plans with value-added software and additional services, such as free security, inclusive WiFi, enhanced technical support and bucket-sharing options. Furthermore, most are fairly advanced at bundling mobile broadband together with fixed broadband and/or voice for the small business market, for a more coherent and business-appropriate marketing approach. (For a more detailed analysis of ratings and portfolios across all 17 European markets, please refer to the CurrentTrack Mobile Broadband – Europe Tracker, Q2 2010.)

Table 1: Q2 2010 Operator Performance in Five Key Country Markets

Market	Operator	Q1 2010 Rating	Q2 2010 Rating	Key Changes, Market Innovations Q2 2010
France	Orange France	Competitive	Neutral	Minor change to rating hierarchy. Orange slipped slightly due to poor ratings for Momentum and Positioning, although it was the strongest of the three on Portfolio, with a wide range of offers completely distinct from its consumer proposition. Both Orange and SFR made some effort to include business-centric value adds in their packaged subscriptions.
	SFR	Neutral	Neutral	
	Bouygues	Neutral	Neutral	
Germany	T-Mobile Germany	Neutral	Neutral	Minor change to rankings. E-Plus fell behind its competitors with generally poor ratings, aside from average scores for Channels and Positioning. Telefónica O2 remained the highest-ranked operator, only losing on points due to its limited Channels strategy. T-Mobile was not outstanding in any area, while Vodafone did well on Pricing, in part due to a new 'Vorteil' initiative.
	Vodafone Germany	Neutral	Neutral	
	Telefónica O2	Competitive	Competitive	
	E-Plus	Neutral	Non-Competitive	
Italy	TIM	Neutral	Neutral	None of the contenders in the Italian market were especially differentiated from their competitors in any area. Vodafone Italy lost some ground with low scores for Channels and Positioning, but still retained the highest overall rating. Unlike other markets, time-based usage options continued to play a noticeable role in the small business segment, as they did in the consumer sector.
	Vodafone Italy	Competitive	Neutral	
	3Italy	Neutral	Neutral	
Spain	Movistar	Non-Competitive	Neutral	Movistar and Orange swapped positions in Q2 2010 rankings. Both had low-to-average scores across the board, with Movistar coming out ahead overall. The incumbent did well on Positioning due to differentiated product messaging, and Orange offered some degree of Portfolio choice. However Vodafone had the best Portfolio score, with a wide range of postpaid options and some bundling effort.
	Orange Spain	Neutral	Non-Competitive	
	Vodafone Spain	Neutral	Neutral	
UK	3UK	Neutral	Neutral	3, Orange and Vodafone retained their ratings over the previous quarter, while Telefónica O2 and T-Mobile were downgraded. T-Mobile was by far the lowest ranked provider, only managing an average score on Channels, and doing the most poorly of all competitors on Portfolio. Telefónica O2 did well on Portfolio and Pricing was average, but a lack of Momentum, limited use of Channels and a vanilla Positioning message were weak areas.
	Telefonica O2 UK	Competitive	Neutral	
	Orange UK	Neutral	Neutral	
	T-Mobile UK	Neutral	Non-Competitive	
	Vodafone UK	Neutral	Neutral	

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Poverty of Differentiated Portfolios

As outlined in the previous quarterly round-up report, too many operators are guilty of simply duplicating their consumer service portfolios for the small business market, either wholesale or in part, and hoping users won't notice the obvious symmetries in services, pricing and value-add. Within Q2 2010, just over 60% of the 57 operators surveyed exhibited differentiated small business portfolios: portfolios comprised of a distinct set of services and proposals when compared to the operator's consumer portfolio. That represents a slight increase from the previous quarter. All too often, operators which merely duplicate their consumer portfolios rename these services using prefixes such as 'Pro' or 'Executive', without altering them with differentiated pricing or distinct, business-centric service advantages.

A Lack of Business-Specific Marketing Messages, Positioning Problems

Differentiated positioning is a common weakness across the 57 European operators assessed by the CurrentTrack Mobile Broadband Tracker, and in Q2 there was little significant improvement in this area. The marketing of mobile broadband is still overwhelmingly consumer-centric, or simply bland and non-descriptive. All too often, mobile operators essentially lift their headline consumer marketing messages and redeploy them word for word within the small business market. One of the tracked metrics within the CurrentTrack Mobile Broadband Europe service picks out the lead 'marketing shout' for each service. Among the 546 small business services tracked in Q2 2010, the majority of messaging headlines simply served to underline the benefits of mobility (e.g., 'Internet on the move' or some other permutation of this idea). Around a quarter were completely generic – 'For regular surfers' or 'Unlimited Internet', for example – while just under 20% leaned on network or connectivity speed claims. Around 10% focused on some aspect of cost savings or cost control, and the rest referenced either a 'no commitment'/'no obligation' claim or a message around ease of use. Only 21 of the products specifically voiced the benefits of a bundled product, and only a handful were explicitly positioned as business-centric offers.

Bucket or Group Tariffs – Still Exceptional Cases

Small businesses are de facto collectives of users. Yet the vast majority of mobile operators continue to treat them as individuals, with service portfolios priced at standard (consumer) rates, per SIM. Although the arrival of the 3G router (sometimes erroneously referred to by its better-known, trade-marketed 'MiFi' name) mitigates this somewhat, there is a clear lack of 'bucket' or group plans which allow multiple users to dip into a single quota of monthly data, billed once. According to the CurrentTrack Q2 2010 survey, just six out of the assessed 57 operator portfolios offered a group-share data plan or option (3 Austria, KPN and Vodafone Netherlands, Proximus in Belgium, Telefonica O2 Germany and Telefonica O2 UK). In several instances, actual pricing and usage details were not given by the operator, but required a small business client to inquire for further information. While not offering actual bucket share options, a few operators instead provided discounting for incrementally larger groups of end-users or SIMs. It should be noted that bucket plans are increasingly common in the larger business market, but for small businesses of less than 50 employees, the choices are narrow, and not well communicated.

Bundled PC Security

Bundled PC security (anti-virus, anti-spy etc.) is clearly a value-added benefit for small businesses, yet only nine operators bundled security software into some of their mobile broadband offers in Q2 2010. A further 11 providers made security software available as an extra option, and many of the total 20 used free or limited time use of a security software product as a promotional incentive to encourage mobile broadband uptake. Some operators however – we turn to Sweden for best practice – are doing a better job of operator-branding this benefit, and positioning it as a value-add to heighten a 'quality' message in the small business market, creating a better divide between pro-

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prietary small business portfolios and the wealth of low-cost consumer offers in the same market. Other benefits, such as Telenor Sweden's well-publicised Enterprise Portal service for mobile broadband cost management and overview, as well as 1GB of storage and automatic back-up for PC and cellular handset data, are exceptional cases in the mobile broadband segment for small businesses.

Inclusive WiFi

In Europe, there is now a clearer tendency to provide inclusive WiFi with small business plans than there is to include it with consumer plans (although this trend is on the rise). In Q2 2010, a full third of all operators surveyed offered inclusive national WiFi access with their cellular data plans (a slight increase over the previous quarter), but in only one case, that of Orange Switzerland, were international PWLAN minutes also included (although Tele2 Sweden does provide WiFi use 'throughout Scandinavia'). In most cases, the propositions offer truly 'unlimited' WiFi access, and in a few, use is proscribed by a certain amount of minutes or data per month. Several operators, including Orange France, Swisscom and TIM, offer a monthly mobile broadband data bundle where usage may also apply to WiFi access, for the advantage of higher speeds, and for the operator, a lesser burden on the 3G network. Still, European operators have yet to really leverage the network offset WiFi presents in the small business market.

Recommended Vendor Actions

• All European operators should audit their approach to small business mobile broadband service provision, and consider whether the requirements of this segment have been properly met, or whether – as the CurrentTrack Mobile Broadband Small Business tracker suggests, small businesses have been treated as a subset of the consumer market. Service positioning and marketing must have a different steer in this market segment, and small business value-add must mean more than access to a business support hotline.

• As the results of the CurrentTrack Mobile Broadband Small Business Q2 2010 survey show, no single operator is doing especially well with mobile broadband propositioning for small businesses across multiple country markets, with only two providers managing a 'competitive' rating (3 Austria and Orange Poland). The rest fell largely into the 'neutral' category. This is very much due to a lack of differentiation from consumer offers, and a dearth of value adds or other bundled product elements or options that are relevant to the small business client.

• All operators considering launching a bucket or group tariff for multiple business users should look to 3 Austria as possibly the best example of sound practice in this area. 3 Austria's bucket tariffs are well communicated, simple and strong on value. Vodafone Netherlands also has a sound approach to offering bucket share options. Where these provisions are available, operators should make pricing and usage details clear online rather than forcing a potential customer through the rigmarole of having to make contact for further information.

• All operators currently aligning WiFi with mobile broadband data plans should consider extending WiFi usage to their own-managed or partner-managed hotspots abroad, at least on select plans tailored for frequent travellers. Despite recently-imposed regulation in this area, data roaming cost control is still a key concern for this segment. Providers should also consider the potential benefits in terms of service appeal and 3G network offload in allowing for both WiFi and 3G data use via mobile broadband subscription offers.

• Operators must communicate business value-add and bundled options better. In some instances, the CurrentCompete Mobile Broadband Small Business tracker found that certain service benefits (such as inclusive PC security, white-list or black-list functionality and the aforementioned bucket tariffs) were indeed accessible to both small businesses and SMEs, but that this availability was not communicated properly. Providers should consolidate small business services, ordering and support functions within a single separate portal to better highlight the differences between business and consumer offers (where these exist).

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