

Vodafone's 2Q results highlight the potential for smartphones and data to sustain industry growth

LONDON, UK: Vodafone's 2Q results provide concrete proof that increased data usage and the increasing popularity of smartphones provide operators with the opportunity to create a robust and sustainable new period of growth amid declining voice revenues, says Paul Lambert, Senior Analyst at Informa Telecoms & Media.



"What will be particularly heartening for mobile operators is that Vodafone's growth in data revenues didn't come at the expense of significantly increased investment levels. The Group's 2Q capital expenditure of £1.2 billion* was a relatively modest £200 million more year-on-year, and was due primarily to LTE rollout in Germany and network enhancements at Vodacom in South Africa," he says.

"These figures indicate that with the right strategy, operators can grow data revenues profitably in both developed and emerging markets," he adds.

Aggressive

Lambert says Vodafone has been aggressive in developing its smartphone portfolio at all price-levels, and also has a clear focus on investing in networks to provide a good customer experience of the Internet. He says these are two key factors for increasing the level of smartphone penetration and use of data services and Vodafone is one of the operators showing how simple but effective these tools can be for increasing profitability.

"However, the results show that the move to smartphones is not all positive for operators. One ominous trend for is the risk presented to their core voice and messaging services by IP-based services delivered through smartphone applications (such as WhatsApp and Viber). Out-of-bundle revenues are principally at risk from these threats - and in 2Q this was 18% of European service revenues. Vodafone is trying to mitigate the cannibalisation of cellular revenues by offering integrated tariffs that combine voice, SMS and data service in a single bundled price for customers," says Lambert.

Key defence mechanism

He says that Vodafone's move to integrated tariffs is a key defence mechanism against this potential cannibalisation. "It is taking a lead among operators and is successfully making this transition to integrated tariffs quickly, and with 25% of its consumer contract revenue in Europe coming from integrated plans in 2Q it again shows that the operator is making progress in this respect," he says.

Vodafone, which Lambert says is seen as an industry bell-weather because of its global reach, saw 2Q data revenues grow by 24.5% year-on-year to £1.5 billion in 2Q11, representing as much as 13.7% of Vodafone's group-wide service revenue. This is an impressive feat given not only the exposure Vodafone has to emerging markets, where data usage is much less widespread than in the developed markets where Vodafone operates, but also the global economic turbulence.

"Specifically, Vodafone's 2Q results show that increasing smartphone penetration is driving greater mobile Internet usage across its businesses, with strong growth in mobile Internet revenue of 44.2% in Europe and 52.7% in Africa, Middle East and Asia Pacific. Messaging revenue also grew, by 5.3%, to £1.3 billion including 6.9% growth in Europe," says Lambert.

**Exchange rate at time of posting £1=R11.12*

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