OVUM COMMENT

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Vodafone launches femtocells in the UK

Again, it's all about coverage

The Vodafone Access Gateway is purely targeted at improving coverage and no attempt has been made to dress it up - there are no femtocell-specific tariffs, no bonus minutes, texts or data allowances.

This is further evidence that in early launches the femtocell business case will focus on coverage and not the 'mobile home hubs' that some in the industry believe. However, selling coverage that customers believe that they are already paying for comes with its own risks of a backlash if it is pushed too hard.

Vodafone puts together a better business model

Vodafone offers several options to customers wanting a Vodafone Access Gateway. This variety is the best strategy for selling femtocells to date, although we still see some major barriers limiting uptake.

For customers on tariffs of £60 per month or more the device is free, something we believe that a majority of femtocells will need to be (once costs come down) for consumers to embrace them. Currently, Vodafone UK offers just two tariffs over £60 per month, so we think that this offer will have a limited addressable market. We also assume that the seemingly arbitrary £60 figure relates to a cost-modelling exercise that indicates high hardware costs rather than strategic intent.

Vodafone has also achieved something that both Sprint and Verizon Wireless failed to do: to give customers options. For the majority of users below the threshold, there is the option to pay a monthly fee of £5, £7 or £10 on top of their post-paid plan over 24, 18 or 12 months respectively. This creates a far lower price barrier, while ensuring that subsidies don't kill off the business model too soon. We expect the majority of uptake to come from this approach.

Finally, Vodafone has followed Verizon Wireless' route of offering the device for a one-off £160 fee. Alongside the other options, this completes a far more rounded proposition than Verizon managed, although the high price point will be a barrier for Vodafone as much as it is for Verizon.

Impact likely to be muted in the short term

On one level this is a churn-reduction tool. Those customers with poor coverage have a means of staying with Vodafone, although the high cost plans needed for a free femtocell will be a severe test of Vodafone's resolve not to give the devices away for free. Customers with poor coverage will demand a femtocell for free regardless of their plan and, like Sprint before it, Vodafone will be under immense pressure to give in.

The Vodafone Access Gateway is also a tool to encourage customers to churn from rivals. However, in multi-operator households, there will invariably be a lag as rival contracts are run down. Furthermore, the key determining factor is whether improved coverage is sufficiently attractive to stimulate churn from rivals, particularly when the rivals could offer more texts, minutes or data to stay. Indeed, if coverage were that great an issue the entire household would most likely already be on the operator with the best coverage. Therefore, with no femtocell-specific tariffs, there would be little incentive to switch to Vodafone.

Finally, there is the opportunity for Vodafone to increase mobile usage while at the same time offloading traffic. We have said in the past that this looks the most likely model to succeed in the long term as, with sufficient penetration, the opex savings are considerable. However, femtocells are clearly not there yet. In early deployments the priority is to prove that they work from technical and customer perspectives. Therefore, to gain sufficient penetration, and make the business case work, Vodafone will have to up the ante in the future and differentiate by more than just coverage. Until then, yesterday's announcement is a femtocell offer that is an improvement on what has gone before, but still a relatively niche offering.

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