Challenges and Opportunities Associated with Making Internet Mobile in Russia

1. Market Overview

This short essay is aimed to explore the broad context of implementing Mobile Internet infrastructure and services on the Russian market. It should be borne in mind, in the first place, that Mobile Internet is not just the Internet without cables. Nor is it the underlying technology, be it WAP, MMS, GPRS, EDGE or even, WCDMA. When Internet is made mobile, the worlds of Internet and Mobility are combined to add advanced customized services (such as location-based shopping, or infotainment, or video streaming, or multimedia messaging) to operators’ portfolio, thus enhancing the standards of living of the consumer and, at the same time, raising the profitability of mobile network operators. Mobile Internet requires an entirely new value-chain and business models very different from ones utilized in the provision of traditional voice services. New players come to the fore: content providers, content owners, payment mediators who share both risks and revenue with the network operator.

In order to project the Mobile Internet growth into the future it is very important to identify the principal enablers and deterrents of the mobile services evolution. Herewith, I will identify the major social, economic, technological and political factors, which positively and negatively impact upon the development of Mobile Internet in Russia.

2. Challenges

Talking about Mobile Internet one has to consider a whole range of constraints affecting the market and the consumer: income per capita, availability of terminals, typical user behaviour, current business models and so on. There is an abundance of underlying issues, so it is important to single out those of paramount importance.

Firstly, there is still a lack of advanced mobile terminals in use capable to receive and store large blocks of digital information. Cellular bandwidth is still costly and will hardly ever be commoditized for its natural scarcity (Poulbere, 2004). Importantly, single user interface across devices is a prerequisite for ease of use of Mobile Internet services. For the time being, it is not provided. Content providers have to develop different interfaces for different types of terminals, thus making the communication with customers more cumbersome.

Yet another deterrent to the implementation of Mobile Internet is the spending patterns of the Russian consumers. Mobile subscribers in Russia spend less on mobile services than in central European countries, with current ARPU of $13 per month (ACM Research, 2004). The so-called “Pioneers” who wish to use advanced Mobile Internet services are supposed to additionally spend up to $5-10 per which is a tremendous barrier for the most part of the Russian population because of the low per capita income. Additionally, inertia in consumer behavior and the lack of awareness of the services accessible through mobile networks is a strong deterrent for the proliferation of m-commerce in Russia.

Next, when looking at business models deployed for the provision of Mobile Internet services we can see that operators charge Content Providers for:

- Network traffic,
- Upfront payment for every short number in use,
- Monthly fee for using short numbers,
- Share of up to 50% for each content purchase transaction

Thus, the burden of operating expenses on content providers is so high that it is virtually impossible for them to invest in new services development. Operators, in their turn, remain too focused on their ambitious expansion plans, to delve into the service development. It will take an entire review of current pricing principles on the part of the operators to bolster new service introduction in cellular networks.
3. Opportunities

The Telecom industry in Russia and CIS is experiencing an unprecedented growth fuelled by the overall macroeconomic progress achieved in the recent 2-3 years. The combined revenue collected by telecom operators almost doubled over the last 24 months. (ACM Research, 2004). The mobile penetration growth rates for Russia are only second to China. The market is now prepared for Mobile Internet services.

Mobile content growth is driving the development of Mobile Internet in Russia. Selling mobile content is the least complex business to implement for mobile players, and demand has been growing quickly in the last few years (Poulbere, 2004). Namely, the volume of mobile content revenue in Russia increased by 288% in 2003 compared to 2002. The market was reported to generate US$ 283 mln. worth of revenues in 2004 (ACM Research, 2004).

Russia lacks reliable payment systems and regularly refilled mobile service accounts remain for the majority of population the only available instrument of small payments, for example, for music files (ACM Research, 2004, Melnitzer, 2002). This eventually leads to more and more people using this simple payment mechanism for ordering advanced Mobile Internet services.

Broadly speaking, the proliferation of IT infrastructure at the suppliers of services, entertainment, information, etc. provides a unique opportunity to establish immediate dialogue with millions of potential clients, who can access the said products and services on-line.

Lastly, dozens of content providers and content owners in Russia are ambitious to enter the mobile market held back only by the lack of the Mobile Internet enablers at operators’ networks.

4. Conclusion

Education of the customer base is the key to successful promotion of Mobile Internet – many customers are simply not aware of new features that can improve productivity, offer more freedom and ultimately change their lifestyles. The explosive growth in Mobile Internet in Russia in 2003 and 2004 was achieved primarily thanks to aggressive advertising and promotion on TV and in printed mass media.

5. References:

