O2 AND THE RISE OF MOBILE COMMUNICATIONS

O2 Ireland

O2 Ireland is a leading mobile communications provider in Ireland with 40% of the market share. The company is a wholly owned subsidiary of O2, which is listed on the London and New York Stock Exchanges. O2 also operates in the UK, the Isle of Man, and Germany. The O2 group has 20.7m customers and some 12,000 employees. O2 Ireland revenues for the year ended 31 March 2004 were €720m.

O2 Ireland has offices in Dublin, Cork and Galway as well as a Customer Care Centre in Limerick, which employs 400 people out of the company’s total workforce of more than 1,485. In the year ended 31 March 2004, O2 Ireland grew its customer base by 11%, and holds 40% of the market share in Ireland with customer numbers now standing at 1.39 million.

In order to support the incredible volumes of voice, text, and data that are transmitted over the O2 network every day, O2 has made substantial investments in infrastructure – the antennas, transceivers, and computer hardware that make cellular networks possible. In fact, O2 invests €3m each week to support network coverage and service quality, and is set to continue this level of investment in the future.

O2 has also prioritised the development of products and services that take advantage of new technology. This strategy ensures that the company will remain competitive in the future.

These products and services range from tailored business solutions for Irish businesses, to Speak easy top-ups through various outlets and a free ‘call me’ service for prepaid customers. This investment in technology and the quality of the O2 network ensures that people can text, talk, play games, take pictures, or listen to the radio wherever they choose. This commitment to improving network coverage throughout Ireland is vital to the success of O2.

The story of how O2 Ireland has met business challenges, overcome stiff competition and grown successfully begins in 1998 with the deregulation of the Irish telephone market. The mobile phone market has two main sources of revenue: 1) voice telephony and 2) data.

THE RISE OF THE MOBILE PHONE

At the same time, a big change was on the horizon. In June 1999, market penetration for mobile phones in Ireland stood at less than 30%. A year later, it was more than 50%. Today, that number stands at 87%. Mobile phones are taking Ireland, and the world, by storm.

Mobile phones now have greater market penetration than fixed (land) lines in Ireland, with 3.2m mobile phones in use, twice the number of fixed lines. Be it market penetration for mobile phones is slightly lower in Ireland than the EU average of 88%.

It was in this evolving and challenging business environment that O2 Ireland entered the Irish market for mobile telecommunications. Deregulation of the Irish Telephone Market

The Government has a responsibility to regulate business to ensure freedom of opportunity to all members of society. Before 1998, the Irish telephone market was heavily regulated. In fact, there was only one corporation providing virtually all telecommunication services to the Irish public – a state-owned body called Bord Telecom Eireann. When a single company controls a market to the exclusion of all competitors, it is said to have a monopoly on that market. By maintaining a monopoly on the Irish telecommunications market, the Government hoped to ensure that everyone in Ireland could afford to enjoy the advantage of telephone ownership. In addition, the telecommunications industry is very capital-intensive, meaning that it requires a large amount of infrastructure to work, e.g., telephone lines, networks, and routers. This infrastructure costs money, but businesses were not always available or willing to supply it, because the industry was not always profitable.

However, excessive regulation of any industry can sometimes backfire. In 1980 Telecom Eireann was the largest employer in Ireland and one of the worst European telephone systems. Irish consumers paid considerably more for their telephone service than consumers in the UK and USA. Lack of competition in the market drove up prices, stifled investment in infrastructure and slowed innovation. To correct this situation, the Director of Telecommunications Regulation decided to privatise Telecom Eireann, i.e., sell shares of the company to investors on the stock exchange. The Government also opened up the telecoms market to competition. This process is called deregulation.

On the 1st December 1998, deregulation of the Irish telecommunications market took effect, 21 general licences were awarded to firms to begin providing telecoms networks and services to the Irish public.

The mobile phone market has been dominated by two principal players. Eircom, the company that would become O2, launched its operation in Ireland in March 1997. Eircom’s mobile phone division, Eircell, was sold to Vodafone.

When the market is shared by two companies, as in the Irish mobile telecoms market, they are called a duopoly. O2 and Vodafone have a combined market share of 94% of the Irish mobile telephone subscriber base. In other words, 94% of all mobile phone users subscribe to one of the two networks. Such a market is said to be highly concentrated, i.e., market share is concentrated amongst a small number of companies.

THE STATE OF THE IRISH MOBILE TELECOMS MARKET

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Because mobile phones have such high market penetration, (currently 87%) O2 cannot count on growing its business by simply waiting for more people to buy phones. Instead, it can only grow by:

- Encouraging existing customers to use their mobile phones more often or for longer.
- Increasing its market share by winning over its competitor’s customers.
- Selling new services, like video or music, to customers who don’t already use them.

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VOICE

On average, 9 million mobile phone calls are made on the O2 network every day. Usage on the O2 Ireland network for the full year increased to 197 minutes per user per month (up from 188 minutes per month in the year ending March 2003, when these figures were released for the first time). For an O2 UK customer this was 123 minutes per month and for an O2 Germany customer 118 minutes per month.
DATA

Data revenue, which includes all non-voice services, now accounts for 21.8% of total revenue, surpassing the O2 Group average of 21.2%.

The most familiar kind of mobile data is the text message. Last year an average of 3.2 million text messages were sent every day by O2 subscribers. 321 million text messages were sent during April, May and June in 2004, representing a 14.4% increase in text usage from the same period the previous year.

Text messages are not the only kind of data service. O2 also offers:
- Games
- Music Downloads
- Media Messaging (MMS)
- Email
- Ringtones - both mono and polyphonic (which outsell CD singles!)

THE RISE OF TEXTING

Text Messaging or Short Message Service (SMS) is the transfer of short messages across a cellular network. This is usually from one mobile phone to another, but may also be from a computer or a landline. The first text message was sent in 1992, and SMS was rolled out commercially three years later. SMS was originally designed to send messages to phones, and it is still used in this capacity today for the transmission of ringtones, games, and logos. However, SMS is now mainly used for sending and receiving text messages.

The rise of SMS is clearly shown in the above graph. O2 is growing business by partnering with other companies to bring the benefits of mobile phones to their business. Here are some of O2's partners:

- **DARTXT**: O2 is working with DART Ireland to make it easier for passengers to access their DART schedules. You can use DARTXT by sending the word DART and the name of the DART station, e.g., "DARTDUNLaSHWAY" to 53700. Here, you will get a response directly from the DART signaling system, which means your information will be up to the minute with any delays or changes.
- **AIB**: O2 has partnered with AIB to help customers get account information through their web-enabled mobile phones. Customers who sign up to AIB's Phone Banking service can check their balance or credit card statement. Also, AIB customers can top up their O2 phones by text, by sending the word TOPUP to 501 51. Money is taken automatically from their AIB bank account. This text can be sent even when there is no credit left on the phone.

THE LANGUAGE OF TEXT

Texting has developed an entire language or code around it. There is a canned way of writing so that fewer buttons need to be pressed to get the same idea across. This not only makes the message faster to write, but keeps the cost down by making sure the messages do not exceed the limit of 160 characters for a single message.

People have created a whole new vocabulary for sending text messages. Here are some of the many abbreviations in use:

- **B4N**: Bye For Now
- **BF4evr**: Best friends forever
- **BTW**: By The Way
- **JK**: Just kidding
- **RUT**: Are you?
- **UR**: You are great
- **W84M**: Wait for me
- **>:]** - Wink
- **>:]**: - Happy face

O2 THE HOME OF TEXT

Because the rise of texting shows no sign of slowing down, O2 Ireland is positioning itself in the market as the premier provider of SMS. O2 is working with Irish businesses and consumers in mind, to help them make the best use of text messaging. There is tremendous potential for growth in this area, as a survey by Millward Brown IMS has revealed that two-thirds of small and medium sized businesses do not use SMS for business purposes. When you think of all the potential business applications of texting such as sending out meeting reminders, contacting staff out on the road, or sending a single message to a large number of people, it is easy to see that there is room for growth.

One example of O2’s services for businesses is free-to-sender texting. Businesses can encourage feedback, opinions, or questions from their customers by providing them with a special 5-digit code that they can use to text free of charge. The cost of the message can be paid by the business. For example, CST International, a Dublin-based company that measures customer satisfaction in the hospitality industry, used O2’s free-to-sender service to run a public opinion survey of the workplace smoking ban. They placed beer mats in several pubs, asking pub-goers to text their opinions to the toll-free number. An overwhelming response revealed that 75% were opposed to the ban.

TEXTING DEMOGRAPHICS

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CONCLUSION

O2 Ireland entered a new, changing, and uncertain Irish telephone market in 1997. Since then, it has seen tremendous growth and success. In order to continue on this course, O2 is investing heavily in infrastructure and product development. O2 positions itself as the premier provider of text and data services in Ireland. It is reaching out to business partners to bring the benefits of mobile telecommunications to industry. The company believes this strategy will allow O2 to flourish and serve the next generation of mobile phone users in Ireland.