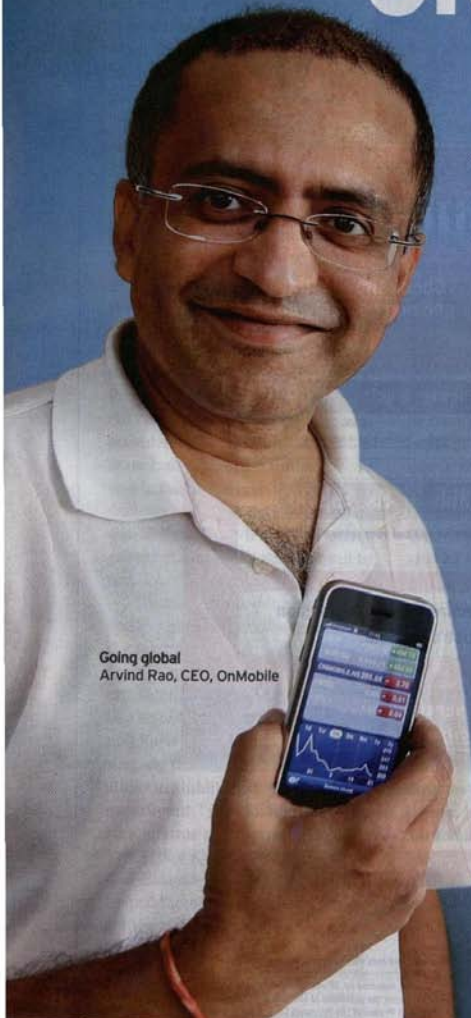


TELECOM—ONMOBILE

# GUMPTION OR GAMBLE?

After dominating the Indian market, this value-added services upstart wants to go global. But the transition could be costly and it will need to brave a fragmented and cut-throat market. **RAHUL SACHITANAND**



Going global  
Arvind Rao, CEO, OnMobile

**It's** life in the fast lane for Arvind Rao. The 52-year-old Chief Executive of Bangalore-based OnMobile Global has been flying around the world, travelling for three weeks a month as he builds a global profile for his company. If things go according to plan, India's largest provider of value-added services (vas) for mobile telephony, once part of technology services bellwether Infosys Technologies, will have doubled its presence to over 40 countries in the next year and be getting two-thirds of its revenues from these markets.

OnMobile's revenues have soared ten-fold to Rs 454.4 crore in 2009-10 over the last five fiscal years and it has nearly doubled its unique user base—defined as users who have visited it at least once in the past 30 days—to 83 million in the last year-and-a-half, selling ringtones, games and music, among other things.

## Why the global market is tempting for OnMobile...

- The overall size of market is huge
- Advanced users offer opportunity for value-added services
- Indian operators moving abroad, can piggyback with them

## ...but why it may not work out according to plan

- Operators have long-term contracts with VAS providers
- The company may not have deep pockets to fund the expansion
- Will need to build local teams to meet region-specific client needs

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Rao now wants to raise the bar higher in the mid- to long-term by eventually becoming the world's largest VAS player. VAS is an amorphous market; still, others like Ericsson, Huawei and ZTE are ahead of OnMobile on VAS revenues.

Ironically, the company has tested global markets before—unsuccessfully. Originally incorporated in the United States in September 2000 as Onscan Technologies, it tried to vend mobile advertisements and ringtones in a sluggish US market. Realising that there was little going their way, Rao and Mouli Raman, the Co-founder & Chief Technology Officer (CTO), relocated the company back to India just as the dotcom bubble was collapsing.

Despite the uncertain environment, the founders overhauled their business model and after cutting ties with Infosys—which had incubated it—decided to zero in on India's nascent mobile services market. Now, some 10 years later, Rao asserts there are compelling reasons for looking beyond Indian shores. To be sure, the user base in mature markets is growing very slowly, if at all, compared with that in China, India and Brazil. But, OnMobile officials say, mobile phone users in the mature markets are more advanced and spend more on a host of value-added products. Then, there's also the possibility of going abroad with existing OnMobile customers like Bharti Airtel who are expanding their footprint.

OnMobile has already inked large deals with global operators. It has a deal with Spain's Telefonica Internacional for 13 countries in Latin America where Telefonica is a leading telephony provider, and a contract with Vodafone Group for Asia, Africa and central Europe. Rao believes the Telefonica deal alone could account for up to 30-40 per cent of OnMobile's top line in four years. "Today, if you look at the market, we are the clear leader in India," he says. "Now, customers, including the likes of Vodafone, want to expand the relationship to include emerging countries and hopefully mature markets, too." Raman points out that OnMobile has grown its business with operators from single 'circles' (with Airtel in Delhi, for example) to a pan-India reach. A worldwide rollout, he hopes, will be a natural progression.

The Telefonica and Vodafone deals may just be the tipping point for OnMobile's rapid international rollout. "We want to piggyback global operators to reach another 20 countries in the next 18 months," says Rao. While upgrading its technology, it is also exploring new revenue models—like revenue-sharing rather than just licence fees—to get an edge in a com-

### Earnings Stumble

International expansion has hit OnMobile's profitability.



petitive global market.

While Rao and Raman have been the most visible face of OnMobile for the past decade, they have turned to a new senior hire, Sanjay Uppal, a veteran with 23 years at technology giant Hewlett-Packard, to fine-tune its international plans. Uppal, who spent two decades in the US, has been at OnMobile's nondescript headquarters in Bangalore for the past 12 months looking for new growth drivers. His game plan—focus on speed of execution, focus on key markets like Europe, Africa and Latin America, and deliver services relevant to these regions (for example, football and music in Latin America). On the technology front, Uppal believes OnMobile's focus areas should be physical storage in the form of music download and ring-back tones (RBT), search and discovery using text and voice initially and newer mediums such as video later, and social networking.

"We also want to add elements of social networking to our expertise in RBT to open new revenue streams," Uppal says, without elaborating.

OnMobile clearly has grand plans. Can it pull them off? Not everybody is convinced. Industry insiders say OnMobile has timed its global expansion poorly, just as the worst of the slow-down has hit. With heavy investments overseas and little growth from recession-hit operators, OnMobile's numbers have stumbled. As operators struggled to bolster profitability, they cut down sharply on VAS expenditure over the last three quarters. This meant that VAS providers such as OnMobile couldn't rapidly roll out existing products nationally or introduce new solutions to the market as quickly as previously estimated. On a consolidated basis, OnMobile's revenues for the year to March 31, 2010, rose by just 11 per cent year-on-year, while gross profit dropped by over half. Telecom analysts like Santosh Sinha of Frost & Sullivan also question OnMobile's decision to invest nearly Rs 40 crore in international expansion at a time when its core business has been hit.

OnMobile's struggles are reflected in its shares, which were down 60 per cent in June 2010 from their 52-week high on the Bombay Stock Exchange. "There was a huge dip in the revenue compared to what we had forecast going into the year. Some of that was clearly due to market trends that we did not anticipate...we maintained our cost and our investment without really changing that trajectory too much," Rao told analysts after announcing results for the fourth quarter of 2009-10.

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Then, Rao and his team also have to contend with competition from all corners. While a global giant like Huawei can entice operators by offering hardware and software as a bundle, home-grown rivals such as Comviva claim to have a more balanced portfolio of offerings across enterprises and customers. In contrast, analysts say, OnMobile is over-dependent on the Indian market and RBT, which contribute over 45 per cent of its revenues. A smaller start-up backed by Sequoia Capital, IMIMobile, says it has 66 operators in 77 countries as its customers



DEEPAK G. PAWAR

SANJAY UPPAL/ PRESIDENT AND COO/ ONMOBILE

### "We want to add to our expertise in ring-back tones to open new revenue streams"

and has more profitable products. "We think that our focus on data-based services is more profitable in the long term," says the company's CEO Vishwanath Alluri. He estimates that data-based VAS could account for as much as 40 per cent of an operator's top line in the next five years, even though it is now 20-25 per cent in western markets and just seven or eight per cent in India.

OnMobile is now going back to its tech roots to try to stand out in a crowded and competitive marketplace. "The types of services that are lucrative vary from market to market," says CEO Rao. "In the United States (where OnMobile now has no presence) and Western Europe, user sophistication is high with app stores and widgets, but in India anything beyond peer-to-peer SMS is in its infancy and voice-based services are popular. "To try to cover several bases at once, OnMobile has bought its way into new technology niches, like its acquisition of France's Telisma, a speech recognition firm, in May 2008 for \$18.7 million.

"We are always looking for opportunities," says Rao. "We're interested in access to breakthrough technology, new markets and customers." OnMobile is dabbling with an automated speech recognition solution for a travel com-

pany's customer relationship management technology and is testing its capabilities.

Worryingly for it, OnMobile may have taken its eye off the ball at the wrong moment. The domestic market continues to show promise and OnMobile's global plans may just impact its initiatives in India. Operators are adding 20 million subscribers a month, but the drop of up to 40 per cent in average revenue per user has them scrambling to grow VAS revenues.

Sinha of Frost & Sullivan estimates that VAS accounts for around 10-12 per cent of operators' revenue in India currently and this could rise to as much as 25 per cent in five years. Also, VAS revenues, after three quarters of decline for the country's four largest operators, are on the rebound, growing at nearly 11 per cent sequentially in the fourth quarter of the last fiscal. Says Shireesh Joshi, Chief Marketing Officer for Mobile Services at Bharti Airtel: "We are partnering with organisations from all around the world."

Before it can become a large global player, industry experts say, OnMobile needs to iron out a few kinks. For example, ring-back tones are not a popular product in Europe or in West Asia. Then, despite its scale, OnMobile is a small company with a turnover of a little over Rs 450 crore and will need to exponentially hike its marketing spend to be seen in a crowded market. OnMobile's Chief Financial Officer, Rajesh Moorthi, claimed that the company had enough funds for the moment to support this global blitz but wouldn't comment on any preferred routes of fund-raising for the future.

Finally, despite hiring some 120 people for its European operations, Rao himself admits that finding senior managers and "raw execution" will be the two biggest challenges facing OnMobile in its global quest. Still, he says, "There are several competitors we need to tackle, but none of them keeps me awake at night."

OnMobile will require plenty of Rao's bravado if it wants to make a splash on the global stage. ☺

### Booming Growth, Until Now

OnMobile's subscriber base has grown rapidly.

