

Overseas operators win Saudi licences

The Kingdom of Saudi Arabia has approved three applications for fixed-line licenses and opened up the market to competition.

Consortia led by PCCW, Verizon and Batelco have had their applications approved and will be launching services in the kingdom. With its strong ties to Saudi Arabia, Bahraini incumbent Batelco will be the provider to watch as the businesses are established.

Mohsen Malaki, research and consulting director, communications group at IDC CEMA, said: "Batelco has employees that have extensive contacts and experience in the corporate sector in Saudi Arabia so it can penetrate the market much faster given its existing experience in the region."

The Atheeb Consortium led by Batelco will also have the Bahraini company's experience of running an internet service provider in Saudi Arabia on its side when it launches services. The ISP was unable to maintain profitability due to high bandwidth costs and heavy competition. "Costs were high and the ISP's revenues were under a lot of pressure from competition," said Malaki. "The profit margins were squeezed. This time around with a fixed-line licence Batelco can now deploy its own infrastructure and control its costs much better than relying on the incumbent operator, Saudi Telecom." Batelco will also be able to exploit

voice and data traffic between the two countries.

Malaki said: "There are a lot of opportunities for a new entrant in the Saudi market to take advantage of the relationship between Saudi Arabia and Bahrain from a cost perspective, building relationships and leverage the existing traffic between the two countries."

For consortia led by companies outside the region, multinational companies represent the greatest opportunity to grow revenue quickly. Verizon and PCCW will be able to take existing relationships with these enterprises and extend their relationships to include the Saudi Arabian market.

In a report by *Reuters*, Abdulrahman al-Fehaid, deputy governor at the Communications and Information Technology Commission for Saudi Arabia, said that Verizon paid \$1.33 million (SAR5 million) for its licence.

As in most markets, the largest challenge the consortia face remains last mile access. Batelco has seen the impact of high wholesale prices on its ISP and no doubt these consortia will be looking to build their own access networks. Avoiding the incumbent's yoke will be a primary objective and also the most difficult for these companies. ■

MS BUILDS MOBILE PORTFOLIO

David Ballarini analyses Microsoft's speech recognition acquisition as the company pushes to appeal to enterprises with converged networks

Analyst's Eye

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Microsoft made its latest move by acquiring privately held Tellme Networks, in a deal estimated to be worth between \$800 million and \$1 billion – Microsoft's fourth largest deal ever. Tellme has developed leading applications in areas that are fast becoming mission-critical for Microsoft, namely speech recognition and voice search. Tellme was founded in 1999, and raised \$239 million in its early days. It claims to be profitable and processing some 40 million calls per month on its hosted platform, which includes a 411 information search application. The acquisition value is in line with what both Microsoft and Cisco have recently been spending as they jockey for position to become the vendor of choice for enterprises converging their networks and adopting powerful unified communications platforms.

The key factor here can be summed up in two words – mobile search. Mobile search is just emerging and Microsoft is hoping to distance itself from the competition early. The mobile market represents far more endpoints than the desktop market, and is growing at a healthy pace. The market opportunity is enormous – a speech-based interface is a natural fit for a mobile device. With applications such as 411 information search, concierge capabilities, and subscription-based services, the commercial potential for Tellme inside Microsoft is easy to see. Voice-based search creates efficiencies for both caller and provider, and when married with IP networks, opens up new possibilities for value-added services. These services can make money for carriers in two distinct ways – on a user-pay basis, or Microsoft can build on the Google model by offering some services for free, but have them subsidised by advertising and sponsors.

Tellme is really about selling services, something Microsoft does not have much experience doing. It is very cognisant of the emerging software-as-a-service (SaaS) model, and with Tellme, has an ideal platform from which to gain this expertise. Microsoft currently offers a similar capability – Speech Server – but it follows the established model for all Microsoft products, and is licensed to the customer, and operated on premises. The integration of Tellme with Microsoft Live Search will give it a strong position in mobile search. The biggest pure play in the speech sector, Nuance Communications, also made a similar move in February by acquiring Bevoval. The M&A focus will now shift to next in line, and one cannot rule out Google and Cisco, as both have good reason to keep pace with this move by Microsoft. ■