

Carphone's broadband plan shakes up sector

April 11 2006

The slogan is tantalizing enough. "Free broadband, forever," or so declared Carphone Warehouse, one of Europe's biggest mobile group based in London. For the past few weeks, the company had trumpeted the mantra and indicated that it would indeed deliver upon its promise, which had left rivals quivering in anticipation of the announcement.

But companies from telecommunications giant BT to O2 and Virgin Mobile can breathe slightly easier now, following Carephone's announcement of what its slogan actually means.

After all, broadband won't be entirely free with the company, as subscribers do need to sign up for fixed-line services with the company in order to have broadband access. Nevertheless, it's too soon for other providers to rest too easily, given that what Carphone is offering is as basement price as state-of-the-art telecommunications can be at the moment, and the company is prepared to shoulder a loss, at least initially, to provide the service. That alone should heat up further an already tumultuous telecommunications market in Britain, which had only recently seen the buyout of Virgin Mobile by cable group NTL on the one hand and expectations that satellite group BSkyB will soon enter the broadband market too.

Carphone said that it will charge a flat fee of \$17 (10 pounds) per month in addition to a monthly line rental fee of \$19 (11 pounds) not only for local and national landline calls 24 hours a day, but also unlimited international landline calls to 28 select countries at any hour of the day, in addition to providing unlimited broadband access of 8 megabits per

second.

The service, which will be able from July, will cover all 1,000 of the company's exchange areas which services about 70 percent of the population living in Britain. While a total monthly charge of \$36 is far from free, as Carphone's catchphrase might lead potential customers to believe, it's still cheap enough for the company to believe that demand for the service will be very high. Indeed, it expects its client base to rise to 3.5 million by March 2009, up from the current residential customer base of 2.6 million.

"Our approach to business has always been about how little we can afford to charge our customers, rather than how much we can get away with. So today we are cutting more than 60 percent off the cost of the average UK residential telephony and broadband bill, and additionally providing unlimited calls to 28 international destinations. The residential telecoms market in the UK will never be the same again. From today, broadband is a right, not a privilege," said chief executive Charles Dunstone.

Meanwhile, the company is prepared to make a loss, at least initially, in launching its latest service. Specifically, it expects an operating loss in its broadband business of around \$87.2 million (50 million pounds) for the current fiscal year ending March 2007, in addition to investing a total of \$191.8 million (110 million pounds) into the operation. Carphone does, however, anticipate to be turning an operating profit by 2008 and have a total cash payback on its investments by the fourth year.

"We believe that the investment and short term profit impact are fully justified by the rapid recruitment of customers to ensure higher penetration of our unbundled exchanges. The pricing reflects what we believe to be the real costs and benefits of providing residential telephony and broadband through unbundled exchanges," said Roger

Taylor, chief financial officer.

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