

# Video phones to sacrifice early profits

May 2 2006

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Telecoms industry forecasters have downgraded their predicted video calling figures to reflect the sluggish growth in the video telephony market, recommending that network operators should sacrifice early profits in favor of building a solid customer base.

In a report released by Strategy Analytics, revenue projections for mobile video telephony use were significantly downgraded from previous predictions to reflect the slow market growth. The current forecast now estimates that there will be 150 million video telephony users globally by 2010. Each user will spend an average of 14 minutes per month on video calls, generating \$4 billion in revenue for the network operators. The report recommends that operators should adopt competitive pricing approaches and improve service usability to lure in new customers and build a solid customer base.

The new generations of camera phones let users record and send short video clips but have been limited so far by low resolution and poor image quality. The size of video clips has also caused problems -- video sequences use a lot of memory, and most video phones can currently only record short films. 3G technology has overcome some of these barriers through its higher data processing capabilities. Many 3G phones are now enabled to allow users to make two-way, face-to-face video calls, with some phones containing two integrated cameras at the front and back with one camera showing the user's face during the call.

Yet the uptake of 3G technology by mobile-phone users, while steady, has also been extremely slow. The majority of 3G subscriptions have

come from the Asian markets, with Korea and Japan dominating. U.S. 3G customers still account for less than 0.5 percent of the total market. This rate of adoption has also been mirrored by the sluggish yet stable growth of video telephony. The Japanese mobile communications company NTT DoCoMo has seen steady growth of its video traffic over the past couple of years, from just over 9 million minutes at the beginning of 2004 to almost 17 million by the end of March 2005.

Industry observers say that these figures, amongst others, show that there is a latent demand for video calling that now needs to be realized. The task that the mobile-communications companies now have is to work on increase the penetration of video-telephony handsets to the market.

Network operators have devised new pricing plans to speed up the adoption process and encourage the growth of video-telephony globally. In these new carrier pricing plans, video minutes have been bundled into the standard 3G subscription plans, and limited-period discounts on video calling have been introduced. This approach is encouraged by the Strategy Analytics report, which recommends these plans as a way to stimulate wider adoption and usage, even though it would be at the expense of potential short-term profits.

Usability is also restricting any further rapid growth. Handset and service usability needs to be greatly enhanced before customers integrate video calls into their regular working lives. Greater investments in video-mail usability and faster call-setup times could solve these problems. Cross-carrier interoperability also needs to be improved to allow users to have easier access to video calls with people on different mobile networks. Improving contact between users on different networks was also a key factor in driving the rapid use of text messaging in the early mobile-phone sector.

The actual cost of handsets may be less of a factor. One of the reasons

why 3G adoption has been slower than expected is the high cost of handsets, which far exceeds that of their 2G counterparts. However, video calls are expected to be initially taken up by business professionals, who could be willing to pay more for these calls than more casual social users.

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