

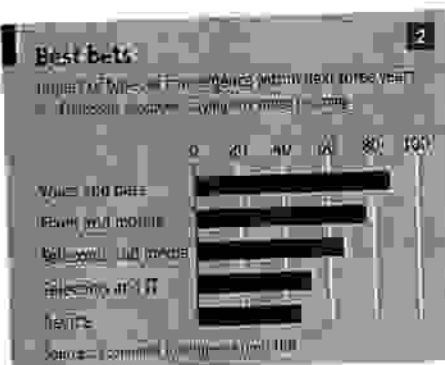
the economic history of telecoms at the University of Minnesota. "It is solving complexity issues for service providers, but it is not actually solving much for consumers," Guy Zibl, an analyst at Pyramid Research, a telecoms consultancy, is equally sceptical: "It's the technology department driving the marketing department." As with 3G, he says, operators are rushing to provide new services even though consumer demand is unclear and the technology is still immature.

Even some people in the industry, such as Arun Sarin, the chief executive of Vodafone, have their doubts. As a wireless-only operator, Vodafone could find itself high and dry if convergence does indeed prove to be the next big thing. But so far Mr Sarin has taken a cautious view of convergence, prompting much criticism of his strategy. Despite some recent convergence-friendly tweaks to its business model, including moves into the fixed-line broadband market in Britain, Germany and Italy, Vodafone's main focus is still on mobile. "It's very early days," says Mr Sarin. "We are dubious that customers really want all the things that people are imagining that they want." In particular, it is wrong to assume that everyone wants quadruple play, he thinks: "We're not saying that there are no customers who demand this—we're saying it's a very small fraction of customers."

So far, the evidence seems to prove him right. Only 1% of consumers in Italy, 8% in France and 10% in Britain have signed up for triple-play bundles of fixed-line voice, broadband internet and television, according to figures from Forrester, a consultancy. In a survey it carried out, 44% of European consumers said they were not interested in such service bundles, though 49% said they might be interested if there was a discount. But if operators have to offer steep discounts to get people to sign up for their bundles, it will be harder for them to justify the expense of building new converged networks.

Ready or not, here it comes

True believers in convergence insist that it is about more than simply bundling existing services together: it will make new services possible, too. Many operators are already getting excited about "fixed-mobile convergence", in which a single handset can be used both as a mobile phone outdoors and to make cheap calls via a fixed line at home or in the office. Another oft-cited example of a new service made possible by convergence is to enable customers to programme their digital-video re-



corders remotely, either via the web or from a mobile phone.

Mr Verwaayen, a passionate football fan, talks enthusiastically about the idea of combining television with audioconferencing, so that a group of friends can watch a match "together" from different locations. Many operators are experimenting with security cameras that sit in your home, or perhaps your holiday home, and allow you to keep an eye on the place from your mobile phone or over the web. And there is the prospect of integrating your telephone with your television, so that when you are watching a film and someone calls you, the caller's name appears on the screen and the film pauses automatically if you pick up the phone.

Convergence, then, promises operators both the means to defend themselves against competitors today and the prospect of new revenues tomorrow. According to a survey published last year by IBM, a computer giant, and the Economist Intel-

ligence Unit, a sister company of this newspaper, 80% of telecoms executives surveyed agreed that it was essential to embrace convergence within the next three years as a source of long-term revenue growth. The same survey also asked respondents which converged services and markets they thought were likely to prove most important (see chart 2). The clear leader was voice-data convergence, followed by fixed-mobile convergence and telecoms-media convergence. And these are, indeed, the three areas where convergence is most visible.

This survey will examine the prospects for convergence by looking at each of these areas in turn. Of the three, voice-data convergence is clearly the most mature (think of the popularity of Skype, an internet-calling service that is now practically a household name) and provides the strongest evidence of the power of convergence to reshape the industry. Fixed-mobile convergence is less advanced, though the first commercial services are now available in some countries. Telecoms operators' move into the television market is also at an early stage, though there have already been some notable successes.

Whether or not convergence turns out to merit the hype, the industry has convinced itself that it is worth pursuing, and anyone who disagrees risks being left behind. "As soon as one operator adopts convergence, all the others have to follow," says Mr Lombard. Quite how far and how fast the process will go remains to be seen. But like it or not, convergence is coming. ■

