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# The New York Times

## Taking an Idea From Airlines: No-Frills Cell Service in Europe

Jennifer L. Schenker. **New York Times**. (Late Edition (East Coast)). New York, N.Y.: Feb 23, 2004. pg. C.4

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 Dateline: *PARIS, Feb. 22*  
 Column Name: *Technology*  
 Section: *C*  
 Publication title: New York Times. (Late Edition (East Coast)). New York, N.Y.: Feb 23, 2004. pg. C.4  
 Source Type: Newspaper  
 ISSN/ISBN: 03624331  
 ProQuest document ID: 548702991  
 Text Word Count: 777  
 Article URL: [http://gateway.proquest.com/openurl?ctx\\_ver=z39.88-2003&res\\_id=xri:pqd&rft\\_val\\_fmt=ori:fmt:kev:mtx:journal&genre=article&rft\\_id=xri:pqd:did=000000548702991&svc\\_dat=xri:pqil:fmt=txt&req\\_dat=xri:pqil:pq\\_clntid=9269](http://gateway.proquest.com/openurl?ctx_ver=z39.88-2003&res_id=xri:pqd&rft_val_fmt=ori:fmt:kev:mtx:journal&genre=article&rft_id=xri:pqd:did=000000548702991&svc_dat=xri:pqil:fmt=txt&req_dat=xri:pqil:pq_clntid=9269)

### Abstract (Article Summary)

These new discount plans, analysts said, could prompt price wars that might reduce the revenue of traditional mobile operators as much as 30 percent, forcing them to rethink their business models. The airlines are only the latest players to jump on the virtual network bandwagon. Tele2, a Swedish telephone company that already offers traditional telephone service to 22 million customers in 26 European countries, is planning mobile virtual networks in all of its European markets, said Michael Jackson, the executive in charge of Tele2's mobile virtual network operations.

Unlike EasyTelecom, Ryanair Telecom, which is based in Dublin, will not compete for domestic mobile phone service. Instead, it will focus on people who travel internationally and face high roaming charges. When travelers use Ryanair Telecom's prepaid card, Mr. [Sean McVeigh] said, their phone calls will be sent by Ryanair Telecom through a local cellular carrier rather than being routed back through their home country, thus substantially reducing what the consumer is charged.

Mr. [John Strand] said traditional mobile operators might be able to limit the growth of virtual network services by holding back access to advanced third-generation mobile services. But it will be hard to stop the cut-rate operators from entering Europe's domestic mobile phone markets and competing on basic services. If one traditional mobile operator refuses to lease capacity, Mr. Strand said, another is likely to do so.

### Full Text (777 words)

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The founder of the European discount airline EasyJet, Stelios Haji-loannou, will be the new face at the conference for mobile phone executives starting on Monday in Cannes, France.

Mr. Haji-loannou is planning to apply to the cellphone industry the same strategies that have made discount airlines like his so competitive and profitable, with the promise of cutting mobile phone bills in Europe as much as 50 percent.

His new company, EasyTelecom, an Internet-based cellphone operator, will begin offering discount mobile service in Britain sometime this year, with plans to expand to the rest of Europe.

He is not the first to believe that it is possible to take the same cost-saving approach to two different industries. Virgin Mobile, part of the Virgin Group, which owns part of Virgin Air, offers low-rate mobile phone service in Britain and is looking to expand onto the Continent. And on March 1, Ryanair Telecom, the telecommunications spinoff of Ryanair, EasyJet's main discount airline competitor in Europe, plans to introduce a similar mobile service.

The idea is to use a no-frills business model -- like the one used to undercut the traditional airlines that did away with large numbers of staff and infrastructure -- to offer low-cost mobile phone calls.

The low-cost providers entering the market are known as mobile virtual network operators.

Unlike traditional mobile carriers, which are burdened with license fees and infrastructure costs, the virtual network operators buy capacity from existing operators and use the Internet as their sole distribution and sales channel, allowing them to avoid the huge costs connected with running a network. This allows virtual operators to deliver voice calls and short messaging at very cheap rates, without subscription plans. Typically, they charge a single rate for calls made anywhere in a national territory and a single rate for messages.

Early entrants to the virtual network market, like Virgin Mobile, struck exclusive deals with existing mobile operators and simply sold rebranded services at somewhat lower prices. The new virtual operators, however, strike deals with multiple operators so they can reduce prices more substantially.

Most virtual operators do not sell cellphones. Instead, they sell the services on a pay-as-you-go basis over the Web, with the minutes used being tallied by small subscriber cards that consumers put into cellphones. Mr. Haji-loannou said that EasyTelecom, which uses this sales model, would appeal to consumers who wanted inexpensive services without complicated rate plans and features.

These new discount plans, analysts said, could prompt price wars that might reduce the revenue of traditional mobile operators as much as 30 percent, forcing them to rethink their business models. The airlines are only the latest players to jump on the virtual network bandwagon. Tele2, a Swedish telephone company that already offers traditional telephone service to 22 million customers in 26 European countries, is planning mobile virtual networks in all of its European markets, said Michael Jackson, the executive in charge of Tele2's mobile virtual network operations.

John Strand, an analyst and the founder of Strand Consult in Copenhagen, said small start-up virtual network operators in Denmark had taken 20 percent of the national market for cellular calls and had forced prices for calls offered by all mobile operators to drop 54 percent in nine months.

Ryanair Telecom's proposed virtual network service aims to cut international roaming charges in half, said Sean McVeigh, managing director of the company, which operates under license to Ryanair.

Unlike EasyTelecom, Ryanair Telecom, which is based in Dublin, will not compete for domestic mobile phone service. Instead, it will focus on people who travel internationally and face high roaming charges. When travelers use Ryanair Telecom's prepaid card, Mr. McVeigh said, their phone calls will be sent by Ryanair Telecom through a local cellular carrier rather than being routed back through their home country, thus substantially reducing what the consumer is charged.

Mr. Strand said traditional mobile operators might be able to limit the growth of virtual network services by holding back access to advanced third-generation mobile services. But it will be hard to stop the cut-rate operators from entering Europe's domestic mobile phone markets and competing on basic services. If one traditional mobile operator refuses to lease capacity, Mr. Strand said, another is likely to do so.

"The main way for the operators to fight back is by cutting costs, and that will have an impact on equipment providers like Nokia, Ericsson, Lucent and Siemens," Mr. Strand said. "The industry is riding a roller coaster, it just went a long way downhill." The descent, he added, may well get even steeper.

**[Photograph]**

Stelios Haji-loannou, the founder of EasyJet, now also runs EasyTelecom. (Photo by Bloomberg News)

Credit: International Herald Tribune

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