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Directory services set their sights on mobile phones

A decline in the volume of calls is forcing operators to look for new markets



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THERE is every chance that Raj Raithatha has got your number. The chief executive of Connectivity, a start-up company, is compiling a database of contact details for 15m mobile-phone users.

This autumn he plans to start making money from them. Armed with £17m of venture-capital backing, he could reinvigorate Britain's moribund directory enquiries market at the same time.

Taking a leaf from successes in Finland and Sweden, Connectivity is starting Britain's first service to connect paying customers to other people's mobile phones rather than just landline numbers.

“When asked to look at this I was amazed and pleasantly surprised that something like it wasn’t set up already,” said Raithatha.

Exactly five years after the 192 service closed, heralding the end of BT’s monopoly on directory services, the volume of calls is still falling and the price of asking for a number rising. It did not help that Oftel, the telecoms regulator before Ofcom, bungled the transition. The introduction of a string of 118 services in 2003 meant confusion for consumers but it was great news for media owners as the newcomers rushed to advertise their services, spending some £105m in the past five years, according to Nielsen Media Research.

“It really was down to having the best number and the deepest pockets,” said Murray McPherson, who set up and sold 118 Business.

Much of that advertising money was spent on one of the decade’s most memorable campaigns – the one with a pair of moustachioed runners called 118 and 118. That campaign let 118 118, owned by The Number, grab 45% of the market. It is ahead of BT’s 118 500 on 35% and Yell’s 118 247 on 6%, according to 118tracker.com. Smaller rivals have since shut down or consolidated, but there are still more than 100 of them.

They are fighting over a declining volume of business. The number of directory enquiry calls has at least halved since 2003. OC&C Strategy Consultants predicts it will slip from 241m this year to 214m by 2011, although the number of calls made from mobile phones is holding up.

One reason for the decline is that people can look up business numbers for free on the internet, and this process will accelerate. On smartphones such as the iPhone, users simply search a local map, call up a company’s contact details and, with one click, dial the number.

Prices are being raised to compensate for the drop in the number of calls. In its last market survey, Ofcom found that the average cost of calling directory enquiries had risen 8% in a year to 54p, compared with BT’s flat rate of 40p before the market was opened up. However, the real money is to be made in add-on services, such as connecting the caller to the number requested, charged at 64p a minute in some cases.

Ewan Parry, a partner at OC&C, thinks prices could go much higher, with users split between those who call maybe once a year and regulars who account for 80% of enquiry calls. They are typically young, affluent and want to get a taxi or find a restaurant.

“These well-off people are price-insensitive,” he said. They are the ones most likely to migrate to using the internet on their phones. “If smart phones take off, that will accelerate the decline,” Parry added. “Now is probably the time of peak profitability for these services.”

Ofcom said that spending on directory enquiries stood at £249m this year, up 17% in a year. OC&C believes it will grow at 6.1% a year until 2011. No wonder the biggest providers are trying to broaden their services to supply cinema listings, train times, and

even pub quiz answers. In place of “Which name please?”, today the question is “How can I help you?”. It is perhaps no coincidence that the American owner of The Number was in talks to sell it to private equity last year, although the company denies this.

There are other new ideas to earn money. Six months ago McPherson started 0800 100 100, a free directory enquiries line funded by advertisers such as Talk Talk and Liverpool Victoria. So far it has handled 1.2m queries. Callers ask for a number and then listen to a 20-second ad – often associated with their request – before they are given it.

“It is really just a media platform where we match the caller’s request with the most targeted ad,” said McPherson.

And then there is Connectivity, backed by 3i and Esprit Capital. To comply with privacy rules, it will not issue mobile numbers but will check with the recipient that he or she is happy to receive the call before connecting the caller.

“If you had a choice, would you prefer to get someone’s fixed-line number or mobile number?” said Raithatha. “Even if it is a business you are calling, it is an individual you want to get on the line.”