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|  | **Telecoms - Sector Analysis** | Published: Wed 20 Dec 2006   |    |

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| World: Global Telecoms Predictions for 2007    |
| *Global Insight's predictions for 2007 include further consolidation in Europe and North America; the appearance of 3G in China, India, and Russia; continuing problems at non-facilities-based providers; and the commercial reality of WiMAX in Europe failing to live up to the hype.*  |
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| Key Findings |
| * China, India, and Russia will join the 3G fray in 2007.
* WiMAX may have been the hot topic of 2006, but we see little impact on Europe's telecoms market from either the fixed or mobile variants in the short term.
* Hutchison Whampoa could call it a day in Europe, as will a growing number of MVNOs.
* Further consolidation will be seen in the United States as operators seek to round off their portfolios of services.
* M2M will play an increasing role in wireless markets, while new services such as instant messaging and mobile VoIP could start to disrupt the traditional mobile business model.
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Our top predictions for 2007: * **3G licences** will be granted in three of the world's largest markets: **China, India**, and **Russia**.
	+ **China**'s incumbent mobile operators, China Mobile and China Unicom, and dominant fixed-line operators, China Telecom and China Netcom, will all receive 3G licences. At least one licence will be based on **TD-SCDMA**, China's own 3G technology. But dual-or triple-mode GSM/W-CDMA and TD-SCDMA handsets are a must if TD-CDMA is going to have a long-term place in the Chinese mobile market.
	+ **India** will also see 3G licensing, but much focus will be on tapping up organic growth opportunities in underserved rural mobile markets. The merger-fest of 2006 will slow down in 2007. Bharti has for one said that it does not want to sell any further equity to Vodafone, which currently has a 10% stake in the Indian operator.
	+ After much talk, 3G licences will also be issued in **Russia**. Megafon, Mobile TeleSystems (MTS), and VimpelCom will all receive UMTS licences. VimpelCom's lack of mobile licences in the Far East, could, however, delay the process of 3G licensing further still. MTS and VimpelCom's parent companies (Sistema and Alfa) will continue to flirt with Western European operators, but concerns over corporate governance issues in Russia will hamper any large-scale deals. Within VimpelCom, boardroom battles show no signs of abating, so any larger scale, longer term international operations are unlikely.
* **Japan**, a booming 3G market that China, Russia, and India would love to emulate, will see a shake-up in 2007. IPMobile and eAccess, which received mobile licences in 2005, are both expected to launch 3G services in 2007. They may well be followed by MVNOs later in the year, but the question is: is there room for many more players in an already ultra-competitive mobile market?
* The long-term experience of **MVNO markets in Europe**does not auger well for Japan. In 2007, Europe's MVNO market will begin its long-awaited decline: apart from in few markets like in France, the MVNO model will begin its long-expected road towards decline. Some well-established ones like Virgin and Tesco in the United Kingdom will manage to survive, but the smaller ones will struggle. In fact, any MVNO with fewer than 100,000 customers by the end of 2006 will have to rethink its existence.
* **Hutchison Whampoa** has invigorated Europe's mobile market, but its seemingly unabating losses, high customer acquisition costs, and poor customer-retention record could spell the end for the Hong Kong group's current European ambitions. The operator's much-vaunted flat-rate data service X-series could, of course, enable the group to turn the corner. On the other hand, a sell-off in the short term would allow the Hong Kong group to cash in on its tax credits.
* **Vodafone** is a possible bidder for Hutchison Whampoa's 3G business in Europe. If it does buy 3, Vodafone will most likely sell the Sweden, Denmark, and Austria operations. But Vodafone has other concerns. Its current asset-light foray into the European broadband market is most likely to struggle in the face of intense competition across the region. To mitigate its impact, the company will reach out to make acquisitions. FastWeb and Tiscali in Italy and the United Kingdom are likely prey.
* Vodafone would definitely like to move from a minority position to a controlling share of its assets in France. But Vivendi will continue to hold out. Its assets **SFR/Neuf Cegetel/Tele2** will begin the process of fusing. It does not make much sense having the three companies literally controlled by Vivendi yet competing against each other in several markets. Although full-scale fusion will not occur—partly because of the conditions for the acquisition of Tele2—the three companies will begin the process of binding their operations together to become a leading integrated operator in France.
* Both **China Mobile** and **China Telecom** will remain in the headlines as potential acquirers of overseas assets. But they themselves, as well as China Unicom and China Netcom, will be targeted as investment opportunities as the 3G licensing framework gradually becomes clearer. Spain's Telefónica will raise its 5% stake in China Netcom to 10%, while SK Telecom (holder of US$1-billion worth of China Unicom convertible bonds, equivalent to a 6.7% stake) and other foreign operators will seek to position themselves to exploit the world's largest mobile market. Further consolidation will occur in the **Latin American** market, primarily driven by Telmex's international ambitions. In other regions, Millicom, Digicel, and one of the **pan-Middle East/African** mobile operators could go under the hammer.
* While European operators continue to look for acquisition opportunities, their North American counterparts will continue to focus on their home markets. The key feature of the **U.S.** and **Canadian telecoms markets** will continue to be consolidation throughout 2007. There are a number of smaller deals that could occur, with smaller rural operators consolidating or being acquired by larger operators. There is also the possibility of some mega-mergers, with deals between fixed and wireless players possible. The most likely is the acquisition of either QWEST or a mid-sized cable operator by T-Mobile, seeking to develop wireline assets for quad-play and fixed-to-mobile (FMC) services. Competitors such as Verizon could conceivably defensively play for this target, while AT&T will still be busily engaged in swallowing BellSouth. First place cable operator Comcast continues to deny any plans for an acquisition of Sprint Nextel, although some may argue that they protest too much.
* **AT&T**and **Verizon**'s FTTx deployments will continue apace and 2007 will be the year when the United States sees major moves on the FMC front. T-Mobile USA has led with the launch of a consumer FMC product in the United States, leveraging its Wi-Fi network. The main telcos (AT&T and Verizon) will be forced to introduce competing products in 2007, aided by the consolidation of Cingular's ownership. With the roll-out of IP-based multi-play and FMC services, the telco companies will continue developing a more integrated approach to see their role as facilitating all communications and related services. In the business sector, this has been seen to some extent with purchases by AT&T to provide consultancy services to small and medium-sized enterprises (SMEs) and brokering agreements to market products such as virtual meeting rooms. In the consumer sector the carriers have continued to develop TV services and are adding in a range of services such as gaming, service, and information portals. As set-top boxes' functionality is developed, home control will move from remote control of TV and entertainment facilities—i.e., set your video over your phone—to integrate security, and, ultimately, environmental and stores control. In Europe, a light will appear at the end of the tunnel for IP TV: by the second half of the year, almost every European incumbent telco will have launched IP TV service. The new opportunities it will present will encourage telcos to commit to FTTx.
* Convergence in the United States will stimulate innovation, but plain old economics and customer behaviour could spoil the party. A **weakening U.S. economy** may reduce growth in mobile subscriptions and particularly affect growth in data usage as users decide not to spend on new and non-vital services. The entry of cable TV operators as new competitors into the wireless market could reduce mobile ARPU levels. We are also likely to see increasing failures amongst non-facilities-based operators—MVNOS, ISPs, and service providers.

We think that a number of **services** and **technologies** will gain traction or else fail to meet previous expectations in 2007. We predict:* Massive growth in the field of machine to machine (**M2M**) communications—which could become a significant driver of data growth, particularly over wireless networks. This will be supported by growth in IPv6 support
* Mobile operators will begin to market handsets with integrated instant messaging clients, presence-enabled address books, and VoIP.
* For the United Kingdom, **DAB** and **DVB-H** are dead. Hail TDtv and 3G MBMS: Despite efforts by BT and O2, DAB and DVB-H are simply not going to become the platforms for mobile TV in the United Kingdom. DAB lacks scale with a one-man-squad in BT. DVB-H lacks spectrum which can only become available in 2012. If the U.K. mobile operators succeed in their trial for TDtv and 3G MBMS, then that is the direction they will go. Otherwise, they will just continue what they are doing now.
* Likewise, in Europe, **WiMAX** will still not take off in the short term. Despite the hype, WiMAX will still not take off in 2007. There is simply no mass market for WiMAX in Western Europe. Mobile WiMAX will suffer the same fate, as Western European mobile operators would care little about it. The experience of South Korea points towards caution. In South Korea, Korea Telecom's WiBro (mobile WiMAX) service, which targets high-end mobile users, is unlikely to have significant take-up, as this new service has yet to come up with killer applications to differentiate itself from rival technologies. Europe's mobile operators will carpet the region with HSDPA while looking for life beyond 3.5G.

In terms of overall industry growth, we expect:* Net additions in developing mobile markets, notably in the pre-pay segment, will continue to grow apace, but rates of growth will be significantly reduced from the 60-70% year-on-year growth seen in 2006.
* Post-paid growth for the developed markets will be largely dependant on the ability of operators to provide popular content and applications on the new high-end handsets. We expect the 7-8% year-on-year growth in net additions to continue.
* Pre-paid growth in Western Europe and Japan will remain static, or in some cases decline. However, the United States should see uptake of pre-paid services continuing to increase.
* In Western Europe there will be modest growth in mobile data services: as the frenzied ring tone market goes into decline, new revenues from premium SMS and mobile payment services will step up to fill the gap. Usage and revenue will grow, at most by 5% year-on-year.
* Russia is set to be a hot broadband market in 2007, while China, India, Indonesia, Pakistan, and Vietnam will help power mobile market growth.
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