‘3’ paved the way – now it’s time for everyone

Conclusions

A more widespread launch of 3G in Europe over 2004 will impact industry players in a number of ways.

Many **3G operators** in Europe are currently focusing on ironing out network performance issues, and waiting to ensure terminal availability, mindful of the issues faced by ‘3’ post launch. EDGE is likely to enter the European space brought in by selected operators with particular challenges, however it is not a widespread option for 2004.

Having launched 3G services, operators will need to take into account the lower value of the depreciating intangible asset (3G licence). In addition the expected incremental nature of 3G service revenues should be taken into account by investors.

Terminal vendors are under increased pressure to provide a range of consumer-friendly 3G devices. In addition some pressure is being applied for EDGE/WCDMA devices.

According to Ericsson CEO Svanberg, ‘3G rollouts are now accelerating’, leading to increased investment, and vendor expectation of a stabilization of market demand for 2004. **Infrastucture vendors** indicate expected impact of increased investment in 2004, to make up for lower levels of investment in the past couple of years.

End 2004, **consumers** in all major European markets should have access to 3G services, many with competing offers, on a broader range of devices. Consumers will still face perceived lower reliability on these services, if for coverage alone, certain services will not operate nationwide.

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'3' fails to meet targets

In 2003 '3' fell short of their announced 2003 subscriber targets. As of February 2004, the most recent Hutchison subscriber figures were those of 12 December. Hutchison announced a global subscriber base of just 660,000 (up from 520,000 on August 22). While customer numbers in Italy grew fastest, subscriber addition is relatively slow. Anecdotal evidence suggests that service usage by these signed users may be lower than the subscriber figure suggests.

	12 Dec 2003
'3' Australia	70,000*
'3' Austria	15,000*
'3' Denmark	8,000*
'3' Italy	340,000
'3' Sweden	17,000*
'3' UK	210,000
Total	**660,000**

**Northstream estimate*
Other figures sourced '3'operators /Hutchison

Why is the take up so slow?

As a result of sluggish take up, many '3' operations simplified pricing plans in Q4 2003, placing greater emphasis on competitive voice pricing. Video call pricing has eroded extensively. In addition, fewer service bundles on offer mean the end user has greater flexibility in how to use the services. In an analysis available in Northstream's report '3G Service Strategy', Northstream reveals that '3' has positioned itself aggressively regarding voice pricing, as we predicted at 2003 3GSM World Congress. However subscriber figures have remained very low.

Reason for low service take up appears therefore not to lie in uncompetitive pricing, in addition, pricing alone is shown to be insufficient to attract higher usage.

'3' service offerings have similar building blocks, but are presented and grouped differently across markets. '3' operators have continually developed their service portfolio e.g. the introduction of streaming video in many markets. However they face greater competition from 2.5G operators, as streaming video is not unique to '3'. In Italy TIM had already introduced mobile TV streaming, and in the UK, O2 had introduced streaming video. This means greater dependence on video telephony as the key differentiator for '3'.

'3' has itself directed the blame for low takeup toward limited supply of terminals, with NEC being singled out as a key factor in delay. From Q2 2004, Northstream expects the situation to improve for '3', as at that stage other vendor's 3G models will be commercially available, including LGE, Nokia, Samsung and Sony Ericsson. '3' may also consider introduction of business services with a WCDMA data card, as their competitors have indicated they will also launch business focused services in 2004.

3G activities

There has been a range of launch-related activities announced in Europe for 2004:

- T-Mobile Germany is in a pilot phase of operation, and reports expect that the network will be commercial by the time of CeBiT in March. However this has not been confirmed by T-Mobile.

- The Vodafone Group is aiming for mid-2004 for 3G services launch, linked to availability of a range of devices. Vodafone Italy announced pre-commercial 3G service involving 200 businesses and 400 Samsung phones. Vodafone Italy and Germany are focusing on data cards because of limitations of current handsets. Vodafone Portugal, launches January 2004 a limited 3G service in Lisbon and Porto, among limited user groups e.g. selected business partners and customers. Vodafone UK has also launched trials of a WCDMA data card.

- Telefonica Moviles, Spain due to licence requirements has announced 'pre-commercial' UMTS service in 40 cities by end 2003. Service is focused on PCMCIA cards; no mobile handsets are available.

- O2 Ireland has begun a limited service for corporate and consumers individuals prior to more widespread service later in 2004. 02 Germany announced friendly-user trials in December 2003, and expect to launch 3G at CeBiT in March 2004.

- Orange expects commercial launch of 3G in mid-2004, expecting 40% population coverage in the UK at launch in 10 major cities. In France Orange expected to have coverage in 10 major cities by end 2004.

- Most recently SFR announced intention to launch Paris-based, enterprise services in May 2004, extending to consumer services in June in '3' key cities. Later in the year will see the service extended to other regions. They will extend Vodafone Live! brand to 3G services.

Key players are therefore gearing up for 2004 launch of 3G services, and in many cases explicitly linked the launch to the availability of a range of handsets. In addition many are focusing specifically on mobile broadband type services via a WCDMA data card.

EDGE-ing into view?

There have been recent indications of interest in EDGE in Europe, summarised in the table below (source: Global Mobile Suppliers Association).

Country	Operator	Details
Finland	TeliaSonera	Launched Q4 2003
France	Bouygues Telecom	Planned 2004/5
Italy	TIM	Major cities by mid 2004
Lithuania	Bite GSM	Launched December 2003
Romania	Orange Romania	In Trial
Slovenia	Si. Mobil – Vodafone	Launch by end March 2004
Sweden	TeliaSonera	Proposed as complementary to 3G rollout

TeliaSonera Sweden indicated it is considering using EDGE to cut costs of achieving the comprehensive geographical coverage required under the license conditions, while TIM Italy has confirmed it will use EDGE to complement WCDMA coverage – with EDGE overlapping UMTS 100%.

Most GPRS devices launched in 2004 will have EDGE capability. Currently timing for a joint EDGE/WCDMA handset is unclear. Reports from Nokia indicate that there is no confirmed timing for a joined EDGE/WCDMA handset. TIM indicated it would need one by end summer 2004. Regarding services, TIM indicated that EDGE would support video streaming, but that video telephony would not be available.

EDGE is currently still of marginal interest in Europe, however with EDGE available in major markets such as France and Italy, vendors are being put under pressure to produce EDGE/WCDMA handsets in 2004.

With 3G launches imminent in Europe, albeit on a relatively modest scale, **operators** face a more competitive market place. News in 2004 will be good for vendors, **terminal vendors** are launching a range of more consumer-friendly terminals, **infrastructure vendors** anticipate, at least for 2004, increased spending to support the 3G rollouts. **Enterprise and private consumers** can expect increased competition, and choice of high-end 3G devices that is greatly improved on experience of 3G devices launched in 2003.

Careful positioning and considered strategy development in 2004 for 3G will lay the groundwork for a solid mobile future. Northstream experts have worked on strategic and implementation projects for incumbent and new entrant operator 3G strategies, including shared networks. Northstream's experience encompasses 3 years of advice on areas for 3G operators including network deployment, service packaging, terminal procurement and configuration. In addition Northstream has supported operators with strategies for EDGE implementation.

Contact

Northstream has studied all aspects of **3G services and technology**. In addition, we constantly monitor operator launches, new services and handsets on behalf of our clients, and work with customers to enable them to benefit from the potential of 3G networks.

As an example, Northstream can produce and customize an in-depth review and analysis of early 3G launches, service offerings and user experiences, and the associated lessons to learn.

Please contact us if you would like to find out more about this or about our company and the services we provide. E-mail us at info@northstream.se or call us at +46 8 564 84 800.