

Success Factors for European Leadership in Mobile Communications

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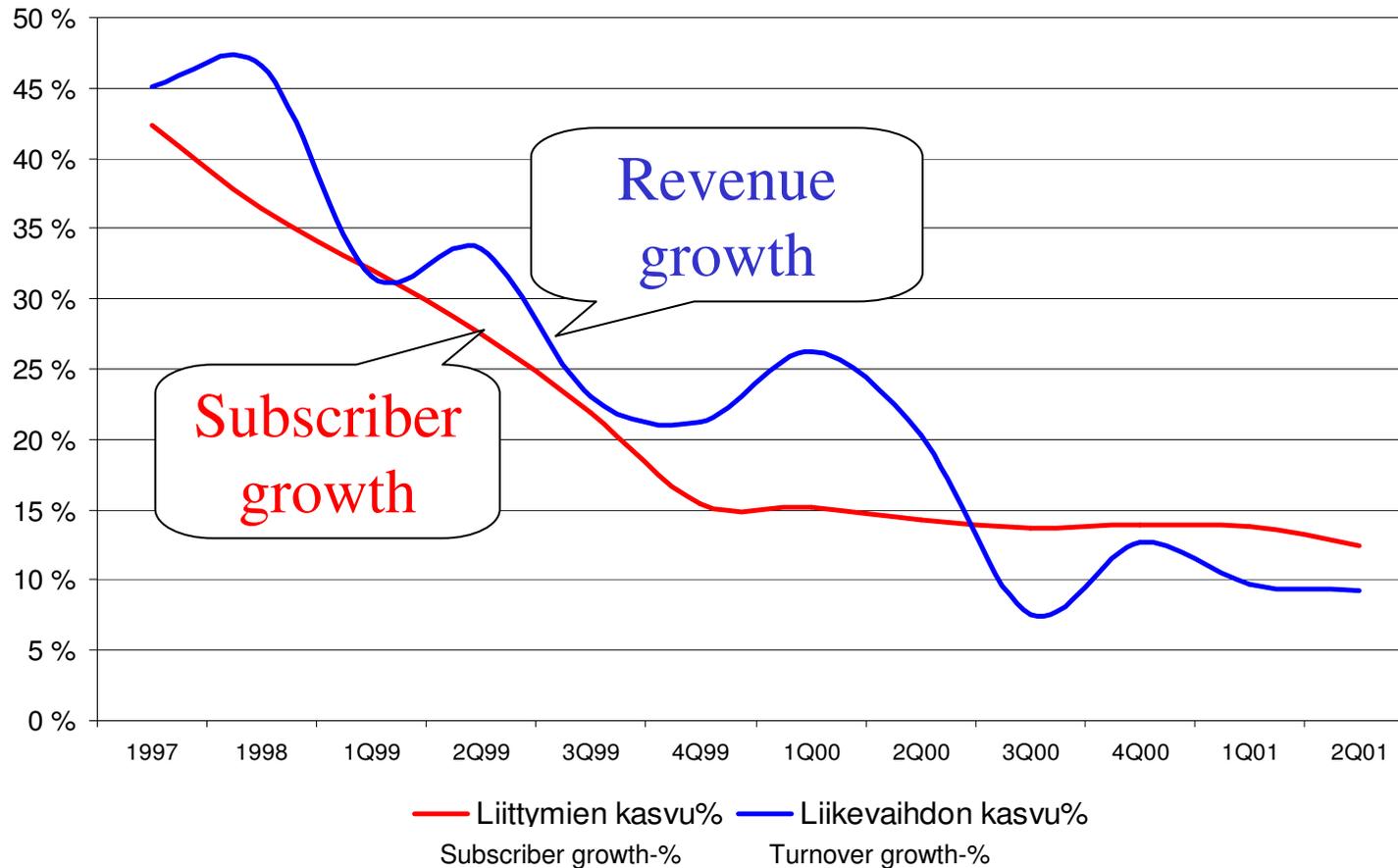
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Changes in mobile market structure

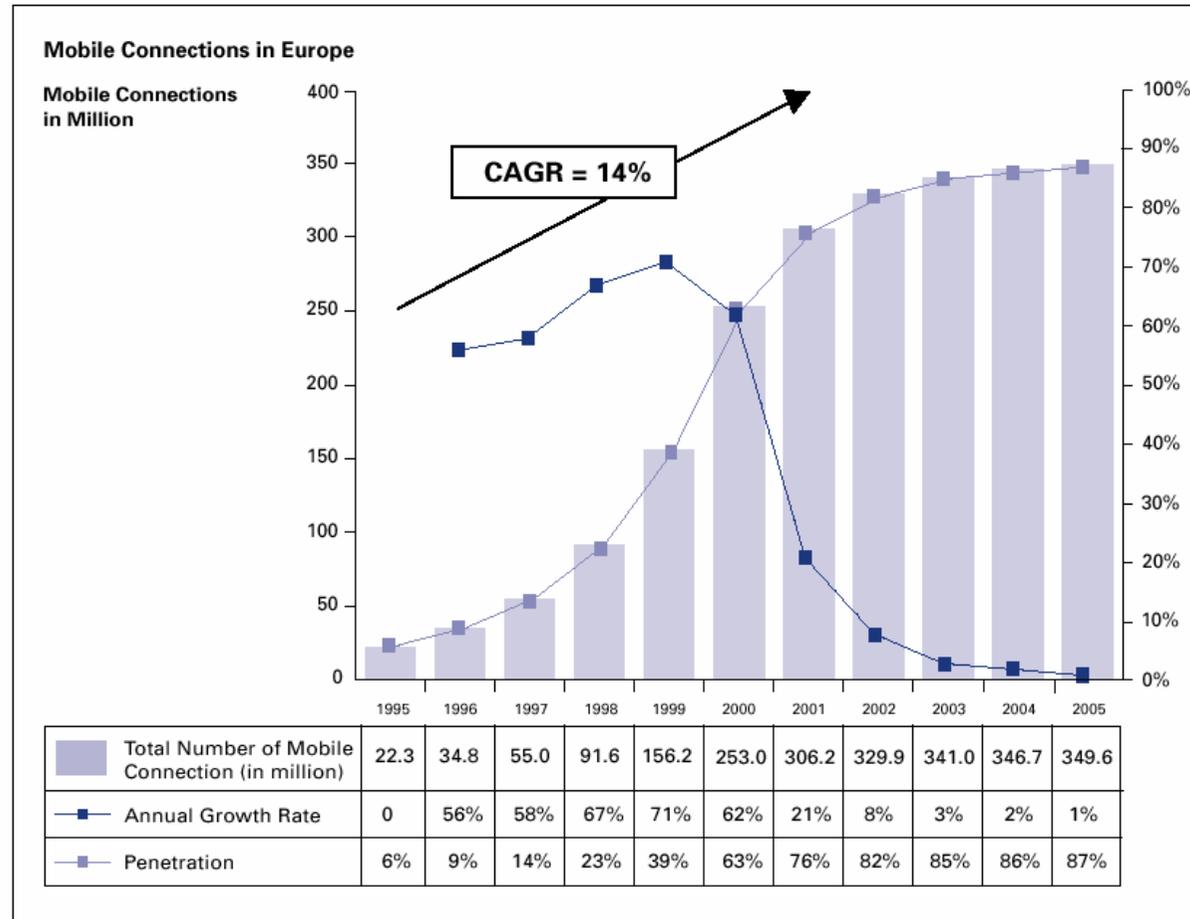
- **Traditional mobile market is saturating**
- **Mobile market growth will be 5-12%, like in any "normal" industry**
- **Competition is increasing, incumbents are forced to make some room to entrants**
- **Market structure and roles are getting more complex**

Approaching "normal" business growth rates

Annual growth rate of Finnish mobile market

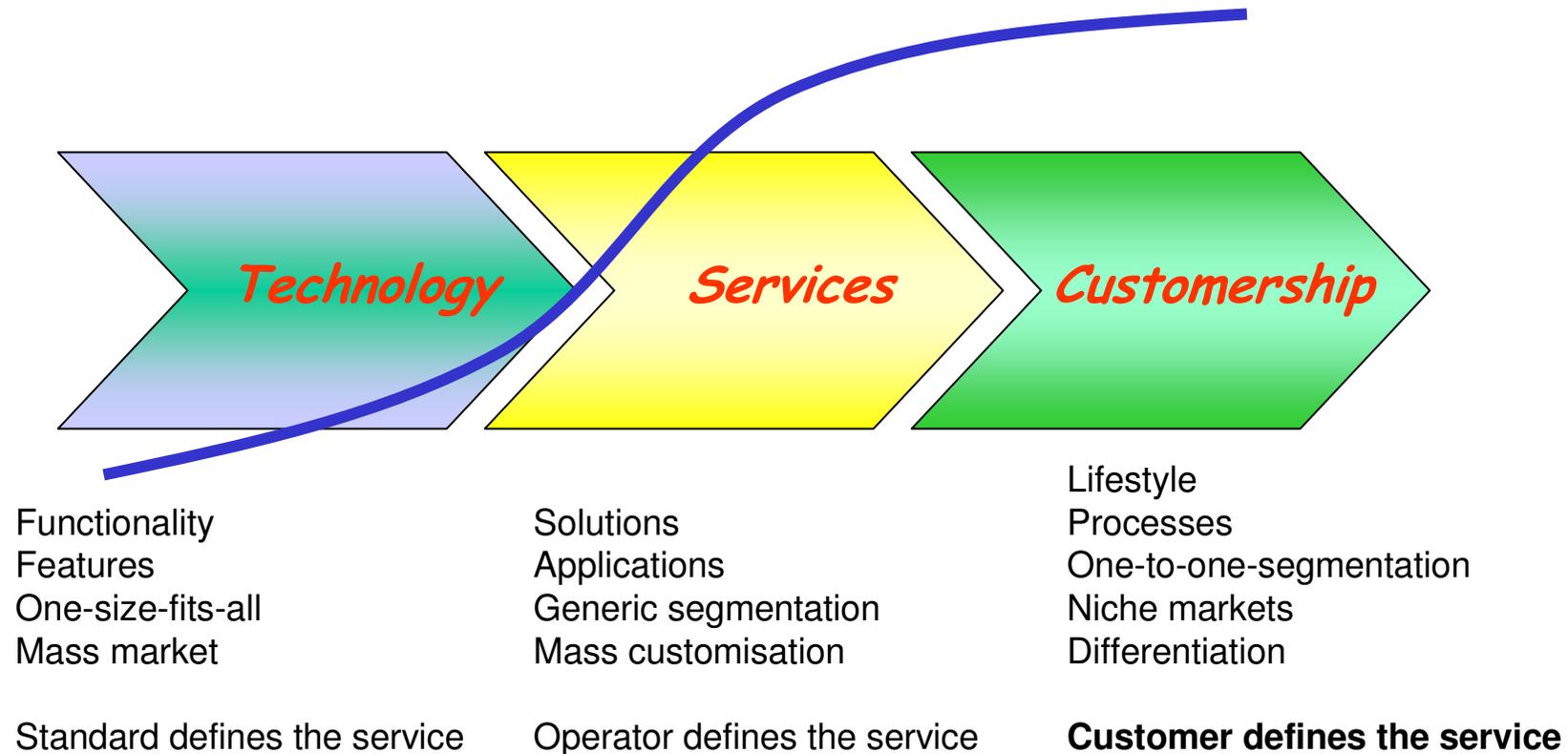


Saturation approaches in all of Europe

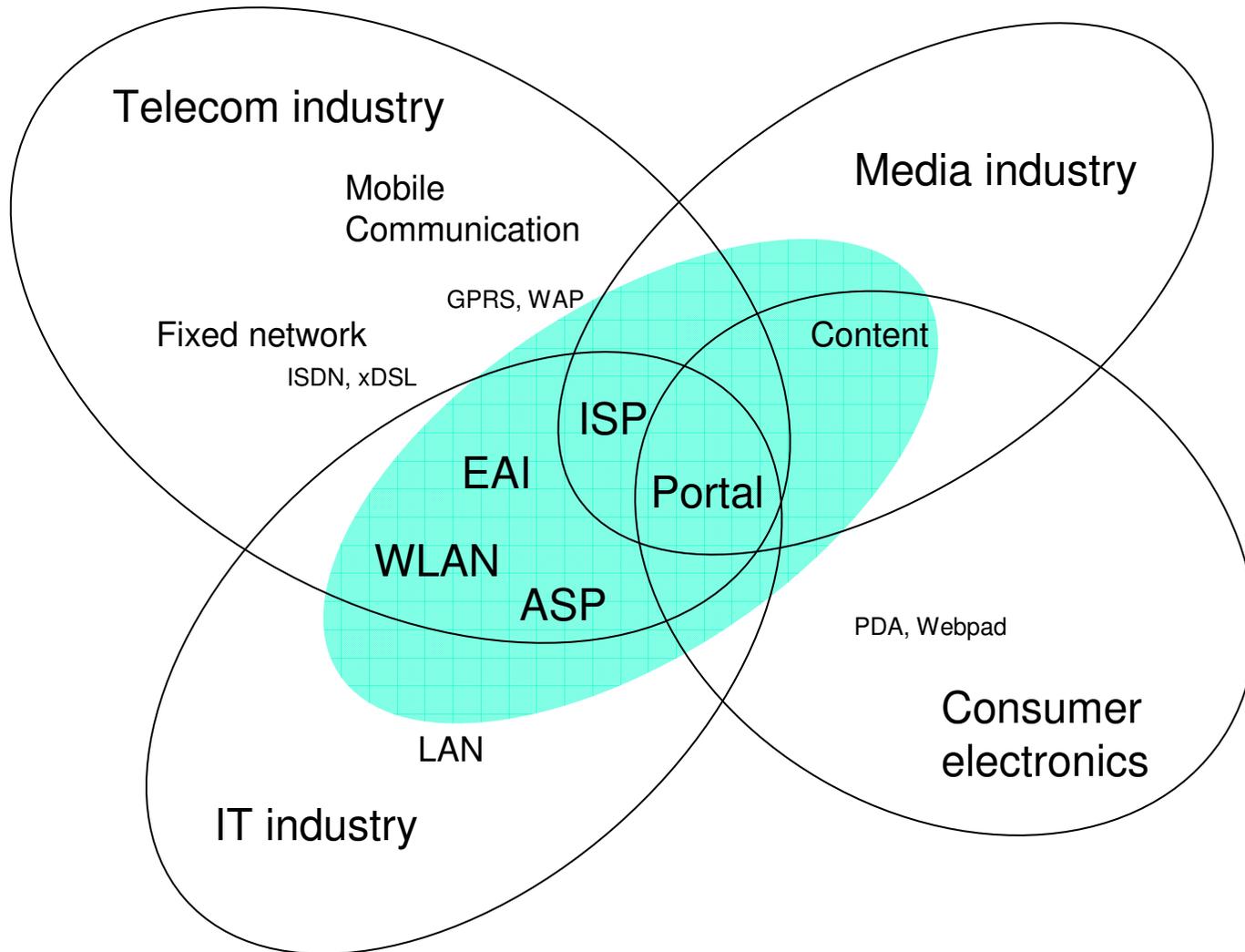


Source: Durlacher/Equiteq UMTS Report 2000

Business model evolution is a major success factor in a “normal growth” market



Convergent marketplace increasingly important - but still loss-making



Europe vs. USA and Japan: 2G mobile

- **Europe**

- Europe-wide harmonised standard and harmonised radio spectrum.
- Resulted in the great global success of GSM.

- **Japan**

- National standards on PDC and PHS on national spectrum.
- Spectrum foreseen to become congested around 2002.

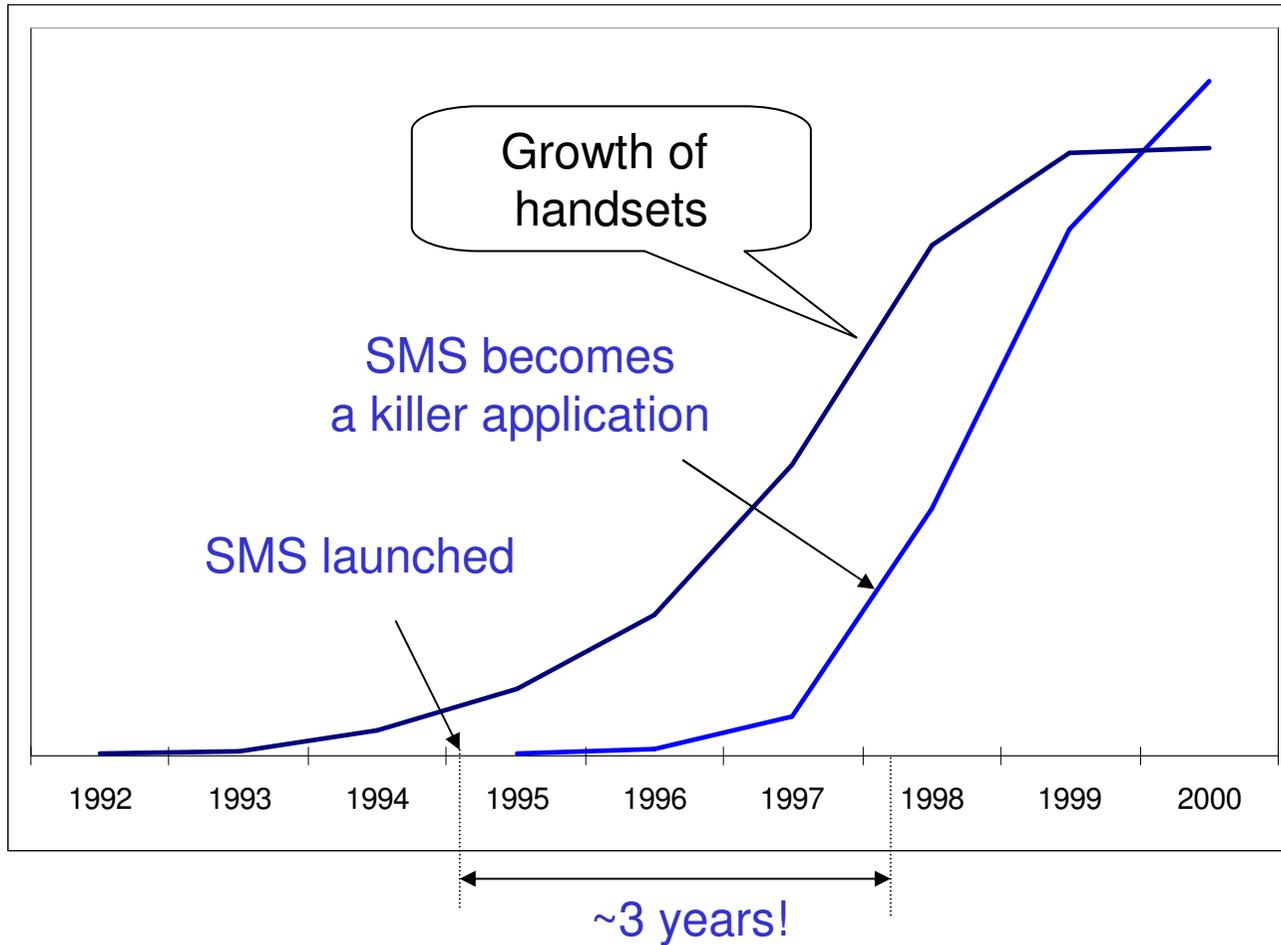
- **USA**

- Multistandard solutions on ITU 3G spectrum via auctions.
- Resulted in loss of economy of scale and delay in creation of mass markets.

Europe vs. USA and Japan: 3G mobile

- **Europe**
 - Strong focus on UMTS standardisation and harmonising spectrum.
 - Resulting in UMTS to be the global IMT2000 standard on ITU spectrum available.
- **Japan**
 - Efforts to take 3G lead overseas based on de-facto ARIB-standard.
 - Resulted in the first commercial 3G service launch in the world on October 1, 2001.
- **USA**
 - Delays, partly because 3G spectrum not available before 2004 and partly because of competing standards situation (cdma2000 and W-CDMA)
 - Results in delays and operators now focusing on GSM EDGE “3G solution”.

Miracles take time - if they occur at all

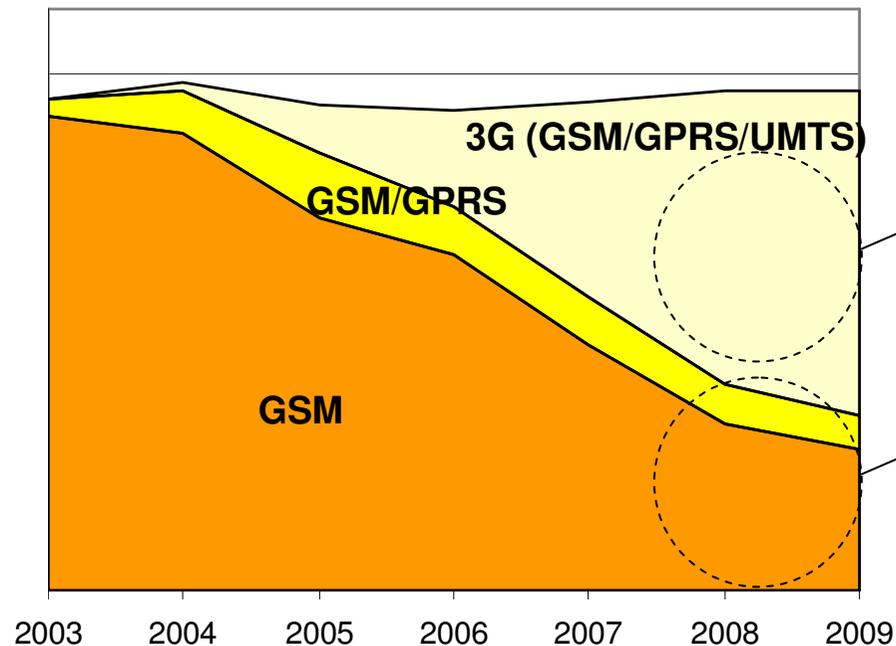


SMS made its breakthrough in a high growth phase, where handset base renewed quickly.

And it still took some time!

“3G” does not guarantee network-based business growth

Subscriber Forecast



Even though most of the subscribers are regarded as “3G” subscribers, large part of their ARPU is still based on 2-2,5G networks (“backbone”)

Heavy investments should be placed on 3G, but operator should still maintain 2-2,5G investments
Result: double investments but not significant increase is expected in ARPU during first years.

Source: Radiolinja

Some strategic issues

- **Timing**
 - commercial availability of network technologies and terminals
 - optimisation of network and IT investments
- **Renewability**
 - how quickly the critical "technical" mass is achieved (terminal base upgrade)
- **Customer acceptance**
 - influence of macroeconomy in renewability
 - willingness to adopt (and pay for) new services
- **Role of the operator changes, partnerships will increase**
 - Mobile operator will no longer dominate the service value chain. There is a strong pressure to decrease protectionism and to open up interfaces to different kind of partners
 - *"Telia is content distributor, not content provider. We can of course co-operate with content providers."* Marianne Nivert, CEO, Telia (Taloussanommat 19.10.2001)

Shift in mobile industry paradigm is imminent

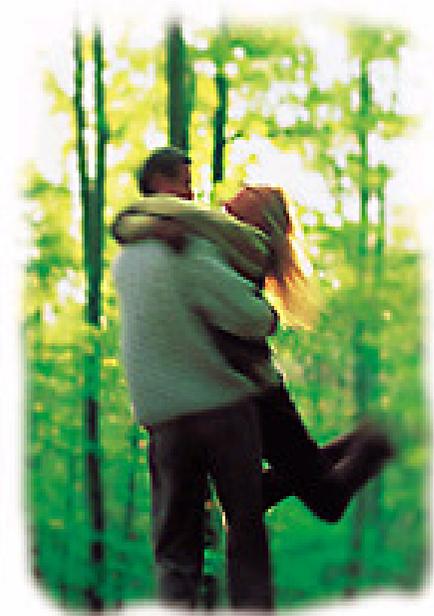
- **Yesterday**
 - growth market (subscriber growth 30-100+% p.a.)
 - new terminal generation with new features every 18 months, sales targeted to newcomers
 - *new terminals and new services penetrate market instantly (wide community of potential users encourage services usage)*
- **Today & tomorrow**
 - mature market (subscriber growth 0-15% p.a.)
 - new terminal generation with new features every 12-18 months, sales should be targeted to existing customers
 - *new terminals and new services penetrate market slowly. Customers get cautious (enhanced by declining macroeconomic atmosphere) against increasing pressure to invest new terminals => terminal change is delayed*

Regulatory climate to catalyse success

- **Light, supportive regulatory regime**
- **No new obligations, i.e. existing legislation sufficient**
- **No auction - that money is out of investments (delay in roll-out)**
- **Moderate spectrum fees - to cover regulators' real costs only**

Finnish mobile market specifics

- **High mobile penetration**
 - 3,5 M subs out of 5 M inhabitants (~75%)
- **High internet access penetration**
- **High SMS usage**
 - 1 billion SMS messages in 2000
- **Technology-aware consumers**
- **High adaptation of new services**
- **One of the lowest priced markets**
- **Still, ARPU EUR 50...60 per month**



Perhaps most competitive mobile market

Case Finland: 3G licensing regime

- **Basis**
 - National Committee to prepare the UMTS introduction for Finland
 - Early action to ensure good success possibilities for the industry and to benefit the users
- **Light and transparent Licensing Regime**
 - Comparative bidding
 - Licenses free of charge with moderate frequency fees
 - No coverage obligations (left for market to decide)
 - National 3G/3G roaming based on commercial contracts
 - National 3G/2G roaming: prefer contracts, but regulated (conditions)
 - Other rights & obligations in the regulations - not in the Licenses
 - Multiple objectives & criteria defined in Telecommunications Market Act and Competition Act

First UMTS licenses in the world

- **18 March 1999** four licenses granted in Finland to:
 - Radiolinja
 - Sonera
 - Suomen 3gee
 - Telia Mobile
- **No special criteria for 3G mobile network license applicants**
 - No Roll-out or Coverage or Investment obligations (...but to follow applications)
 - Facilities and Infrastructure sharing on commercial basis
 - obligations in special cases
- **A clear signal - The industry and the users to begin service by 1.1.2002**
- **No auction - all available money to investments benefiting the industry and end users**

Conclusions

- **We might see the future, but it is changing all the time. Delays in technology and terminals cause uncertainties.**
- **Even fundamentals may change.**
- **Regulators should carefully consider their actions.**
- **”Traditional” mobile operator business is now mature business. Sources for new significant rapid growth are still undiscovered.**
- **New services won’t penetrate as quickly as earlier due to slow relative renewal of the terminal base.**
- **Terminal replacement speed may still be slowing down.**
- **Convergent marketplace is promising but business models are somewhat blurred. Role of a mobile operator is definitely changing closer to the customer.**