

Communiqué

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About Analysys Mason

“ Welcome back to this our first 2011 issue of Communiqué. This issue focuses on some thought pieces about key highly topical issues, including spectrum, broadband and on-demand TV services that will have a significant impact on the future of the telecoms and media industries. We are already working on them in different countries worldwide and are sure these will demand significant time and effort from operators, regulators and media players during 2011. I hope you find them interesting and helpful.” Luis Borrell, Partner

Beyond the digital dividend – is it time to open up UHF to operators?

The release of digital dividend frequencies for mobile services, created by the switchover from analogue to digital-terrestrial television (DTT) broadcasting, has been one of the most prominent changes to UHF spectrum allocation that has taken place around the world in recent years.

The process of switching from analogue to DTT transmission has been taking place in many countries for up to ten years, and was already well underway in some countries when the decision was made at the ITU World Radio Conference (WRC) in 2007 to re-allocate parts of the released UHF spectrum for mobile services. That decision prompted government action around the world to re-farm UHF frequencies that were previously planned for DTT use, for mobile services.

In countries where DTT networks were already established and operating, this action resulted in DTT networks having to be re-planned to make the proposed dividend frequencies available for mobile and other wireless broadband services.

While this re-planning resulted in additional costs,

the underlying rationale is to enable mobile and wireless broadband services to access valuable spectrum below 1GHz. These services have been demonstrated to create greater economic benefits to national economies than those created by DTT. Studies such as Analysys Mason's digital dividend report for the European Commission set out these benefits in detail.

More recently, government targets set in a number of countries to bring new superfast broadband services into widespread use have highlighted the potential need for further spectrum to be made available for mobile and wireless broadband services, over and above that already offered. In Europe, this aligns with the EU Digital Agenda, and universal broadband service objectives, with the UK government, for example, indicating some 500MHz of additional spectrum is required to achieve these broadband objectives. Release of some of this 500MHz is already in preparation (via the digital dividend and release of new bands, such as 2.6GHz); however, identification of more spectrum is needed.



Written by Janette Stewart
Senior Manager
Consulting Division

Finding this additional spectrum will inevitably require re-farming of frequencies already occupied by other services, which is difficult and costly to achieve. Re-farming of government spectrum (e.g. release of defence spectrum) is one such option. Another option that has recently arisen, however, is the feasibility of a second digital dividend (i.e. further release of UHF spectrum), and the political debate on this appears already to have started in some countries.

From the mobile industry's perspective, a second digital dividend would have the benefit of providing further access to valuable sub-1GHz frequencies for mobile services – particularly useful for rural coverage. It could also help to align frequency bands released from the first digital dividend between different world regions, since the decision of WRC-07 placed new mobile allocations from the first dividend in different parts of the UHF band (e.g. 790–862MHz in Europe and Africa,

698–806MHz in Asia). Therefore, creation of a second digital dividend in Europe, for example, adjacent to the first digital dividend, (i.e. below 790MHz), could create the prospect of alignment with other world regions.

However, for DTT transmission and network providers, a second digital dividend will be particularly problematic, because many DTT systems have had to be re-planned once already to make way for the first dividend. While there are options that can be used to improve the capacity of DTT networks – such as use of MPEG-4 coding and migration from DVB-T to DVB-T2, (the newer generation of DTT technology), access to UHF spectrum is, nevertheless, essential to maintain existing DTT networks and enable services to expand (e.g. by creation of more multiplexes to carry additional and new digital channels). There are also limited other possible frequencies for use by terrestrial broadcasting systems – VHF Band III being the main alternative. However, while governments in some countries (e.g. Finland) are leading the way in using VHF Band III for additional DTT multiplexes, in other countries this frequency is either already in use, or planned for use, by other broadcasting services, such as DAB or DMB.

Just like its predecessor, the debate on a second digital dividend is likely to be controversial – and will require technical and economic analysis to reconcile conflicting arguments from the mobile and broadcast industries, to provide governments with a solid basis for policy development.

With increasing competitive pressure on scarce spectrum resources, it is unlikely that a purely administrative view on continued availability of broadcasting spectrum can be sustained. In particular, either the broadcasting industry will need to develop new arguments for continued access to spectrum, which will be evaluated against the arguments from the mobile industry, or the broadcasters may need to acquire spectrum in the open market, potentially in competition with the mobile operators. The latter could require the broadcast industry to rethink its underlying business model. This could include generating consumer revenues from DTT viewing in the same way that other broadcasting platforms do.

For more information please contact Janette Stewart, Senior Manager, at janette.stewart@analysismason.com

Advice to lenders for technology PPP projects: necessary evil or value creator?



Written by Omar Bouhali
Manager
Consulting Division

In the last two years, France has seen a number of major technology-based public-private partnership (PPP) projects. These have included sectors such as defence, security, transport and real estate – and we expect that the health sector could be the next area of activity.

The nature of such projects often demands broad-ranging expertise (in hardware, software, integration etc.) in order to cover the different phases of the project (from design and financing to deployment, operation and maintenance). Complex industrial consortia are often formed, taking on contracts that may last between 10 and 30 years and require the raising of

significant debt, often from EUR100 million to EUR1 billion or more.

The size and complexity of these projects creates a number of specific areas of risk and uncertainty:

- large projects may involve numerous interfaces and generate dependencies that are difficult to control
- end clients can make onerous demands, either in terms of functional requirements or in terms of performance
- they may involve sophisticated environments, such as specific technology standards or operational constraints
- extended contract durations may require long-term technology evolutions to be incorporated.

In this context, the role of lenders' technical adviser (LTA) is of particular importance to help the lenders analyse what is at stake, and to understand the corresponding risks. This role should not be seen as a 'necessary evil' but rather as a genuine opportunity for value creation: a clear and comprehensive understanding of the risks and uncertainties enables the lenders to take the best financing decisions in a common interest with the industrial consortium. Over-estimated risks usually lead to higher financing costs and, therefore, to an offer that is less competitive and less likely to be selected by the public entity; under-estimated risks are likely to create a situation where financing is blocked at a later stage of the project and will put both the lenders and the industrial consortium in a difficult situation.

In order to provide a robust and valuable risk

analysis, the LTA needs to combine background data with insight and expertise. Specifically it should:

- benchmark the PPP's requirements with those of similar projects, in order to assess whether these requirements go beyond industry standards
- analyse the technical solution in depth in order to assess potential risks over time
- analyse the draft contract in order to understand how the technology uncertainties are taken into account and how the corresponding

risks are shared between the parties

- use due-diligence approaches in order to assess schedule, costs and potential penalties.

Such risk analyses can also lead to improvements in the offer that is prepared:

- a cost review recently undertaken by Analysys Mason triggered internal discussions within our client consortium that led it to optimise its commercial offer
- one of our technical offer reviews led our client consortium to reduce risk by exploring

the potential for key technical elements of its solution to be sourced from alternative providers without putting compliance with technical requirements at risk.

These assessments need to be synthesised in a clear and concise report, with the appropriate level of detail, in order to help the lenders to understand what is at stake and the corresponding risks, and to take the appropriate financing decisions.

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Preparing for PSN: local authorities take the lead



Written by Paul Kennedy
Senior Manager
Consulting Division

The Cabinet Office's ambitious Public Sector Network (PSN) programme aims to revolutionise the way in which the public sector in the UK accesses ICT services, and, in particular, secure connectivity across government. The coalition government has yet to formally approve the previously established public-sector ICT strategy, of which PSN is an element. In the meantime, it is local authorities – acting individually and collaboratively – that have taken the lead in the drive towards PSN services.

Despite its name, PSN is not a network in the sense of a single, physical infrastructure: rather, PSN is intended to be a governance mechanism for public-sector ICT, dictating standards for ICT services and the method by which they will be procured. Governance will be the responsibility of the PSN Authority (PSNA) – a body being created by the Cabinet Office, which will oversee an approval process under which all public-sector ICT services must be confirmed as 'PSN-compliant'.

Public organisations with significant imminent or planned ICT procurements are understandably asking how they are expected to gear their requirements to comply with the PSN regime, as it is not yet binding on them. What they correctly perceive is that any new contractual arrangements must be consistent with PSN

once it is eventually implemented.

The most significant early PSN project in central government, the Foreign and Commonwealth Office's Project OCEAN, was diverted in 2009 and, apart from the replacement GSi and MTS services, we are not aware of any similar central government procurements. There are programmes that conform to the philosophy and aims of the PSN vision – but the telling point is that these are being driven by local authorities. Examples include projects in Cambridgeshire, Dorset, Hampshire, Kent and Staffordshire – typically county-wide. There are also a number of collaborative, regional initiatives such as the East Midlands PSN, Public Sector Broadband Aggregation (PSBA) in Wales (a multi-sector project which includes the police), and Project Honeymoon (involving various neighbouring local authorities, led by Northamptonshire County Council). The business-case considerations driving these projects include cost reduction, improvement to public services, collaborative working, estate consolidation and reduced duplication. The primary stimulus is often the need to re-tender large ICT contracts – such as for wide-area networks or significant managed services.

At the same time, the behaviour of suppliers is adapting to the forthcoming PSN regime, which is scheduled to become effective in 2011. In addition to a new governance mechanism, PSN will implement new technical standards and commercial principles. In anticipation, we have

found that suppliers are showing innovation (e.g. in solving working issues associated with multi-tenancy), flexibility in foreseeing PSN procurement issues, and a willingness to co-operate with the process. The last factor will be critical to achieving the overall PSN vision.

Increasingly, our experience of such projects highlights that a balance needs to be struck between current central PSN standards as defined in the PSN Commercial Strategy (e.g. relating to site types, resilience and 'ideal' service level expectations) and local practicalities. In addition, initiatives need to balance a desire to enable the future (e.g. by ensuring flexibility for building closures) and the pressure to secure early savings.

Moreover, in collaborative PSN projects it is evident that a clear and realistic statement of requirements for each partner is essential, otherwise procurement evaluation is problematic: what exactly is being bought? Further, legal issues can arise related to the scope of the particular OJEU tender process and the balance of the expected economic benefits between the partners. This is especially important because PSN compliance is not yet defined and the requirements will continually evolve, leading to uncertainty about the practical implications, including security.

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Growth in the M2M market will have long-lasting mobile network effects



Written by Ian Streule
Senior Manager
Consulting Division

There is a consensus among industry observers that we will experience strong growth in mobile cellular connectivity from M2M and embedded mobile applications. Many millions of new non-personal, data-only mobile devices will be added to existing networks, supporting a plethora of established, emerging and presently unimaginable applications. Vehicle tracking devices, industrial monitors, handheld devices (e-readers, cameras), and healthcare monitors are just some of the devices expected to emerge and proliferate.

Today's mobile networks are predominantly geared towards supporting the communications needs of personal subscribers with voice, SMS and small-screen Internet handsets, as well as a growing base of mobile broadband users with laptops, tablets and (increasingly) smartphones. These user groups have been evolving steadily in terms of network technology and traffic load over the last decade of mobile service growth. Handsets and laptops are typically replaced every two to four years, and operators can subsidise the up-front costs to stimulate the rapid take-up of new devices. This means that there can be a rapid churn of user terminals and so large-scale network evolution can be managed over a small number of years.

There is a sharp contrast between the current situation and our expectations for the growing M2M market. Chipsets for M2M use are embedded into the host machines and end-user devices. The very nature of such devices means that they exist in a variety of situations, sometimes places that are costly to reach (such as on-board vehicle electronics, utility meter cabinets, industrial facilities, etc.). As a result,

these chipsets are much more difficult to replace and upgrade than personal mobile handsets and laptops, which can be upgraded simply by sending new devices through the post, or through retail outlets. Furthermore, the expected lifetime of some M2M devices is significantly longer than for a handset.

In a recent study for the GSMA, Analysys Mason investigated the hypothesis that the growing installed base of M2M and embedded mobile devices will have problematic long-term impacts on the mobile networks that support them. We conducted industry research with players in the M2M and embedded mobile ecosystem which informed three key findings.

- Around 90% of these M2M devices currently use 2G technology, with only a minority adopting multi-mode 2G+3G chipsets.
- 2G devices typically generate small amounts of traffic.
- In some key segments, expectations are for long device lifetimes, with many devices deployed today expected to remain operational for more than ten years. Industry research informed our lifetime estimates, as shown in Figure 1 below.

We also developed a market forecast model which used the growing forecast number of devices to project the rate at which 2G M2M devices would be replaced. The effects of long-lifetime devices can be seen in the slowly declining 2G curve in Figure 2 below.

In our experience, many mobile operators plan their network strategy up to five years ahead, and the most significant issue in the coming five years is spectrum re-farming from 2G to 3G and 4G technologies – resulting in the potential shut-down of old 2G networks. This means that long-

lifetime 2G devices could have a long-term impact on the ability of network operators to evolve their networks in the coming decade. Options that operators could consider in this situation are outlined below.

- Establishing a dedicated 2G network for M2M/embedded mobile devices in the long term. Although this network may not need to support much traffic, it will require national coverage and will incur ongoing maintenance and operational expenditure. The operator may also need to purchase or reserve spectrum for this network (perhaps up to 2x5MHz in the 900MHz band). Current M2M and embedded mobile services may not generate sufficient revenues to support this form of dedicated 2G network.
- Forcing the replacement of legacy 2G communications modules in order to free up the 2G spectrum and enable efficient re-farming. However, the costs involved in locating, visiting, servicing and/or recalling millions of legacy 2G M2M and embedded modules will be significant.

The conclusions and calculations of our study into this area aim to facilitate an informed industry discussion of the issues surrounding future M2M and embedded mobile market growth, with device technology, lifetimes and network scenarios being key determinants of the success of new M2M and embedded mobile applications.

The report can be downloaded from Analysys Mason's website at http://www.analysismason.com/forms/gsma_study

For more information about the study or our expertise in the embedded mobile market, please contact Ian Streule, Senior Manager, at ian.streule@analysismason.com

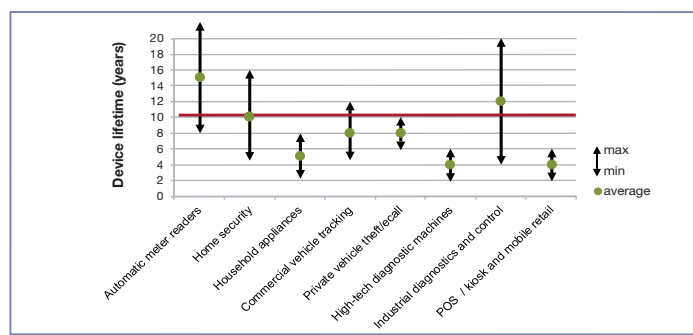


Figure 1: Expected device lifetimes for a variety of M2M applications [Source: Analysys Mason estimates informed by industry research]

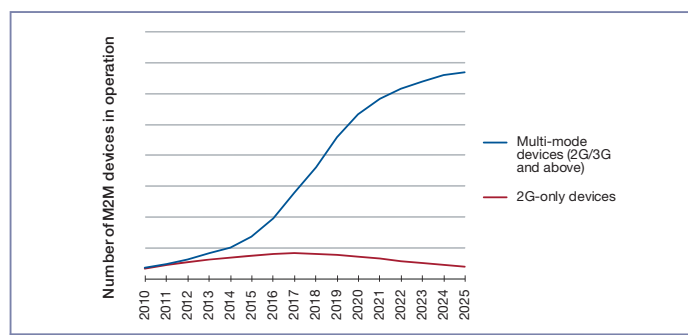


Figure 2: Forecast of 2G and multi-mode (2G/3G and above) M2M devices in operation, 2010–2025 [Source: Analysys Mason]

Broadband tariff increases in France are not as bad as they seem for consumers



Written by Stéphane Piot
Partner
Consulting Division

French broadband users have benefited from nearly a decade of competitive pricing. Recent changes in VAT rules have triggered retail tariff increases that may appear to threaten that, but the impact may not be as bad as expected for consumers in the long term.

Since 2002, when the alternative French operator Iliad/Free undercut the French incumbent's broadband prices by 33% (with a package at EUR29.90/month), the French broadband market has been extremely competitive. The EUR30 level represented the reference point for the market, and since then, operators have competed to offer the best value for money for that price. As a result, in 2006, the OECD stated that the Iliad/Free triple-play bundle was the most attractive broadband offer in OECD countries.

Following a recent decision from the French government to increase VAT on bundle offers, operators have revamped their deals – leading to price increases and product segmentation.

Up to the end of 2010, a reduced VAT rate of 5.5% (VAT for broadcasting services) was applied to a significant proportion of the triple-play package price (typically 50–60%). However, the French government has decided to apply a uniform VAT rate of 19.6% to the entire bundle, and many broadband operators have repositioned their offers, as outlined above.

- Increasing current prices: while most broadband operators communicated that they would be passing on the VAT increase to consumers, some increased tariffs by more than the change in VAT rate (or even increased the prices of all their offers, including those not directly affected i.e. bundles without TV components).
- Introducing new options, such as:
 - *TV option* – for the same price, the triple-play package becomes a double-play (broadband + telephony) product, and consumers now need to opt in for TV (for a given fee)
 - *line rental option* – offers provided over a fully unbundled line (meaning the consumer did not

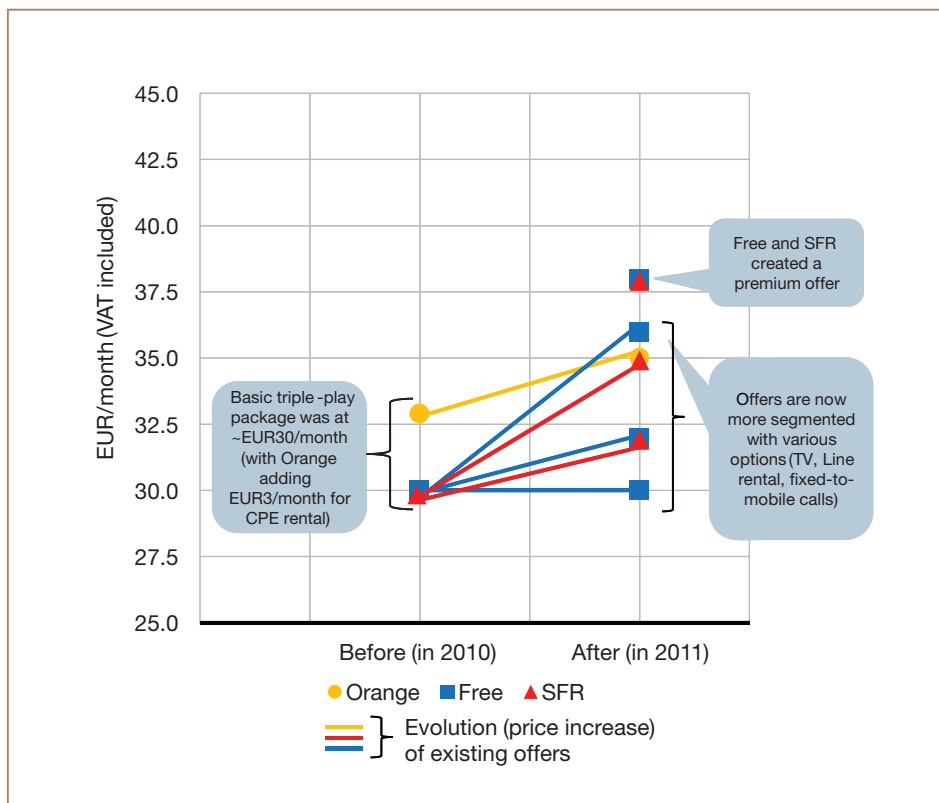


Figure 3: Evolution of the main triple-play offers in France [Source: Analysys Mason, operator data]

have to pay a fee to the incumbent) now incur an extra charge

– *unlimited calls to mobiles* – this is being added to the bundle for a fixed fee per month.

- Introducing new set-top boxes: this is providing an 'enhanced user experience' for an additional fee per month (e.g. larger hard disks, built-in Blu-Ray drive, improved user interface, Internet browsing on TV).

These offer evolutions are illustrated in Figure 3 above for the three leading French broadband operators.

We can notice from the graph a price increase, but, more importantly, a trend towards product segmentation.

The price increase is limited (less than 10%) and even though consumers may be displeased by it in the short term, there is, overall, little to complain about. A 10% increase over nine years is significantly below that of other basic consumer products, especially given the improvements in broadband bundles. And even with the price increase, France remains one of (if not *the*) most competitive markets for fixed broadband.

Product segmentation is a known economic approach to improve profits by monetising customer willingness to pay more for an improved service. The operator can charge more for enhanced services, as long as they meet users' higher expectations. This segmentation trend (and users getting used to it) should provide an incentive for operators to invest in fibre-based infrastructure, as they would then be able to charge more for enhanced services provided over this infrastructure (which was not possible with the previous 'flat-fee, single-price' structure).

As a result, in the long term, price increases in combination with service segmentation may not be as bad for consumers as they may think: they can look forward to high-speed and enhanced services, in what remains an extremely competitive market.

Analysys Mason is working intensively in the broadband arena, providing support on market assessment, business planning, due diligence, and regulation and policy in developed and emerging countries.

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On-demand TV: from niche proposition to the mainstream – are we ready for the future?



Written by Marc Eschenburg
Consultant
Consulting Division

Over the last few years, the emergence of hybrid or 'over-the-top' on-demand video services has significantly altered the way in which consumers are able to watch TV. While this article evaluates the situation in the UK, similar developments are observed in many other countries. A number of popular portals (e.g. BBC iPlayer, 4oD, YouTube) have been particularly successful in stimulating the use of on-demand viewing via the PC. And with integrated devices gaining in popularity, an increasing share of the 6 billion videos watched online each month in the UK¹ could soon migrate to the living room.

As well as having an impact on the volume of traffic carried over data networks, this migration could also change the revenue streams underlying the TV business model. For example, Analysys Mason expects that about 30% of incremental TV advertising revenues between 2009 and 2014 could stem from online and mobile TV advertising.

Based on these trends, most observers would agree that on-demand services have the potential to become a mainstream proposition in the TV market, although the timing and the impact on current business models remain unclear. At the moment, a number of factors are limiting the take-up of on-demand services in the living room, including unintuitive user interfaces, a lack of competitively priced premium content, insufficient access speeds capable of delivering sufficient bandwidth, few compatible devices, and limited integration of on-demand services (as shown in Figure 4). However, a number of market developments should address most of these deficiencies over the next years.

Virgin Media aims to introduce its TiVo-branded set-top box this year, which is renowned for its simple and accessible user interface; BSkyB recently launched its Anytime+ service providing access to its entire library of premium content to Sky Movies subscribers; and BT is investing in next-generation infrastructure capable of meeting the necessary bandwidth demands. Manufacturers continue to develop and market

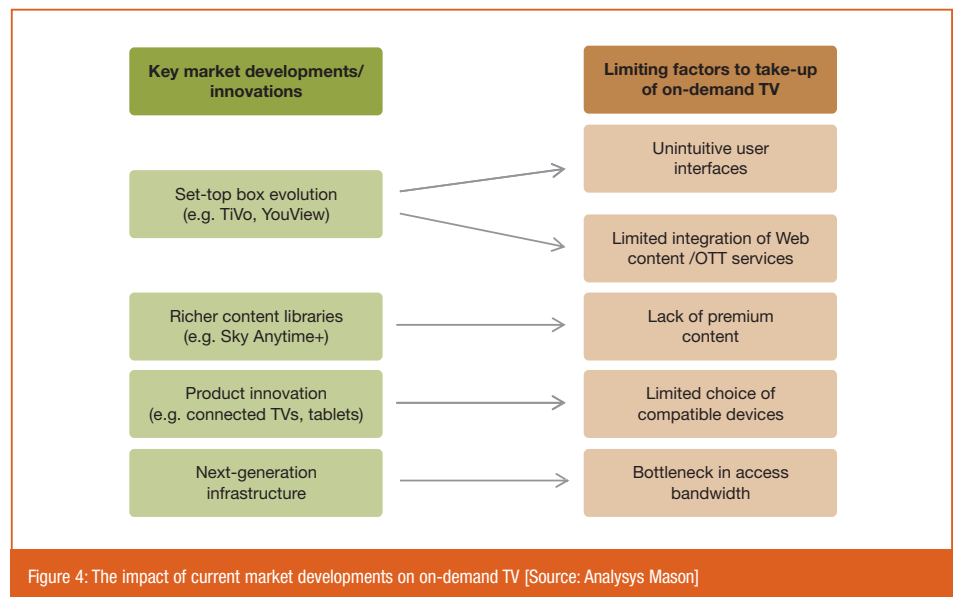


Figure 4: The impact of current market developments on on-demand TV [Source: Analysys Mason]

connected TVs and other integrated devices (e.g. tablets, game consoles) and YouView (the Internet-connected TV platform previously known as Project Canvas) is being promoted as an open platform and should facilitate the integration of Web-based services into the living room.

At a recent Westminster Forum in London, there was a view that, at most, 20% of TV viewing would be through on-demand services in the long run, stressing the importance of live TV for shows such as *The X Factor* or sports broadcasts. However, the market developments mentioned above are likely to improve the quality of services offered and stimulate increased take-up of on-demand video services, especially during peak hours – potentially extending on-demand viewing to far more than the 20% forecast.

Understanding the challenges of these developments will be crucial in making the right technology choices. Content providers and broadcasters need to adapt to new pay-TV and advertising propositions, while also managing the traffic costs associated with on-demand services. Traditional broadcast infrastructure operators could face a reduction in demand for their services and so need to understand how to best leverage their existing expertise to remain competitive.

Telecoms network operators are likely to be confronted with significantly higher traffic loads in peak hours, while at the same time being required to deliver a higher quality of service for

most of this traffic. Device manufacturers are looking for opportunities to become the new gatekeepers, while also developing collaborative business models to cope with the changes and stay profitable. Finally, regulators and other public-sector bodies will need to thoroughly assess issues associated with on-demand TV – such as net neutrality, the de-localisation of content, and a second digital dividend.

Only smart strategic decisions will allow media and telecoms players to provide these interactive services in an effective way and to find viable business models that create sustainable value.

Making the right decisions requires a fundamental understanding of the media and telecoms market. Analysys Mason has worked with broadcasters, broadcast and telecoms network operators, regulators and manufacturers on the topic of on-demand services, and has developed a unique understanding of the economic implications. Over the course of this year, we will present a series of articles on this topic in *Communiqué*, in which our experts will discuss in more detail the challenges faced by each of the key players.

¹ Source: comScore (November 2010)

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Success of universal broadband in India hinges on the choice of investment model



Written by Sourabh Kaushal
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Governments across the globe, and especially those in emerging economies, are recognising the importance of broadband connectivity to drive economic development and support the less advantaged sections of society.

The Indian government has recently thrown considerable weight behind an ambitious deployment of broadband infrastructure. Within two years, the government plans to provide high-speed data network connections to the 250 000 large villages (gram panchayats), and thereafter to all unconnected villages with more than 500 habitants. We estimate that the overall investment in broadband infrastructure will be around INR397 billion (USD8.6 billion).

Having made this commitment, the government is now engaged in discussions with key stakeholders (operators, infrastructure providers and industry associations) to decide the optimal technology and investment model for the deployment of backhaul (core and middle mile) and access infrastructure. The Confederation of Indian Industry (CII) asked Analysys Mason to undertake a detailed study to identify the different investment model options for deployment of broadband infrastructure in rural areas across India.

According to our analysis, the most cost-effective way to provide universal broadband access in India, given the large geographical spread and non-existence of fixed networks in the rural areas, will be to use a backhaul network based on optical fibre to connect the 250 000 large villages first. 'Last-mile' access can then be provided using wireless technologies (such as HSPA, WiMAX and LTE). Based on Analysys Mason's calculations, the backhaul network will require the deployment an additional 301 000km route of fibre, and around 37 500 towers will be required to provide broadband access covering rural India. This topology can offer broadband connectivity to a large number of people in the next five years, and at relatively low cost.

While the details of the deployment plan are important, the single most critical factor for the successful and timely implementation of the broadband network is the choice of investment model.

As part of our support for the CII, we worked in close co-operation with the industry to define the approach that best meets the government's public-service objectives, while providing equal opportunities for all market participants. Depending on the role the government decides to play, there are three principal investment models, referred to as 'ownership', 'public-private partnership' (PPP) and 'financial incentives'. Each approach has a number of variants, which are summarised in Figure 5.

We concluded that the best outcome would be provided by adopting different ownership and investment solutions for backhaul infrastructure and for access infrastructure.

- For backhaul infrastructure, the best solution lies in the PPP model, involving an operator-led special-purpose vehicle (SPV). The government creates and owns a parent SPV, which, in turn, owns all of the deployed network assets. Network deployment and ongoing operations and maintenance will fall to subsidiary SPVs (based on the number of regions carved out for deployment). These subsidiary SPVs will have joint equity ownership between the parent SPV and a telecoms operator.
- For access infrastructure, the best solution lies in subsidies to end users, paid directly to each household from the USOF. In this model, any operator can roll out services in any area across rural India, taking advantage of subsidised backhaul from the SPV and subsidised tower infrastructure from existing USO programmes.

By considering a comprehensive solution that includes backhaul, access and access devices (CPE), the Indian government has taken highly positive steps. Furthermore, the initial adoption will be driven forwards by the eGovernance initiatives currently being undertaken by central government. However, the take-up and usage of services by the mass market will depend on the availability of localised content and applications, as well as services that can be used on a daily basis (livelihood-enhancing services such as education and utility services).

Analysys Mason has been working actively with industry participants around the world, to educate governments on infrastructure deployment models and best practice adopted by countries that have implemented national broadband networks. We have also helped governments in building detailed frameworks for national broadband plans, which address all the current and emerging issues around business viability, spectrum, policy and regulation. The work completed recently in India can be accessed for download at www.analysysmason.com/india.

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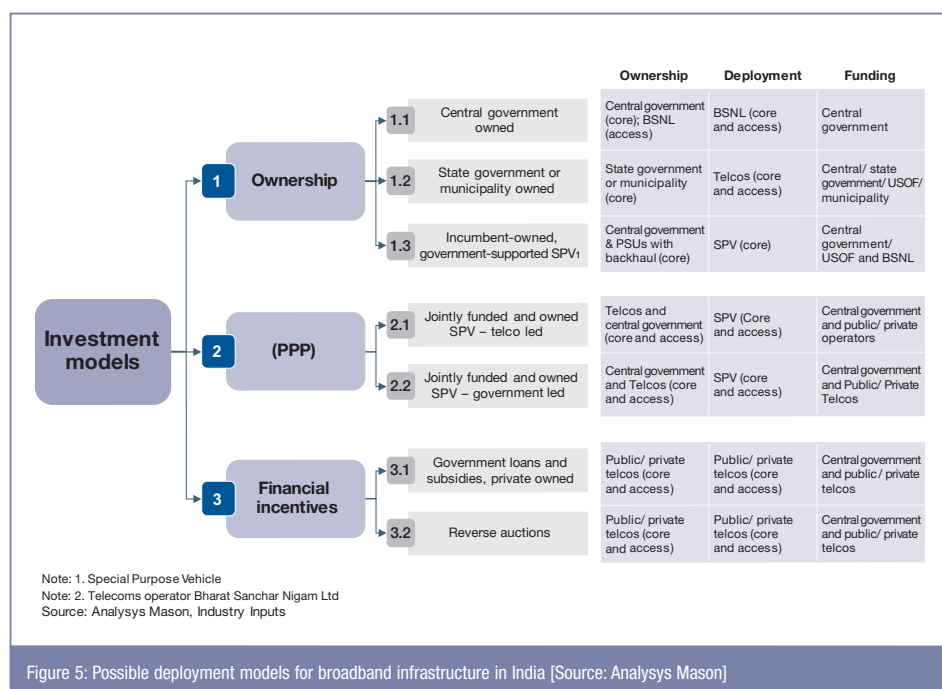


Figure 5: Possible deployment models for broadband infrastructure in India [Source: Analysys Mason]

Operators should position mobile broadband as a complement to fixed, not a substitute



Written by Martin Scott
Senior Analyst
Research Division

Mobile broadband operators should prepare for a decline in market growth. Recent research from Analysys Mason's Connected Consumer survey – involving 6000 respondents – indicates that interest in mobile broadband among non-subscribers has declined slightly in all markets between 2009 and 2010, and subscriptions to mobile broadband are unlikely to grow at the same high level during the next year as they did in previous years. The best strategy for operators to slow the decline in mobile broadband uptake is to emphasise its unique selling point – its mobility.

Mobility is the easiest method for selling mobile broadband into a customer base used to the benefits of fixed broadband: 66% of non-mobile-broadband subscribers consider it a key factor in motivating them to buy the service – ahead of

price, convenience and other perks such as cheaper service bundles and access to premium content. This is positive news for operators as other potential motivations – such as network improvements and price reductions – hit operators' pockets, whereas mobile broadband's mobility does not. Network improvements are costly to implement and, given the cost pressure on mobile broadband, it is unlikely that operators will reduce prices any further.

Attempts to sell mobile broadband as a substitute to fixed are likely to fail as there is a strong perception among consumers that mobile broadband is not as fast, is more unreliable and is more pricey than fixed broadband. Over 70% of those expressing an opinion in our consumer survey agreed with statements that mobile broadband was slower, less reliable and more expensive than fixed. The differences between the two will become increasingly apparent as fixed operators deploy more fibre and double-digit megabit-per-second speeds (which most mobile networks will struggle to offer) become

more common and more commonly used.

The positive message for service providers is that customers in developed markets have realistic expectations for mobile broadband, which means they are not taking it to be a direct equivalent to fixed broadband – if they were, they would likely be disappointed. Our research found that about 84% of mobile broadband subscribers also have a fixed broadband connection, and there is little evidence that these subscribers will drop their fixed-line contracts – only 10% of those with both fixed and mobile broadband services stated that they intend drop the fixed service.

Mobile broadband also struggles to compete as a substitute to fixed because customers are increasingly happy with their fixed broadband service – and those who have the greatest need and are the most willing to pay for mobile broadband are likely to have taken up the service already.

Of respondents who said they weren't interested in mobile broadband, 72% said it was because they were happy with the fixed service they were receiving (see Figure 6) – which is up from 65% last year. The only way for operators to tap into this section of the market is to promote mobile broadband as a complementary service to fixed broadband, not as a substitute.

For more information regarding Analysys Mason's Connected Consumer research, log onto:
www.analysismason.com/connectedconsumer

¹ Question: "Why are you not interested in mobile broadband? (select all that apply)"; all respondents who are not interested in mobile broadband; all countries; n = 2533.

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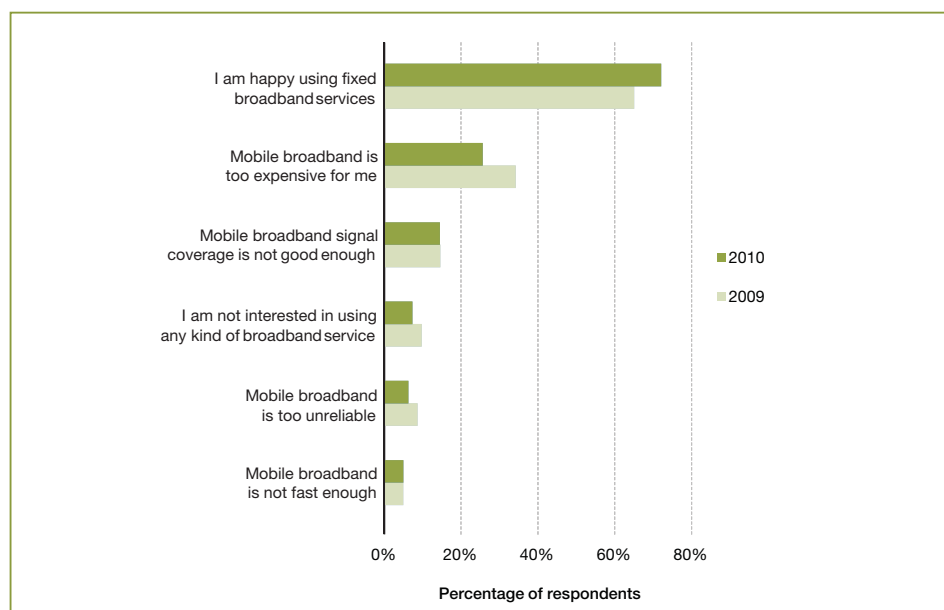


Figure 6: Reasons for lack of interest in mobile broadband, 2009 and 2010¹ [Source: Analysys Mason, 2011]

About Analysys Mason

Analysys Mason is a trusted adviser on telecoms, technology and media. We work with our clients, including operators, regulators and end users, to: design winning strategies that deliver measurable results; make informed decisions based on market intelligence and analytical rigour; develop innovative propositions to gain competitive advantage; and implement operational solutions to improve business efficiency.

With 250 staff in 12 offices, we are respected worldwide for our exceptional quality of work, independence and flexibility in responding to client needs. For nearly 25 years, we have been helping clients in more than 100 countries to maximise their opportunities.

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