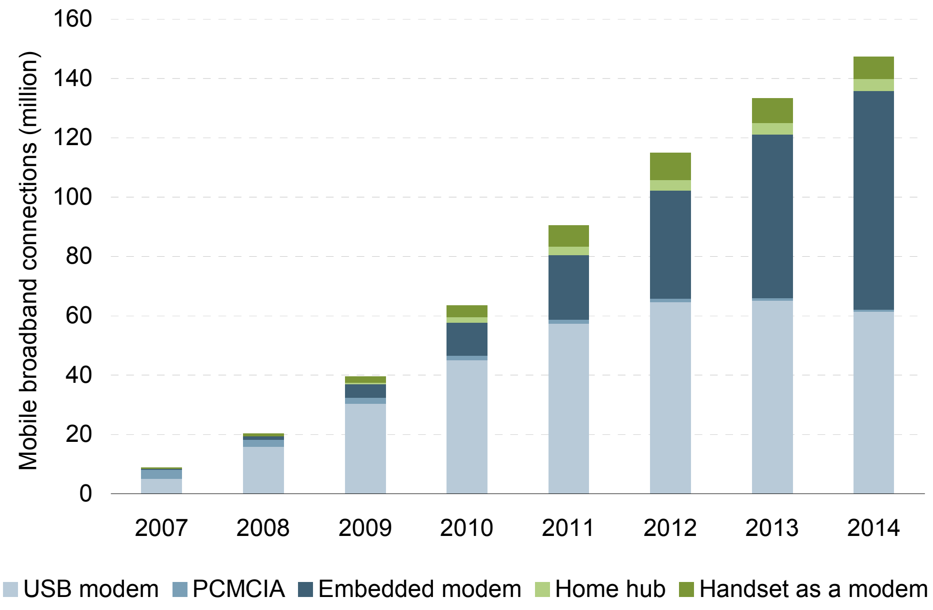
decline of the USB modem, which will peak in terms of market share in 2010 and in terms of actual users in 2012, gradually giving way to embedded modems.

By 2014, the total number of devices in the market will have increased to 147 million, of which almost exactly 50% will be embedded modems and 42% will be USB modems. Use of the handset as a modem and of home hubs will account for 5% and 3% of the subscriber base, respectively. Less than 1% of the installed base will be PCMCIA cards.

Figure 3.1: *Mobile broadband connections in Europe by device type, 2007–2014 [Source: Analysys Mason, 2009]*



As Figure 3.2 demonstrates, there is relatively little difference in the evolution of the mobile broadband device markets in Central and Eastern Europe (CEE) and Western Europe (WE). In both, there will be a relatively rapid upswing in the proportion of USB modems and then a gradual replacement with embedded modules. In both markets, most users' first experience of mobile broadband will be via USB modems. The major difference is that subscribers in CEE will be slower to migrate from USB to embedded modems because replacement cycles for laptops are expected to be longer in CEE and we anticipate that customers in the region will also display greater price sensitivity towards renewing equipment.

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4 Market strategies and tactics

The market for mobile broadband devices will change significantly over the next five years, particularly as notebooks with embedded modems supplant USB modems as the dominant form factor. In this chapter we examine the implications of these changes for MNOs and recommend how they should respond.

Changes in the mobile broadband device market will affect all aspects of MNOs' marketing strategies, including all of the 'Four Ps'.

- **Product.** The products that contain embedded modems fall into a different category from USB modems. MNOs will need to adapt to reflect the fact that they will be selling connectivity, rather than the products themselves, although they will sell some notebooks.

- **Place.** Channel strategy is critical in mobile broadband. Today, the market for USB modems is controlled by MNOs through their own channels, but IT channels dominate sales of terminals, in the form of notebooks and subnotebooks. This situation is unlikely to change, so MNOs must adapt to the fact that connectivity devices will increasingly be distributed through channels other than their own.

- **Price.** Pricing of mobile data will need to be adjusted to reflect changing usage patterns as embedded devices start to become more common than peripheral devices. Users of the latter are able to swap their connectivity between different terminals, but users of embedded modems cannot. Operators will need to develop data packages that reflect this, not least because MNOs' sales will split into sales of connections with no associated device, which involve no up-front cost, and sales of connections with a notebook that involve high up-front costs and often a large device subsidy.

- **Promotion.** Today, MNOs' promotion of mobile broadband is heavily focused on the device itself, in the form of the USB modem. In future it will need to focus on selling the benefits of connectivity.

This section examines the moves that MNOs must make to take advantage of the changing dynamics in the way they sell their products.