

Market overview

The telecommunications industry today

The fixed and mobile telecommunications industry is a large and important sector, generating around US\$1.5 trillion of revenue. Today there are seven billion mobile users and over 650 million fixed customers.

The global mobile market

Scale and structure

The mobile industry alone has seven billion users, generating over US\$960 billion of annual service revenue every year. The majority of revenue comes from traditional calls and texts (for example, last year 7,800 billion texts were sent around the world last year). However, over the last few years the demand for data services, such as internet browsing on a smartphone, has accelerated, and today around 28% of mobile revenue is from data, up from 13% in 2009.

Around 74% of mobile users are in emerging markets, such as India and Africa, reflecting the typical combination of large populations and the lack of fixed line infrastructure. The remaining users are from wealthier mature markets, such as Europe. However, the proportion of the population with a phone – or mobile penetration – tends to be higher in mature markets (usually over 100%) and lower in emerging markets, particularly in rural areas, due mainly to lower incomes and less network coverage.

Growth

The demand for mobile services continues to grow strongly. In the last three years the number of users increased by an average of 9% each year. In 2009 global mobile penetration was only 69%, and by 2013 it had risen to 98%. Most of the increase in users has been from emerging markets due to favourable growth drivers – young and expanding populations, faster economic growth, low but rising mobile penetration, and less fixed line infrastructure. The other key area of growth is data, which is being driven by increasing smartphone and tablet penetration, better mobile networks, and an increased choice of internet content and applications ('apps').

Competition

The mobile industry is highly competitive, with many alternative providers, giving customers a wide choice of supplier. In each country there are typically at least three to four mobile network operators ('MNOs'), such as Vodafone. In addition, there can be numerous mobile virtual network operators ('MVNOs') – suppliers that rent capacity from mobile operators to sell on to their customers. There can also be competition from internet-based companies and software providers that offer alternative communication services such as voice over internet protocol ('VoIP') or instant messaging services.

Regulation

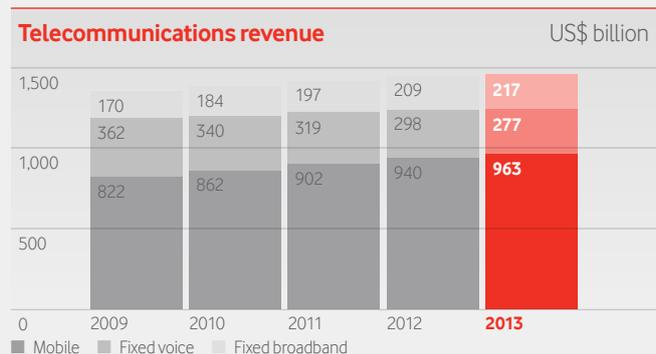
The mobile industry is very heavily regulated by national and supranational authorities. Regulators continue to lower mobile termination rates ('MTRs') which are the fees mobile companies charge for calls received from other companies' networks, and to limit the amount that operators can charge for mobile roaming services. These two areas represent around 12% of service revenue for Vodafone.

Revenue trends

In an environment of intense competition and significant regulatory pressures, the price of mobile services has tended to reduce over time. However, with both more mobile phone users, mainly in emerging markets, and more data usage, global mobile revenue remains on a positive trend and expanded by 2% in 2013.

The global fixed market

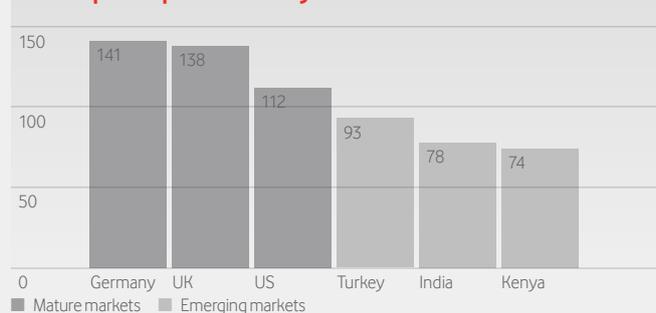
The fixed communications market is valued at around US\$500 billion. Over the last three years, revenue from voice services has declined as the demand for traditional fixed line calls has remained static at around one billion users. In contrast, revenue from fixed broadband or internet usage on the PC is growing with an estimated 650 million customers worldwide – an increase of nearly 30% over the last three years. This growth has been spread across all forms of broadband – DSL (copper), cable and fibre, and within this, there is a growing preference for the high speed capability provided by cable and fibre.



Mobile users by market 2013: 7.0 billion (2012: 6.4 billion)



Mobile phone penetration by market



Supporting access to mobile

Overcoming barriers to mobile ownership for women in emerging markets

Our Connected Women report looked at the gender gap in mobile phone ownership in emerging economies and the social and economic impact of extending women's access to mobile phones.

Vodafone Turkey launched the Vodafone Women First programme in 2013, which combines promotional offers with services that help women to increase their income, use mobile technology and acquire new skills. Launched in 2013, it attracted 75,000 women customers in its first nine months, of which 15% were new customers for Vodafone.



Want to find out more?

See sustainable business

➔ 34

See the full Connected Women report

➔ vodafone.com/connectedwomen

Market overview (continued)

Where the industry is heading

The pace of change in the industry over the last few years has been significant and is expected to continue – with new revenue streams, new users, new services, major improvements to networks, and the convergence of fixed and mobile services.

Growing importance of data and other new revenue areas

Mobile voice and texts, our traditional revenue sources, have reached maturity in a number of markets. To deliver future growth opportunities, we are investing in newer revenue areas such as data. It is estimated that between 2013 and 2017 data revenue for the telecommunications sector is set to grow by US\$128 billion, compared to a US\$38 billion decline in voice revenue over the same period. The demand for data will continue to be driven by rising smartphone and tablet penetration and usage, and improvements in mobile network capability. As the demand for data grows, mobile networks have to be reconfigured to data, while still meeting the need for traditional texts and calls. Already 91% of the world's total traffic on mobile networks is data. The data services most used are video streaming and internet browsing which require high speed networks. Therefore, we are investing in ultrafast 4G with average download speeds of over 75Mbps today, and the expectation of faster speeds, of up to 300Mbps, by the end of calendar 2014.

New applications for mobile services are being developed by the industry to extend the use of mobile beyond everyday communication and deliver new revenue streams, such as mobile payments via a handset or machine-to-machine services, including the location monitoring of vehicles, through a SIM card embedded in the vehicle.

Convergence of fixed and mobile into unified communications

We expect a continued trend towards unified communications such as bundled mobile, fixed and TV services. These provide a range of benefits for the user, including simplicity, flexibility and cost savings. The demand for these services is already established among enterprise customers and it is now becoming more visible in the consumer market, particularly in southern European markets, such as Spain. We believe that this demand, combined with technological advances delivering easier connection of multiple data devices, will support strong data growth in future, and that this will need to be managed by access to next-generation fixed networks, principally cable or fibre, to support increased speed and capacity demands.

Strong demand from emerging markets

Emerging markets have the most potential for future mobile customer and revenue growth driven by rising populations, strong economic growth, lower mobile penetration and a lack of alternative fixed line infrastructure. According to industry analysts, by 2017 there will be 1.7 billion new mobile users across the globe, and most will be from emerging markets. As a result by 2017, 77% of the world's mobile users will be from these markets.

Increasing range of competitors

The high level of competition among established MNOs is expected to continue. However, there is also a wider pool of new competitors. Alternative communication technologies, such as instant messaging services which use data, rather than traditional voice and text, are increasingly used by mobile consumers. In response, operators have begun to replace per unit charges for voice and text services with unlimited bundles, and combine this with a fixed fee for data usage. Meanwhile MVNOs which offer low prices, but have little capital invested, have in recent periods taken share from established capital intensive operators. However, the move to 4G and unified communications presents an opportunity for the major operators to differentiate the quality of their networks and services.

Note: The industry data on this page is sourced from Strategy Analytics, Analysys Mason and Ovum.

Regulation will continue to have a significant impact

The industry is expected to see continued downward revenue pressure from regulation. For example the Europe Commission is seeking the removal of all roaming surcharges after 2016 (for Vodafone roaming accounts for around 6% of European service revenue). In contrast, Commission proposals to harmonise the speed at which Member States roll out spectrum and the duration of contracts, should encourage investment. In our largest emerging market, India, the regulatory framework is becoming clearer.

Improving economic environment in Europe

The economic recession in Europe over the last two years has been a key driver of the declining revenue trends in Europe for many operators. However, we have started to see early signs of economic recovery in Europe, with a return to GDP growth in 2013 in Northern Europe and an expected recovery in 2014 in Southern Europe.

