Concise Insight Report on Vodafone: Global Cellular Architect or Market Opportunist?

05-Jan-04: Through equity investment and strategic partnerships, the Vodafone Group has a footprint in 36 countries. 26 of those are equity-held investments. As a result of that market presence, Vodafone is a significant cellular player. At the end of 3Q-03, on a full venture basis, 23.8% of the world's subscribers, or 315 million, belong to Vodafone equity-held networks. "*In 2003, 116 million handsets out of the total 465 million sold in 2003 were sold to Vodafone equity-held network subscribers. If you were to add up all the service revenue from Vodafone equity-held networks, on a full venture basis, they stood at US$ 103 billion in 2003, which is 31% of total service revenues from those markets*", said Jake Saunders, Director of Concise Insight.

2004 will see Vodafone join Hutchison3G in offering 3G services. While Hutchison3G had to start building up market awareness and momentum, Vodafone has had the luxury of holding back commercial launch until better conditions materialise. There is a quiet confidence that a number of Vodafone cellular networks will commence service by 2Q-04. However, 3G handset performance (especially battery life) and subscriber uptake is likely to fail to meet expectation through 2004, and into early 2005, for all 3G operators.

Nevertheless the value proposition for 3G is slowly but surely coalescing. From Concise Insight's own analyses of each market in which Vodafone operates, mobile data, mostly in the form of text messaging and premium text information services has grown substantially. In the UK, for example, mobile data grew from 6.6% of service revenues in 1Q-00 to 15% in 3Q-03. This follows a similar pattern in Germany and Japan where mobile data usage is even higher. The notable exception, considering its market conditions, is the US. Verizon Wireless reported just 1.8% mobile data revenue in Sep-03.

By 2006, 3G adoption and usage *needs* to be well underway. Aggregate cellular subscriptions will flat-line by 2006 in most developed markets. The 1Q-01 to 3Q-03 collapse in investment confidence in the wireless sector has been driven by hype over untried technologies but also from diminishing net additions as had been the norm. 3G needs to deliver the requisite bandwidth and functionality to drive down underlying input costs so that 3G tariffs and features can be offered to a mass market. This need for innovation will be particularly necessary in the handset market-place.

Voice usage is growing by leaps and bounds. Indeed 3G voice communications could very well become the 'it' application as "home-zone" and "business-zone" tariffs becoming increasingly prevalent as well as *push-to-talk* and IP-based *group-talk* applications pick up popularity. The growth in voice usage has forced many operators, including Vodafone, to re-state their predictions for the percentage that mobile data represents of service revenues. Mobile data revenue growth has not so much as slowed down as the contribution made by voice to service revenue has expanded.

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