

## The UK Mobile Market Experience May Have Important Implications for US Wireless Carriers

2001 will be remembered as the year when new mobile subscription in the UK hit a wall, hard. After years of dizzying growth, penetration has apparently reached saturation with little room for growth from new subscribers and with an intense effort by carriers to search for new services and cost containment.

Growth in mobile subscription hit 83% for the 12 months ending March 2000. One in five of the 60 million Brits became a mobile customer in that period. Growth dropped to 60% in the following 12 months when, because of the larger base slightly more than 1 in 4 additional Brits became mobile customers. The 12 months ending March 2002 will likely record much slower growth of around 7%, representing only 1 in 20 additional Brits signing up for mobile service.

*Growth in UK Mobile Market (12 Months Ending)*

	March 1999	March 2000	March 2001	March 2002F
<b>Subscribers (000)</b>	14,878	27,185	43,452	46,500
<b>Net Additions (000)</b>	5,854	12,307	16,267	3,048
<b>Growth</b>	65%	83%	60%	7%
<b>Penetration</b>	24.8%	45.3%	72.4%	77.5%

March 2002F date is adjusted for inactive subscribers  
Source: Oftel, Marconi Pacific analysis

One might ask, given these numbers, who else could possibly need a mobile phone in the UK? Marconi Pacific estimates put year-end 2001 UK mobile penetration at 75%. In 2000, the top three countries leading in mobile penetration were Taiwan, Hong Kong and Austria, with penetration rates of 80.3%, 79.3% and 78.6%, respectively. These numbers reflect the then current upper boundaries for mobile penetration and reveal that the UK probably has barely any more room for growth. In fact, if this is the case, mobile operators can only hope to add around 1.5 million more subscribers before the market hits 80%. Growth in the UK averaged 1.3 million new subscribers in last two quarters of 2001. There may not be much room for growth in coming months.

For now, UK mobile operators and their investors have accepted the fact that the market is highly penetrated. Operators have shifted strategies accordingly, focusing on attracting higher ARPU customers and reducing costs. Additionally, in the long-term view, they are pinning their hopes on 3G network functionality to revive revenue growth.

### Implications for US Mobile Carriers

The UK is different from the US; business is conducted differently and people have different lifestyles. Nevertheless several directional implications can be gleaned from the UK experience.

First and foremost is that great services and products at fair prices bring on customers in droves. Growth is so meteoric as to rapidly stretch management's operational and strategic capability. Second, when most everybody has a Hula Hoop, sales fall like a stone. Not all managers see this coming. Many US mobile carriers have over-invested in customer acquisition, under-invested in customer care, built high-cost distribution channels, cut prices too rapidly and failed to invest in new service elements that can generate future revenue. US mobile managers have some time but must move quickly to mend any errant ways and build on the experiences in countries like the UK. Third, a customer need eventually can be filled in more than one way. Paging grew rapidly in the ten years culminating in 1996 because mobile Americans wanted to be connected, but cellular prices were too high. When cellular became affordable, customers switched very fast and paging went into a steep, unrecoverable decline. Soon the challenge for US carriers will be to find new functionality, new services that fulfill customer's needs at affordable prices. To do this before the US mobile market has been saturated, so that revenue growth can continue, will be a test of Yankee business acumen.