

Is 2006 (finally) the year of 3G?

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Massive increases in subscriptions and the introduction of new access technologies may mean that 2006 might finally be the year that third-generation, or 3G, wireless devices take off. This will no doubt be welcome news to the mobile phone industry leaders attending the 3GSM World Conference this week in Barcelona.

With an estimated 75 million 3G users globally at the end of 2005 and 10 million new subscriptions per quarter, the long-awaited boom in 3G

subscriptions happened at the end of last year, with notable successes forthcoming from Vodafone and Verizon Wireless. While 3G services are being rolled out in developing nations, the bulk of subscriptions are still coming from the Asian markets. Japanese and Korean markets dominated, accounting for two-thirds of total subscriptions, and Research and Markets predicted that the number of Chinese subscribers would rise to 22.7 million by the end of 2006.

Yet although the picture appears rosy for the mobile phone operating companies, industry observers are still cautioning the companies not to become too complacent in the face of this apparent success that has been no small time in coming. For one, there is still a long way to go before operators achieve their goal of transferring from the current 2G and 2.5G mobile technologies to the third generation. Despite last year's boom, 3G subscribers still only represent 2 percent of all mobile phone users. 2G still continues to represent the bulk of the mobile sector's growth, revenue and margins.

In addition, the increases seen may not continue at that rate in the long-term: the brief spurt in subscriptions seen in Europe in early 2005, which for a time meant that the market was outpacing Japan's, have now subsided and European subscription rates have slowed again. The U.S. market also continues to lag with 580,000 3G subscribers, accounting for only 0.3 percent of the total market.

There are still many factors which potential 3G customers are finding off-putting. Costs of handsets are still prohibitive to many, with the average handset price coming in at over \$200.

In addition, the main draw to customers which 3G services have over their less expensive 2G and 2.5G counterparts is increased access to data, through the service's increased bandwidth. The data which customers want to see includes movie clips, news items, videos and

music, yet there are fears that customers will simply use the mobile networks to get access to this data through the internet, decimating the revenue of the operators. This leads to another potential problem -- even if the growth in subscriptions does continue at the current rate, a high increase in customers over a short space of time could lead to an large increase in demands for movies, music and news which the operators are not yet equipped to deal with.

The mobile operators are hoping that a new round of access technologies will act as sweeteners for customers who have yet to make the jump to 3G. GSM recently launched the first commercial service, HSDPA (high speed downlink package access) allowing customers to make use of broadband speeds on the move with high-speed connections. A range of handset options and multimedia content packages are also being rolled out to entice customers over.

Yet even if the current rise in 3G subscriptions continues unabated it will be some while before the mobile operators see returns on the massive initial investment that they've made into the technology since 2003. While 3G subscriptions will add tens of millions of dollars to mobile operator's revenues in 2006, consultants at Deloitte have cautioned that this will still not be enough to pay back the tens of billions of dollars already invested. Those attending 3GSM in Barcelona this week should not become too complacent yet.

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