Trends in U.S. Consumer Telecommunications and Online Market, 2001-2006 (Executive Summary)

Executive Summary
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Overview

Gartner Dataquest's U.S. Consumer Telecommunications and Online Market Trends is based on supply-and-demand analysis using extensive primary and secondary research, including extensive consumer panel interviews as well as consultation with industry experts inside and outside of Gartner Dataquest to develop overall and specific consumer telecom and online services market assumptions and trends.

Some of the key questions that are addressed are:

- How fast will consumer adoption of Internet access from home continue to grow?
- Will the PC as consumer Internet access device choice be significantly challenged?
- To what extent will broadband access from home be achieved through 2006?
- Will cable or telephone be the major consumer broadband platform in 2006?
- Will all consumers be wireless for their voice communications? What about wireless Internet access?
- To what extent will wireline substitution affect the future of voice telephony access lines?

Overarching Industry Trends

While adoption of PCs among U.S. households will continue to expand at a dampened 3.4 percent CAGR, the percentage of households online from home overall will reach nearly 75 percent by 2006, and the proportion of those households online via a broadband connection will continue to grow rapidly at a 29 percent CAGR through 2006. Figure 1 shows the growth in adoption of PCs, Internet access and broadband Internet access trends among the U.S. households through 2006.

Economy

Despite the economic slowdown and post Sept. 11 environment, consumer spending has remained strong with limited effect on demand for telephony services. This portends well for the general rebound of the economy early 2004.


Economists believe that by 2003, economic recovery will start and will be under way in 2004. However, the longer financial markets remain gripped by investor anxiety and disenchantment, the harder it will be for the economy to muster and sustain the real improvements that constitute a recovery. U.S. economists predict GDP will grow at 2.4 percent in 2002 and 3.0 percent in 2003.
Technology Changes

- Use of devices other than the PC will start to infiltrate the online household segment as a secondary access device, but Gartner Dataquest maintains that the PC will continue be the primary household mode of access to the Internet over the forecast period.

- Internet Access via TV will proliferate and be in 28 percent of all U.S. households by 2006, but only 9 percent will use it as primary Internet device.

- Wireless Internet will continue as a supplemental mode of access to the Internet with wireless Internet use reaching 20 percent of all individuals with wireless phones by the end of the forecast period.

Industry

- There will be increased bundling of various telecom services at discounted rates (local, long-distance, wireless, dial-up and broadband Internet access as well as enhanced services such as call waiting and caller ID) and will likely be the primary consumer market tool by telecom companies.

- Wireline usage substitution trends will continue, as mobile minutes are perceived as "free." Recent counter offers for wireline bulk minutes have the potential to thwart this trend and move consumers to a world of "it’s all about access," regardless if it is wired or wireless.

- Consumer second lines will continue to decline as households adopt broadband access and no longer require the second line for data purposes and as households utilize their wireless phones for overflow voice communications needs.

- Use of e-mail and instant messaging will continue to grow beyond the teenager segment.

- As employees find the "real time" advantages of instant messaging, more corporations are investigating technology to overcome security issues associated with instant messaging.

Source: Gartner Dataquest (December 2002)
**Regulation**

No major change in telecom policy is expected in 2003 despite Republican control of the presidency and legislative bodies. The U.S. Federal Communications Commission (FCC) will attempt to relax some of its unbundled network element policies related to broadband Internet access services, but any bold measures will be blocked in court by either opponents or state regulators, or both. What is needed is a defined time-specific national broadband vision by the President to initiate a new forward-looking broadband regulatory policy.

**Key Findings**

Growth in the U.S. home telecommunications and online marketplace through 2006 will be fueled and mitigated by many demographic factors including:

- Natural increase in size of the population and households
- Continued overall improvement in the underlying socioeconomic factors influencing the needs profile and purchasing power of consumers, including teenagers and pre-adolescents
- Attractiveness of work-at-home/telecommuting
- An increasing PC and Internet-savvy population
- Greater adoption and penetration of mobility solutions at all age levels but more so by younger customers to the detriment of wired telephony

**Americans Considering the Internet a Necessity**

- According to our June 2002 Gartner Dataquest consumer survey, 60 percent of American households were actively accessing the Internet. In addition, an overwhelming and ever increasing 96 percent of these online households indicated that they were likely to continue their Internet subscription. Gartner Dataquest believes that this Internet expansion will continue.
- Nearly three-quarters of U.S. households will be online to the Internet from home by 2006, an 8 percent CAGR over the forecast period.
- Broadband deployment will be virtually ubiquitous by the end of the forecast period as DSL, cable modem or other alternative modes of access become accessible to most households.
- By 2006, half of all online households (37 percent of all U.S. households) will be connected to the Internet via broadband.
- The market for broadband will continue to grow. By 2006, 50 percent of online households will still be using dial-up and 26 percent of all households will remain offline all together.
- Cable modem will maintain its first-to-market edge over DSL throughout 2006, exhibiting a 56 percent market share vs. DSL with 33 percent, and capturing almost twice the number of DSL households.

**The Impact of Substitution on Home Wireline Telephony**

- As the number of households subscribing to broadband/high-speed increases, the requirement for additional data lines decreases.
- Motivated by multiminute and family plans, mobile subscribers are projected to represent almost four out of five U.S. adults by 2006.
- Using their cellular phones to solve communications contention among household members, there is no longer a need for additional lines.
Household expenditures for wireline (local and long-distance) and mobile (voice) services will increase somewhat over the forecast period with each remaining approximately $45 to $50 per month.

Increases in local service and packaged offerings will be offset by continued decreases in long-distance per-minute charges because of market competition and migration to more cost-effective IP telephony.

**Bundle Up and Save**

U.S. consumers are currently being offered a bundled package of services at discounted prices. These packages include combinations of local, long-distance, wireless and Internet access (both broadband and dial-up) as well as enhanced services such as call waiting, caller ID and voice messaging. In addition to the benefit of a value proposition to the consumer, they also offer "soft" benefits such as one bill for all telecom needs, one customer service representative to interact with and the opportunity to view and make payments online.

**The Untapped Market Opportunity for Online**

Vendors should exploit the untapped market potential. A comparison between the current untapped market and the smaller, but ever present untapped market of 2006 is shown in Table 1.

<table>
<thead>
<tr>
<th>Table 1</th>
<th>Forecast for Untapped Markets, 2001-2006 (Millions of Households)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2001</td>
</tr>
<tr>
<td>Households without PCs</td>
<td>44</td>
</tr>
<tr>
<td>Households Offline</td>
<td>49</td>
</tr>
<tr>
<td>Online Households Without Broadband</td>
<td>46</td>
</tr>
<tr>
<td>Households Without Broadband</td>
<td>95</td>
</tr>
</tbody>
</table>

Although the untapped market will decrease by 2006, there are still opportunities for vendors and carriers to pursue, including the following:

- By 2006 there will be more than 38 million households without a PC available for home online/Internet access. Service providers should concentrate additional efforts to motivate these households to purchase a PC or other mode of household entry into the Internet age.

- Households with home PCs that are not online to the Internet, numbering 9 million in 2001, should be targeted by service providers with specialized plans and marketing incentives that offer compelling value propositions.

- Mass market subscription to broadband access will not take place until households perceive that access is simplified, and compelling content is worth the price of "always-on" broadband service. Service providers should invest in the development of the "multimedia killer app" that will move a household from dial-up to broadband service. For DSL this may require the provisioning of quality entertainment and video content.