

## The World Atlas of the Internet

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In order to mark the publication of the "The World Atlas of the Internet", (Americas and Asia-Pacific regions), IDATE focuses on the market's major trends and developments in its players' positioning.

### A growing number of Internet users...

Despite the dotcom bubble bursting and the ensuing financial difficulties encountered by several players, the overall number of Internet users continues to grow. As a result, **growth in the number of Internet users reached a total of 24.4% between 2001 and 2002**. It should be around 61% between 2002 and 2006. Regular growth in terms of access is accompanied by increasingly commonplace use of the Internet. Consequently, after a slowdown in the first quarter of 2002, electronic commerce is seeing steady growth with a rising number of transactions for increasing amounts.

The North/South digital divide continues to exist in terms of penetration rates. Over the next few years the growth phenomenon in the number of Internet users should nevertheless have a strong impact on those regions which presently lack dynamism, but which have the greatest growth potential.

North America and western Europe/Scandinavia are increasingly close to saturation point and the sector's dynamics in these markets are based on the deployment of new broadband access technologies and the new content that will be associated with these technologies. The countries of the Asia-Pacific region are those which offer the greatest growth potential, due to the proportion of the world's population living in this region, rising standards of living and literacy, as well as an obvious penchant for ICTs. Latin America also has interesting potential, but growth in terms of the number of Internet subscribers should suffer the consequences of the crisis that is affecting several countries in the area. The Internet growth outlook is also bright in Eastern Europe, especially in countries that are due to become members of the European Union in the near future. Africa and the Middle East should hardly have more than 3% of the world total of Internet users by 2006, in spite of the high growth rates predicted ahead of that date.

### Forecast changes in Internet penetration rates

	Number of Internet users (12/2001)	Penetration rates (12/2001)	Number of Internet users (12/2002)	Penetration rates (12/2002)	% 2002/2001	Number of Internet users (12/2006)	Penetration rates (12/2006)
Western Europe <sup>(1)</sup>	120 M	31.2%	146 M	37.9%	+ 21,7%	198 M	51.4%
North America	187 M	62.3%	200 M	66.7%	+ 6,7%	243 M	81%
Latin America	16 M	3.1%	28 M	5.4%	+ 75%	47 M	9.1%
Asia/Pacific	123 M	3.5%	180 M	6.4%	+ 46,3%	375 M	13.3%
Eastern Europe <sup>(2)</sup>	20.3 M	5.7%	25 M	7%	+ 23,1%	54.5 M	15.4%
Africa/Middle East <sup>(3)</sup>	8 M	0.8%	11 M	1.1%	+ 37,5%	31.2 M	3.1%
Total	474.3 M	7.9%	590 M	9.8%	+ 24,4%	948.7M	15.8%

(1) Includes Scandinavia (2) Includes Russia (3) Includes Turkey and South Africa

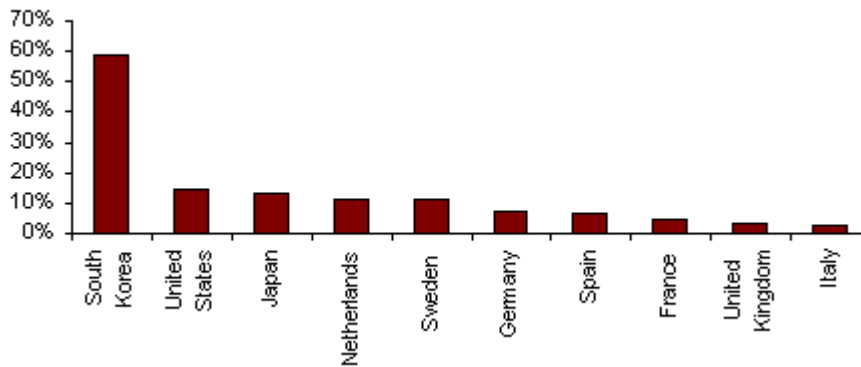
Source: IDATE

## Broadband: prices fall and growth sets in

Broadband has seen striking growth in all world markets in recent months. However it is in Asia, South Korea and Japan that growth has been the most remarkable. The Korean authorities quickly defined ICT as a key sector in the re-launch of the economy, especially as a means of fighting the financial crisis at the end of the 1990s. The authorities equipped all schools, while the increasing number of public access points (cyber cafés), a very dense population, the craze for video games and very reasonable prices swept the country up to the top of the world leader board in the broadband market. Consequently between December 2000 and September 2002 the number of Internet subscribers via ADSL increased from 2.35 million to over 5 million, representing an increase of around 113% in less than 2 years. By mid 2002 15% of the Korean population and 50% of households had broadband Internet connections. Korea's performance in the broadband Internet market now serves as a role model for other countries. At the same time broadband in Japan saw very rapid growth after a slow start due to fierce competition in the market.

In Western Europe broadband has grown very significantly in recent months : the number of subscribers grew by around 76% in one year to total 12.5 million in December 2002. However, the gap between Europe and the United States remained the same (with Europe lagging around 4.3 million subscribers behind). DSL largely dominates the European broadband market. The investments made by telephone operators provide 70% of Europe's population with broadband access. However, less than 5% of the population effectively has a broadband connections. Unbundling, which has occasionally been cited as one of the very first drivers of DSL growth, is taking some time to take place with just 10% of connections via DSL in autumn 2002. The wholesale offer of incumbent operators nevertheless seems to constitute an important foundation for competition in the DSL market. On the other hand, in several countries such as Belgium, the United Kingdom, the Netherlands, cable (in spite of the serious financial difficulties suffered by many of its players), represents a very efficient competitor. This is the situation in the United States where this technology very largely dominates in the broadband residential market.

## Broadband penetration rates in households at the end of 2002



Source: IDATE

The price war waged by operators and ISPs has had a tremendous impact on growth in the number of ADSL subscriptions in Europe, especially in the British and French markets. This trend can be seen in most countries, including the United States. This strategy of lowering prices accompanied by a greater segmentation of access offers shows the willingness of operators and ISPs to build large, permanently connected ("always on") subscriber bases. Once this phase has been completed, broadband players should try to encourage customer loyalty by proposing access offers tailored to suit their needs, accompanied by value-added services, especially in terms of content.

Among the major players, only 4 out of the top 20 are European players. In November 2002 the merger announced a year previously between Comcast and AT&T Broadband took effect. This merger made the new group, called Comcast Corporation, into the new broadband giant and the second biggest player in the world behind Korea telecom, with a total of 3.3 million subscribers in autumn 2002 (3.1 million in June 2002 being the total of Comcast and AT&T Broadband subscribers).

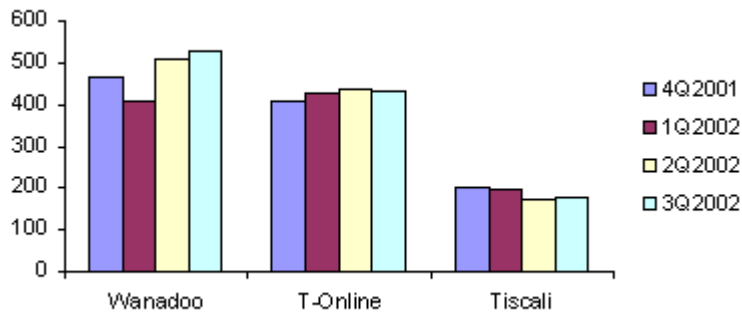
## ISPs close to breaking even?

The lacklustre financial markets and the investment crisis in ICT over the past two years have had important effects on the stock market value of several ISPs. Consequently in Europe, after the euphoria surrounding their flotation, Wanadoo, T-Online, and Tiscali have respectively lost 81%, 75% and 90% of their stock market value in less than two years.

However, in recent months the main dial-up access players have been posting encouraging operating results. Tiscali was the first European ISP to announce a positive net profit in the first quarter of 2002 (EUR 1 million), but was subsequently unable to repeat this performance. T-Online made a similar announcement for the third quarter of 2002 (EUR 1.5 million in profits on a turnover of EUR 372.1 million), surprising most financial analysts. As for Wanadoo, the outlook for the last quarter of 2002 and even for the first quarter of 2003 seems positive. In July 2000 (at Wanadoo's flotation) the ISP's objective was to achieve positive gross operating results in 2003. This objective has already been achieved since Wanadoo posted profits for the first time in the first quarter of 2002

(EBITDA of EUR 28.5 million). Consequently, Wanadoo now aims to generate a first net profit for the first quarter of the 2003 financial year at the latest.

**Change in the turnovers of Wanadoo, T-Online and Tiscali  
(in millions EUR)**



Source: Companies(1)

(1) Nevertheless the perimeters of the activities of these companies is different and goes beyond ISP activities. As a result; Wanadoo's directory business represented 44% of the company's turnover in the first 9 months of the financial year 2002.

The three main ISPs in the European market are showing the first signs of financial stability, which should be consolidated during the forthcoming financial year. The question is which of the three will be the first to achieve this objective.

This is good news for the parent companies T-Online and Wanadoo because although they may have provided financial support in the first months of business, it is the subsidiaries that offer growth potential for these operators. In order to achieve these financial objectives these ISPs will nevertheless have to re-establish their position on an international level. In fact, if they manage to break even that mainly applies to the domestic market. However, it remains difficult to achieve economic stability in all of the countries where they are present, such as in the United Kingdom for Wanadoo and its subsidiary Freeserve and France for T-Online. Wanadoo and Tiscali seem to be closely tied to the advent of ADSL in these countries.

In the United States the world leader in the Internet access market, AOL, has also announced strong performance for the third quarter of 2002, mainly related to an increase in subscriptions in the United States and in Europe (129,000 and 148,000 new subscribers in the quarter respectively). That partly makes up for the drop in advertising and online commerce revenues as well as the slowdown in its Internet content-related activities. AOL will now also have to face stiffer competition with broadband, both in Europe and in the United States. In fact, as the leading ISP in terms of dial-up subscribers, AOL only ranks second in the U.S. access via cable modem market following the merger of AT&T Broadband/Comcast.

The next few months will consequently be especially important for these leading ISPs who will have to adopt very well-defined strategies to remain at the top with balanced operating results.

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**The World Atlas of the Internet**

**The internet access market in 2002 and forecasts up to 2006:**

- Africa/middle East, Eastern Europe, Western Europe, (publication in June 2002)

- Asia/Pacific, North America, Latin America, (publication in November 2002)

**Access providers' strategies:**

- Leading players in each country: positioning and service offering
- What national and international development strategies are being deployed?

**Market issues:**

- What initiatives and projects are underway to develop the information society on a regional basis?
- New services and broadband in the face of market maturity?
- Market consolidation: the latest trends