

A GLOBAL PERSPECTIVE OF THE EVOLUTION OF ROMANIAN TELECOMMUNICATION MARKET IN THE LAST TWO DECADES

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Abstract:

Nowadays, in the global business environment, telecommunications play a very important role and therefore a spectacular growth of mobile telephony and mobile internet took place in the last two decades worldwide. In this paper we are pointing out the major events that happened in the Romanian telecommunication market in the last 20 years and we are analyzing the evolution of the Romanian telecommunication sector in the same period of time, in comparison to what is happening in this area worldwide.

Key words: *telecommunications, mobile telephony, internet connections, mobile user, rapid growth*

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Major events on the Romanian telecommunication market

After the revolution from December 1989 a well known political analyst asserted that Romania will need about 20 years to get closer to the living standard of the developed countries. Although at that time it seemed to be an exaggeration, now it comes out that the gap is still considerable while the mentioned time interval has already passed. However, there are areas in Romania that have experienced a significant development in the last two decades and are close to that recorded in other European countries. We believe that one of these areas is the telecommunications sector.

What was the starting point in this area? In 1990 in Romania there was only one fixed line operator - Romtelecom - and telephony penetration was only 9.5 telephones per 100 inhabitants. The technology used was analog, in rural areas manual telephone exchanges were used predominantly and over 300 local communities were not connected to the telephone network¹.

A first important event on the telecom market in Romania took place in 1997 with the appearance of the first two GSM mobile operators in Romania. This can be considered as the beginning of the mobile telephony in our country, if we do not take into account the analog mobile phone system, NMT 450, which existed in Romania since 1994, but covered only the country (there were no roaming agreements) and that registered only a small number of customers.

The evolution of mobile telephony users in Romania after 1997 was spectacular. Few would have imagined that in just 8 years the mobile telephony companies will attract over 10 million customers, well beyond the number of fixed line subscribers. Today in Romania are around 24.6 million mobile users, which corresponds to a mobile phone penetration of 115%².

¹ <http://www.romtelecom.ro/companie/despre-romtelecom/evolutie/> - **Historical highlights**

² http://www.ancom.org.ro/statistici-comunicatii_2003 - **Reports on the electronic communication sector**

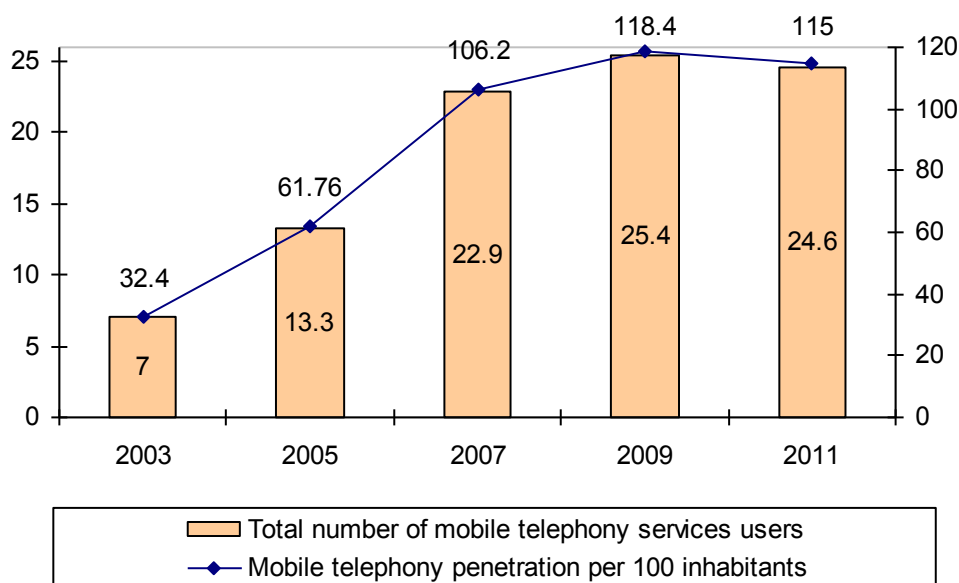


Figure 1. Evolution of the number of mobile telephony users in Romania

Source: adapted from http://www.ancom.org.ro/statistici-comunicatii_2003

Another important moment was the liberalization of telecommunications market in Romania. This took place in 2003 and represented the end of the monopoly of Romtelecom leading to more competitive telecom market by the appearance of alternative operators in the fixed telephone services market, television and internet. The occurrence of competition in this market has led to diversification, service quality improvement and tariffs reduction. The segment that has benefited the most from the market liberalization was the international calls segment. In just a few months after the liberalization, competition in this segment led to tariffs reduction to almost half.

The evolution of the number of fixed telephone users did not have the same spectacular dynamics as the mobile telephony. During 1990 - 2003, until the liberalization of the telecommunications market the number of users increased to approximately 4.3 million in 2003, which corresponds to a fixed telephony penetration of approximately 19.9 subscribers per 100 inhabitants, slightly more than twice the value registered at the end of the communist period.

After market liberalization, although the total number of users increased only by about 0.2 million, there was a migration of them from Romtelecom to other alternative operators due to their attractive offers. At the beginning of 2011 there were approximately 4.5 million subscribers (21 users per 100 inhabitants) and 1.8 million of them (40%) belonged to alternative fixed telephony operators³.

³ http://www.ancom.org.ro/statistici-comunicatii_2003 - *Reports on the electronic communication sector*

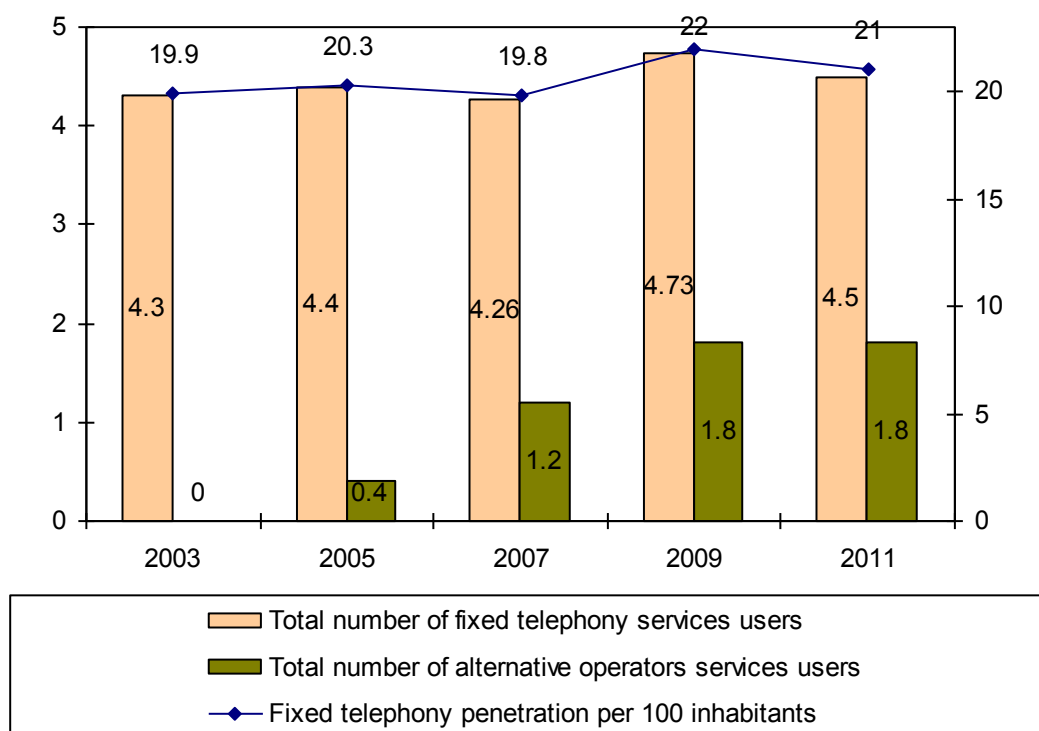


Figure 2. Evolution of the number of fixed telephony users in Romania

Source: adapted from http://www.ancom.org.ro/statistici-comunicatii_2003

Another notable event that occurred on the Romanian telecommunication market was the acquisition of Connex by Vodafone, which was the second transaction in terms of value of the Romanian economy in the last decades. This transaction took place on 1st June 2005, and then Romania became part of the largest mobile community in the world and in our country the two biggest global mobile operators in the world, Vodafone and Orange were thus in direct competition.

The entrance on the market of the third player, Cosmote, was also an important event as the Greek company adopted a very aggressive strategy, through a series of very attractive offers (by including a generous number of minutes in the subscription or extra options for prepaid, at discounted rates) thus managing to attract a large number of clients and to obtain a significant market share. Although it is still number three on the local mobile telephony market, every year it reduced the distance to the first two players, while forcing them to reduce the tariffs and this was for the benefit of customers.

In terms of Internet access services we can say that Romania is at the forefront. According to a specialized website for measurements in this field (www.akamai.com), Romania ranks 4th in the world at the average speed of Internet connections and 3rd at the top speed⁴. In the last report presented on this site, containing data from the last quarter of 2010, Romania is the first in Europe and 4th in the world at the average speed of Internet connections (it refers to fixed Internet connections) and on the 3rd place in the world for the top speed. In the ranking based on the average speed, on the first place is South Korea with an average connection of 13.7 Mbps, followed by Hong Kong and Japan with 9.4 Mbps and 8.3 Mbps respectively. Romania occupies the 4th place in this ranking with an average connection of 7.0 Mbps. Following are the Netherlands, Latvia and the Czech Republic, with 7.0 Mbps, 5.9 Mbps, and 5.7 Mbps respectively. U.S. takes the 14th place in the world with only 5.1 Mbps and the average worldwide is 1.9 Mbps. In terms of top speed, the first place is

⁴ www.akamai.com/stateoftheinternet/ - *State of the Internet Report, Q4 2010*

occupied by Hong Kong with 37.9 Mbps, South Korea ranked second with 32.3 Mbps and Romania is ahead of Japan in this ranking registering 31.7 Mbps against 30.5 Mbps. According to the same site, most Internet connections in Romania are broadband (35% are over 5 Mbps, 43% are between 2 Mbps and 5 Mbps, while only 22% are under 2 Mbps).

With regard to mobile internet an important event happened in 2005 when the first 3G network in Romania was officially launched by Connex (mobile internet speeds up to 384 kbps and video call) and then followed in 2006 and 2007 by the launch of 3G+ services (3G broadband) with data transfer speeds up to 1.4 Mbps (in 2006) and 2.8 Mbps (in 2007). Starting with April 2010, Vodafone announced the launch at national level of 3G services on the 900 MHz frequency band (a first in Europe), offering mobile Internet access for 90% of the population, at speeds up to 21.6 Mbps.

Regarding the evolution of the number of internet connections in Romania (including both fixed connections and mobile connections) they increased from 0.5 million in 2003, to 9.07 million at the beginning of 2011. This represents an increase in the penetration rate of Internet access per 100 inhabitants from 2.3% in 2003 to 42.2% in 2011⁵.

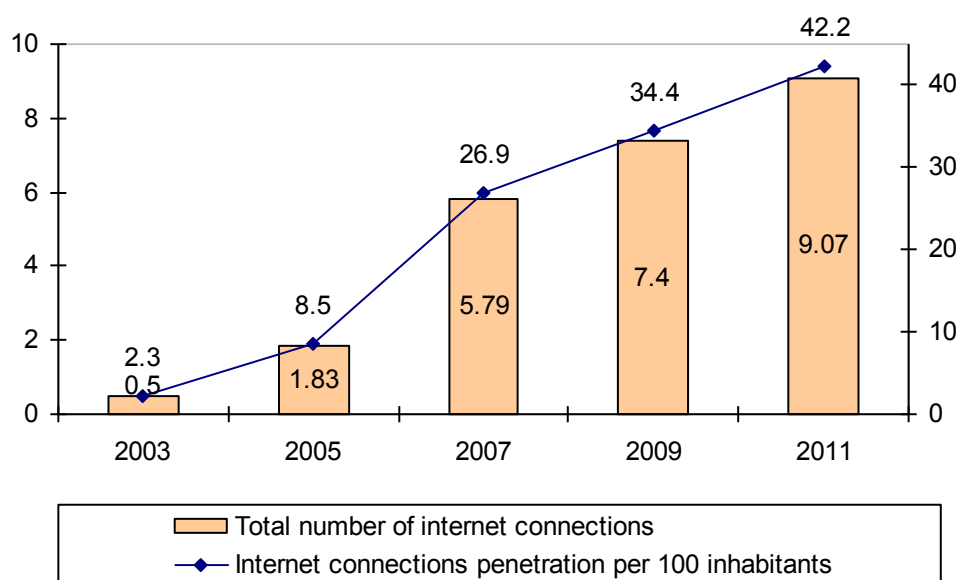


Figure 3. Evolution of the number of internet connections in Romania

Source: adapted from http://www.ancom.org.ro/statistici-comunicatii_2003

Another worth mentioning event was the mobile and fixed number portability which was launched in Romania in October 2008. This feature allows users to keep their telephone number when changing the service provider, thus contributing to increased competition in the telecommunications market, for the benefit of customers. At this moment, according to ANCOM there are over 500 thousand users who have changed the service provider but have kept their telephone number, in just two and half years since the launch of the service, most of these users (68%) being mobile telephony users⁶.

The rapid growth of mobile telephony at global level

The rapid growth of mobile telephony in our country, although surprising at the beginning, is nevertheless following the global trend. According to Wireless Intelligence quoted by BBC News, there are now over 5 billion mobile users worldwide, while the world

⁵ http://www.ancom.org.ro/statistici-comunicatii_2003 - *Reports on the electronic communication sector*

⁶ http://www.ancom.org.ro/19-mai-2011_4555 - *More than 500,000 numbers ported in mid-May 2011*

population is approaching 7 billion people.⁷ Only in the last 18 months the number of users increased by over one billion. In many regions of the world, including Europe and Romania, mobile telephony penetration exceeds 100%, meaning that in many countries there is more than one telephone per inhabitant.

At the end of 2008 there were registered four billion users and specialists consider that a mobile telephony penetration of approximately 90% worldwide will be reached by mid 2012 (6 billion mobile users).

At this moment the main source of growth in terms of number of mobile users is represented by the Asia - Pacific region (including India and China). At the middle of 2010 this region was recording 47% of the total number of users worldwide.

In the Western Europe mobile penetration reached 130%; this could be explained by the fact that there are persons who use more than one terminal (one for business and one for home) or they use besides the telephone a laptop or an IPAD connected to the Internet through a SIM card, but also by the fact that mobile operators use to include in their statistics many users that are not really active.

In the Eastern European countries the average penetration is approaching the value registered in the Western European countries, and is now about 123%, according to Wireless Intelligence. Here there is the phenomenon of using several phones, one for each operator (or a dual SIM phone) in order to benefit from the various offers of different mobile operators and to call at more favorable rates inside the same network. Also, there is the phenomenon of giving up the old landline phone in the favor of mobile phone.

In other countries or regions of the world mobile phone penetration per 100 inhabitants is as follows: USA - 96% Canada - 70.2%, China - 67.1%, India - 69.19%, Australia - 100.4%, New Zealand - 108.6%, Africa - 52%.⁸

The Internet access from the mobile phones is also growing worldwide. In the US, eMarketer predicts an increase of 25% for the mobile internet this year, as 97.3 million customers will use the internet on their mobile devices (smart phones, tablets, or laptops with USB dongles). Two in five mobile customers in the US will use mobile internet this year and this figure will grow to three in five users until 2015. Smart phone penetration is growing very fast, with 49.6% this year, and is estimated to reach 150 million US mobile users having this type of device, and this is the main reason for the growth of the mobile internet usage.⁹

Conclusions

The evolution of the Romanian telecommunication sector is in accordance with the trends in the Western European countries and in other developed countries worldwide. Fixed telephony has reached the maturity phase, the growth in this area is registered only by alternative operators, but it is stagnant overall. Mobile telephony has registered a spectacular growth, and reached 115% penetration per 100 inhabitants in just 15 years, but the growth has also slow down in the last 2 – 3 years. The only area that is still predicted with an important growth in the next years is the mobile internet (mobile data services), which has reached only 42% penetration per 100 inhabitants, so it still has potential for a future growth, considering also the increasing penetration of smart phones and tablets.

⁷ <http://www.bbc.co.uk/news/10569081> - *Over 5 billion mobile phone connections worldwide*

⁸ http://en.wikipedia.org/wiki/List_of_countries_by_number_of_mobile_phones_in_use

⁹ <http://www.emarketer.com/Articles/Print.aspx?1008553> – *Two in Five Mobile Owners Use Internet on the Go*