

# Service bundling can help operators to defend revenue and limit churn

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Operators' convergence strategies demonstrate a strong belief in the long-term benefits of service blending. Take-up of fixed–mobile converged (FMC) services is strong in parts of Western Europe (WE), especially in France, Portugal and Spain (see more in our report: [Mobile services in converged bundles: customer retention, service design and innovation](#)), but the trend is spreading to other countries and regions. We expect this to be particularly noticeable in Central and Eastern Europe (CEE) and emerging Asia–Pacific (EMAP) soon. Service bundling scenarios, determined by national or regional specifics, improve the performance of telecoms businesses because they can increase customer loyalty and ultimately give operators more freedom to raise prices. In this comment, we discuss bundling strategies that exist in the fixed market and how operators benefit from them in terms of protecting ASPU, increasing customer loyalty and reducing churn. We will also examine how bundling strategies affect the results of our [global telecoms forecasts](#).

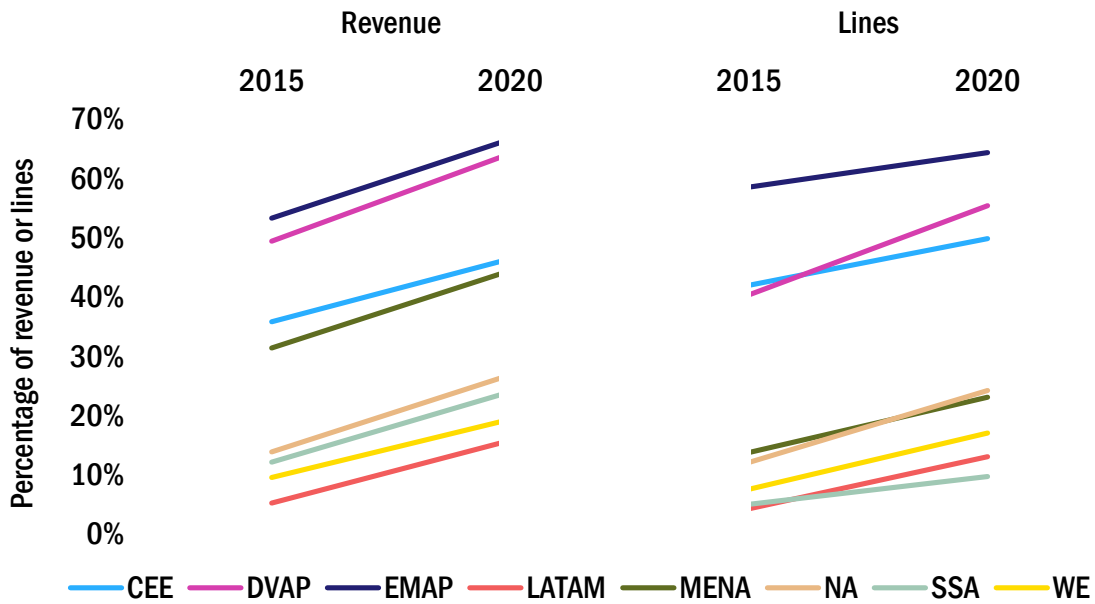
## Stable growth in the number of fixed NGA connections builds strategic opportunities for telecoms operators

According to our latest telecoms forecasts, (see more at [Global Telecoms Forecasts](#) and also available via our [DataHub](#) interface) we can expect the number of next-generation access (NGA) fixed broadband connections to increase in most regions worldwide between now and 2020. We expect the FTTH/B share of total fixed broadband connections to increase from 32.4% in 2015 to 42.5% worldwide in 2020. Fixed network operators are focusing on how to monetise their capex investments in NGA and FMC bundles, and are offering discounted mobile and value-added services in order to drive NGA take-up. Delivering value-added services over NGA networks is less expensive than over mobile networks (in terms of the cost of extra megabytes of data delivered), whereas delivering value-added services on mobile is compromised because additional capacity increases the cost.

## Service differentiation and value-added services drive consumer satisfaction and help stop ASPU decline

Operators that expand their bundled services portfolio increase their value proposition, and service diversification enables operators to compete with each other without fierce commoditised price wars. Increased value propositions and service diversification will result in overall revenue increases in the long term. Therefore, we expect that FTTH/B's share of total fixed broadband revenue will grow significantly in all regions covered by our forecast (see Figure 1), and usually the revenue increase will be faster than FTTH/B penetration growth. FTTH/B's share of total broadband revenue worldwide will increase from 25.2% in 2015 to 37.6% in 2020. This figure will exceed 60% in developed Asia–Pacific (DVAP) and EMAP in 2020, and 40% in CEE and the Middle East and North Africa (MENA).

Figure 1: FTTH/B's share of fixed broadband revenue and lines, by region, 2015–2020



Source: Analysys Mason

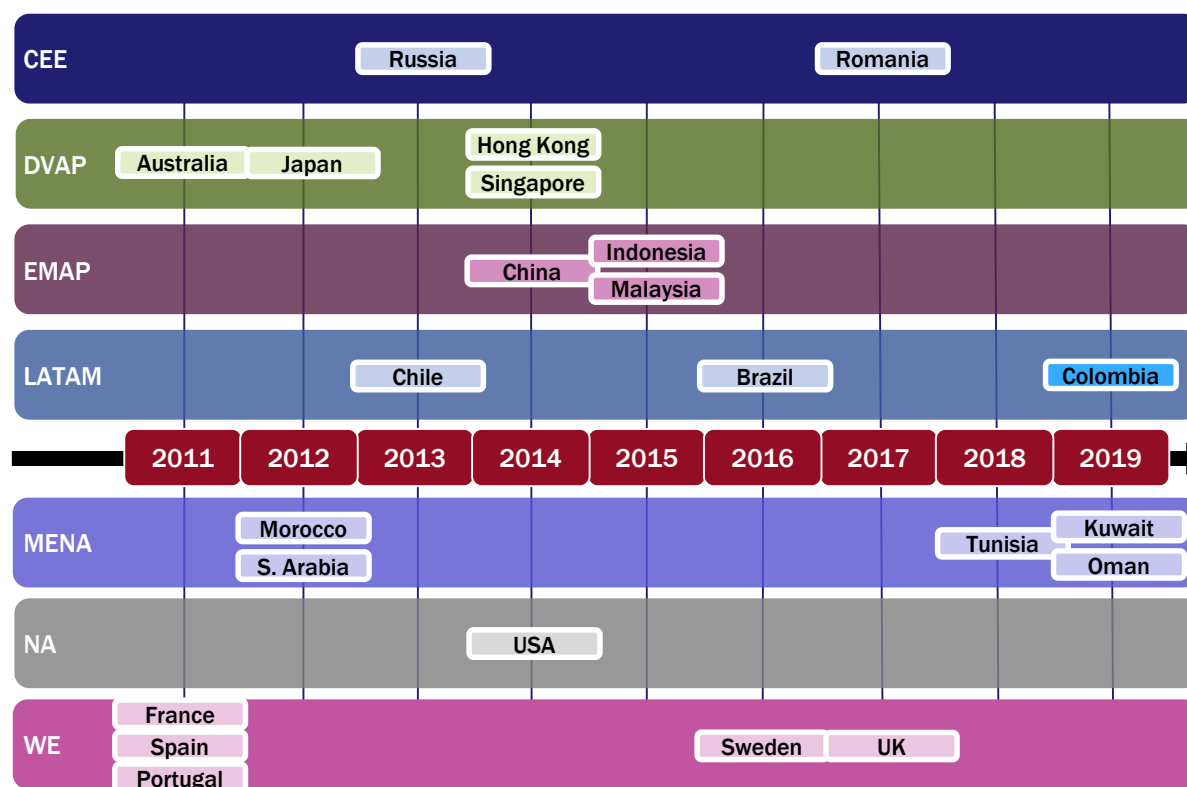
### Fixed and mobile service bundling

Developing and investing in existing relationships with customers limits the subscriber acquisition cost (SAC) and dilutes retention costs. Bundling fixed and mobile services allows operators to differentiate themselves from mobile-only or fixed-only competitors, limits fixed churn and increases brand loyalty in the long term. According to our report *Connected Consumer Survey 2016: fixed broadband retention and satisfaction in Europe and the USA*, intention to churn in Europe and the USA decreased from 28% for customers on standalone fixed offers to 23% for double-play, 21% for triple-play, and 19% for quadruple-play customers.

Fixed and mobile bundles often offer heavily discounted mobile services (for example, in France and Spain) and are aimed at attracting low and medium mobile data users. NGA can also be used with mobile or value-added services to develop better platforms for further growth and bring forward the decommissioning of older broadband platforms. Mobile offers combined with fixed broadband access seem to be a safe option for operators. Increasing usage of bandwidth on fixed networks fuelled by OTT video services, and the largely indoor nature of video consumption, make mobile data complementary to fixed data, so the continued relevance to consumers of fixed broadband is not in doubt. Fixed broadband generates far less revenue per byte than mobile, but the advantage is that the provision of additional value on built-out fixed NGA comes with far less pressure on costs and margins than it does on mobile.

Peaking mobile revenue tends to be the main trigger for convergence strategies, and pushes mainly-mobile operators towards the fixed market as one way to diversify their sources of revenue. Mobile revenue has already peaked in many countries in developed regions (CEE, DVAP, North America (NA) and WE). Figure 2 shows countries where mobile retail revenue has peaked and highlights those where we expect it to peak in the forecast period. We expect that EMAP, Latin America (LATAM) and MENA will be next to experience fixed–mobile convergence.

Figure 2: Peak in mobile retail revenue, by region and country, 2011–2019



Source: Analysys Mason

### Fixed and innovative value-added service bundles

Fixed broadband remains the essential form of Internet access in most developed economies. We expect fixed broadband penetration to reach 41% of the population in DVAP, 39.8% in WE and 34.9% in NA by 2020. Mobile broadband population penetration will oscillate between 10% and 17% at the same time in these regions. Standalone mobile broadband connections are more important in developing countries, where people tend to use only handsets for Internet access. High mobile broadband penetration is also related to local reasons (such as excess capacity and stringent coverage conditions in the Nordic region, or the historically underdeveloped fixed network in Poland).

NGA offers a wide range of innovative bundles and value-added services, which are focused on main pillars of consumer's satisfaction: speed, reliability, quality of service and value for money. The large variety of OTT services and multiscreen options in video and TV packages give customers plenty of choice. Customers who perceive that the quality of the services is good will take a less price-sensitive approach and will be less likely to churn. It is expected that operators will sell more cross-sector services if the services are accessible and manageable from one account. New types of bundles include energy supply (for example, gas and electricity), security services (monitoring), education, insurance, e-health applications/wearables and banking. Multimedia Polska in Poland offers unlimited voice and SMS packages with life insurance and gas and electricity services. Rogers Communications in Canada offers credit card and home monitoring services, and eir in Ireland offers free access to the Studyhub education portal with all broadband packages. Softbank's fibre broadband packages in Japan can be extended to include a 24-hour healthcare support package, shopping delivery and housekeeping/cleaning services.

Fixed network deployments involve a long investment process and service take-up is slower than for mobile networks, but the quality and wide scope of broadband-based services can ensure that operators are able to

defend their revenue. However, enhanced mobile broadband services may put more competitive pressure on fixed service providers in the longer term because [5G standards are expected to be finalised by 2020](#).

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Convergence strategies and the closely related business of in-market consolidation occupy a large part of telecoms operators' strategic thinking. Analysys Mason has launched the [Convergence Strategies research programme](#), which provides strategic insight for operators and service providers that are developing FMC services.