Fixed–mobile M&A will result in an increase in the number of FMC accounts in many countries worldwide

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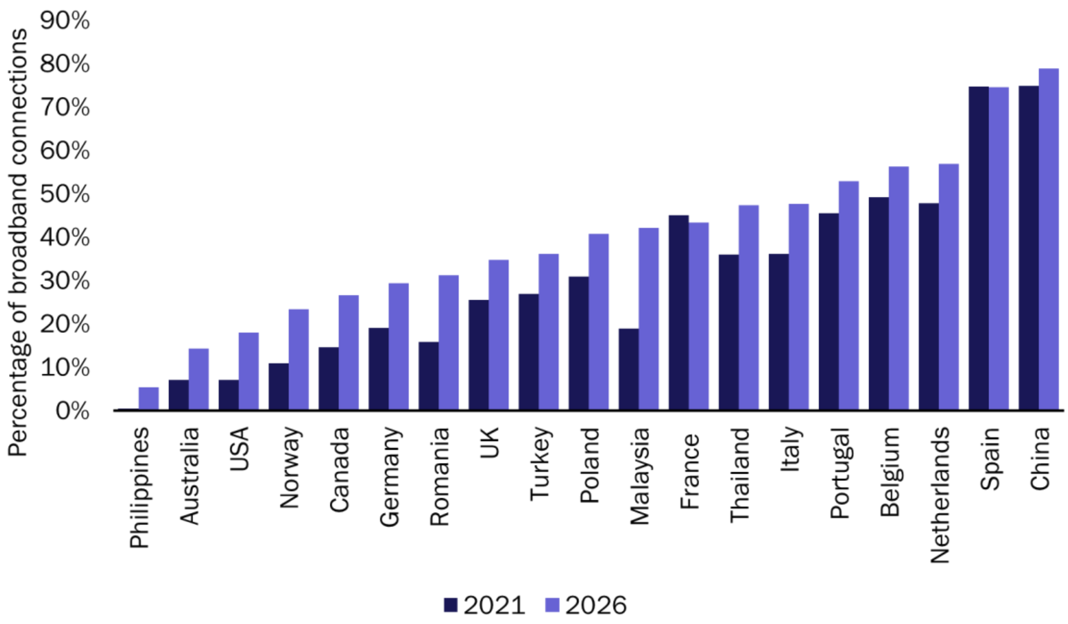
Fixed–mobile convergence (FMC) plans are becoming increasingly popular in almost every country in which they are available, though both the extent of their popularity and the form that they take are dictated by the level of market competition and operator infrastructure ownership. An increase in wholesale fibre market competition and in the amount of M&A activity will lead to growth in the penetration of FMC offers (see Figure 1). In this article, we present analysis from Analysys Mason's latest FMC forecast, which models 19 countries individually.

Figure 1: FMC accounts as a percentage of the number of fixed broadband connections, selected countries, 2021 and 2026



Source: Analysys Mason, 2022

European markets can be split into four groups

The countries in Europe can be split into four groups based on the state of their FMC markets.

- **Countries in which all major operators are infrastructure-converged (France, Spain and Portugal).** FMC discounts are now conservative in France and bundles are increasingly flexible. As a result, FMC penetration is declining. The FMC share of broadband connections is at saturation point in Spain, but competition at the low-ARPA end of the market should ensure that FMC penetration remains high. Competition is likely to increase in Portugal due to a potential new mobile entrant, and increased discounts from the integrated operators will lead to a modest increase in the number of FMC accounts.

- **Countries with low levels of competition, in which integrated operators have used conservative discounts to consolidate their bases (Belgium and the Netherlands).** Belgium and the Netherlands have the highest FMC ARPA in Europe. The level of competition has increased in both countries over the last few years due to late fixed broadband market entrants. It is likely that the overall market value will fall slightly, but FMC will remain integral to all operators' strategies.

- **Countries in which FMC penetration has historically been limited by a lack of integrated operators (Italy, Germany, Poland and the UK).** FMC penetration is expected to increase significantly in each of these countries due to M&A (for example, the merger of O2 and Virgin Media in the UK) and improved access to wholesale fibre (for example, Iliad in Italy has launched a competitive fibre offer through third-party fibreco OpenFiber).

- **Countries in which FMC bundle penetration remains low, despite almost all operators offering both fixed and mobile services (Romania, Turkey and Norway).** The market structure in Romania and Turkey is ideal for FMC, but a lack of appetite on the supply side and the demand side, respectively, has limited take-up. Two MNOs in Romania have recently acquired fixed networks, which will boost their convergence prospects. As such, these operators will look to grow their customer bases using FMC offers. A lack of fixed infrastructure competition in Norway has meant that integrated operators have not needed to offer large FMC discounts. However, the regulator is likely to force broadband operators to open up their networks to wholesale access soon, and fixed player Altibox is acquiring MNO Ice. These factors will lead to a substantial increase in the take-up of FMC during the forecast period.

There is strong potential for growth in the take-up of FMC in Asia–Pacific and North America

FMC penetration is high in Thailand and China, and has been driven by growth in the take-up of FTTP. The merger between True and mobile player dtac in Thailand will place further pressure on AIS. AIS may therefore increase its FMC discounts to insulate itself, thereby leading to a further increase in the number of FMC accounts in Thailand.

All of the major MNOs in Malaysia have used FMC discounts to enter the fixed market due to improving wholesale broadband access rates and concerns around the viability of a cellular-only approach. The FMC market in the Philippines remains nascent, but the large integrated players will start to push FMC bundles following pressure from fixed and mobile challengers.

We have added Canada and the USA to our forecasts this year due to the increasing prevalence of FMC in these markets. Historically, operators in these countries have relied on mobile-only and fixed-only bundling strategies to mitigate churn. However, the two largest cablecos in the USA have recently joined the mobile market, and fixed broadband challengers such as Verizon will look to win fixed broadband market share by offering FMC discounts. The FMC share of broadband connections has grown significantly in Canada in recent years, and the merger between Rogers and Shaw should cause the integrated operators in the country to further increase their FMC discounts.

The increasing number of integrated-operator FMC offers will cause standalone MNOs to offer disruptive wholesale-based FMC plans

The number of standalone operators continues to decline in most markets as further mergers between fixed-only and mobile-only operators occur. These mergers have largely been successful, and operators have been able to realise significant cost synergies.[1] These deals also allow the newly integrated operators to put pressure on the remaining standalone players in the market due to improved cross-selling opportunities and falling churn rates among their integrated bases.

However, improving fixed broadband wholesale rates in most countries mean that standalone MNOs can enter the fixed broadband market competitively and build their own converged bases. The potential for user base growth is limited by the low rate of churn among fixed broadband consumers, but MNOs can still disrupt the low-ARPA end of the fixed broadband market, particular in markets with low fixed broadband penetration. Iliad in Italy is an example of an operator that has taken advantage of favourable wholesale rates to build a fixed broadband base using disruptive FMC discounting. Operators in markets such as Malaysia and Indonesia are likely to use similar strategies.

The increasing prevalence of FMC plays at the low-ARPA end of the market will force integrated operators to re-evaluate their own strategies. They will increasingly have to address the low-ARPA end of the market and add further flexibility to their FMC bundles. This will mean that the amount of pay-TV bundling in FMC plans will decline in many markets, and cross-selling multiple SIMs into plans will become a key means of building ARPA. Indeed, the number of SIMs per FMC account is significantly below the average number of people per household in most countries, which suggests that there is an opportunity here.

1 For more information, see Analysys Mason's Fixed–mobile mergers and acquisitions: case studies and analysis.