

Analysys Mason's predictions for consumer telecoms services in 2021

December 2020

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Consumer telecoms services performed relatively well during 2020. Fixed broadband has provided a solid revenue base for operators during the crisis caused by the COVID-19 pandemic, largely offsetting the short-term decline in mobile revenue (for example, roaming revenue), and online entertainment in its various forms went from strength to strength. The main trends in the consumer market in 2021 will be shaped by the lingering effects of the pandemic.

5G will not provide any meaningful ARPU increase in 2021. 5G mobile is not a 'game changer' for consumers. Many operators have still to demonstrate that 5G can significantly improve customer experience, at least in part because coverage is limited. In a period of increased economic uncertainty, consumers will probably be less inclined than previously expected to pay more for 5G and will be wary of signing up for long contracts. In 2021 and beyond, operators will rely on the development of content and services that push performance requirements and stimulate demand for better connectivity. They are not there yet.

Cloud gaming service providers will capitalise on the boost in engagement that these services experienced in 2020. The video gaming industry grew quickly in 2020, and nascent cloud gaming services experienced a significant boost in subscriber numbers. New services will be launched in 2021 and those launched in 2020, such as Luna (by Amazon), will increase their footprint. We expect cloud gaming user numbers to reach 20 million worldwide by the end of 2021.

Operators will focus on fixed–mobile convergence (FMC). The relative strength of fixed broadband propositions compared to mobile during the pandemic and in its aftermath will lead operators to link their services closer together in their consumer retail strategies. FMC can provide resilience to operators in developed markets. In emerging markets, low-cost fibre roll-out, good take-up rates and solid ARPU will intensify the interest in fixed broadband and convergence.

OTT video service providers will build on the successes of 2020. Trends that accelerated during the pandemic will continue. Major OTT video providers will continue to launch new services and expand geographically, which will increase the average number of services taken by individual users. Revenue from OTT video services will increase by 17% but traditional pay-TV revenue will stagnate. More operators will roll out 'aggregation-only' bundles of OTT video and telecoms services to capture some growth but consumer interest will be limited.

Changing consumer priorities will push operators to increase the flexibility of TV tariffs. Consumers' viewing preferences shifted in 2020 towards TV drama – 43% of European and US respondents identified it as a top content genre in our *Connected Consumer Survey 2020* compared to 26% in 2019. This change was driven by the pandemic, but is likely to continue in 2021 and we expect this to encourage operators to add flexibility to their tariffs, allowing consumers to more-easily switch content 'packs' within a subscription between sports, drama and OTT video add-ons.

Smartphone shipments will return to growth. Smartphone technology has not changed much recently and replacement cycles have lengthened. However, the increasing availability of mid-range 5G phones along with

recovering post-lockdown economies suggests that 2021 will be a much better year for smartphone sales than the crisis-hit 2020. An additional boost is expected to come from the most significant change to the form factor in years: virtually every major smartphone manufacturer (apart from Apple) has announced a foldable model for 2021. Overall, we forecast an increase in units shipped worldwide of 15% over 2020.

Suppliers will promote XR headsets in 2021 but they will remain niche for the next couple of years. The case for consumer smart glasses and VR headsets will receive a significant boost in 2021 due to service launches from newcomers Facebook, Oppo and Reliance Jio, device updates from Amazon and others, and Apple's proposed launch of AR headsets from 2022/2023. Everyday-use smart glasses will emerge as serious consumer devices, but the lack of a supporting ecosystem will mean that they will continue to be relatively marginal devices. We expect to see many more 5G-enabled standalone VR headsets come to market in 2021, but we nonetheless expect most VR experiences to be smartphone-based.

More operators will experiment with direct-to-consumer digital healthcare services. We expect more operators, particularly those that have ambitions in digital services, to bring to market direct-to-consumer digital healthcare services, especially telemedicine and health finance. Operators that already offer mobile financial services (MFS) will use health finance services to support their core MFS propositions, while telemedicine services will generally be sold as standalone services outside core bundles. Operators will experiment with these offerings and are likely to overhaul these services periodically.

Video calling will establish itself as a long-term rival to voice calling. Video communication has become part of the daily communication habits of most consumers, rivalling voice calling as the main way of talking to friends and family remotely. The longer-term mix of the different communication modes (video, voice, messaging) is unclear, but continues to shift in favour of video. Social and communications apps with a strong video experience will benefit, and operator-provided services (which generally have few or no video features) will lose out.

Fixed broadband operators will intensify their efforts to use home Wi-Fi as a point of differentiation. Fixed broadband operators will focus on using mesh Wi-Fi hardware, Wi-Fi 6 routers and software to optimise in-home Wi-Fi connectivity. Such operators will also place growing emphasis on home Wi-Fi-related services, notably network-level security, and will explore other opportunities such as professional installation of optimised home Wi-Fi networks and Wi-Fi motion detection.