RESEARCH

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The impact of new wholesale FTTH models

Rupert Wood

About this report

This report discusses the rise of alternative wholesale FTTH, primarily in Europe, and the more fragmented landscape of ownership and operation that we expect to emerge. It does so in the context of the dawn of 5G, which will be a credible challenge to the fixed broadband business from the mobile side.

The report provides recommendations for established operators facing a new competitive reality. It is based on several sources:

- Analysys Mason's internal research, specifically our FTTx forecasts and wholesale databases
- interviews with stakeholders in the broadband market.

KEY QUESTIONS ANSWERED IN THIS REPORT

- How will new players disrupt the existing broadband market structure in Europe?
- What are the key costs of fibre LLU?
- What should existing operators do to rise to the challenge?

GEOGRAPHICAL COVERAGE

- Mainly relevant for Europe, but also relevant for Australia and New Zealand
- Some further focus on:
  - Germany
  - Italy
  - Switzerland
  - UK

CASE STUDIES

- OpenFiber
- Swiss Fibre Net
- CityFibre
- Gagnaveita
- Deutsche Telekom

WHO SHOULD READ THIS REPORT

- Network planners
- Strategy offices
- Regulators

Executive summary

New wholesale-focused FTTH operators are disrupting the fixed broadband market. Established operators must embrace these changes and find the best way to respond.

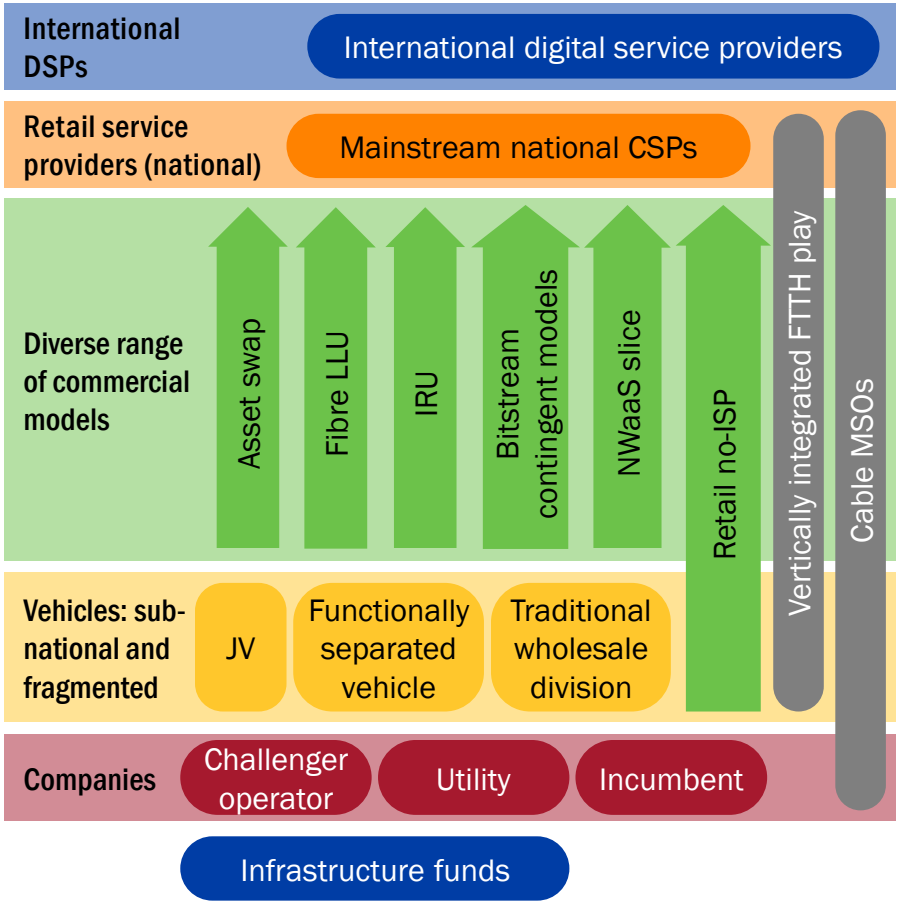
Challenger operators are demanding more options for addressing home and business broadband spend, and new entities are being created to meet these needs. If established operators do not embrace change by offering a more utility-like option for FTTH access, they run the risk of losing not only share, but whole geographical areas to competitors. Making changes may also help to fend off the threat of 5G as a full substitute for wired access.

In order to compete effectively, operators also need to create much looser structures between NetCos and ServiceCos, and should be open to initiatives such as joint ventures (JVs) and access swaps.

KEY RECOMMENDATIONS

1. Fibre LLU is the lesser of two evils, so incumbent operators must embrace the changes in the fixed broadband market.
2. Operators should be prepared to create new, looser, co-investment vehicles more like those of their competitors.
3. Operators should look for opportunities in the reconsolidation phase.

Figure 1: Possible fragmentation of the fixed broadband value chain



Challenge: new players offering low-cost fibre access are disrupting the fixed broadband market

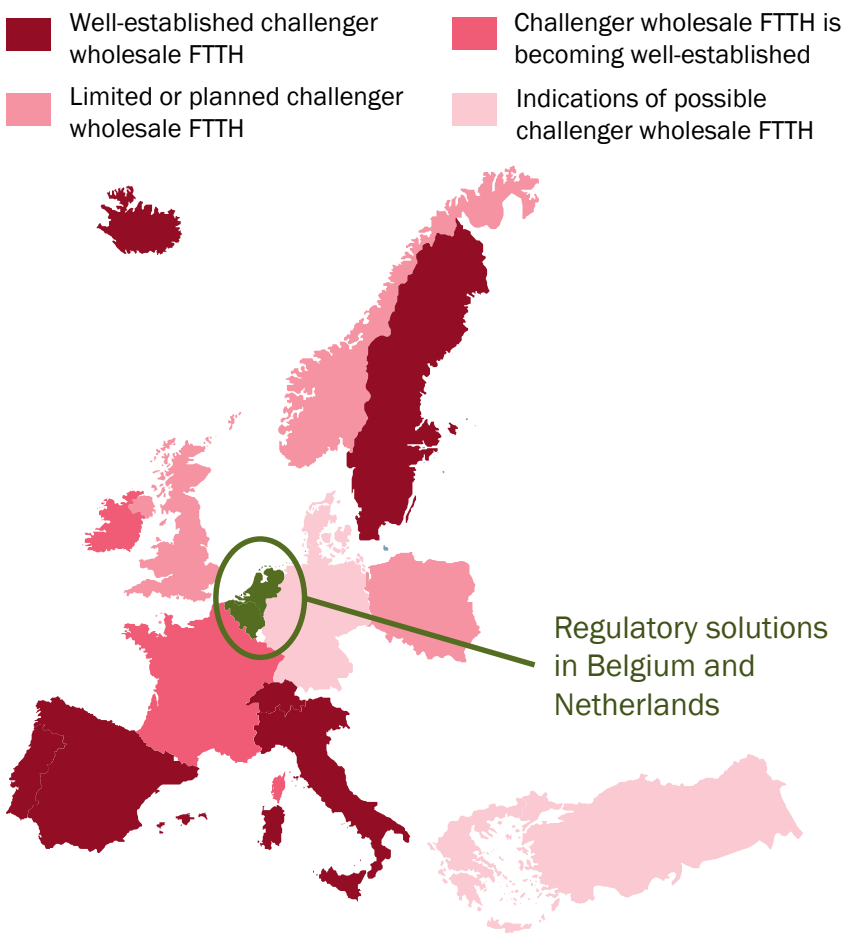
Players from all parts of the existing fixed broadband market need to understand the implications of the offers from new, disruptive operators.

Competition at a wholesale level has arisen between existing operators in mature FTTH markets such as Spain. In other markets, new entities play the challenger role. The recent rise in investment in alternative FTTH has been driven by improving cost and demand conditions. It will cause disruption on several levels.

- **Price erosion and the collapse of speed-based price differentiation.** This will be steeper in regions where the dominant wholesale model is fibre unbundling (fibre LLU).
- **Geographical fragmentation of ownership.** Different operators will dominate in different types of built environment. In some areas, incumbents will have a reduced status.
- **An array of different ownership models.** These include JVs between operators or with utilities and completely new players with a wholesale-only focus.
- **A broader array of commercial models.** These include LLU, bitstream and IRUs/contingent access.

In a logical world, there would need to be only one fibre access infrastructure type. The rush to invest may therefore create a capital inefficiency, because in some cases, there may be as many as three, and this may not be sustainable.

Figure 2: Heatmap of competitive wholesale FTTH, Europe



Solution: established operators have to embrace the changes and find a new role in the market

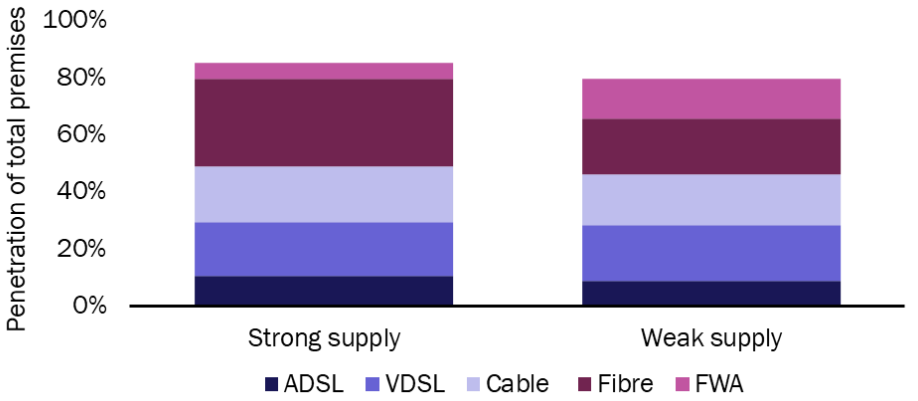
Established operators need to adopt new structures that will enable them to maximise coverage and, indirectly, take-up.

Bitstream access will not be viable if there are artificial prices for higher-speed services. Access seekers will either go to a competitor or stick with mobile. Operators have to adjust by providing a broader and more competitive range of offers. This will probably involve access to passive elements of PONs, behind and in front of splitters, but also so-called contingent models where access seekers make up-front investments in return for discounted bitstream access.

There are upsides to this price erosion. A competitive FTTH supply should minimise the threat of 5G. There is no risk of substitution as long as FTTH is available on a competitive basis, whereas all copper-based broadband (including FTTC) will be under threat from 5G substitution. A further benefit is that price erosion can bring forward the point at which copper and ancillary infrastructure can, if required, be decommissioned and/or sold.

Doing nothing and hoping that 5G fixed–mobile substitution (FMS) will scare investors off is unlikely to work. 5G (excluding even the more expensive mmWave variety) is unlikely to be able to compete against FTTH in terms of service, and doing nothing would embolden investors that have active commitments and co-investment from MNOs. Reducing wholesale FTTC prices (with or without upgrades) to compete against new entrants is not suitable for the long term, and commercial fibre LLU could well be cheaper.

Figure 3: Broadband penetration of premises with or without strong FTTH supply, by technology, Western Europe, 2024



Source: Analysys Mason

Operators that have so far not rolled out much FTTH should be prepared to create separate vehicles with strategic investors to maximise both potential coverage and the pool of potential customers. They should play a long game by forging new roles in a new landscape rather than maintaining their existing positions.

The first part of this report describes the drivers and players involved in the emerging changes in the FTTH market. The second part shows the impact on value that these changes are having and could have. Finally, the third part of the report indicates how the market could evolve out of the disruption and points to strategies that operators can adopt.

Recommendations

1

Fibre LLU is the lesser of two evils, so incumbent operators must embrace the changes in the fixed broadband market.

Fixed–mobile substitution becomes more threatening without a healthy competitive supply of FTTH. Such substitution is worse for fixed operators than a longer payback on FTTH. It would appear that low-cost FTTH is future-proofed against fixed–mobile substitution, but win-back from challenger 5G fixed–wireless access (FWA) may be difficult. Operators should prioritise FTTH roll-outs (and, indirectly, conversion) over revenue per line.

2

Operators should be prepared to create new, looser, co-investment vehicles.

It will be impossible to roll out FTTH nationally while neutralising the threat of other roll-outs. Challengers never want to provide a revenue stream for their competitors, however 'open' they are. JVs therefore make sense, as does a further level of separation from the retail business. It is vital to retain the option to use part-ownership to extend market presence or ownership in the future. Creating a new vehicle should be seen as pragmatic and defensive rather than as a strategic move towards a full sell-off and the highly risky digital/asset-light model.

3

Operators should look for opportunities during the reconsolidation of the fixed broadband market.

There will be opportunities to play a consolidator role if the fixed broadband landscape fragments in the way we predict. This could either be through buy-outs, or through providing an interface between retail players (for which scale matters) and access players (that control valuable local supply). The latter opportunity need not be confined to fixed/FTTH access, but could involve an interface to various mobile and digital (cloud) infrastructure. Larger incumbent fixed operators are in the best position to take on this opportunity.

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About the author

Rupert is the lead analyst for our *Operator Investment Strategies*, *Network Traffic* and *Spectrum* research programmes. His research covers the following areas: the evolution of operators' investment priorities; operator business structures; business models for FTTx and convergence; fixed broadband technology; the economic impact of digital transformation; capex forecasting; and network traffic forecasting. He has extensive experience of advising senior management on strategic issues. Rupert has a PhD from the University of Cambridge, where he was a Lecturer before joining Analysys Mason.

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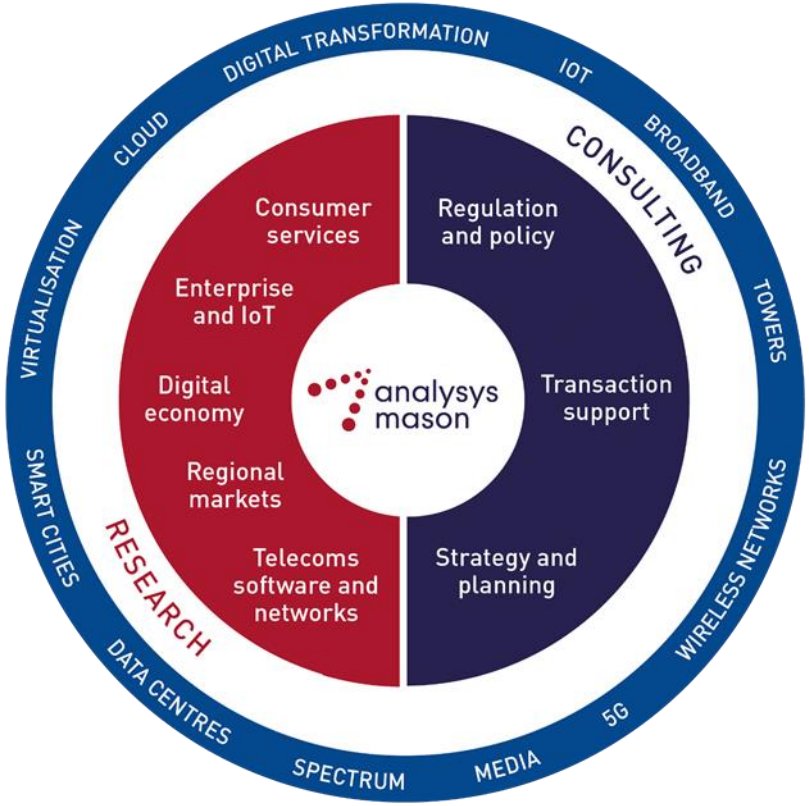

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PUBLISHED BY ANALYSYS MASON LIMITED IN **NOVEMBER 2018**

Bush House • North West Wing • Aldwych • London • WC2B 4PJ • UK

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