Telstra highlights the failure of established operators to address the threat posed by low-cost challengers

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Telstra's investor day in May 2025 focused on new services that will add a marginal revenue (such as network APIs), but failed to address the much greater threat posed by low-cost challengers. Many of Telstra's peers are making a similar mistake and need a more robust response to the risks to their core business.

The warning signs are plain to see. For example, Iliad's entry to the Italian market was partially responsible for a EUR3 billion decrease in spending on mobile telecoms between 2018 and 2024; this was a decline of around 30% in nominal terms (and closer to 40% in real terms). Iliad and its affiliates are continuing to enter new markets, as is Digi, and low-cost broadband offers from local fibre operators are available almost all countries.

Pricing is a strategy issue

Telstra's priorities look mixed up. It mentioned APIs 45 times at the investor day; AI was the only topic that was mentioned more (60 mentions). However, network APIs will be worth around the equivalent of 1% of mobile revenue in 2030; this is useful incremental revenue, but little more than that.

In contrast, it made no direct mention of low-cost competitors. Questions about pricing were dismissed as 'trading' rather than 'strategy' issues. And yet, low-cost competitors continue to eat away at Telstra's core business. The operator has lost fixed market share in Australia in every quarter since 2Q 2019. Its real-term fixed revenue has fallen by 10% since 1Q 2020.

Telstra is not alone in underestimating low-cost competitors. Some operators that we have spoken to think that the low-cost model for fixed services will never appeal to more than 20–25% of customers. Others have told us that they do not believe that the low-cost model is sustainable.

We question these arguments, given that:

- Digi has become the dominant player in Romania with a 70% (and growing) share of broadband connections
- Iliad is generating cash in France and has broken even in Italy
- Community Fibre is EBITDA positive and is rapidly growing its subscriber base
- challenger fixed operators in Australia (such as Aussie Broadband and Vocus) have increased their collective share of fixed connections from 30% in 1Q 2023 to 36% in 4Q 2024.

Challenger operators have high-quality fibre networks that are as good, if not better, than those offered by larger players. They keep costs low by having simple plans and by not having to support multiple legacy technologies. Customer satisfaction with these operators is high, and not just thanks to low prices. Indeed, the results of our consumer survey show that Digi has the best Net Promoter Score (NPS) in Spain, as well as the highest score for customer service satisfaction. It has almost identical scores for satisfaction with product performance, such as speed, coverage and reliability. As such, it does not appear that customers are settling for lower performance in return for lower prices.

Fixed operations are especially vulnerable to the threat of the low-cost model, but mobile services are also susceptible. eSIM turns connectivity into an app, and companies that are good at consumer apps (such as start-up banks including Revolut) may be better placed than traditional telecoms players to provide this service.

Low-cost operators are more than a short-term distraction from long-term strategy aims

Dismissing low-cost players as a short-term trading distraction, as Telstra does, is a mistake. Operators need a strategy for dealing with this competition. We explore some of the potential options in detail in our report, *The future of the service provider: how to respond to low-cost challengers*. These are summarised below.

- **Copy the low-cost challengers.** Major operators could compete head-on with low-cost players. The Digi/Iliad model gives customers the fundamental service that they want (high-quality internet at a reasonable price with good customer service). The shift to a low-cost model is likely to be too great a change for most operators, but it should at least be explored.

- **Protect their premium position.** This is the default strategy of most established telecoms operators, and yet most are losing share. Orange France is an example of an operator that has had success from following this approach, despite facing competition from disruptor Iliad. Orange has defended its market share for both fixed and managed services, partly by matching the prices, if not the products, offered by Iliad's Free brand.

- **Move into different markets, such as energy and finance.** A third option is to focus on other sectors for revenue growth. Norlys in Denmark is the best example of a company that successfully sells both energy and telecoms products. Norlys embraces being a utility; it views telecoms and TV as commodities to be sold alongside electricity. This is arguably the 'dumb pipe' model that some telecoms operators have long-resisted. Combining energy and telecoms does not obviously create a major strategic advantage, and even operators that have tackled this market for a long time, such as KDDI, have yet to make major in-roads.

- **Focus on enterprise products to drive new revenue growth.** Increasing resources for the enterprise division has been the revenue growth strategy for many operators, especially those in Europe. These operators try to defend their position in the consumer telecoms market, but they are not expecting significant growth in either revenue or market share. Instead, cash generated by the consumer business is invested in higher-growth business services. However, the market for business IT services is hugely competitive, and even strong growth in business revenue may not be enough to counter small declines in consumer revenue.

Telecoms is no longer a technology problem. The big questions around networks and network investment are largely solved; fibre and 5G coverage is at least 90% in most high-income countries (or it will be within a few years). Future network investments will involve incremental improvements rather than a radical overhaul (which is partly why capex will continue to fall). The major questions facing the established players are related to the service model. Yet, as Telstra illustrates, these players still want to talk about technology issues, such as network APIs, rather than exploring new models.

Details of how operators can respond to low-cost challengers can be found in Analysys Mason's *The future of the service provider: how to respond to low-cost challengers*. For more information, contact Tom Rebbeck.