



Time to monetize fixed- mobile convergence

How to move beyond fixed-mobile bundles

June 2016

Arthur D Little

Content

Executive summary	3
1. Fixed-mobile convergence: a reality driven by operators	4
2. Value creation with fixed-mobile convergence	6
3. The imperative to move beyond discounting	10

Authors:



Gregory Pankert

Partner
Telecom & Information & Media
& Electronics, Belgium
pankert.gregory@adlittle.com



Olivier De Landsheer

Consultant
Telecom & Information &
Media & Electronics, Belgium
delandsheer.olivier@adlittle.com



Hugues Bocquet

Business Analyst
Telecom & Information &
Media & Electronics, Belgium
bocquet.hugues@adlittle.com

Acknowledgement for his support and valuable input to: Pierrick Hamon

Executive summary

Fixed-mobile convergence has become a reality in Europe, driven by operators in markets with infrastructure-based competition and essentially adopted by customers for its discounts. Behind the nice take-up figures, there is a contrasting reality – the challenge being for operators to capture the value creation potential. Moving beyond discounting is critical to maintain differentiation and secure a positive incremental margin. Operators will need to deepen their understanding of how convergence affects customer segments and value contribution, and translate it into new go-to-market strategies. The only way to unlock further growth opportunities within the digital home is to enhance customer experience and/or broaden the scope of services.

Insight for the Executive

- Fixed-mobile convergence (FMC) is accelerating and here to stay. It is mainly driven by operators that see an opportunity to get the upper hand via an asymmetrical game – i.e. leveraging an asset (a fixed or mobile network) that competitors do not have.
- In most markets fixed-mobile convergence implies infrastructure-based competition, putting substantial pressure on pure players, and therefore translates into a driver for consolidation and regulatory intervention.
- Value creation is at high risk if operators do not move quickly away from discounting. The name of the game is cross- and upselling/up-tiering. Given the current plans of most operators, awareness is high, but actual implementation is still very limited.
- It is therefore critical to understand the dynamics of the emerging convergent customer segments (*or fishing ponds*):
 - What triggers the customer's decision to opt for bundled/convergent offerings? Who in the household takes it? And what is the lowest barrier for the customer when selecting his single provider?
 - How to seize the opportunity of capturing the additional SIM cards per household?
 - How to develop tools to manage the *value contribution* of revenue-generating units?
- Convergence is much more than bundling, and a fundamental review of product development, strategic marketing and customer experience management will make the difference in the long run. Arthur D. Little's experience in assisting operators to secure the key success factors of convergence has revealed the importance of a thorough review of the processes, management tools and IT systems across the company's operating model.
- Finally, fixed-mobile convergence is the unique way to strengthen customer ownership, and therefore secure an option to drive the home-digital transformation and capture value from the future development of the smart-home/smart-life services.

Fixed-mobile convergence: a reality driven by operators

Over the last years, so-called fixed-mobile bundles have been gaining substantial traction in Europe. In the markets that were the first to adopt commercial offers bundling fixed and mobile telecom services, such as France, Spain, Belgium and Portugal, between 40 and 50%¹ of households did subscribe to quad-play packages. The UK, Germany and Italy are still in an earlier stage of adoption, in a range of 5 to 10%. In all markets, once initiated, the move to fixed-mobile bundles is rapid.

Operators' launch of fixed-mobile bundling results from two main strategic challenges:

- How to relaunch growth in distressed markets or markets with high price-based competition?
- How can incumbents reclaim the upper hand in markets where infrastructure-based competition has weakened their positions on fixed-NGA broadband services?

In markets which suffered from down-tiering and cancellation of subscriptions due to the economic downturn and/or in markets where price competition in the mobile market was intense, operators needed to find a way to further increase the discounts granted to end-users in order to remain competitive. Extending the scope of the discount to the combined offer enabled operators providing both fixed and mobile services to offer a higher face-value discount to the customer while creating an asymmetrical competitive advantage which could not be replicated by pure players (mobile or fixed).

Fixed infrastructure-based competition is also a major driver for fixed-mobile bundles. In several markets alternative operators have translated heavy investments in NGA infrastructure into commercial success (e.g. Belgium, the Netherlands, and parts of Spain). These markets are often characterized by the presence of strong cable operators that leveraged more progressive and success-driven investment roadmaps. Incumbents therefore pushed fixed-mobile convergence as a way to compensate for worsening attractiveness in the fixed-broadband market. Again,

fixed-mobile bundling or convergence was used to create an asymmetrical advantage.

The driver of adoption by end users is the discount

The level of fixed-mobile bundling discount levels in the range of 25–40% tends to imply that customers have been adopting fixed-mobile bundles primarily for the saving and not for the other benefits of a combined fixed-mobile offer.

Interviews and surveys have repeatedly highlighted² that the discount is currently customers' main motivation to subscribe to converged offers. However, once fixed-mobile convergence is introduced, customers ask for the convenience of an overall solution answer to the household's digital life.

Fixed-mobile convergence generally starts with discounted bundling of several products. The discounts can be in the form of price discounts, (e.g. subscribing to a bundled offer of fixed broadband, TV, fixed voice and mobile will be less expensive than taking the different products individually) or volume discounts (e.g. subscribers receive more data, minutes, SMS, or even a single product for the overall same price).

Slightly more advanced bundles add basic convenience services such as single-invoice and single-customer service, e.g. BT's Starter pack. More advanced convergent offers, such as Orange Open, Proximus Maxi, BT Total Entertainment and NOS Quatro, include access to public WiFi hotspots, additional video or audio content (e.g. additional channels, Spotify premium access), cloud storage, OTT multi-screen access or specific apps (e.g. NOS Telefone or Telenet Triiing to call with your fixed number from a WiFi hotspot).

Some operators have started moving to "full" convergence, with an integrated solution for communication taking the form of technical convergence in the more basic form or home-services convergence.

¹ Source: Operators annual reports, Arthur D. Little analysis

² Berenberg, Arthur D. Little interviews, Arthur D. Little casework

Figure 1: From fixed-mobile bundling to fixed-mobile convergence



Source: Arthur D. Little analysis

Technical convergence leverages technology to seamlessly switch from fixed to mobile and vice-versa. It covers functionalities such as a single number for fixed and mobile, a single voicemail, and access to all video/audio content on all devices with the full range of features (start/stop/pause, record a program, view recordings...). Companies such as KPN and Swisscom already offer those services in their B2B offerings (KPN Eén and Swisscom Business Telephony), but do not yet include TV products.

Home services add another dimension to convergence, with a focus on addressing the verticals related to the household's life. The basic version of smart-home portfolios usually limits itself to selling a few additional smart-home products (smart meters,

monitoring devices, sensors ...). Some operators have managed to set up ecosystems that will accept the widest-possible range of devices and associated services, e.g. Deutsche Telekom with the Qivicon platform, but do not systematically deliver and sell the services to the households themselves. AT&T goes even further with its Digital Life security and automation system, providing and billing a broad range of professional monitored services.

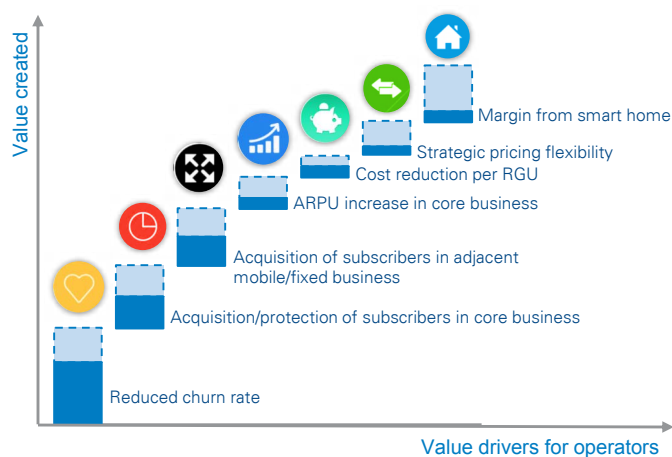
The more advanced convergent home services aim to provide end-to-end portfolios of home services to customers – i.e. the smart concierge, smart-butler concepts (e.g. PCCW has already made significant steps in that field).

Value creation with fixed-mobile convergence

Operators can create more value than mere discounting

So far, the introduction of convergence, or rather, fixed-mobile bundling, has often resulted in giving away substantial discounts, thereby triggering or fueling temporary price wars or market decline; hence the worry of many operators about entering a perceived value-destructive fixed-mobile convergence game.

Figure 2: Fixed-mobile convergence value creation drivers



Source: Arthur D. Little analysis

As stated earlier, the main advantage operators create in entering the convergent fixed-mobile segment is either through leveraging a strong position in an adjacent market (mobile or fixed) as a differentiator, or by trying to stay in the game by rapidly building fixed-mobile capability.

Beyond the strategic rationale, tangible value can be created (or protected) both for the core business and for future growth in smart home-related services (Figure 2):

- Churn-rate reduction in mobile:** Fixed-mobile bundles are a powerful tool to reduce churn rate. The churn levels of bundles tend to be close to (or even lower than) the individual products with the highest stickiness. In most cases, the high-stickiness products have proved to be fixed broadband, and digital television for mature cable operators and incumbents. This relates to the burden of a fixed-service installation (i.e. having an installer come to configure the modem and WiFi network) and/or a change of TV provider

(losing your recordings and possibly access to some favorite channels). Today, changing mobile operator tends to be a much easier process (mainly online, SIM cards delivered, no in-home wiring needed, etc.). Decreasing mobile churn levels from around 15–20% for postpaid to 7–12% translates into substantial value creation. However, beware of the bias of initial churn rates observed on 4-play customers (sometimes below 5%), as they partially reflect the initial contractual lock-in or the most loyal customers being the first to adopt fixed-mobile bundled/ convergence; hence, cohort analysis becomes essential in understanding the real loyalty gain.

- Acquisition/protection of subscribers in the initial core business:** Fewer players are active in the emerging fixed-mobile bundled customer segments. Certainly in early stages of fixed-mobile bundling/convergence, most pure (mobile or fixed) players lack the capability to set up attractive commercial offers. As a result, fixed churn rates have also been observed to improve at some operators.
- Acquisition of subscribers in the adjacent mobile/fixed business:** For pure players the adjacent mobile/fixed market represents a huge growth opportunity. However, its success and profitability remains weak unless real differentiation is provided via convergent features. In a discount-driven market, most of the value will be transferred to the customer, while pure players will typically suffer from higher and potentially unpredictable network costs as they need to pay for wholesale access to someone else's network. Differentiation can, for example, be obtained by massive offloading to a community WiFi network (typical of cable operators) or unified and universal content availability.
- ARPU protection/increase:** the ownership of clients enables upselling and cross-selling:
 - Fixed-mobile bundling tends to encourage higher data consumption for both mobile and fixed services, which itself accelerates the (up)sale of higher-tier broadband plans.
 - Operators have also leveraged the fixed contractual relationship to capture value in accelerating the migration of their customer bases from prepaid to postpaid.

- Bundling/convergent offerings are also increasingly perceived as an intrinsic protection mechanism against the risk of the flexible-SIM threat³.
 - Bundling protects revenues from products of which the perceived value to customers is decreasing (i.e. mainly fixed voice, mobile voice and mobile SMS) by anchoring the perceived value before the actual substantial decline.
 - Finally, customer ownership will be key to selling emerging services related to the digital transformation of life at home, e.g. security services, smart-butler services.
- **Cost reduction per revenue-generating unit (RGU):** cost synergies can be obtained according to the level of front-end and back-end convergent integration.
- Synergies are easily captured through single billing, common marketing campaigns and joint product development.
 - Integration of customer-care processes and sales channels can also generate synergies as costs driven by the number of customer relationships (as opposed to per product/service) are shared. Further savings will eventually also be achievable thanks to the integration of IT systems: service platforms, customer-care systems, provisioning systems, etc.
- **Strategic pricing flexibility:** the possibility to cross-subsidize fixed-to-mobile or vice versa and thereby strengthen the impact of promotion campaigns versus pure players.

Needless to say that managing the *unitary value contribution* of each RGU is essential when designing bundled/convergent

offerings and defining their discount levels (Figure 3). Acquiring new revenue sources at incremental costs has been very efficient for operators entering either the fixed or mobile market with fixed-mobile bundled/convergent offerings.

Given the nature of the value drivers, the value potential is strongly dependent on the operator's initial position (e.g. access to network assets, market share in core market) and the local market dynamics.

Anyhow, operators should be aware that when fixed-mobile bundling or convergence takes off, the market-share redistribution is drastically accelerated as every customer scores double (fixed and mobile) and churn rates tend to peak in not-yet-convergent customer segments (often reaching 30% or above on an annual basis). Only with the development of a bundled/convergent customer base do the churn benefits of bundling/convergence materialize.

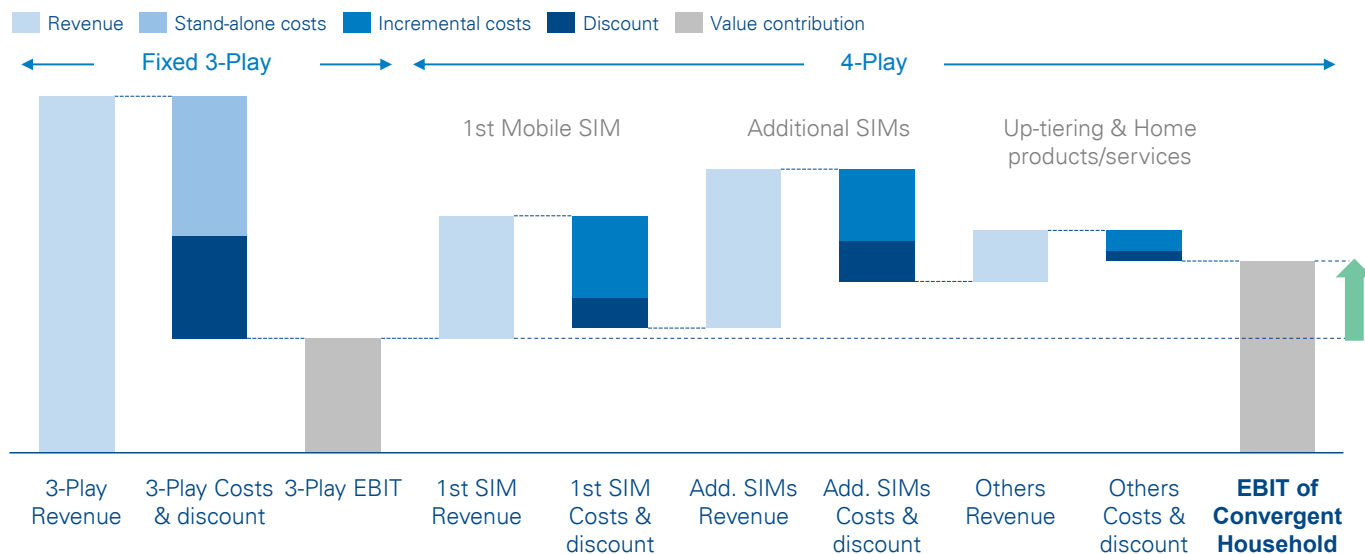
Fixed players tend to have a better starting position, but the game hasn't ended yet

So far, fixed operators (whether pure or fixed and mobile) appear to have achieved the best results. Their advantage is quintuple:

- **Higher legitimacy:** Evidence shows that customers have higher propensity to take mobile-broadband services from fixed players than to take fixed-broadband services from mobile players. While the gap on broadband services is slowly reducing, mobile players have even bigger trouble being perceived as credible TV providers.
- **Higher barriers to switching:** Mobile processes are based on highly standardized solutions and customer equipment.

Figure 3: Unitary value contribution of revenue-generating units

ILLUSTRATIVE



Source: Arthur D. Little analysis

³ See our Viewpoint entitled "Flexible SIM – operator catalyst in digitalization and convergence" (2016) www.adl.com/FlexibleSIM

Online sales, automated provisioning, and SIM cards mailed or distributed via vending machines make the process of switching to another mobile operator much easier than changing the fixed-access provider (with the implied in-home installation, the possible technology change, etc.).

- Higher leverage on accessing mobile networks:** Pure fixed operators have more alternatives to secure access to mobile networks than the opposite, whether via MVNO or acquisition. In almost all European markets, there are more mobile players than fixed players – and therefore more leverage for fixed players to strike better MVNO deals. Furthermore, nowadays the implementation of light or full MVNOs is fairly well mastered. Also, as proven by the current consolidation wave, third and fourth pure-mobile players are still under strong financial pressure to enable acquisitions or improved MVNO conditions. Even when pure-mobile players consolidate, remedies often offer leverage to fixed players to get the upper hand.
- Higher value creation potential from churn reduction:** Experience is showing that churn levels achieved through fixed-mobile bundling are only slightly lower than fixed-services churn levels, but substantially lower than pure-mobile churn levels.
- Better focus on the household:** Fixed operators benefit from having key touchpoints in a household (e.g. home installations of modems/routers/STB or upgrades to FTTX), and are much further than mobile players in understanding how to address households’ needs (most major operators

have already looked into “home-assistance” types of services).

Is the game over then? Not necessarily. Fixed altnets (cable operators and fiber players) have been acquired recently by Vodafone and Telekom Austria, and are still for sale in several markets. Besides, surveys reveal that for younger generations the legitimacy gap is substantially smaller.

A more contrasted reality behind the nice take-up figures – with hidden potential?

Fixed-mobile bundling figures often hide a more complex reality. They tend to focus on measuring the number of households with fixed-mobile bundles. They do not look into how many of a household’s SIM cards are included in the bundle. Many are advocating a household view of the market, implying that the individual mobile-user view has lost relevance in a fixed-mobile bundled/convergent market. We believe that reality is much more complex, and that a new hybrid view is required to properly address this market (where mobile is also measured in terms of revenue-generating units).

Nowadays, fixed-mobile bundles capture usually around 1.4–2.3 SIM cards per household, but then meet a ceiling and fall short of the initial targets. Operators tend to define fixed-mobile bundling as the addition of an average number of SIMs to a fixed subscription, and no/limited assessment of mobile and/or convergence behavior patterns is made. The mobile model in which individual behavior translates into individual subscription is colliding with a fixed model in which the head of the household

Figure 4: The fixed-mobile convergence fishing-ponds approach

Fixed Techno available 2015 ↓	2020 →			Cable & Copper				Cable & Copper		...	...		
	Fixed Techno present in HH			Cable only				ATV	DTV	DTV&BB	BB only	ATV (&Tel)	DTV(&Tel)	...	...
		Products	k HH / Mob MS	ATV	DTV	DTV&BB	BB only	ATV (&Tel)	DTV(&Tel)	...	...		
Cable & Copper	Cable only	ATV	xx / X%												
		DTV	xx / X%												
		DTV & BB	xx / X%												
		BB only (+DTH/OTT)	xx / X%												
	Cable & Copper	ATV (& Tel)	xx / X%												
		DTV (& Tel)	xx / X%												
		ATV & xDSL	xx / X%												
		DTV & xDSL	xx / X%												
	Copper only	Tel only	xx / X%												
		xDSL	xx / X%												
xDSL & IPTV		xx / X%													
xDSL (+DTH/OTT)		xx / X%													
None	(mobile only)	xx / X%													
Cable, Copper, FTTX	...	...											
Copper only	...	...											
DSL & FTTX	...	...											

1. Which are the major fishing ponds today and tomorrow?
2. What is the main trigger for change?
3. Next to discounting, how can the operator differentiate (e.g. speeds, simplicity, no binding contract, try-me promotions, home security, ...)?
4. What SIMPLE product offering to push to reach most current fishing ponds?
5. What are optimal channels per fishing pond?
6. What adverse effects and how to mitigate them?

Source: Arthur D. Little analysis

defines the fixed services for all household members. Both realities will define the decision mechanisms in convergent households.

Today, most offerings do not take into account the overlaps (or absence thereof) of mobile and fixed segments, e.g.

- **Overlap with mobile B2B:** Household members using corporate mobile cards are often out of reach of typical B2C bundles; their behavior and decision patterns are largely defined by the corporate segment. The overlap with the SoHo/small enterprise is another complexity: the mobile and fixed decision-maker may be the same, but there may be need, for accounting and fiscal reasons, for a formal separation between B2B and B2C contracts.
- **Ethnic consumption behavior** (international connectivity and/or content): Fixed segmentation practices tend to be underdeveloped compared to mobile segmentation practices, with a risk that simple bundles dilute the differentiation strength of so-called ethnic offers.
- **Conflicting brand affinities** which prevent some household members from joining the household subscription, e.g. a community effect for youngsters.
- **SIM-only clients** looking for the best deal and often not addressed at all by convergent offerings.

Fixed-mobile convergence deserves a refined segmentation approach with a specific go-to-market strategy. It also requires specifically addressing emerging convergence behavior patterns,

e.g. follow-me content, unified communication, network/device seamless connectivity (and pricing). Approaches and tools such as the FMC Fishing Pond approach (Figure 4) or the FMC Wargaming tool (Figure 5) can help operators to understand the evolution of customer segments and their competitive dynamics, and to develop the next generation of fixed-mobile convergent offers. Operators must answer the following key questions:

- How rapidly will the “convergent” segments grow? What is the expected landing point for convergent segments? How to combine segmentation dimensions into fishing ponds, i.e. available and connected access technologies, fixed and mobile decision makers, levels of convergence (same provider and independent contracts, distinct but related contracts, all services bundled on the same bill), etc.?
- How much of the total market are we not addressing? What customer groups are the most at risk?
- What are our strongholds? Where can we easily cross-sell by leveraging existing fixed or mobile features?
- Next to household discounts (e.g. Telenet’s Family Deals or Orange Open multiligne), what are natural common denominators between fishing ponds?
- How to keep current successful simple and readable fixed-mobile offers, but still efficiently cover enough fishing ponds (i.e. a large-enough addressable market)?
- How to avoid the negative impact of customer-base repricing?

Figure 5: Fixed-mobile convergence wargaming tool

ILLUSTRATIVE

		Fixed internet provider							
		Operator A	Operator B	Operator C	Operator D	Others	No fixed internet	Total	
Market data % households	Mobile & internet equipped clients : 76%								
	Bi-equipped clients : 43%								
	Converged clients : 38%								
	SIM Provider to Home Decision Maker ¹	Operator A	23% (20%)	1%	/	1%	3%	8%	35%
		Operator B	4%	9% (8%)	/	2%	2%	5%	22%
		Operator C	3%	1%	5% (5%)	1%	3%	4%	17%
		Operator D	/	/	/	6% (5%)	/	1%	7%
		Others	1%	2%	0,2%	2%	6%	4%	15%
	No Mobile	0.3%	0.1%	0.1%	0.1%	0.2%	2%	3%	
	Total	32%	13%	5%	12%	14%	24%	100%	

 Mobile & internet equipped
 Clients equipped from different operators
 Clients bi-equipped² (same operator)
 Client with convergent³ offer (same operator)
 Market share

Note: 1. SIM card used by the person selecting the fixed home services provider. 2. Same provider for both internet and mobile whether it is with convergent offer or not. 3. Either bundled (same bill) or discount offers (separate bills but with discount / extra service)

Source: Arthur D. Little analysis

The imperative to move beyond discounting

Extracting value from FMC will require moving way beyond discounting

Customers are attracted by fixed-mobile convergent (FMC) products because of discounts, but their expectations increase over time, so either an operator increases discounts (!) or provides customers with better and additional services. Given that further discounting is easily replicable, once competitors do secure access to both fixed and mobile networks at fair conditions, operators need to move beyond discounting, quickly. But how?

Via enhanced customer experience:

- Leveraging superior customer interactions (which implies full integration of customer operations and the related systems).
- Providing best-in-class user interfaces.

- Securing better indoor wireless connectivity and technical convergence (seamless handover at connectivity and application level).
- Adding innovative product & service features.
- Reviewing sales and customer-care objectives and key performance indicators in line with fixed-mobile convergent go-to-market strategies.

Via a broadened scope:

- Add cloud and internet security services to further increase stickiness.
- Move beyond connectivity-related services:
 - Media services
 - Smart-home products/devices
 - Smart-life end-to-end services

Contacts

If you would like more information or to arrange an informal discussion on the issues raised here and how they affect your business, please contact:

Austria

Karim Taga
taga.karim@adlittle.com

Italy

Giancarlo Agresti
agresti.giancarlo@adlittle.com

Nordic

Martin Glaumann
glaumann.martin@adlittle.com

Belgium

Gregory Pankert
pankert.gregory@adlittle.com

Japan

Shinichi Akayama
akayama.shinichi@adlittle.com

Norway

Diego MacKee
macKee.diego@adlittle.com

China

Russell Pell
pell.russell@adlittle.com

Korea

Hoonjin Hwang
hwang.hoonjin@adlittle.com

Singapore

Yuma Ito
ito.yuma@adlittle.com

Czech Republic

Dean Brabec
brabec.dean@adlittle.com

Latin America

Guillem Casahuga
casahuga.guillem@adlittle.com

Spain

Jesus Portal
portal.jesus@adlittle.com

France

Didier Levy
levy.didier@adlittle.com

Levant Region

Albert Kostanian
kostanian.allbert@adlittle.com

Switzerland

Clemens Schwaiger
schwaiger.clemens@adlittle.com

Germany

Michael Opitz
opitz.michael@adlittle.com

Middle East

Lokesh Dadhich
dadhich.lokesh@adlittle.com

UK

Richard Swinford
swinford.richard@adlittle.com

India

Srini Srinivasan
srinivasan.srini@adlittle.com

The Netherlands

Martijn Eikelenboom
eikelenboom.martijn@adlittle.com

USA

John W. Brennan
brennan.john@adlittle.com



Arthur D. Little

Arthur D. Little has been at the forefront of innovation since 1886. We are an acknowledged thought leader in linking strategy, innovation and transformation in technology-intensive and converging industries. We navigate our clients through changing business ecosystems to uncover new growth opportunities. We enable our clients to build innovation capabilities and transform their organization.

Our consultants have strong practical industry experience combined with excellent knowledge of key trends and dynamics. Arthur D. Little is present in the most important business centers around the world. We are proud to serve most of the Fortune 1000 companies, in addition to other leading firms and public sector organizations.

For further information please visit www.adl.com

Copyright © Arthur D. Little 2016. All rights reserved.

www.adl.com/MonetizeFMC