

2018

**Trends
to Watch:
Broadband
and Multiplay**

2018 will be all about
customer segmentatiton

Summary

Catalyst

2017 was the year operators reassessed their place in the value chain. Operators are realizing they can't invest, or out-innovate over-the-top players, in all things. 2018 will be an extension of that. Competition and market saturation will be the main pressure points. Operators therefore need to know what services their customers' value, as well as factor in where new growth will come from (e.g., millennials). They need to be even more vigilant around bundling and pricing for new growth while keeping existing customers happy as tastes evolve toward perceived higher-value services, such as OTT TV.

Ovum view

Operators by now should understand their place in the value chain, realizing whether they are an AT&T that can buy Time Warner or a Softbank that can buy a stake in Uber Technologies. But we would argue that operators still have a lot of investigation to do around really knowing their user base. The new digital consumer is upon us, more discerning than ever, valuing new services (e.g., OTT video, a mobile service) over legacy services (e.g., fixed voice, pay TV). The onus for operators is to keep abreast of these changing digital consumer tastes. First, that means they need to keep existing customers happy, renewing their multiplay services or enticing them with higher speeds or more value-added services. This is particularly the case in developed markets where fixed broadband penetration has reached saturation – in this case, a key trigger for customer nonrenewal is “how relevant is the bundle I have?”

Second – and this is where a lot of operators are failing – they need to consider where the new growth opportunities will come from. Today's millennials are unlikely to value full-blown large and expensive pay-

TV services in their multiplay packages. In turn, operators need to segment to attract this customer group to help maintain growth. In short, it is about bundling relevant services for new use groups and even grasping the new reality: the rise of the mobile-only broadband and video consumer.

Key messages

- **“Bundle shavers” need addressing in 2018.** Consumers are reassessing the value of their multiplay, and that means more focus on having OTT video and a mobile service in the bundled offer. Bundle shavers, who are looking for cheaper, more relevant bundles, will need to be particularly monitored in 2018 as they could be prime churn candidates. Ovum forecasts next-gen bundled subscriptions that include valued services such as Netflix or a mobile service in the multiplay will make up 25% of bundled subscribers by the end of 2018.
- **Get ready for the mobile-only broadband and video consumer.** The “anchor app” for consumer broadband is video, and as technical capabilities of fixed and 4.5G mobile converge, the mobile-only customer becomes a more distinct user group for video and broadband. Mobile operators are already increasing data allowances and speeds, making the consumption of light OTT video more realistic and palatable over mobile.
- **Segmentation opportunity will be lost without price innovation.** Tariff innovation will be required to milk the new customer segmentation reality. In the fixed broadband space, we expect higher-speed tiers being offered at minimal premiums for the majority, but also more low-speed, low-cost, prepaid, and no-contract offers for low-credit, rural, and hitherto unserved customers to emerge in 2018.

Recommendations

Recommendations for service providers

Operators should pay attention to potential “bundle shavers” and “bundle cutters” in 2018. These are consumers who feel disgruntled with their existing multiplay. Reasons could include users no longer wanting a full suite of traditional pay-TV channels in the bundle. Incumbent providers therefore need to keep bundles relevant to changing tastes, and that means incorporating popular OTT video services into the offering somehow, or risk losing the customer.

Operators need to keep their eye on the growing mobile-only customer segment and ensure that they do not fly under the radar as eventually those users (e.g., students) will grow up, potentially have families, and become bundled households to target. Whereas many customers have shifted to mobile only for voice, broadband and video substitution is still uncommon. But as operators move to 4.5G in 2018, more consumers will go mobile only for broadband and video, and the user base may expand to the broader customer (light video user), beyond just a handful of distinct niche segments, such as students, millennials, and foreign workers.

As customer segmentation becomes more crucial, tariffs will need to change quicker in order to keep abreast of the changing needs of the new digital consumer. Too often, operators like to stay with their existing tariff structure because customers easily understand it. But in a saturated market, the new game of segmentation means operators need to innovate around tariffs to maintain growth.

Recommendations for vendors

Broadband infrastructure vendors should note which markets are close to saturation and support their operator customers in attracting new customer segments and in fulfilling user needs for new services. Their tool kits should include access technologies that help operators offer higher broadband speed tiers like DOCSIS 3.1, G.fast, and FTTP, but also low-cost options if possible, even if they are low speed. Vendors need to note that there will also be growth in converged bundles (with both fixed and mobile) and work with operators to make this offer easier at the network, CPE, and service levels.

It is particularly important for CPE, mobile device, and software vendors in the app ecosystem to make it easier for customers to access, authenticate, and enjoy OTT video services when offered in a bundle by the operator along with other telecom services on the same CPE and devices. Without a superior and seamless quality of experience, the value of an OTT service in the bundle declines, and the customer will veer toward a DIY bundle instead of letting the operator construct that bundle.

Bundle shavers need addressing in 2018

The way consumers want to buy telco services is changing. At the same time, there is a slowdown in growth in mature fixed broadband markets and bundling. That means operators need to understand what it is exactly that customers value in the telco bundle to keep existing customers happy. Also, they need to focus on new growth opportunities, which may mean innovation around the bundle or focusing on the mobile-only customer.

Bundling gets trickier as consumer tastes change

2018 will be the year when phrases such as “bundle shaver,” “bundle never,” and “bundle cutter” become the terms in which multiplay operators consider their addressable customer bases. In this vein, operators will look at their fixed broadband-led bundles and analyze their relevance based on different audience segments:

- Bundle shavers take a cheaper multiplay, but do not drop the bundle completely. A less expensive bundle may eliminate a fixed voice or pay-TV service, or keep the existing services but opt for cheaper versions with fewer TV channels, lower speeds, etc. In order to find that bundle, the user may go to another operator.
- Bundle nevers do not see the appeal in buying a fixed broadband-led bundle of services.
- Bundle cutters (unbundlers) choose to terminate their bundles altogether without bothering to try cheaper services or eliminating a single service first.

Both the bundle nevers and bundle cutters could prefer to buy just a fixed broadband connection (and layer their own OTT services on top, for instance) or believe their smartphones/tablets will suffice for their broadband and content requirements (the “mobile-only” customer, which we describe above).

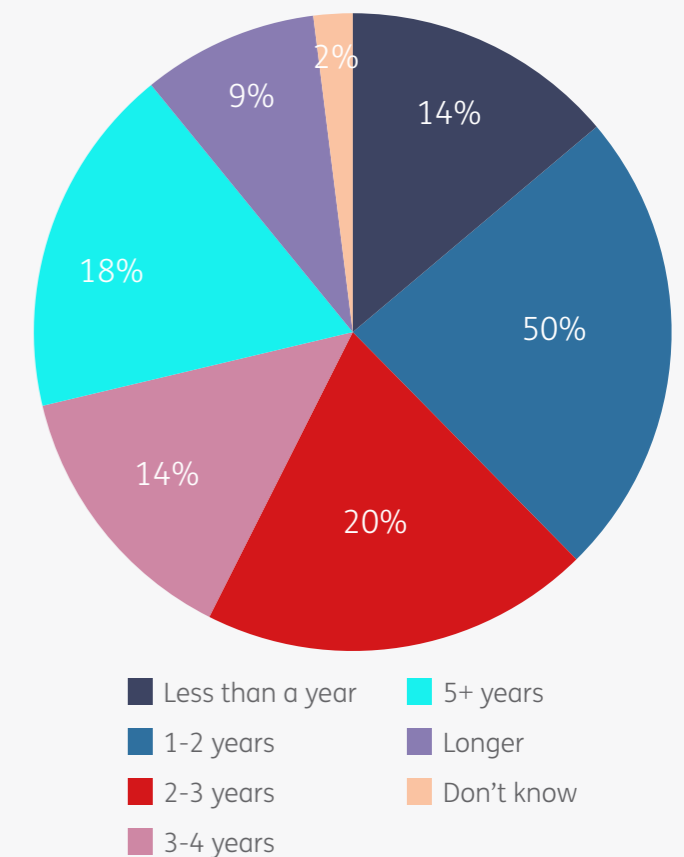
Bundle shavers will particularly need to be watched in 2018, as their evolving tastes will need to be met through new bundled options – which hopefully will be found within the suite of services offered by the existing provider.

A key question for bundled service providers will be this: Is the bundle seen as providing a supplementary or substitutional use case for existing consumers of traditional pay-TV services? A bundle with fixed broadband, pay TV, and an attractive OTT video service (Netflix, HBO Now, iflix, etc.) would fit into the “supplementary” category – reducing the likelihood of the customer becoming a bundle cutter. But in some cases, existing bundle customers will want to substitute their full-blown pay-TV part of the bundle – for either a slimmed-down offering of the most popular channels or none at all. So far, the majority of operator–OTT video partnerships do not entail hard bundling. Rather, they are providing access and using the OTT brand to push the telco’s own multiplay. With traditional bundles under threat, operators should consider deploying OTT streaming boxes (like Telstra TV, which includes Netflix) or integrating OTT video services into their regular pay-TV set tops.

Also, fixed broadband bundles are under threat from mobile-focused multiplays, such as AT&T’s DirecTV Now service, which is offered to AT&T unlimited wireless data plan customers. A lot of operators are responding to (or pre-empting) consumer demand for bigger mobile data allowances in their bundles.

Figure 1 shows there is much at stake for multiplay operators should consumers cut the bundle or move to a cheaper bundled offer. Ovum’s Digital Consumer Insights 2017: Multiplay survey, conducted in 4Q16, found that 61% of consumers with a bundle have had that multiplay for more than two years; that group needs to be the focus of operators in 2018, especially if those customers have a preference for new OTT services or want to see a mobile service offered as part of the bundle. Also, our survey found that fixed voice and pay TV were the two most commonly dropped services in a bundle, while a lack of interest in pay TV was given as the main reason for consumers not purchasing a bundle (33%). Ovum forecasts that, by 2018, 25% of global multiplay subscribers will take next-gen bundles, which can include an OTT video or a mobile service.

Figure 1: How long have you had your current bundle?



Note: N=6,000 in six countries: Australia, Brazil, China, France, The UK, and the US

Source: Ovum’s Digital Consumer Insights 2017: Multiplay

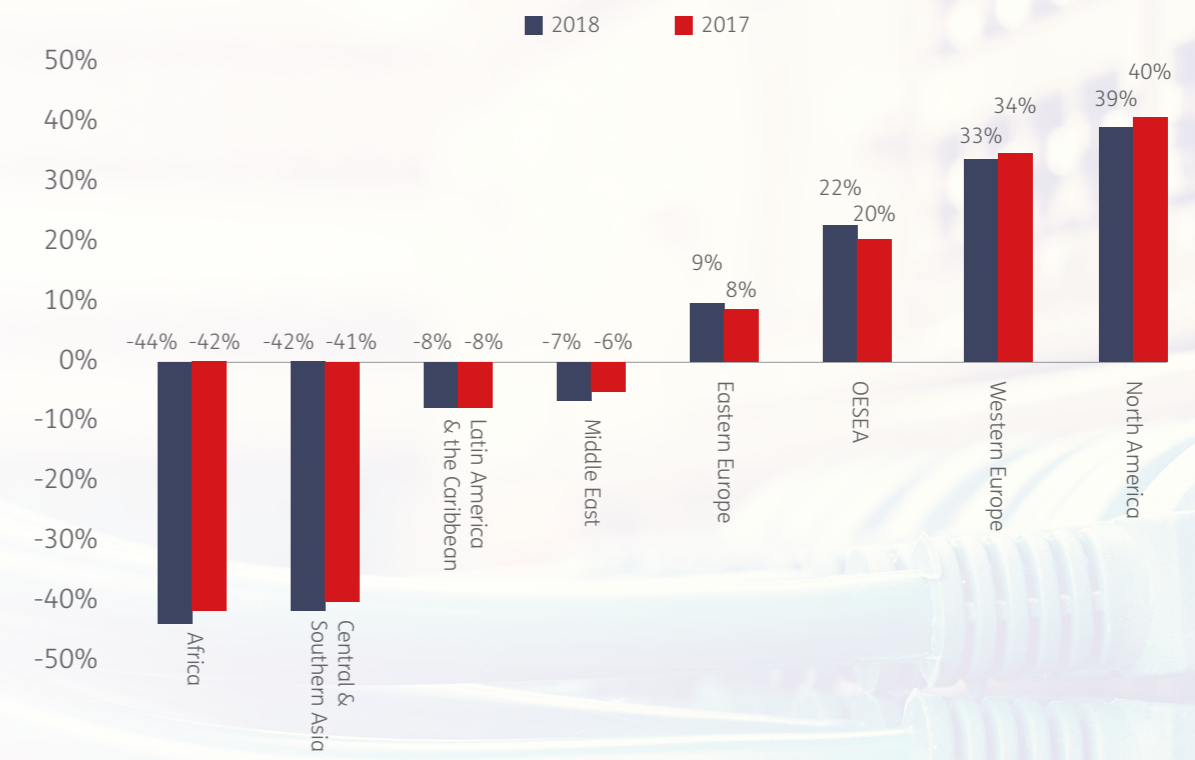


Get ready for the mobile-only broadband and video subscriber

As mobile broadband pipes get bigger and as fixed broadband saturation approaches in developed markets, operators will need to consider that potential new customers may opt to become mobile only in 2018. Today's mobile-only customer uses a mobile handset for broadband connectivity and increasingly to access content (e.g., OTT video). Whereas many customers with 4G have shifted to mobile only for voice, broadband substitution has been less common and mainly restricted to certain user types (e.g., students, single home dwellers) in developed markets. But with 4.5G (and eventually 5G) adding capacity to the network, going mobile only is becoming a more palatable experience, including for video. As such, we expect mobile-only broadband and video services in 2018 to appeal to a broader customer base, beyond just a handful of niche segments. Heavy entertainment users will stick with fixed broadband and mobile. But as technical capabilities of fixed and mobile converge, the pricing structures for video (operators are already offering larger data buckets) and the patterns of video usage (e.g., increase in use of some OTT video over mobile) will determine the tipping point for the new mobile-only consumer.

The mobile-only broadband customer is already a significant reality in emerging markets, where users sometimes simply have no fixed broadband alternative, and that has been a major contributor to fixed broadband regional disparity. While global average fixed broadband household penetration will surpass 50% in 2018, major regional disparities will continue. Figure 2 shows the deviation of each major region from the global average of 51% household penetration in 2018 as forecast by Ovum. North American household penetration will be as high as 90% in 2018, 39 percentage points higher than the global average. At the other end of the spectrum, Africa will have a household penetration of just 7%, 44 percentage points lower than the global average. Further, regions such as Africa and Central & Southern Asia are not catching up to the global average. In 2018, these regions will be further away from the global average compared to 2017.

Figure 2: Deviation from the global average in 2018: fixed broadband household penetration



Segmentation opportunity will be lost without price innovation

Tariff innovation needs to go hand in hand with telcos' concentration on more targeted offers in 2018. Despite the trend toward higher speeds in general, Ovum also expects fixed broadband operators to offer more low-speed, low-cost plans for low-income, rural, and underserved areas as part of their efforts to close the digital gap, as part of their agreements with regulators, or even in an attempt to grow their subscriber base when their urban markets have become saturated. Some of these plans will be over networks with non-mainstream technologies such as fixed wireless LTE when the operator has not been able to justify a business case to build or upgrade a copper network. The selection of a non-mainstream technology typically keeps costs and speeds low.

Another way of enticing less-credit-worthy customers in 2018 will be via prepaid fixed broadband plans. Typically these will be low-speed plans too. Thai operator AIS launched Thailand's

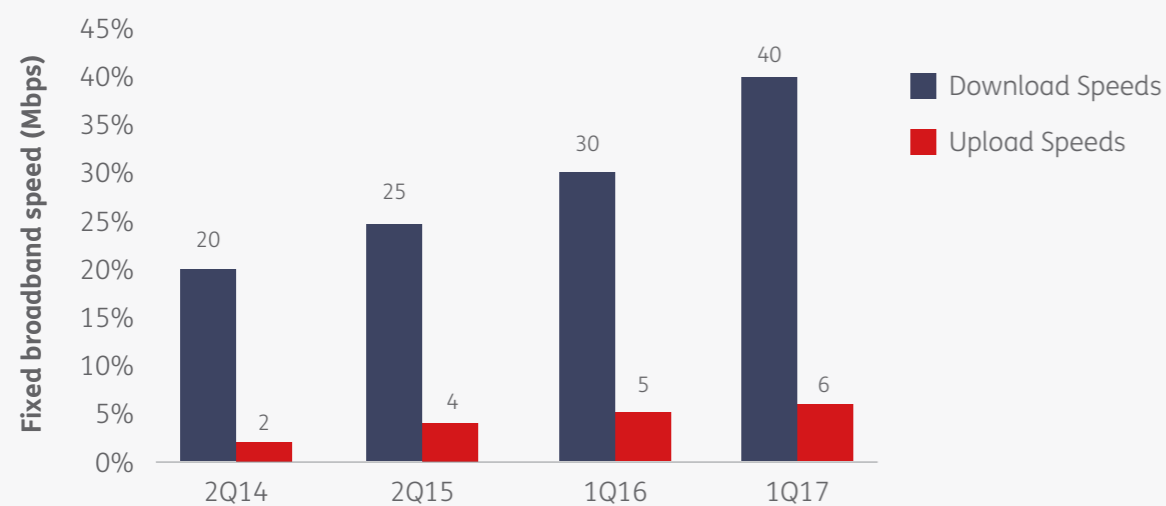
first prepaid fixed broadband plan in 2016 – 15Mbps. BSNL in India has prepaid fixed broadband plans too. Meanwhile, in the high end of the market, intensifying competition and saturation in many countries will lead to operators offering higher fixed broadband speed tiers for minimal to no extra charges in 2018. Our pricing tracker covering 20 major countries has shown consistent growth in the median downstream speed (Figure 3), while the median price has barely increased. In highly competitive markets, operators will have no choice but to closely match the fixed broadband offers of their rivals. But we stress that monetizing even 1–2Gbps services in 2018 will be difficult, due to low price premiums and the fact that 4K and virtual reality/augmented reality services are not that popular yet, and even as their popularity rises, they will not require 1–2Gbps speeds for the vast majority of consumers (an exception would be a real-time VR gamer, for instance, but that is more of a medium-term reality than a 2018 use case).



Also, converged broadband (with both fixed and mobile) bundles will increase and evolve in terms of pricing, especially in competitive markets. Some operators already throw in one service for free – such as mobile broadband or fixed broadband – to entice new customers who would otherwise not take that bundle and to grab market share quickly. But that is not sustainable on a long-term basis, and hence, we expect new types of plans that account for the cost of offering both fixed and mobile to emerge in 2018.

In the mobile space, operators will continue to differentiate, monetize (e.g., cheap subscription bolt-on offers), and bundle value-add-on services, such as messaging apps, social media, and OTT video in 2018. The value-added service segmentation can be lean (e.g., a telco offering English Premier League for premium mobile users only) or broad (e.g., free Facebook offers). It commonly includes zero-rated content. At the same time, we remind mobile operators to continue to reward customers for their loyalty in 2018. This could include for years of service, amount spent a month, or usage.

Figure 3: Median Fixed broadband speeds (select countries and operators), 2Q14-1Q17



Source: Ovum

Appendix

Methodology

Ovum has summarized the findings of its previously published reports, surveys, and forecasts that are mentioned below to highlight trends that will be particularly relevant in 2018. Ovum has also used information gleaned from quarterly reports, conversations with operators and vendors, and inputs from other reports published by Ovum.

Further reading

Total Fixed Broadband Subscription and Revenue Forecast: 2017–22, TE0009-001648 (May 2017)

Consumer Broadband Subscription and Revenue Forecast: 2017–22, TE0003-001039 (June 2017)

Broadband Bundle Subscriber Forecast: 2016–21, TE0009-001632 (May 2017)

The Telco Services Bundle Unraveled: The Rise of New Bundles, TE0009-001650 (June 2017)

Digital Consumer Insights 2017: Multiplay, PT0093-000002 (May 2017)

Author

Nicole McCormick, Practice Leader,
Broadband and Multiplay

nicole.mccormick@ovum.com

Kamalini Ganguly, Senior Analyst,
Broadband and Multiplay

kamalini.ganguly@ovum.com

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ovum.informa.com
marketingdepartment@ovum.com