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Fixed-mobile convergence leads to improved consumer value and network quality

- Across France, the Netherlands, Portugal, and Spain, there is positive consumer demand for a converged product. The average FMC share of broadband subscriptions for converged operators stood at 62.4% in the last full year.
- Higher demand has translated into higher satisfaction and customer loyalty. FMC operators have seen significant increases in NPS and reduced churn, both driven by converged products. Customers have seen a dramatic increase in value from converged products, with a 1740% rise in broadband speeds today compared to those offers prior to convergence.
- Countries where there are either two or more competing FMC operators, or where there has been a merger between a fixed and a mobile operator to create a new FMC network have seen significant investment in infrastructure, which has resulted in widespread coverage of 100Mbps+ broadband. On average, 77.5% of households across France, the Netherlands, Portugal, and Spain were covered by 100Mbps connections in the last full year.
- FMC operators contribute strongly to the economy. Across France, the Netherlands, Portugal, and Spain, the sector contributes an average 1.88% of total GDP. An FMC operator contributes on average 0.56% of GDP, compared to 0.2% of a non-FMC operator.

Full FMC requires competing providers with their own networks

A true, competitive converged offering for consumers requires two competing providers with their own networks rather than 'FMC-light' MVNO structures. Operators with their own networks are in a stronger position compared to those who rely on wholesale access either for fixed or mobile. It means reduced reliance on wholesale access agreements, both in terms of pricing and in terms of quality of service.

FMC has generally been launched by the incumbents which leverage their ownership of both fixed and mobile infrastructure. Other operators have usually responded at a later stage often after a merger between a fixed and a mobile operator, which strengthened their network footprint and ability to respond to the incumbent. France, the Netherlands, Portugal, and Spain all rank highly in the EU with regard to the adoption of FMC products. In 2019, the European Commission's Digital Economy and Society Index (DESI) found Spain to be first in the percentage of households (62%) taking an FMC product. France was third (50%), followed by Portugal (40%).

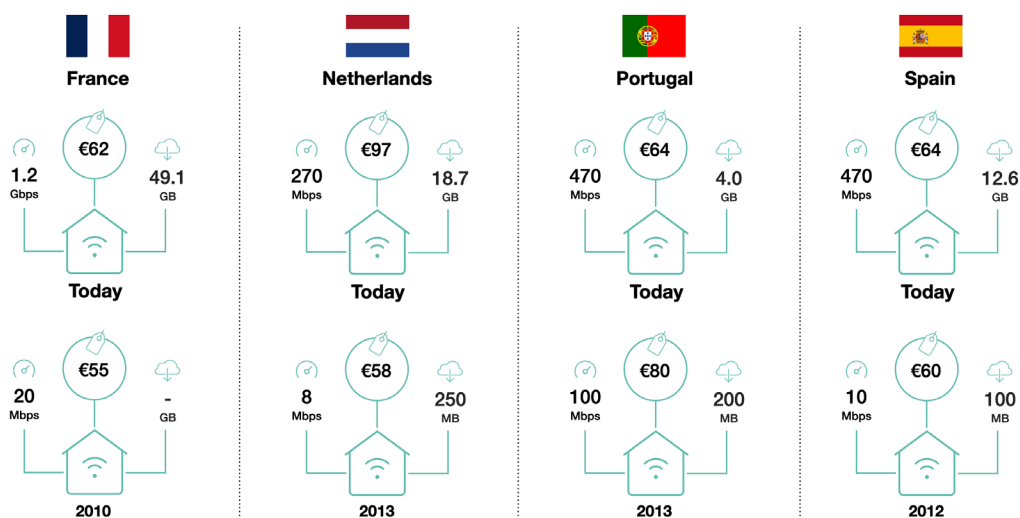
In all of these countries, there has been at least one merger in recent years which either created an integrated and converged operator or consolidated two FMC operators. In Spain, the 2014 merger between Vodafone and ONO was followed by the Orange/Jazztel merger in 2015. Both were a response to the success of Movistar's FMC strategy, which had started in 2012. In 2016, Masmovil acquired the FTTH network Jazztel had to divest as part of the merger with Orange. This enabled Masmovil to start developing a large FTTH footprint (from 2m homes passed in 2017, to 8.2m in 2019) and compete with the other FMC operators in the country. Similar market dynamics can be seen in Portugal, where the Zon/Optimus merger of 2013 resulted in an integrated operator (renamed as NOS in 2014). In 2015, Altice Portugal took over MEO, with a view to leverage on the operator's strong position for growth in convergence. In 2016, Vodafone acquired the FTTH network divested by Optimus, thereby strengthening its position as an FMC operator and competing with the other two large operators in the country. In the Netherlands, the Vodafone/Ziggo merger of 2016 allowed the merged company to compete more aggressively with KPN, and prompted T-Mobile to follow with the acquisition of Tele2. In France, the Numericable/SFR tie-up was the only one creating an FMC operator, however there are now three integrated operators including Orange and Free. The only non-converged operator, Bouygues Telecom, has the lowest market share in both the fixed and mobile.

Customers win through FMC, with operators delivering more attractive propositions and better value

Those markets in which there is full fixed-mobile convergence are all characterised by the significant improvement in value delivered to consumers. This holds true both for countries where price competition has been more aggressive (France and Portugal), and for countries where operators have been able to take a 'more-for-more' approach (Netherlands and Spain). By 2020, broadband speeds in FMC products across those countries increased by 1740% from when FMC first began. While this is not down to FMC alone, it shows the extent to which consumers in countries where FMC has gained ground have benefited from increased value and quality from the services they take.

Figure 1 shows the increased value of FMC products in 2020, compared to the time when FMC was launched in each country. It shows French consumers can access speeds nearly 60 times higher than in 2010, for only a slightly higher price. This is also the case for consumers in Portugal and Spain. In Portugal, FMC customers can now benefit from speeds 4.7 times higher than in 2013, at a price that is 20% lower. Consumers in Spain can get an FMC product with broadband 47 times faster than in 2012, at prices similar to what they were then. For example, Movistar's customers can now get 600Mbps and unlimited mobile data on two SIM cards, as well as 80 TV channels, for €75/month.

Figure 1: Value and price of FMC products over time



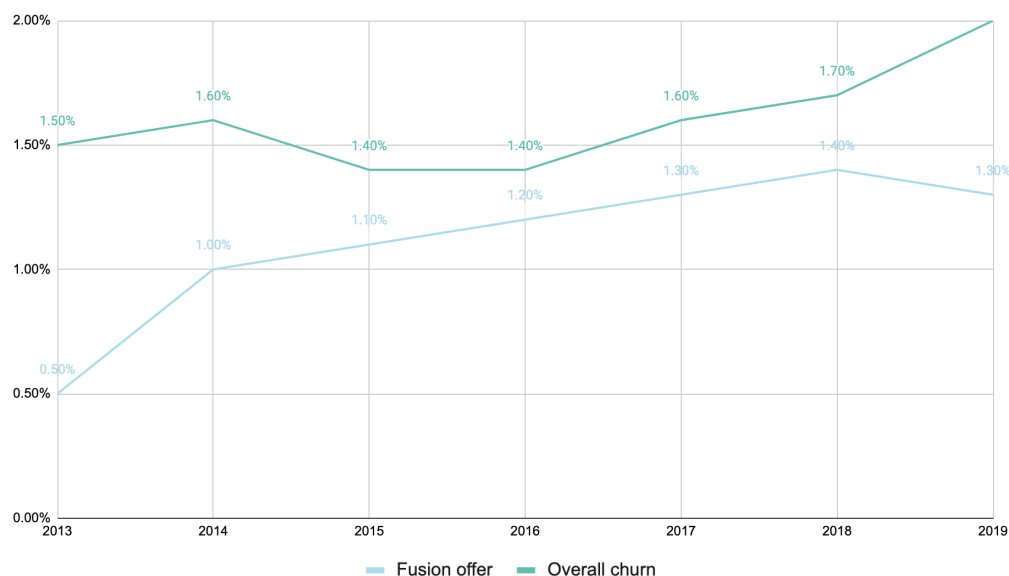
Source: Assembly

Converged products drive higher customer loyalty

The arrival of FMC has been welcomed by consumers in those countries where operators have embraced it. They have consistently reported that FMC products have driven improvements in indicators such as NPS. In the Netherlands, KPN reports a 27-point increase in the NPS between 2013, when FMC commenced (-8), and 2019 (+19). FMC is clearly the primary reason for such an improvement, considering that the NPS for FMC products in 2019 was +30, or 11 points higher than the general NPS. Similarly, Ziggo reported a 10-point increase in the NPS between -4 in 2016, when it merged with Vodafone, and +6 in 2020.

FMC has also had the effect of reducing churn and improving customer retention, with nearly all operators across France, the Netherlands, Portugal, and Spain reporting lower churn rates over time, and attributing them to the success of FMC. For Orange in Spain, the difference in churn between FMC and non-FMC fixed broadband offers was as high as nine percentage points in 2017, and four in 2018 and 2019. The difference was lower in France, but still in favour of FMC (3 percentage points in 2017 and 2018, and 4 percentage points in 2019). In the Netherlands, residential broadband churn has fallen constantly since 2014 – it was 3.84% then, compared to 2.64% in 2019. In Spain, Movistar reports that churn for the FMC products ‘Fusión’ has been consistently lower than the overall churn rate since 2013, as shown in Figure 2. The launch of ‘Fusión’ was a catalyst for the commercial reactivation of the company, resulting in a net gain of 238.3k broadband lines between 2012 and 2013. By way of comparison, in 2011, the operator had recorded a net loss of 121.2k broadband lines.

Figure 2: FMC vs non-FMC fixed broadband churn for Movistar in Spain, 2013–2019 (%)

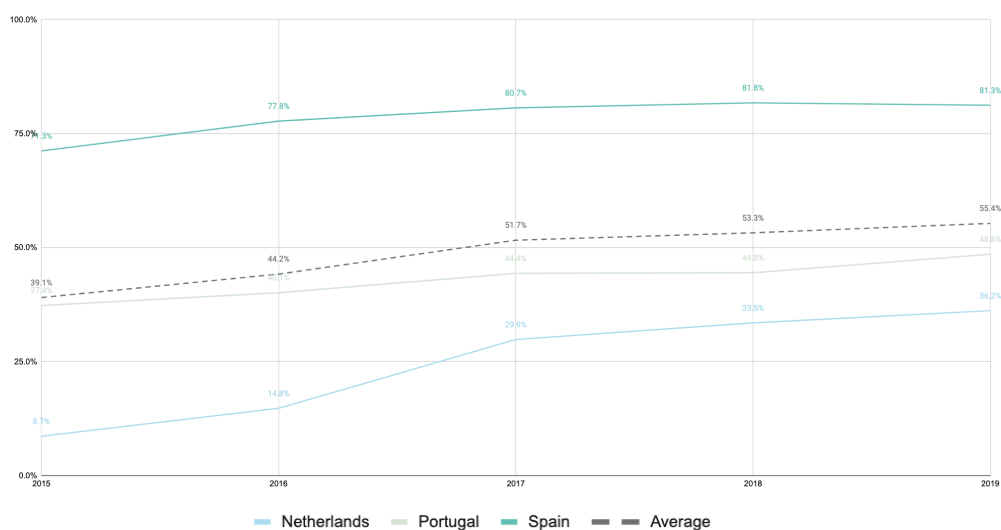


Source: Assembly

There is significant demand for converged products

As operators broadened the scope of their FMC offers, customers have increasingly embraced them. In the countries characterised by strong fixed-mobile convergence, the average share of broadband subscriptions as part of an FMC product rose from 39.1% in 2015 to 55.4% in 2019, as shown in Figure 3. Netherlands saw the strongest growth, with FMC accounting for 36.2% of all broadband subscriptions in 2019, compared to 8.7% in 2015. Among the integrated operators in the four countries, the FMC share of broadband subscriptions stood at 62.4% at the end of 2019.

Figure 3: FMC share of broadband subscriptions, 2015–2019 (%)



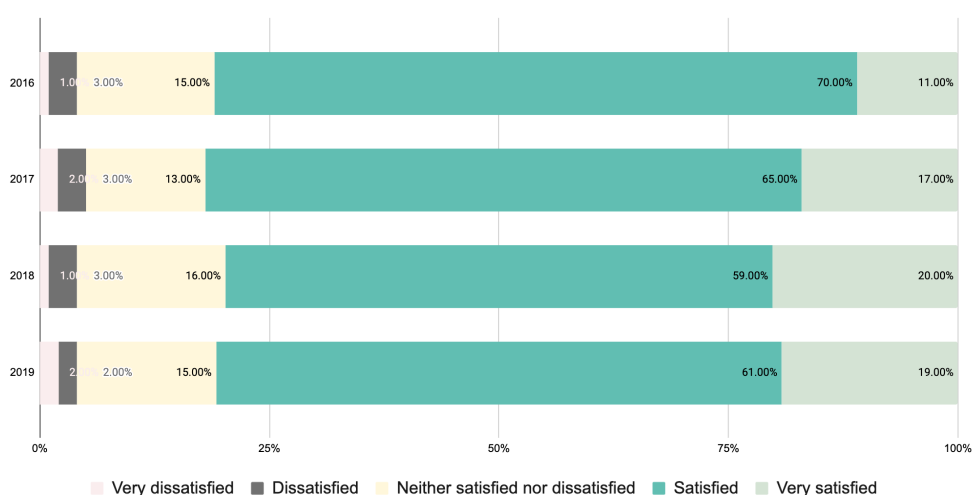
Source: Assembly

The FMC share of bundled subscriptions has also grown steadily. In the Netherlands, FMC accounted for 30.5% of bundles in 2019, compared to 7.4% in 2015. In Spain, it rose from 64.4% in 2014 to 82.3% in 2019. In Portugal, almost one in two households took an FMC product in 2019, compared to 28.9% in 2015. Looking at individual operators, KPN had 29% converged households and 33% converged post-paid mobile customers in 2015; by 2019, these were 49% and 63%, respectively. 41% of VodafoneZiggo’s fixed customer base now take an FMC offering, which represents an 8 percentage point increase on 2018. In Spain, 64% of Movistar’s broadband customers took up a 5-play bundle in 2019, compared to 49.6% in 2016. By the end of 2019, 86% of Movistar’s FMC broadband subscribers had their video service (3.8m). In Portugal, 60% of NOS’s broadband subscribers take up an FMC offer, whereas MEO’s FMC subscribers base grew by 10 percentage points between 2015 and 2019, reaching 53.7%.

Convergence results in higher satisfaction

A look at the levels of consumer satisfaction in the countries where FMC is popular shows that consumers are increasingly happy with telecoms services in general, and in particular that they like the convenience of FMC products. In the Netherlands, the share of consumers satisfied or very satisfied with fixed broadband services has been constantly close to 80% since 2016, as shown in Figure 4. In Spain, 49.8% of fixed broadband consumers are either satisfied or very satisfied, compared to 44.2% in 2015. In France, average satisfaction levels rose from 7.3/10 in 2018 to 7.45/10 in 2019 for fixed broadband services, and from 7.25/10 to 7.78/10 for mobile services.

Figure 4: Consumers’ satisfaction with fixed broadband services in the Netherlands, 2016–2019 (%)



Source: Assembly

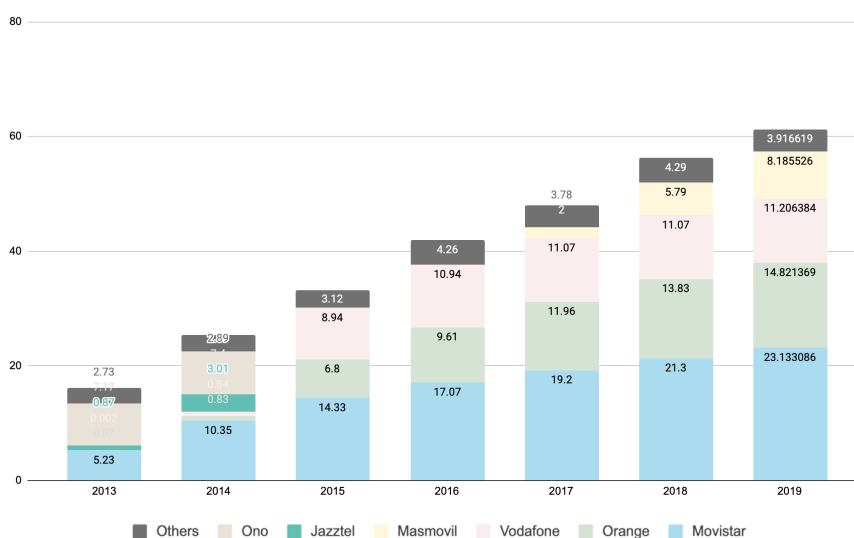
Where there are two strong competitors, investment in infrastructure accelerates

In France, the Netherlands, Portugal, and Spain, the development of convergence has coincided with significant progress in broadband infrastructure investment. In France, network investment was at an historical high in 2019, rising to €7.8bn from €5.5bn in 2015, and has been constantly rising as a share of revenues (33.9% in 2019, compared to 18.5% in 2011). In the other three countries, investment has been generally stable as a percentage of revenues, despite downward pressure on revenues over recent years.

Most importantly, all four countries have seen a sharp rise in deployment of broadband at 100Mbps or faster, resulting, on average, in a 77.5% coverage. In France, coverage grew from 22.4% of households in 2014, to 54% in 2019. In the Netherlands, gigabit broadband coverage now sits at 88% compared to 29% in 2015. In Portugal, combined coverage of FTTH and HFC networks stood at 84.5% in 2019, 18.4 percentage points higher than in 2016. In Spain, which is the country with the highest coverage of FTTH, availability of 100Mbps speeds or higher in 2019 was 1.5 times higher than 2014 (83.6% compared to 56%).

Where there are at least two strong competitors, investment in infrastructure accelerates. In Spain, alternative operators accounted for 62.2% of FTTH+HFC coverage in 2019, as can be seen in Figure 5. In the Netherlands, KPN and VodafoneZiggo have upgraded their HFC networks to DOCSIS 3.1, and T-Mobile has pledged to cover 100k premises with FTTH by the end of 2020. In Portugal, where Fibre rollout increased by 45% between 2016 and 2019, All the main operators have an extensive footprint of their own. Even in France, where Orange continues to make the most significant contribution to FTTH rollout, co-investment has played a significant role in the expansion of FTTH in less densely populated areas.

Figure 5: FTTH+HFC rollout by operator in Spain, 2013–2019 (m/lines)

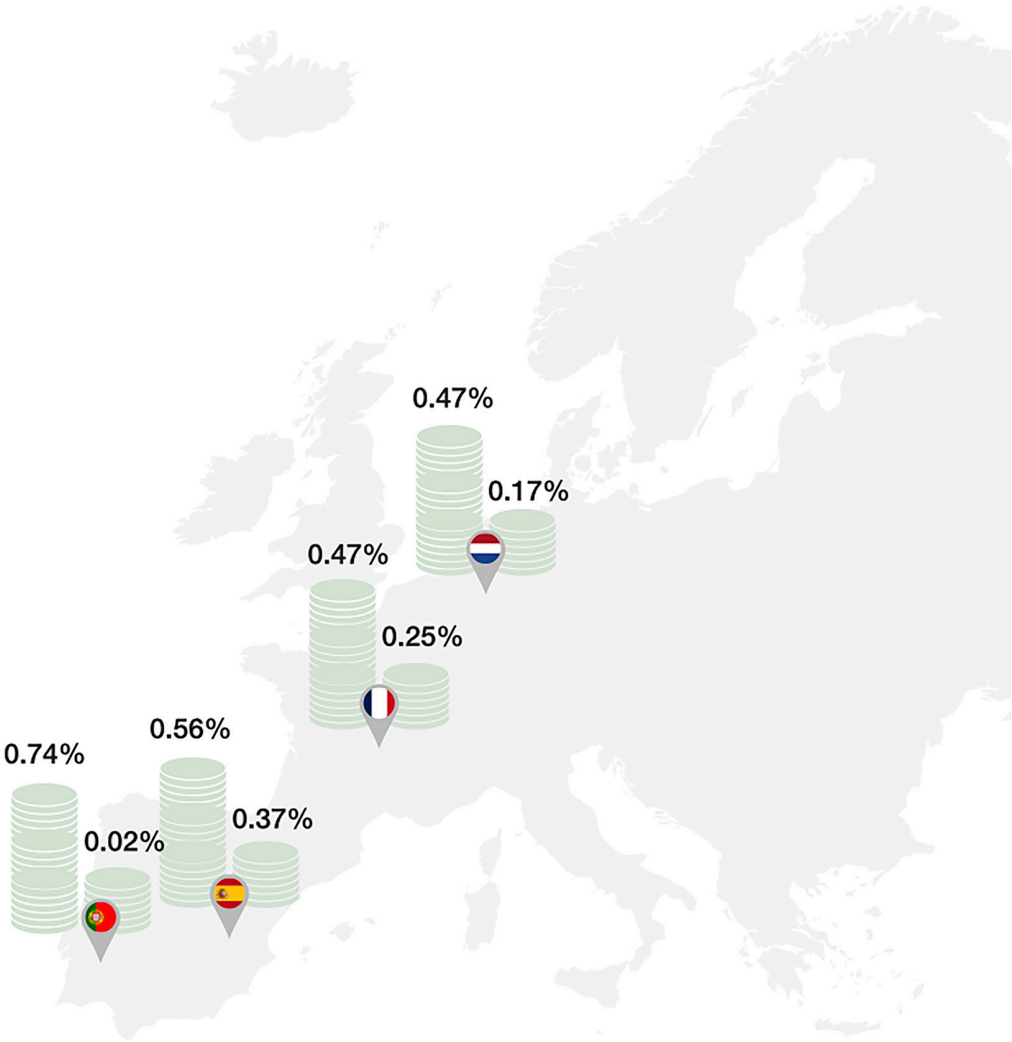


Source: Assembly

FMC operators make a stronger contribution to the national economy

The rise of FMC operators has also resulted in stronger contribution from the sector to the economies of the countries characterised by strong fixed-mobile convergence. Across France, the Netherlands, Portugal, and Spain, the average contribution of an FMC operator to the country's GDP is far higher than that of non-FMC competitors – an average of 0.56% of GDP against 0.2% of a non-FMC operator. In those countries, the average contribution of the sector to GDP was 1.88% in the last year.

Figure 6: Economic contribution of FMC vs non-FMC operators, 2019 (% GDP)



Source: Assembly

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