

The Telco Services Bundle Unraveled

The Rise of
New Bundles

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The rising popularity of Netflix and mobile services in the bundle has left the traditional telco services bundle exposed to competition from next-gen bundles that resonate more with new and existing consumers. This has left telcos, mainly incumbents that have relied on traditional bundles as a key weapon to thwart churn, with a dilemma on how to evolve the bundle. We forecast that 25% of bundled subscriptions will be non-legacy bundles by 2021.

Market status

Bundling remains an important strategy. Indeed, consumers like the bundle – 63% of the consumer respondents we recently surveyed in six markets said they purchased a bundle of two or more services.

Almost half of the respondents said they took a bundle because “it was a good offer at the time of purchase,” while 32% said it was cheaper to buy a multiplay package than to purchase each service separately. Indeed, customer churn rate tends to reduce when customers purchase a bundle, and for this reason bundling has tended to be a churn management strategy.

However, there are signs that this might be changing. As competition increases and other players also offer quad-play bundles or innovative new bundles that drop costly unwanted services such as fixed voice and IPTV, we start to see churn rates creep up again in mature multiplay markets.

As consumer demands change, so the legacy bundle needs revisiting. The most pressure will be on incumbents that usually spend the most on expensive pay-TV content rights in the face of challengers offering less expensive, more relevant next-generation bundles to certain user segments.

Another reason bundling is under pressure is because of younger consumers showing a lower propensity to bundle fixed broadband along with other services. In the UK, for example, 85% of our survey respondents between 35–55 years old had a fixed broadband bundled service, compared with just 57% for the younger age group of 16–34 years.

This suggests that operators need to be aware of targeting new growth from younger demographics with innovative next-gen bundles in markets like the UK (and France, where there is a similar pattern.)

Consumers want alternative bundles

The nature of the bundle is changing, with “other” non-traditional bundles – such as fixed broadband/smartphone or fixed broadband/fixed voice/OTT video – becoming more commonplace. In turn, we found evidence that customers are churning from traditional bundles in a few markets, a trend that we expect will become more evident globally toward the end of our forecast period. The risk with quad-play customers is that when they do churn, they are significantly higher-value customers, so their loss has a greater impact.

Table 1: Fixed broadband subscription in bundles; respondents by age groups

Country	Age group: 16-34	Age group 35-55	Difference in bundle adoption (%)
US	51%	66%	15%
UK	57%	85%	28%
China	64%	75%	11%
Brazil	60%	66%	6%
France	46%	71%	25%
Australia	61%	81%	20%

Mobile and OTT video services are putting pressure on traditional bundles. For example, people prefer mobile in a bundle, rather than fixed voice, while services such as Netflix and Amazon Prime have the potential to unravel users from traditional bundled service and, even more crucially, deter new users (e.g., millennials) from taking a triple play or quad play, including pay TV, which they simply are not interested in.

Netflix is a formidable driver in breaking up the bundle and forcing telcos to innovate with their bundles. In the US and Canada, for example, operators have slimmed down the full pay-TV component in the bundle to increase affordability and appeal, while US cable operators pioneered the introduction of OTT video as part of the bundle (e.g., Cablevision offering HBO Now alongside fixed broadband and fixed voice).

While there are still far more pay-TV connections than SVOD subscribers, the momentum is certainly with SVOD. The pay-TV subscriber market has reached saturation or minimal growth in mature markets, while subscriber growth is moderate even in emerging markets where fixed broadband network deployment is limited.

Market dynamics

Ovum forecasts that bundled subscriptions globally will rise from 643 million in 2017 to 753 million in 2021, with corresponding bundled subscription household penetration increasing from 32.5% to 36.5% within the five-year period.

However, the growth in bundled subscribers will slow over the five-year period, due to the maturity of the bundle in developed markets, the rise of naked broadband subscriptions, and growth in mobile only consumers.

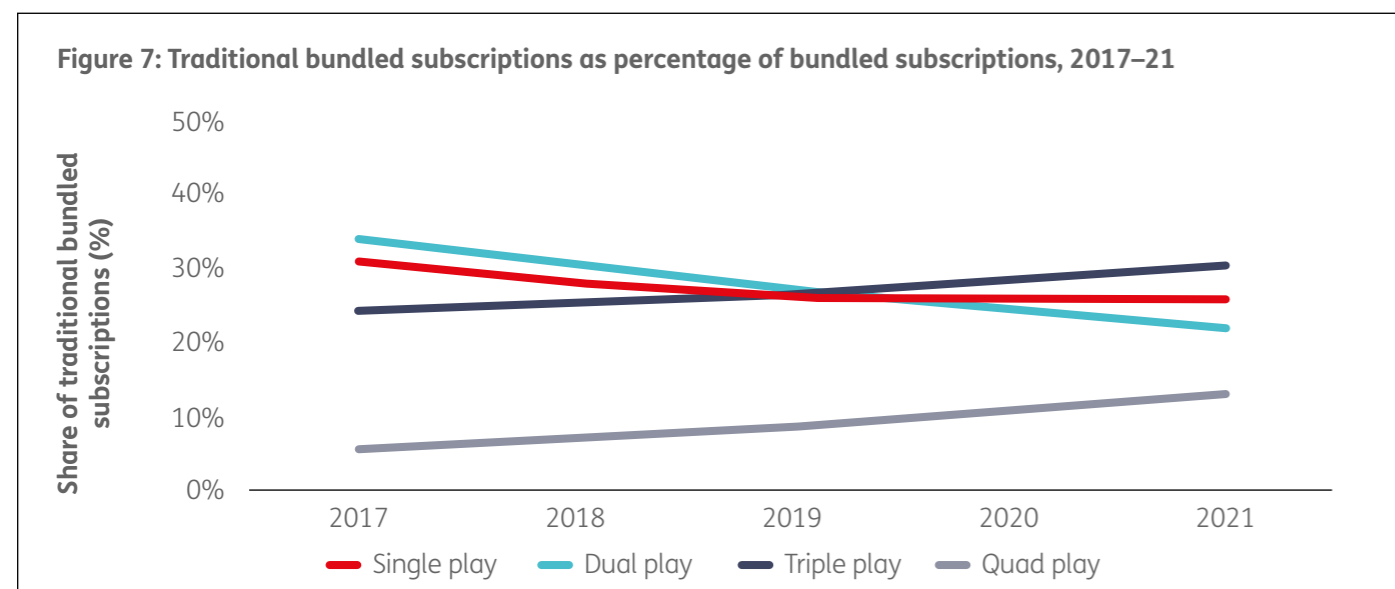
The rise of naked broadband subscriptions will be due to the greater availability of such services, pent-up demand for high-speed fixed broadband (in emerging markets), and a dwindling interest in traditional bundles (which include pay TV and fixed voice) among new growth segments, such as millennials.

As mentioned earlier, millennials have a lower propensity to bundle – for example, preferring to buy just straight high-speed broadband and layer their OTT TV services of choice on top, rather than buy a package offering a full suite of pay-TV channels, which is considerably more expensive and less tailored to their viewing tastes.

The rise of triple and quad play as well as new bundles

Ovum forecasts that traditional dual-play bundled subscriptions – consisting of fixed broadband and fixed voice – will fall from a high of 34% of bundled subscriptions in 2017 to 22% by 2021. This bundled combination is quickly losing traction, as it becomes increasingly substitutable for other bundles. In contrast, traditional triple-play bundled subscriptions – consisting of fixed broadband, fixed voice, and pay TV – will rise moderately from 24% of bundled subscription to 31% in the forecast period. Quad-play subscriptions (which add a mobile service to the triple play) will grow faster, but from a lower base of 6% to 13% by 2021.

We forecast next-gen dual-play subscriptions will grow as they gain higher market visibility, capturing 17% of total bundled subscriptions by 2021. However, taking only the global view of next-gen dual-play bundle penetration is somewhat misleading, as first-mover countries show a much more aggressive take-up of non-legacy bundles. For example, bundling fixed broadband and a smartphone is expected to resonate strongly in Japan and China, accounting for 27% and 16%, respectively, of bundled subscriptions by 2021.



Source: Ovum

Market outlook

The content market is fragmenting, and that will become even more complex as more traditional channels also seek to spin off streaming services and as more regional OTT video services emerge. That means the traditional bundle is at risk of further splintering.

The onus is on the telco to provide compelling viewing (OTT local sports or entertainment) at a good price, perhaps leveraging localized viewing habits. Some of this valuable content is yet to emerge for streaming purposes. But the incumbent and tier-1 operator need to have a sense of urgency in addressing this risk.

Several strategies have emerged to deal with the new bundle challenge.

The **first** option is to do very little in changing content, structure or pricing of bundles. This is a very risky strategy. Those operators that think their legacy bundles are a safe option for the next five years are most at risk of losing existing customers and, importantly, untapped customers to tier-2 operators and challengers. With content fragmenting and viewer needs changing, incumbents will need to rethink how to package to keep customers and entice new ones eventually.

The **second** option is to deliver new and existing content over the top. Essentially this means buying popular content rights and giving these and existing IPTV content away for “free”. This strategy can be risky too if the upsell or content is not compelling enough and consumers do not appreciate being pushed an ad before watching content. HKT has taken this approach in Hong Kong, but they have done so because the market is so small that it’s impossible to monetize just from the operators’ own customer base. In larger markets the risk is probably too great.

The **third** option is to become a super-aggregator. This means users can watch traditional TV plus third

party OTT TV (e.g., Netflix) through the same STB. Although operators haven’t excelled at demonstrating superior viewing experience versus viewing Netflix using Chromecast or a smart TV’s own capabilities, this strategy could be a good one for incumbents and tier-1 operators that have scale to woo OTT TV partners.

The challenge is to make accessing content from multiple sources as simple as possible (sometimes switching HDMI channels is quicker than using the STB) and more cost effective, while also ensuring high quality of experience (e.g., avoiding Netflix crashing on the STB).

The **fourth** option is to become an OTT TV-only aggregator. Here, the operator aggregates OTT TV content (via one authentication) only. OTT TV services are offered as apps (which the user subscribes to independently). It is usually launched by operators that do not have a pay-TV service or as a cheap TV alternative to entice fixed broadband customers. This would work best for operators looking for opportunities in emerging segments (e.g., millennials) and those that can’t afford or don’t want full-blown pay TV.

The fifth option is to focus on content that matters. This could involve telcos slimming down their pay-TV content into more relevant “skinny bundles” and/or working with non-traditional content players (e.g., Amazon, Netflix) to offer OTT TV content bundles that are popular. Telcos should not overlook the fact that households in five years could want multiple OTT TV services. The race is on for operators to tie up the most relevant content for their markets and customers.

All strategies pose some risk but come with one clear message: OTT TV content is increasing in reach and should be considered an essential part of the bundle in the next five years. Moreover, new growth opportunities will come from younger demographics who will welcome and possibly expect OTT TV as part of their bundles.

Service providers fight back to keep relevance

How quickly a market moves on bundling innovation depends on its competitive stance and the operators' own positioning within that ecosystem. For example, if operators are mobile-only or fixed-only and facing competition from a large integrated player, they will likely need to find a way to add OTT TV to a bundle or launch a bundle with a mobile service.

Challengers in the market, especially those that operate in markets with government-funded wholesale next-gen fixed networks, have an opportunity to disrupt the market with first-mover bundles (e.g., superfast broadband and a smartphone + HBO Now) that appeal to certain market niches (e.g., students).

For pay TV operators, skinny TV bundles are those segmented for value-conscious demographics and can include tailored content around specific genres, and can include one-month-term contract commitments for low-cost users. For example, in the US, Verizon's skinny bundles are designed to appeal to customers (particularly millennials) who find cheaper pay TV packages attractive and more flexible. Skinny bundles in the US are also a counteroffensive against the rise of operators' OTT video services.

Meanwhile, operators globally have also devised other ways to "keep the bundle relevant," including offering a multiscreen experience, catch-up TV, and now 4K channels.

In summary

All telcos need to reassess. They need a sense of urgency in addressing the risk of the fragmentation of the bundle and should reassess the new value of including attractive OTT TV content and mobile in the bundle. Operators that get first-mover advantage and bundle an attractive array of OTT TV services to suit a selected demographic will be the most successful by 2021.

Incumbents and tier-1 telcos have an advantage since they are in the attractive position of being strong partner candidates for OTT TV players, due to their size. However, they also have the most to lose by not yet being ready to repackage pay-TV services in the bundle.

More often than not, telcos are not aware of demographic trends and how to bundle in accordance with changing demographics in their customer base or the wider community. Telcos need to realize where new growth is coming from – and that means new bundles will need to be devised to meet new customer segments, like millennials, who have more of an affinity to OTT TV than to pay TV.

All bundles offered must have relevance. For the incumbents, if they don't evolve their bundled strategies and potentially risk some revenue cannibalization, there could be a greater plight than losing some existing customers – the risk of missing out on new growth opportunities.

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