

Fixed operators fight back against fixed-to-mobile substitution, says Analysys

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* Fixed operators have a significant opportunity to halt and even reverse line substitution, with innovative tariffs, new promotions and advanced fixed-line services

* Stemming migration of voice traffic will prove more difficult; operators should avoid putting all their efforts into ambitious, but as yet unproven, converged fixed–mobile services

* Report highlights the effectiveness of defensive tactics that prevent line substitution: Telecom Italia (Italy) has been able to increase wireline revenues as it has introduced innovative handset terminals and sophisticated wireless VoIP services

* Belgacom (Belgium) offers tariffs that reduce the baseline cost of a fixed line and cultivate fixed voice usage; Belgacom has also achieved high broadband penetration, offering TV and video on demand services

CAMBRIDGE, UK, January 10, 2006 – Fixed operators can buy time to manage their transition from voice-centric to broadband-centric strategies through judicious selection of tactics that prevent fixed-line substitution, but slowing the migration of voice traffic to mobile networks in the short term will be more difficult. These are the findings of a new report, *Defending Against Fixed-Mobile Substitution: detailed operator case studies*, published by Analysys, the global advisers on telecoms, IT and media (<http://research.analysys.com>), which provides extensive case studies of operators who are dealing with the threat of fixed-mobile substitution through a variety of defensive tactics.

Although the proportion of households with only a mobile phone for voice calls exceeds 20% in several European countries and reaches as high as 33% in Portugal and Finland (where half of all voice traffic now originates on mobile phones), fixed operators have the opportunity not merely to halt line substitution, but also to reverse it, according to report author Dr Mark Heath. “Not only does the removal of fixed lines damage today’s voice revenues, it also limits the prospects for new services such as broadband Internet access and IPTV services. However, even in markets that have experienced significant line substitution, fixed operators can break back into mobile-only households with a combination of low-cost line rental, broadband Internet access, TV and video on demand services that strongly differentiate from mobile-only services in the home. Many users will be unwilling to remove their fixed lines if this means losing their broadband Internet services.”

However, even if they can avoid line substitution, fixed operators still face a threat to their short-term revenues as voice traffic migrates to mobile networks. The report demonstrates a strong correlation between the pricing and usage of fixed and mobile networks, pointing to the importance of fixed tariffs in defending against substitution by mobile. (Chart available to journalists on request).

“Several fixed operators have restructured their tariffs to discourage users from relinquishing their fixed lines and to encourage them to make as many fixed calls as possible,” says report co-author

Alastair Brydon. For example, Belgacom offers a low-cost line-rental option and a variety of free and bundled voice-minute schemes. However, he also points out that this approach will only go so far, as mobile tariffs become increasingly affordable, "Operators risk destroying the value of the voice market if they are over-competitive."

Through interviews, the report identifies a number of other tactics that fixed operators are using to defend against fixed-mobile substitution. For example, Belgacom has also reinforced the need for fixed lines in Belgium by successfully driving the adoption of broadband (broadband penetration reached 37% of Belgian households by the end of 2004), enabling Belgacom to offer services such as TV and video on demand. Telecom Italia has been able to increase wireline revenues during 2005 as it introduced a series of innovative handset terminals and sophisticated wireless VoIP residential services.

However, some tactics may be more effective than others. Mark Heath cautions, "Operators need to avoid putting all their efforts into ambitious, and as yet unproven, converged fixed-mobile services. While such services based on UMA (unlicensed mobile access) technology may be appealing to fixed operators, there are major uncertainties over their commercial prospects."

Defending Fixed-Mobile Substitution: detailed operator case studies presents analysis of both fixed-only and integrated fixed-mobile operators in Europe and the USA, which demonstrate a variety of ways for fixed operators to defend against fixed-mobile substitution. They illustrate tariffs, services and promotions that can be effective in maintaining fixed usage levels and prevent customers relinquishing their fixed lines. Companies profiled in the report include Belgacom, BellSouth, BT, Elion, France Telecom and Telecom Italia.

The report can be ordered from <http://research.analysys.com>, priced at GBP1700 plus VAT, or discounted as part of a bundle with Accelerating Fixed-Mobile Substitution: detailed operator case studies (GBP2800 plus VAT for both reports, saving GBP600). For more information, phone Analysys Research on +44 (0) 1223 460600 or email research@analysys.com.

About Analysys (www.analysys.com)

Analysys provides strategy and management consultancy, information services and start-up support throughout the telecommunications, IT and media sector. Its grasp of market dynamics, coupled with creativity, rigour and renowned objectivity, enables Analysys to consistently exceed the high levels of quality and innovation that its clients expect. The company has over 130 staff in offices in Cambridge, London, Edinburgh, Madrid, Milan, Paris, Singapore and Washington DC, and works with associates in Auckland, Melbourne and Vancouver.

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