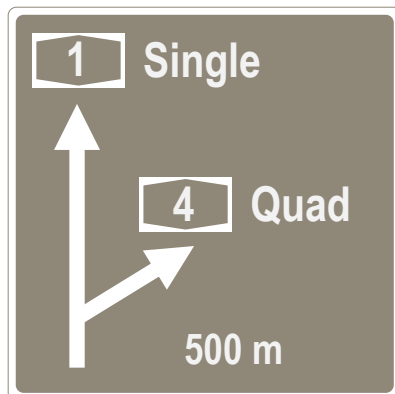


Customer loyalty improved? Nah.

Quad-play: A competitive necessity?

Discounts behind take-up



Triggered by Vodafone's 7,7 BEUR cash offer for cableco Kabel Deutschland and the emphasis Vodafone has put on communicating the importance of being able to offer quad-play (fixed broadband, TV, voice and mobile) in the German market, the question has to be asked: Is quad-play a competitive necessity?

This analysis compares data from operators that have taken the quad-play road: Orange France, SFR, Movistar Spain, Virgin Media, Swisscom, TDC and Orange Poland.

Their take-up might be impressive – driven by significant discounts – but what effect has it had on customer loyalty?

More services = higher loyalty?

There is a strong belief in both telco and cableco industries that **the more services a customer buy, the higher loyalty a customer will show** its service provider. This would be great of course – and the belief is also logical if providers indeed give multi-play customers:

- A **discount** compared to what the services would cost stand-alone
- **Added value** through e.g. included premium TV content, inclusive call minutes or data volumes
- Additional **simplicity** through e.g. a unified user interface, cross-platform accessibility (e.g. TV content via mobile), cross-service customer data use and integrated customer service

Whereas these three loyalty factors are positively perceived, telcos and cablecos also realise that the **lock-in effect** (which is negatively perceived) contributes to customer loyalty: A new contract typically starts a new binding period – and after that **a churn decision is more difficult to make** since so many services are involved.

Leveraging their integrated technology platforms, cablecos have generally been faster than telcos to realise and exploit this within the triple-play domain. Telcos had issues leaving circuit switched voice behind – and issues finding suitable platforms for IPTV (and getting competitive content rights). In most markets, cablecos have been more focused cross-selling cable Internet and telephony to existing cable customers than what telcos have been focused cross-selling VoIP and IPTV to existing broadband customers. Consequently, with few exceptions, cablecos have a higher bundling ratio in triple-play.

But what if triple-play is no longer enough? What if multi-play offers need to include also *mobile* to be effective on loyalty? Then telcos would have an edge over cablecos: Very few cablecos globally have a mobile network.

UK cableco Virgin Media doesn't have a mobile network – but thanks to its long (initially independent) operation as MVNO, a lot of British people see Virgin as another mobile operator. In investor communication, Virgin Media has promoted the idea of the positive loyalty effects of multi-play and quad-play, see Figure 1.

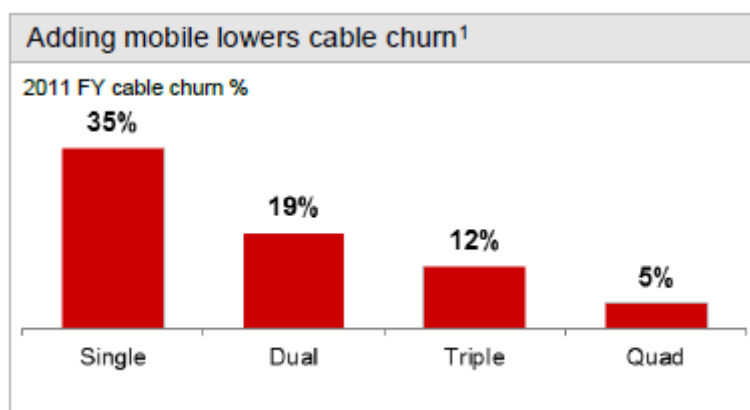


Figure 1. Virgin Media's reporting (FY 2011¹) of churn levels for single-, dual-, triple- and quad-play

¹ Has not been showed in the same format since

But is it just the multi-play effect that explains the lower churn rate?

Or could it be the simple fact that **only a happy customer would consider trusting their provider with yet another service**? If you're only buying one service – and being unhappy with it – there's really no reason why you should buy another from the same provider, is there?

So the question is if multi-play brings higher customer loyalty – or rather that **cross-selling is successful when addressing loyal and satisfied customers**.

In addition, is quad-play a competitive necessity? Do mobile-only operators have to buy (or ally with) triple-play operators? Let's review seven reporting telcos that all have taken the step into quad-play.

Orange France

The French market is very advanced in triple-play with very high bundling ratios overall. Even though Free initially started the trend 2003 with its 29,99 EUR offer, Orange was quick to follow, mitigate the disruptive effect and cement its leadership position.

Preparing for Free's entry into mobile, Orange France – alongside competitors SFR and Bouygues – started to push quad-play late 2010 – realising that Free could not match such a quad-play offer until after having launched mobile (which happened in January 2012). The take-up has been fast: Orange had more than 3,4 million **Orange Open** multi-play customers in the end of March. Not all these customers necessarily take all four services, but it is believed that all of them have the mobile component included.

Figure 2 compares a set of relevant figures for Orange France.

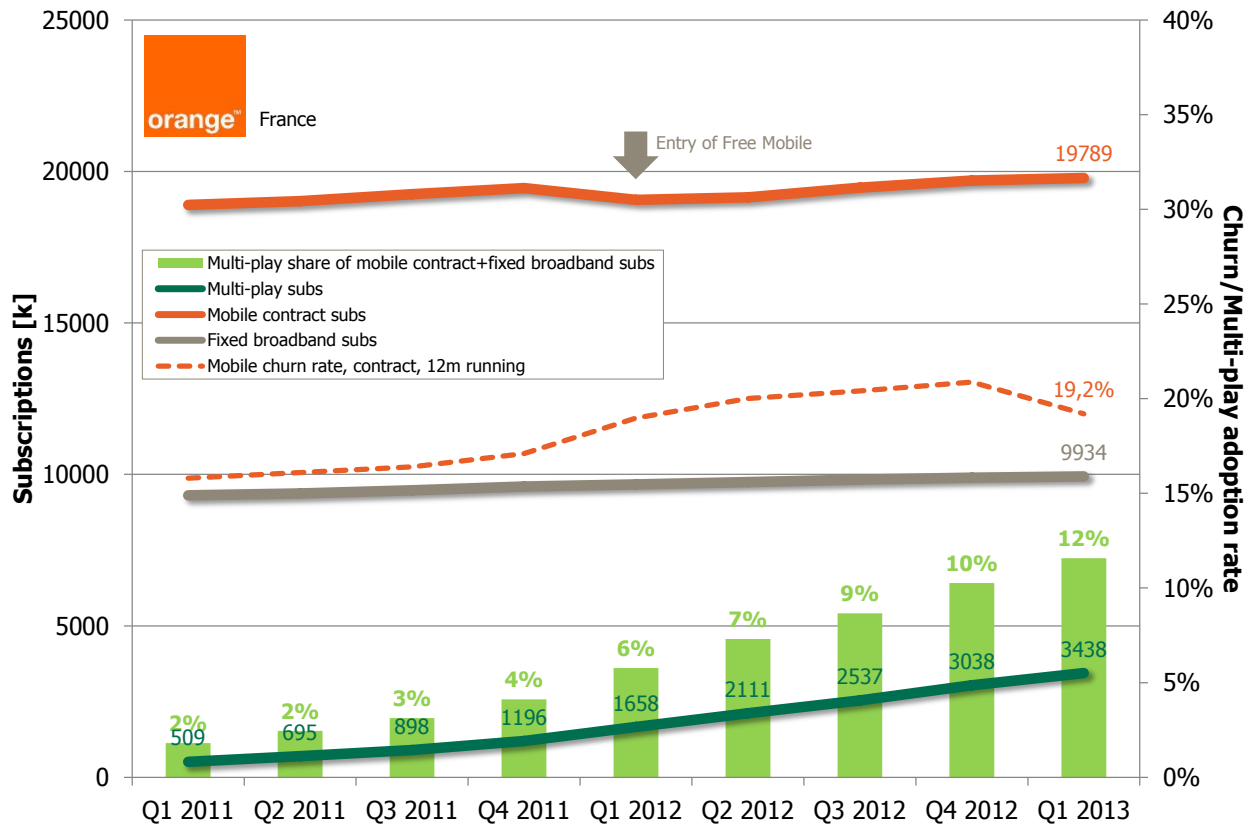


Figure 2. Orange France

The green line shows the development of subscription numbers for Orange Open. If compared to the development of mobile contracts (orange line) and fixed broadband subscriptions (grey line), you can see that the Orange Open share of subscriptions increase. In March 2013, it represented **12%** of total mobile contracts and fixed broadband subscriptions (green bars).

If multi-play including mobile would be good for customer loyalty, we should – in theory – see a decreased churn rate as Orange Open take-up increases. Orange doesn't report churn rate for fixed broadband, but it is clear that during 2012, Orange Open could not neutralise the negative effect Free's entry into mobile had on Orange's mobile contract churn rate (orange dashed line).

Still, Orange Open must be seen as a take-up success. Its primary motivation has however been the *saving* customers make compared to their previous plans. Consequently, Orange's revenue has been negatively affected. The situation would likely have been worse without Orange Open though, given the transformation of the French market.

SFR

Orange’s competitor in France, SFR, has also been reasonably successful with its multi-play offer, **Multi-packs**, see Figure 2.

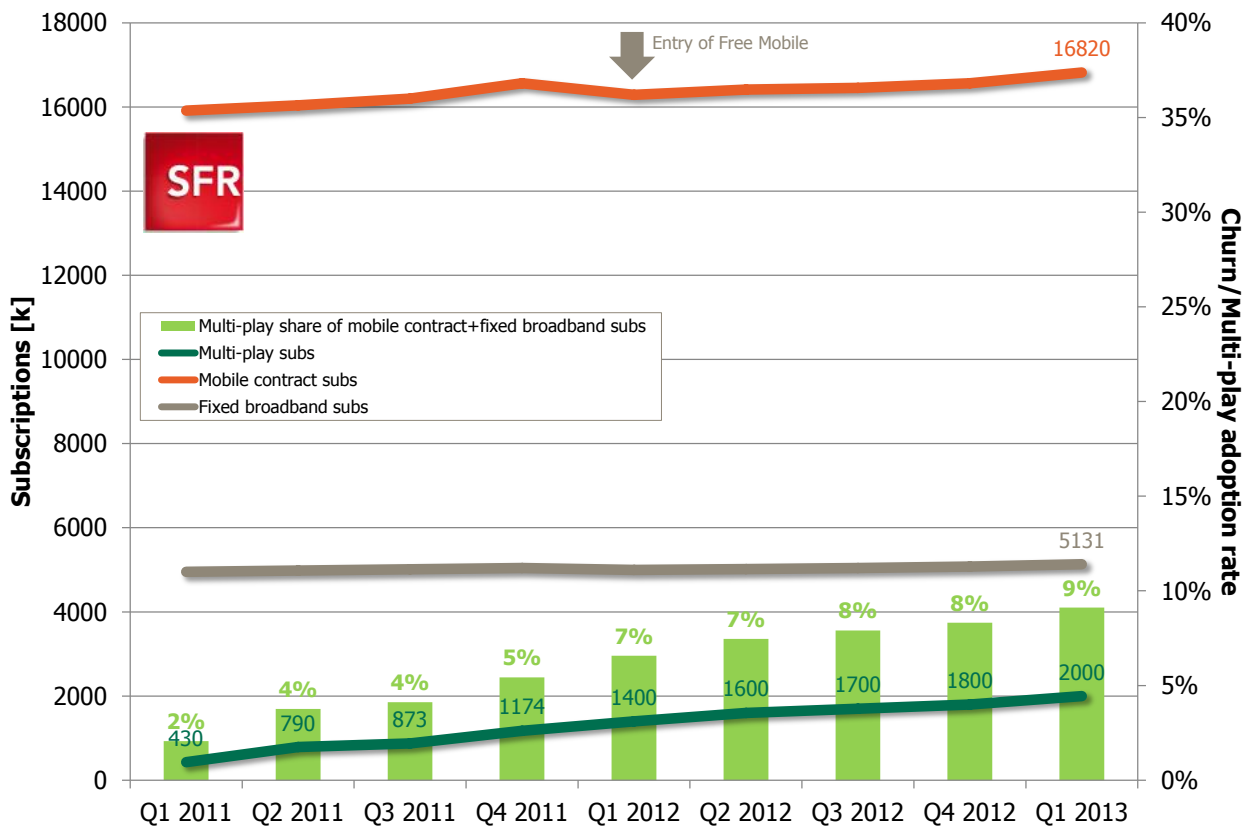


Figure 3. SFR

At the end of March, SFR had about 2 million Multi-packs customers². This represents **9%** of the total mobile contracts and fixed broadband subscriptions. Since SFR doesn’t report churn rates, it is difficult to say which impact Multi-packs have had on customer loyalty. If comparing to Orange (and to Free and Bouygues), it is at least clear that SFR hasn’t been able to follow the fixed broadband market growth in France.

Similar to Orange, Multi-packs have been sold on the saving it gives customers. As for Orange and Bouygues, SFR’s revenue decreased after Free’s entry into mobile.

² Not all these customers necessarily take all four services, but it is believed that all of them have the mobile component included

Movistar, Spain

In a collapsing Spanish economy, much has been written about Movistar's³ attempt to regain market control: ending handset subsidisation, simplifying product portfolio, downsizing organisation and introducing a quad-play offer – **Fusión**.

As with the French operators, Movistar has primarily sold Fusión based on the *saving* it provides. Consequently, take-up has been quite fast, see Figure 4. (In absolute terms, quad-play prices are still high in Spain compared to e.g. France.)

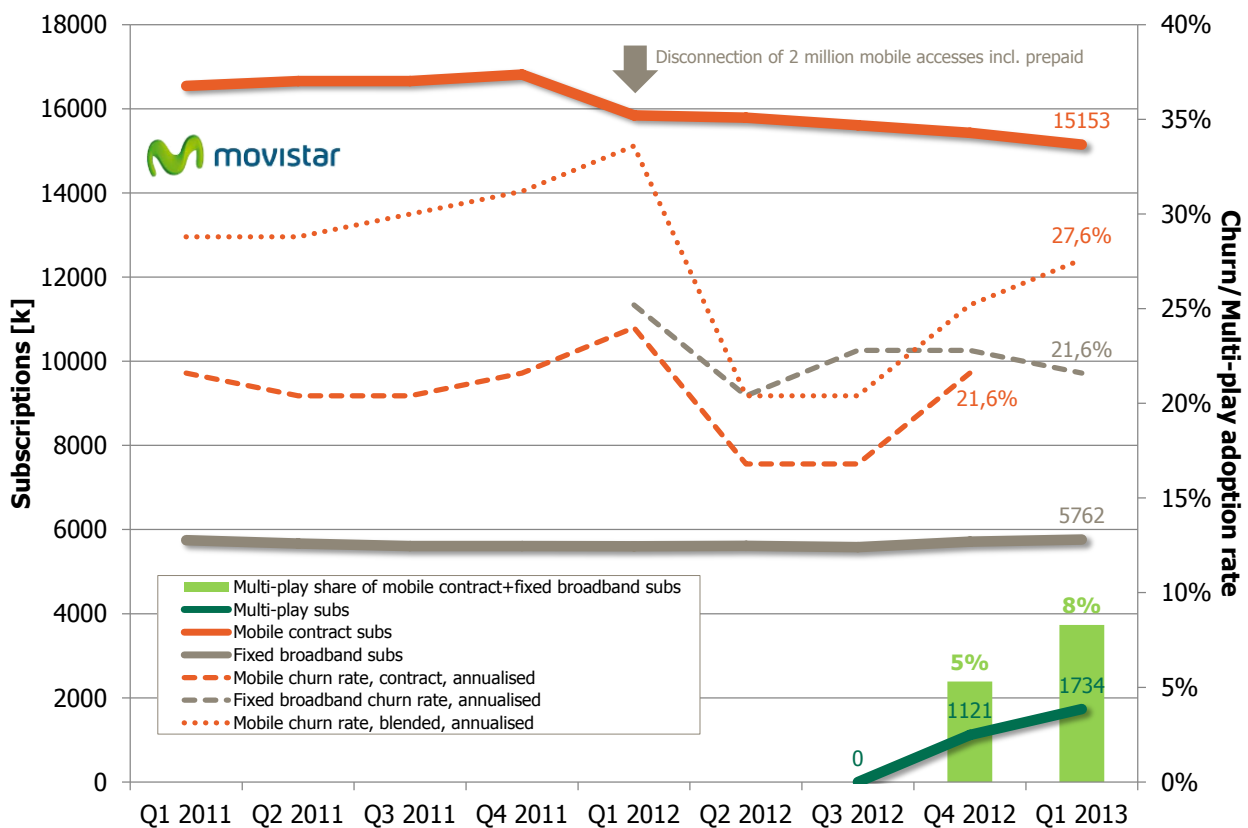


Figure 4. Movistar Spain

Movistar had more than 1,7 million Fusión customers by end of March⁴. This represents **8%** of the total mobile contracts and fixed broadband subscriptions – and that base was built in just six months⁵. So which effect did it have on customer loyalty?

To begin with, note that Telefónica disconnected 2 million mobile subscribers in Q1 2012. This did not only reduce the prepaid base, but also the contract base (as displayed in Figure 4). Prior to this disconnection, Movistar's mobile churn rates (orange dashed and dotted lines) were much higher than immediately after

³ The new brand name for all Telefónica services

⁴ Not all these customers necessarily take all four services, but it is believed that all of them have the mobile component included

⁵ Launched 1 October 2012

the disconnection. Since the start of Fusión sales, Movistar's reported mobile churn has actually increased again⁶.

Fusión has not been sufficient for Movistar to turn around the decrease in mobile contract base. What it has done – and this is important – is to **make the fixed broadband base grow again**. Whereas mobile churn rate seems to be on its way up again, the fixed broadband rate (grey dashed line) seems to have been stabilised.

The addition of mobile to triple-play appears to have helped Movistar to compete better with the independent triple-play providers in Spain like Ono and Jazztel. They also offer mobile, but are MVNOs with small mobile bases.

⁶ Telefónica did not report a mobile contract churn rate for Q1 2013, but the reported blended rate should give the direction

Virgin Media

As said already in the beginning of the paper, Virgin Media was early to cross-sell also mobile within existing customer base. Figure 5 below shows that Virgin Media since 2011 has been able to grow the mobile contract base (orange line) faster than the cable customer base (grey line). The number of customers taking *all four* services has also grown (green line). (When comparing with the other operators, have in mind that the Virgin Media graph shows the pure quad-play base whereas for other operators it is rather the “multi-play including mobile” base.)

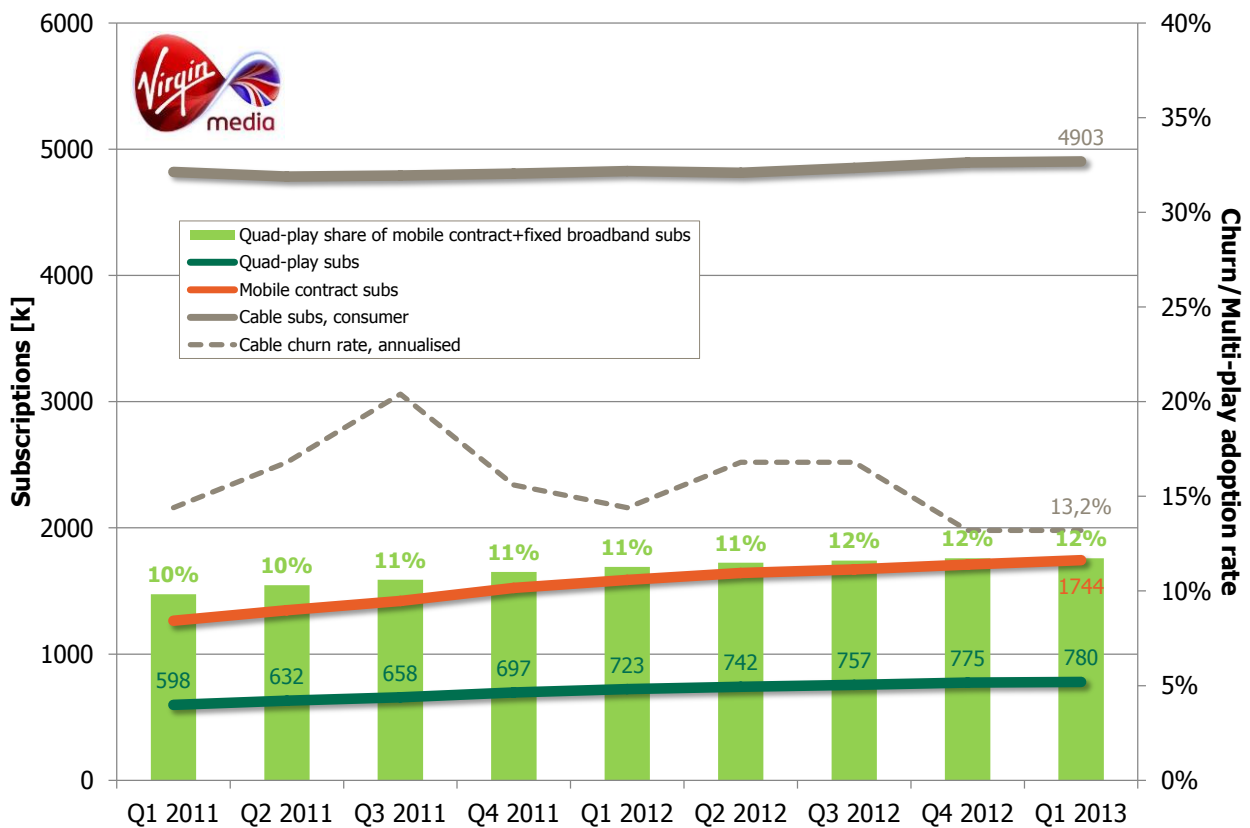


Figure 5. Virgin Media

Virgin Media had **12%** of the total mobile contracts and fixed broadband subscriptions in full quad-play in the end of March. The take-up during 2011 and 2012 has not been as impressive as e.g. Orange France – but appears to have had a **positive effect on cable churn** (grey dashed line) which currently is at its lowest rate (13,2% annualised).

Swisscom

The green line in Figure 6 shows the number of multi-play packages amongst Swisscom’s customers that are combined with mobile (sold under the **Tutto** brand name). At the end of March, **6%** of Swisscom’s total mobile contracts and fixed broadband subscriptions fell in this category.

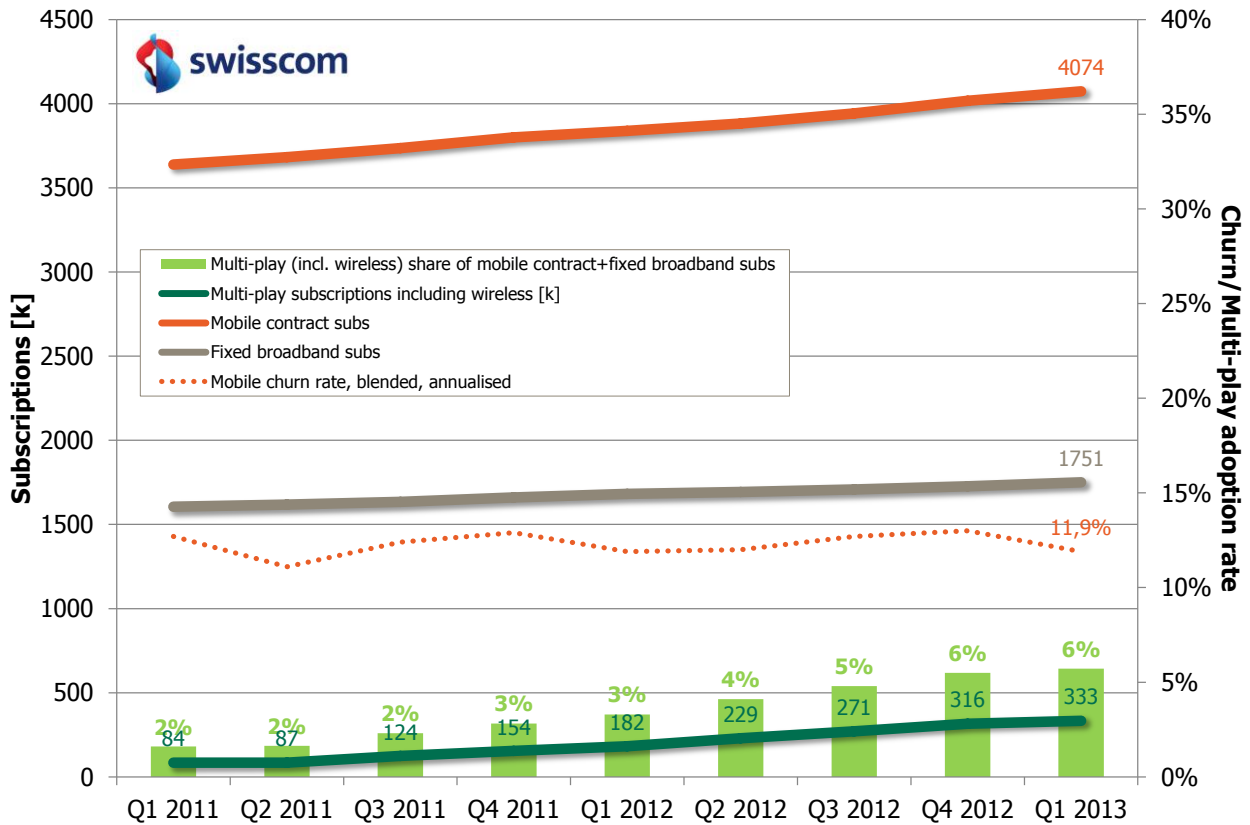


Figure 6. Swisscom

Swisscom has good growth both in mobile contracts and in fixed broadband – helped by a very loyal customer base. The growing multi-play base hasn’t decreased Swisscom’s low mobile churn further, though.

TDC

TDC has sold dual and triple-play a long time under the brand names HomeDue and **HomeTrio**. If you go for HomeTrio, you have the option to *either* have fixed voice or mobile voice in the bundle (not both). Based on TDC's reporting, it can't be said how many have the mobile option, but in total there were 210.000 HomeTrio subscriptions by the end of March – or **5%** of total mobile contracts and fixed broadband subscriptions, see Figure 7.

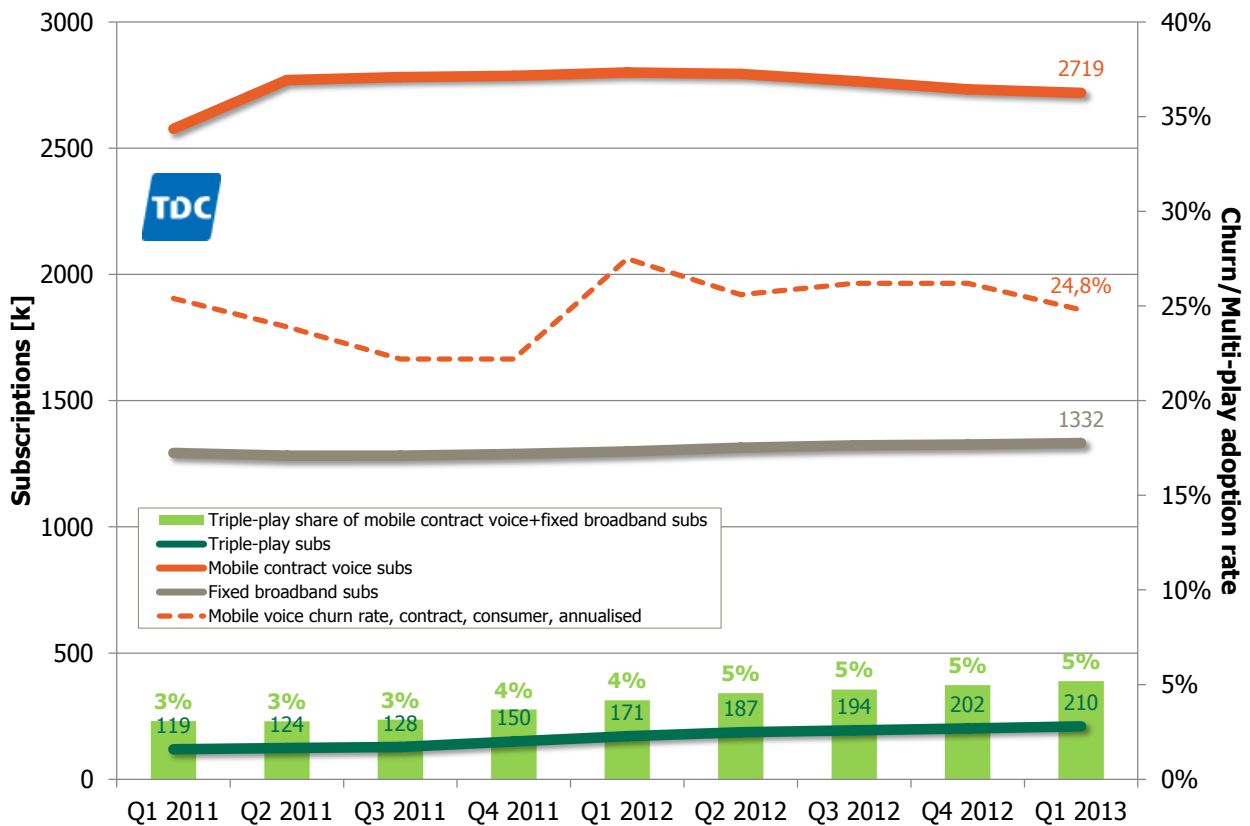


Figure 7. TDC

Even though the HomeTrio base has grown – along with the fixed broadband base – the mobile contract base doesn't grow any longer. Why? The mobile voice consumer contract churn has increased from the lower levels in 2011.

Orange Poland

As in France, Orange is the incumbent operator in Poland. **Orange Open** – the multi-play concept that worked so well in France – was introduced in Poland 2012. But as shown in Figure 8, Orange Open had only attracted 72.000 customers in Poland by end of March – **1%** of total mobile contract and fixed broadband subscription base. The strong penetration of cable TV and satellite TV in Poland could be one explanation behind the disappointing take-up. It anyhow shows that a successful concept like Orange Open is not necessarily successful elsewhere – it depends on factors like price, perceived bundling benefits, market maturity and competition.

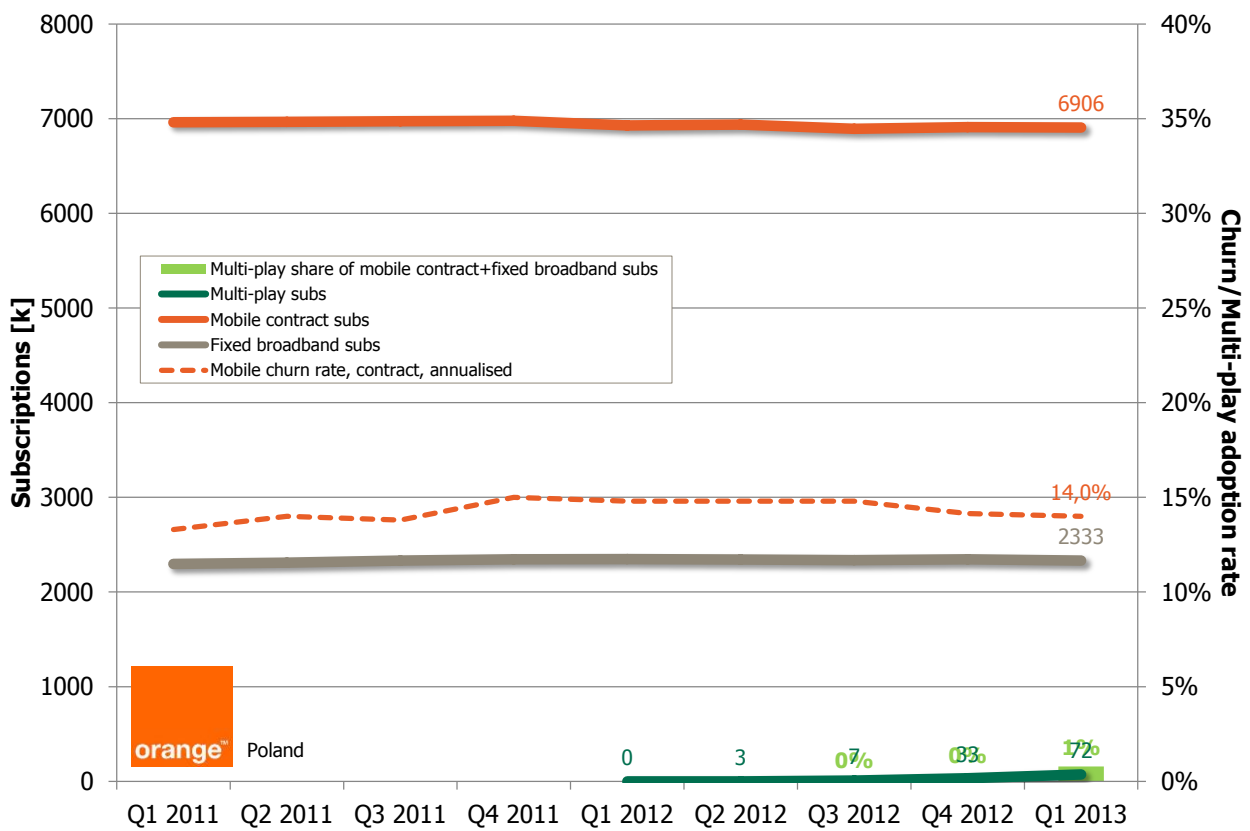


Figure 8. Orange Poland

For Orange Poland, all curves are essentially flat: Orange Open has so far not had any impact on customer bases or customer loyalty.

Conclusion

Without a doubt, the multi-play take-up reported by Orange France and Movistar Spain is impressive. It's close to hand to assume that this has triggered Vodafone's interest in Kabel Deutschland. If we also have a strong quad-play offer, maybe Germany (Vodafone's largest market) could be turned into growth? Maybe a declining EBITDA margin and an increasing churn rate could be turned around?

Based on the reported data of the seven operators **it isn't possible to say that multi-play including mobile has had any positive impact on customer loyalty**. The effective discounts introduced by Orange Open in France and by Movistar Fusión in Spain have driven take-up, though. Customers have taken these products to save, not because of quad-play as such. Over time, customers might start to value it beyond the saving, though.

Is quad-play a competitive necessity? Most likely not – the positive effects on customer loyalty seem to be exaggerated. A quad-play customer is perhaps more loyal than a single-play customer – but isn't it rather explained by the fact that **only a happy customer would consider to buy more from the same provider**? This would suggest that there is a limit for how high quad-play penetration can go.