Quad play: consumers will take it, but only if telcos pay for it

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Across the current subscriber bases of BT, EE, O2 and 3, 74% of consumers have expressed interest in quadruple play bundling – a significant share, as telco operators are gearing up to take advantage of the opportunity through fixed-mobile convergence. However, subscribers expect steep discounts to their overall bills as a result of bundling, with 72% of respondents who expressed interest in quadruple play saying they want on average a 15-16% overall bill discount in order to make the offer attractive.

Introduction

The UK telco market has entered a phase of aggressive consolidation. Following many markets in Europe, the UK is in a period of fixed-mobile convergence and rationalisation of the mobile operator competitive landscape, with the announcement of the £12.5bn BT takeover of EE, and the £10.3bn merger of 3 and O2, respectively.

As BT plans to remove the clear division between fixed and mobile services by re-entering the mobile market (previously it spun-off ownership of O2 in 2001), other players are also gearing up to provide quad play services (combining TV, broadband, fixed voice and mobile voice). TalkTalk is already quad play capable through its Mobile Virtual Network Operator (MVNO) offering, while Pay TV and broadband operator Sky is likely to offer its own MVNO services in 2016, also allowing it to bundle the four products.

We therefore believe understanding the consumer demand for quad play telco services in the UK is critical to identify which strategies will succeed in capturing share.
UK consumer interest in quad play and discount expectations

In order to assess UK consumer demand for quad play telco services and the relevant price sensitivities to quad play, Solon conducted a proprietary, statistically representative consumer survey in the UK across three Mobile Network Operators (EE, O2 and 3) as well as the fixed-line incumbent (BT).

BT and EE customer survey participants were asked to answer the following question: “Would you be interested in a product which bundles TV, fixed broadband, telephony and mobile from a single provider into a single bill?” Within the BT customer base, 81.5% answered “Yes,” while in the EE customer base, 81.1% answered “Yes” (as seen in figure 1).

O2 and 3 customer survey participants were asked the same question. In the O2 customer base, 64.6% answered “Yes” and in the 3 customer base, 69.2% answered “Yes” (also in figure 1).

FIGURE 1

There is clear demand for quad play bundling in the UK market; across the four main operators a blended average of 74% of respondents expressed interest. However, we also discovered that discounting is an important factor for consumers willing to bundle. In the survey, we asked what the expected discount would be for a quad play bundle for those consumers who expressed interest. On average, BT and EE consumers wanted a 15% discount to their overall bill. O2 and 3 customers who also expressed interest in bundling wanted on average a 16% discount to their overall bill (as seen in figure 2). Across the two survey samples, the results showed that 72% of combined respondents who were interested in quad-play wanted an overall bill reduction of on average 15-16%.
Combining the results from the different operator customer bases, there appears to be solid interest in quad play bundling in the UK as long as it comes with a significant overall bill discount. This also points to consumer interest in quad play as a dynamic variable which can be stimulated by the commercial initiatives of operators as opposed to a static and inherent market characteristic.

**Other survey insights**

Beyond understanding quad play demand and necessary discounts, our survey explored other variables driving consumer behaviour in the UK mobile space. Key insights include:

- **Popular bundles** – consumer interest in bundles on top of standard quad play was not strong. Quad play with special family discounts (i.e. moving the entire family to one provider) or quad play with extra TV content packages such as sports interested less than 10% of the survey base

- **Churners’ demands** – for mobile customers who are likely to churn, price is the biggest motivating factor for leaving to another mobile operator. Other customer satisfaction variables such as network quality and data allowance come a distant second to price. Customer service and availability of smartphone models seemed to be a lower priority for potential churners. Furthermore, this hierarchy of demands is similar to consumers’ top reasons for choosing their mobile operators

- **Churners’ likely destinations** – churners per brand had very distinct likely destinations. O2 churners overwhelmingly wanted to leave to 3, at 38%. 3 churners had a less clear likely destination, with EE, Vodafone and O2 effectively tied at around 20% each. EE churners wanted to leave to O2 at 24%, with no close second place

- **Retail store performance** – Solon also conducted a mobile retail store assessment for 22 stores of the O2, 3, EE, Vodafone and Virgin brands in central London. Our assessment showed that 3, O2 and EE are closely clustered together at the top with their performance across 20 criteria. Vodafone lags behind in almost all categories. EE was a standout performer across exterior and interior store impression as well as
average footfall relative to the other brands. Virgin is not comparable due to the small overall number of Virgin retail stores

Our methodology

For the consumer survey, Solon used online interview panels in the UK, pulled from a database of 400,000 active UK consumer respondents who were willing to participate in online market research. To be a part of the web panels, participants were originally recruited by means of telephone or face-to-face research. The chosen online panels are certified by the International Organization for Standardization.

Statistically representative samples were chosen for the survey in order to reflect the general UK population’s age, gender and educational makeup. For the BT / EE consumer survey conducted in January 2015, the sample size included 1,050 respondents. For the O2 / 3 consumer survey conducted in March 2015, the sample size included 1,012 respondents.
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