Bundled products as a business model – opportunity or challenge for consumers?

Case Study: Telecom Sector in Spain

CNMC: Directorate of Telecoms and Audiovisual Sector

PEER Regulatory Roundtable on Bundled Products

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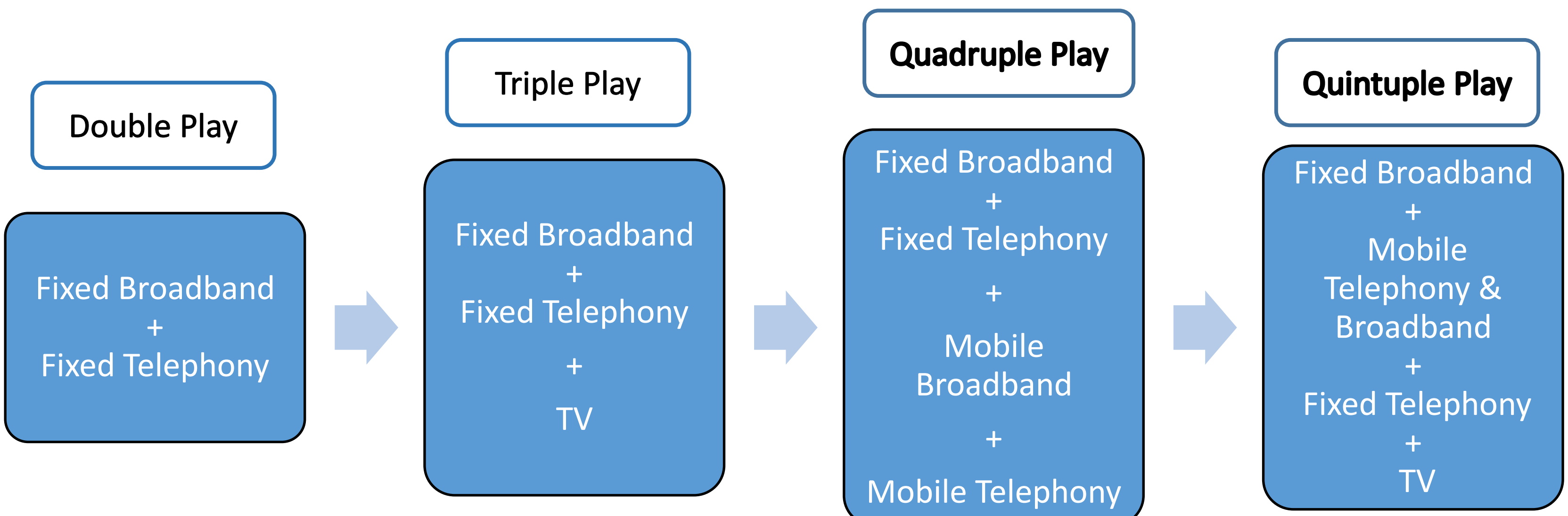
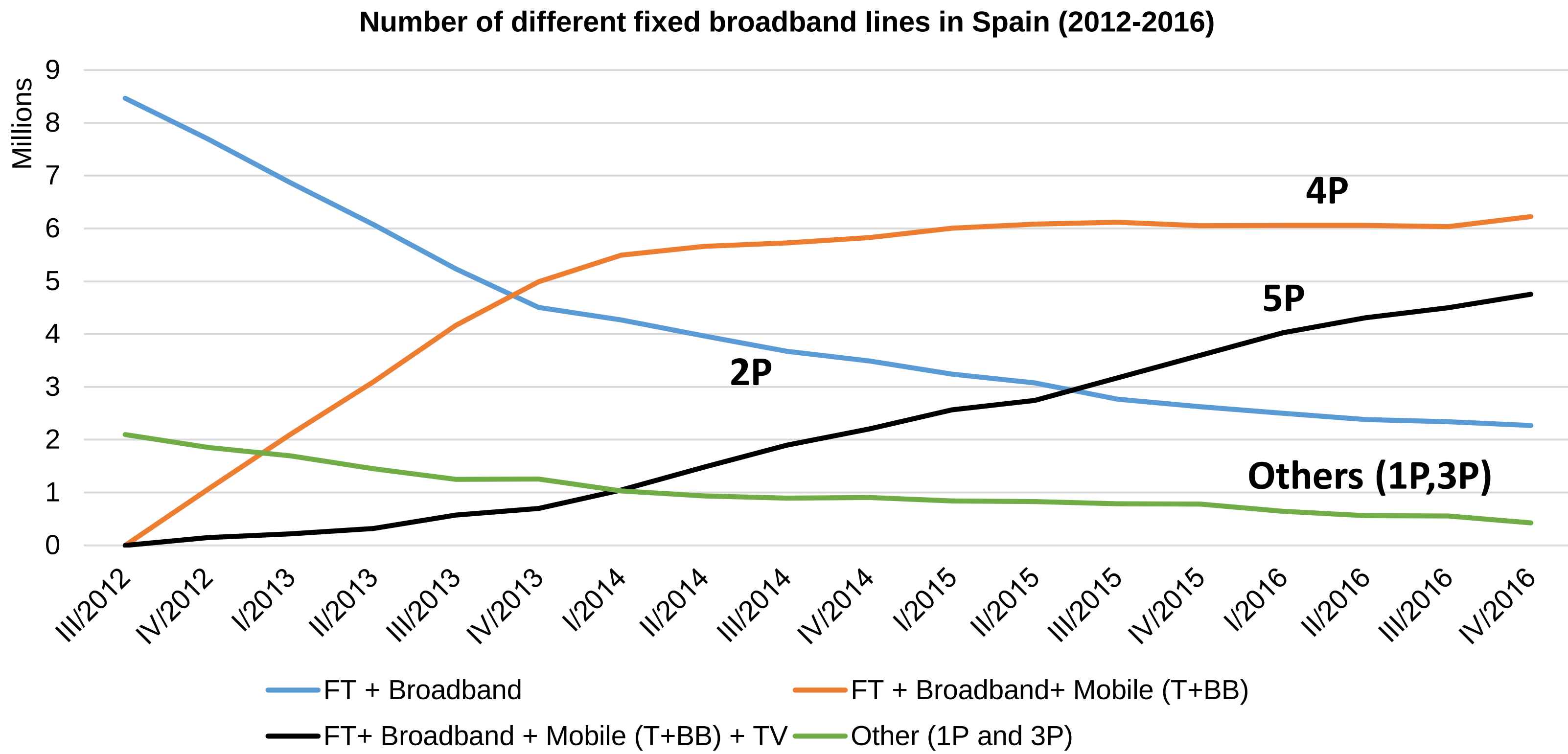
- The practice of **bundling** has become increasingly important in the sale of telecoms services over the last decade.
- **Fixed Broadband** has been the main driver of telecom bundles.
- Was first sold jointly with fixed telephony service (and with pay TV, specially from cable operators).
- In some countries, telecoms convergence between fixed and mobile has led to **mobile services** being included in bundles as well.



Bundling in Europe's telecommunications industry – Different countries, different stories

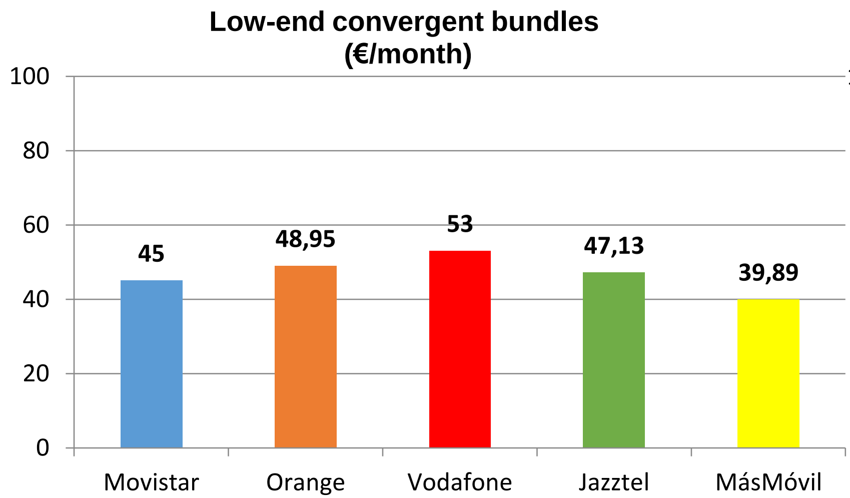
- More than 50% European households received their electronic communications services through bundles.
- However, there has not been a single trend in the development of bundling in Europe:
  - In some countries, almost all bundles are 2P or 3P, i.e. all fixed.
  - In others, such as France, Portugal or Spain, fixed-mobile convergent bundles are much more common among bundle consumers.
- The prevalence of one type of bundling over another depends on each country's telecoms market structures, its consumers' preferences, its market dynamics.
- Spain is probably the European country with the highest level of bundling in the fixed broadband market, that's the reason it will be our case study today.

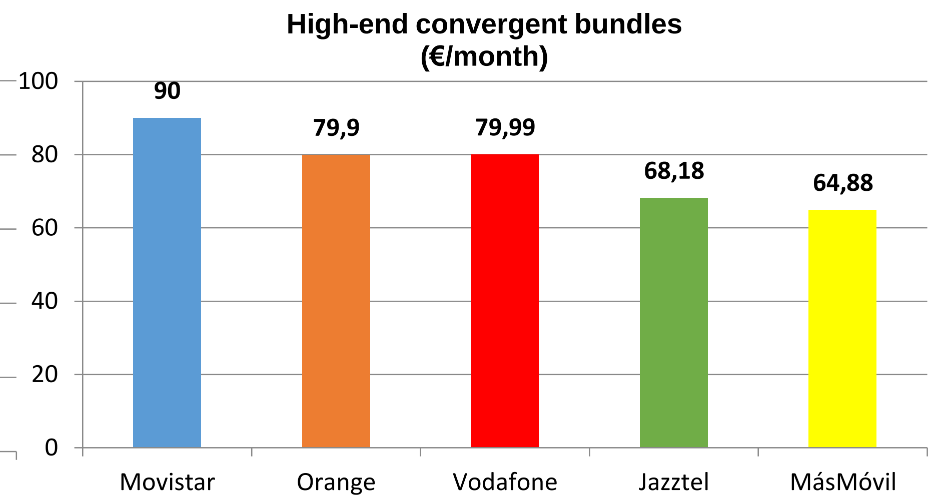
Spain – Broadband is sold in bundles!!



- Like in many other countries, bundling in Spain started with 2P.
- But in October 2012, Telefónica launched **Movistar Fusión**, a disruptive fixed mobile convergent bundle (4P) that led to significant discounts → other operators reacted offering similar bundles.
  - ✓ Now, around 80% of fixed broadband connections are sold with one or more mobile lines!!
- Latest trend is adding pay TV to the 4P → 5P
  - ✓ Around 40% of fixed broadband connections are sold bundled with pay TV.

Bundles in Spain – Flagship bundles





Note: nominal prices, discounts and promotions not included

Table 1. Main bundles available to consumers in Spain (September 2017)

	Operator	Technology	Broadband (Mb/s)	Telephony - Fixed to Fixed (minutes)	Telephony - Fixed to Mobile (minutes)	Mobile Telephony (minutes)	Mobile broadband (GB)	TV (Channels)
Low- End	Telefónica	FTTH	50/50	Unlimited	-	200	2.2	YOMVI+ #0
	Orange	FTTH	50/50	Unlimited	-	200	3	-
	Vodafone	HFC/FTTC	50/50	Unlimited	Unlimited	200	6	-
	Jazztel	FTTH	50/5	Unlimited	120	200	3	-
	Masmóvil	FTTH	50/5	Unlimited	60	Unlimited	4	-
High-End	Telefónica	FTTH	300/300	Unlimited	550	Unlimited	8.2	89
	Orange	FTTH	300/300	Unlimited	1000	Unlimited	8	>30
	Vodafone	HFC/FTTC	300/300	Unlimited	Unlimited	Unlimited	10	>70 + HBO
	Jazztel	FTTH	200/200	Unlimited	120	Unlimited	3	>30
	MasMóvil	FTTH	300/300	Unlimited	60	Unlimited	8	Netflix

Bundles in Spain – The effect on prices

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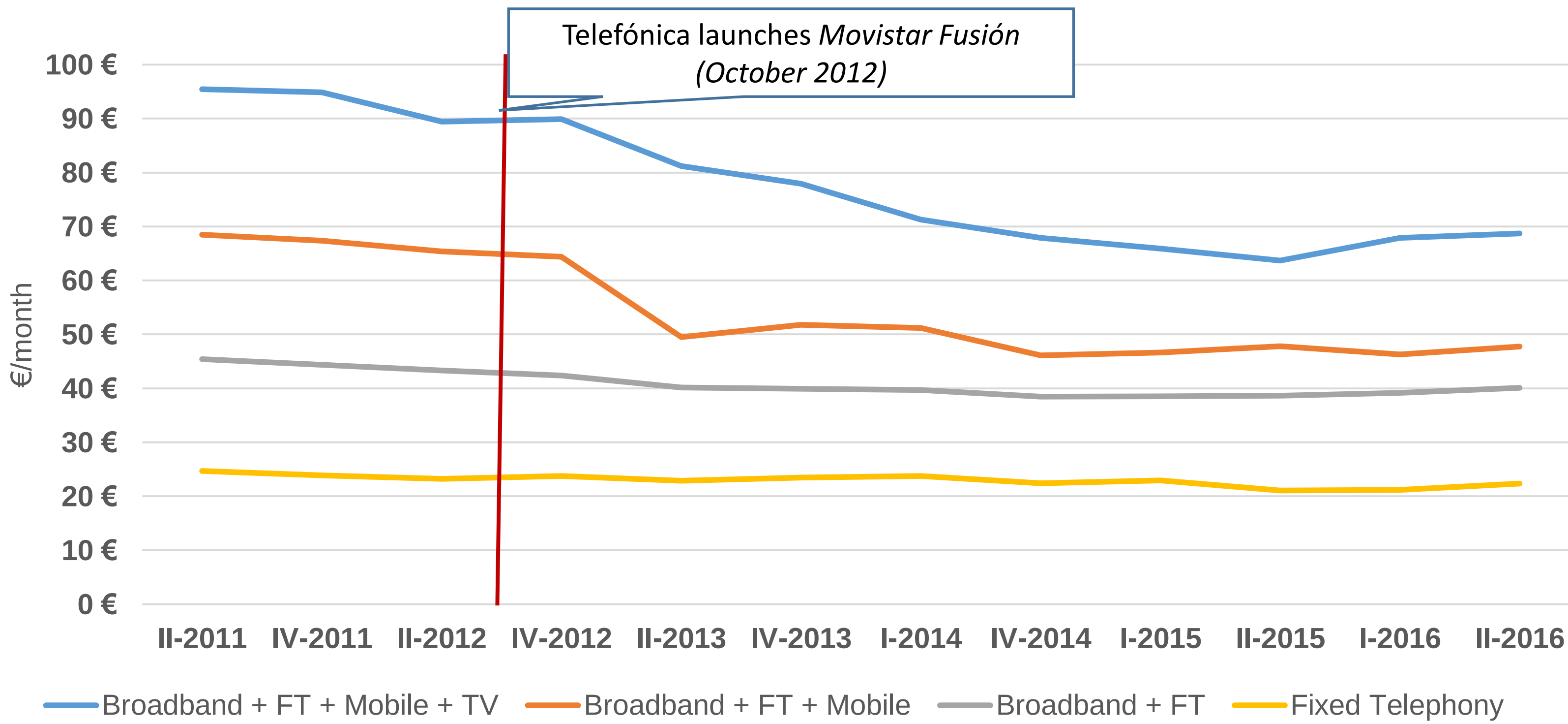
Figure 1. Mean monthly expenditure on communications services by Spanish households (2011-2016)



- The bundling of fixed and mobile telecoms services has led to significant reductions in households' overall expenditure:
  - ✓ 4P bundles led to savings of 30%
  - ✓ 5P bundles led to savings of 25%

Bundling in Spain – Other effects

- On the other hand, fixed mobile convergent bundles, combined with the need of deploying Next Generation Fiber networks, fostered a wave of consolidation in Spain:
  - ✓July 2014: Vodafone (mainly mobile) bought ONO (mainly fixed)
  - ✓May 2015: Orange (mainly mobile) bought Jazztel (mainly fixed)
  - ✓Apr 2015: Telefónica (already convergent) bought DTS (number 1 in Pay TV market)

- Less players could led to less competition but…
  - ✓Remedies derived from Orange/Jazztel led to the birth of MasMovil as the new 4th operator in Spain. MasMovil aggressive price strategy is helping to maintain the competitive pressure in the spanish telecom market.
  - ✓Remedies derived from Telefónica/DTS helped to increase the level of competition in the Pay TV market.

- Therefore, if increased bundling efforts are related to the ongoing consolidation process among European operators, its effect on the sector's competitive dynamics will depend on these merger's outcomes.

- Bundles also could reduce churn rates between operator's subscribers → risk of less competition.

Conclusions

- Bundling is very relevant in the telecom sector in Europe.
- However, in some countries there are only fixed bundles, while in others fixed mobile bundles are common.
- Spain is probably the European country with the highest level of bundling in the fixed broadband market, that’s the reason it will be our case study today.

Positive aspects of bundling:

- Bundling has led to lower prices for electronic communications services.
- Bundling reduces transaction costs involved in searching for products and managing their subscriptions.

Does bundling increase the risk of less competition in the market?

- If increased bundling efforts are related to the ongoing consolidation process among European operators, its effect on the sector’s competitive dynamics will depend on these merger’s outcomes.
- By reducing churn rates between operator’s subscribers it could be limiting competition.

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