Substitution of mobile services for fixed-line now a growing trend

Recent ACMA research has shown that the substitution of mobile services for fixed-line services is established and growing in Australia. However, the prospects for convergence of fixed-line and mobile services into a single seamless service—apparent in some overseas markets—are low in the short term.

Fixed-mobile Convergence and Fixed-mobile Substitution in Australia examines these trends and the implications for the communications environment.

'The communications sector continues to evolve as new technologies and services are introduced, formerly solid boundaries begin to blur and customer behaviour changes,' said ACMA Chairman Chris Chapman. 'The advent of fixed-mobile convergence services and the increasing trend of fixed-mobile substitution is part of the changing environment.'

Fixed-mobile convergence and services that encourage fixed-mobile substitution use different technologies, plans and marketing to achieve a very similar outcome—consumers using, to varying degrees, fixed and mobile services as one. This ranges from using one device to mainly using a mobile service at the expense of a fixed service.

FIXED-MOBILE SUBSTITUTION

There are two types of fixed-mobile substitution—access and usage.

1. Access fixed-mobile substitution

Consumers of access fixed-mobile substitution only use a mobile service and have no fixed-line access. There are two sub-types of access substitution—'cut the cord' and 'straight to mobile'. Users who have 'cut the cord' previously had access to both fixed and mobile services, and have chosen to relinquish their fixed-line access and use their mobile services exclusively.

'Straight to mobile' users have never had fixed-line access—their first and only experience of communications is through mobile services. This option is prevalent among students or young people who move out of home and only use their mobile phones. Their families may have had fixed-line access but members of this group have never paid bills for this service.

2. Usage fixed-mobile substitution

Usage fixed-mobile substitution refers to users with both fixed and mobile access increasingly using their mobile phones to make calls, at the expense of fixed-line service. Users are retaining their fixed-line access but the rate of usage is declining.

Mobile operators offer a variety of packages that aim to increase mobile phone usage at the expense of the fixed-line by reducing consumer perception of the mobile price premium.

Pricing strategies can include offering large buckets of minutes for a set fee, unlimited or flat-rate tariffs and capped call tariffs (customers pay a certain amount for allotted minutes, after which a call is free).

FIXED-MOBILE CONVERGENCE

The report identifies three types of fixed-mobile convergence, each at a different stage of development.

1. Service bundling

This type requires no actual convergence at the network or handset level. Rather, it is a commercial arrangement that offers cost savings or more convenience to users.

At the simplest level, this can be a bundle of fixed and mobile services at a reduced cost or with other benefits. At a more sophisticated stage of service bundling, consumers are offered some elements of a converged service.

2. Dual-mode services

This type requires a dual-mode handset that can carry calls over both the mobile and fixed-line networks. Initial versions of these services were not able to provide seamless handover and often supplied separate fixed and mobile numbers (these problems have been solved in more recent versions that use cellular/WiFi connections).

For example, a user can start a conversation at home on one network and then get in the car and continue the conversation with a seamless handover to the mobile network (and vice versa).

3. Network convergence

In this type, fixed and mobile services share a common IP transport network. Convergence comes from core Next Generation Networks (NGNs) improving interconnection with mobile networks and through wireless infrastructure in the access networks improving access to IP services.

A number of major operators have initiated NGN projects with the aim of saving costs and extending the coverage of new services. Incorporating NGN functionality and service delivery options will be a core objective for operators in the medium term.

The development of fixed-mobile convergence and substitution is being influenced by a variety of factors, including the increasing decline of fixed-line access, the mobile price premium, consumer attitudes to these services and the structure of the mobile industry.

'As with the development of voice over internet protocol services, the changing relationship between fixed and mobile services will put pressure on core legislative concepts and definitions, highlighting strained or "broken concepts",' said Mr Chapman.

'Ultimately, the "elasticity" of these concepts will expire, at which time they will no longer function efficiently or effectively in a converged environment.'

The report highlights that, as traffic moves onto mobile networks, new operators and services will emerge, more operators will be able to offer full voice

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Convergence and substitution have a number of implications for the Australian communications environment. Most importantly for ACMA, as the technological and commercial boundaries between fixed and mobile services become more fluid over time, the regulatory delineations between the two will become increasingly problematic.

and data services, and products and services offered by operators are likely to be increasingly complex.

Fixed-mobile Convergence and Fixed-mobile Substitution in Australia is available on the ACMA website at <www.acma.gov.au> (go to About ACMA: Publications & research > Research > Emerging services research).