

Analysys Mason's predictions for the consumer services market in 2023

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Inigo Barker, Oliver Bruff, Tom Rebbeck and Martin Scott

This article sets out our predictions for telecoms operators' consumer services in 2023.

Overall

Price rises for telecoms services will become a political issue

Elected officials have largely left pricing issues up to regulators for the past decade. Operators and regulators will be under pressure to moderate price increases, especially on consumer services. Operators will also be pushed to introduce, and publicise, 'social' tariffs for consumers in financial hardship, especially for fixed broadband services. We believe that operators will be able to raise retail prices, but it is possible that ARPU will not keep pace with [inflation](#), meaning a cut in real terms. However, it is worth remembering that telecoms services are a relatively small part of any household budget and the annual price increases will be far lower than those for other products and services, such as food and energy.

Connectivity

Mobile operators will look beyond unlimited data plans to grow ARPU

Operators are successfully [upgrading customers to unlimited data allowances](#), while raising, or at least maintaining, ARPU. However, this success creates a new challenge, because the demand for unlimited data plans will soon saturate. Indeed, around 80% of Verizon's customers are already on contracts with no data limit. Operators will need to experiment in 2023; for example, Verizon offers faster data speeds and [bundled content](#) to entice potential customers to upgrade to more expensive plans. Other operators will try similar moves, also involving cloud storage, cyber security, enhanced customer service and points for loyalty schemes.

Operators' aggregation strategies will extend beyond video

Fibre operators face a similar challenge to mobile operators: demand for higher bandwidths is likely to saturate. Few subscribers need (or are willing to pay a premium for) more than 1Gbit/s. Operators must therefore differentiate on more than speed if they wish to avoid competing purely on price; [offering bundles of content and other services is one potential option](#). Operators and vendors have built flexible subscription platforms that can be extended beyond the aggregation of streaming video. Signs of strong performance at Optus and SK Telecom suggest that there are good prospects for aggregation strategies that are built around value for money and large service ranges that extend beyond video into e-commerce, retail, cloud storage, music, education, insurance, fitness and wellness. More operators will take this approach in 2023.

Few operators will replicate the success of T-Mobile and Verizon with FWA

US operators rapidly gained over 3 million subscribers to fixed-wireless access (FWA) services. The characteristics of the US market (limited competition, high prices, low satisfaction with some fixed operators, the weakening appeal of pay-TV packages and limited overlap between fixed and mobile networks) combined to create an opportunity that works well for FWA, but this set of conditions does not exist elsewhere. Indeed, we do not expect FWA to account for much more than 6–7% of the total number of connections, even in the USA. [Fibre is better for almost every metric](#) (speed, [cost](#), reliability and energy usage).

Wi-Fi 7 will significantly improve the user experience, but retail products could cut operators out of the lucrative home access point market

The Wi-Fi 7 standard is not expected to be ratified until 2024, but we expect that pre-release equipment will be available as soon as early 2023. Gaming will be the main use case (around 10% of adults are 'hardcore' gamers) but the [demand for low-latency in-home broadband connectivity is increasing](#) among a broader group of users, including non-hardcore gamers that are interested in metaverse-type applications. Telecoms operators risk being slow to enter the market with Wi-Fi 7 home access points that can satisfy the demands (and willingness to pay) of this [valuable niche of users](#).

Metaverse, games and advertising

The metaverse will not materialise in 2023, but many more telecoms operators will align their roadmap to fit the vision of an xR-centric future

Meta will continue to spend billions in R&D in 2023 with little return on investment in the near term: 2030 will be increasingly framed as 'the year of the [metaverse](#)'. However, [operators](#) will take [xR use cases](#) (like VR immersive calls, 3D video calling or digital twin technology) more seriously in 2023 and most will formulate a specific [metaverse strategy](#) (internally, if not externally) this year. Apple's long-rumoured xR headsets may be launched in 2023, but are more likely in 2024.

The cloud-gaming market will only experience a temporary set-back

Google's [cloud-gaming](#) service Stadia will close in January 2023. Its shut-down is due to Google's distance from both the games and the hardware, which set it apart from Microsoft, Sony and NVIDIA, all of which have more-successful propositions. All three will [gain further subscribers](#) in 2023, though NVIDIA's gains will primarily be accomplished via partnerships (for example, it will power JioGamesCloud), rather than directly via consumers. Netflix will continue to invest heavily in gaming, but its rumoured cloud-gaming aspirations will not be realised in 2023.

Advertising revenue will become a major part of the streaming video business case

Netflix will continue to extend the geographical footprint of its ad-subsidised service, and the take-up of free, ad-supported streaming TV (FAST) will continue to increase as inflation rates rise. [The business case](#) for streaming video will become [less dependent on subscription revenue](#). This is likely to reduce the value and impact of telecoms operators' streaming video aggregation strategies because the perceived value of streaming video services will fall marginally because ad-supported tiers will be cheaper than bundling the ad-free versions of streaming services.

Digital services, handsets and satellite connectivity

Telecoms operators will not give up on digital services despite some mixed results

Some high-profile operators have recently left digital services areas (in particular, AT&T and Verizon sold their advertising divisions) and some are rumoured to be planning to divest assets (for example, Orange's reported plans to sell Orange Bank), but these decisions should not be taken as signals that all operators in high-income countries are rethinking involvement in digital economy services. The US cable operators continue to invest in advertising initiatives, and European operators are likely to follow. TELUS is expected to generate more than 10% of its revenue from [health services](#) in 2023. Others are looking at [digital education](#) as a growth opportunity.

A weak economy will affect handset sales

[The number of handset shipments will fall](#) in the short-to-medium term as [consumers delay replacing their smartphones](#). Chip shortages may have eased, but economic uncertainty will cause people to put off upgrades. Moreover, recent smartphone models have not included sufficient new features to encourage consumers in countries where smartphone penetration is high to upgrade their existing handsets. This slowing upgrade cycle will create problems for both handset manufacturers and operators that like to include new handsets in their postpaid contracts.

Direct satellite-to-device connectivity will become a new differentiator for operators

[iPhone 14's satellite service](#), announced in September 2022, will rarely be used and is limited in what it offers. However, it is another small reason to choose (or not move away from) Apple, and is difficult to copy. Operators will not want to miss out on a potential differentiator, especially when there are few distinctions between operators' basic mobile services in many countries (for example, the Net Promoter Scores (NPSs) of all three major mobile operators in the USA fall within a range of 10 points). T-Mobile (with SpaceX), Vodafone and Rakuten (both with AST Mobile) have all announced plans to offer [direct-to-device services](#). Other operators will follow in 2023.