

Landline telephony in Europe: in 2012, traffic on broadband networks will take the lead

Data used to write this article come from the OMSYC Database. To consult data used for this article and other telecoms and media data go to www.omsyc.fr.

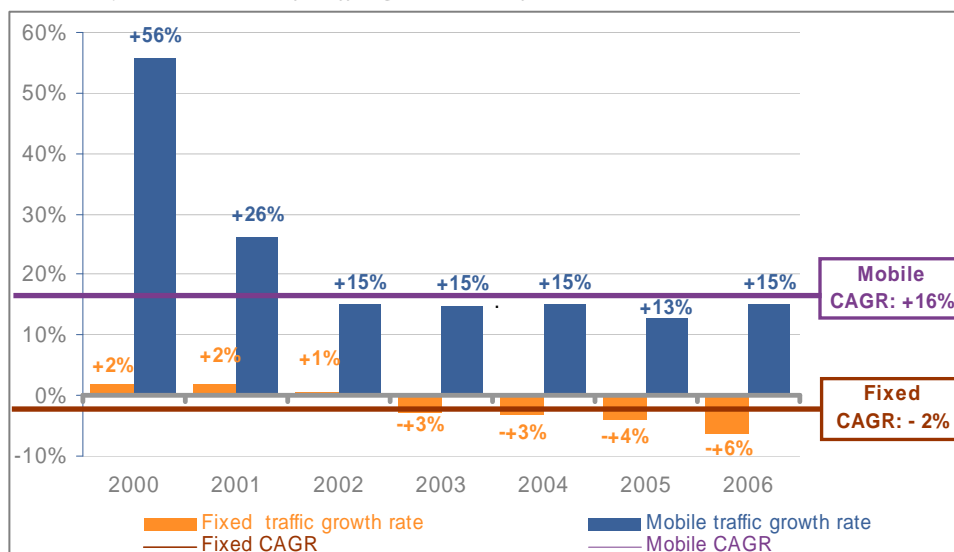
By Julie Randon, analyst

Europe's landline telephone traffic has been dwindling since 2004

Following many years of growth, landline telephony across the EU15 countries decreased an average 2% a year between 2000-2006, losing a total of 113 billion minutes (851 to 738 billion minutes). Mobile communications, however, increased tremendously from 187 to 466

billion minutes between 2000-2006, pointing to an average growth rate of 16%. The years 2000-2006, were marked by substitution between landline and mobile traffic, and overall landline telephony grew slightly until 2004, and then stagnated. Total traffic has stabilised at 1204 billion minutes. This figure does not, however, include VoIP (Voice over Internet Protocol), which really took off in 2004.

Graph 1: Evolution of traffic growth rates for both landline and mobile in the EU15



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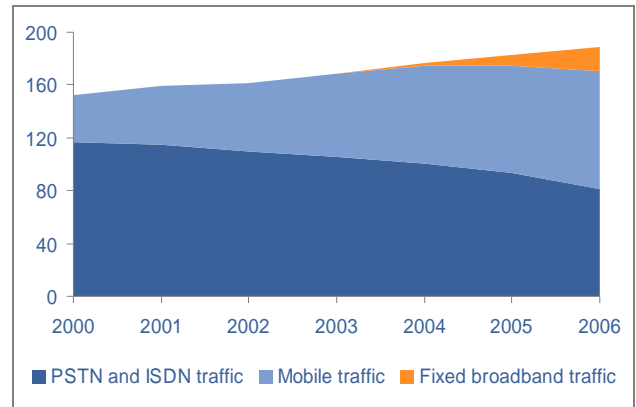
Telephone traffic across broadband networks takes off

As of 2004, European markets saw the emergence of telephony over Internet protocol driven by the accelerated diffusion of broadband access (in 2006, 67% of Internet access was broadband versus a mere 3% in 2000). In 2006, telephone communications via broadband access accounted for more than 5% of Europe’s landline telephone traffic, about 42 billion minutes, versus only 2% a year earlier.

...and has become a growth market in some countries

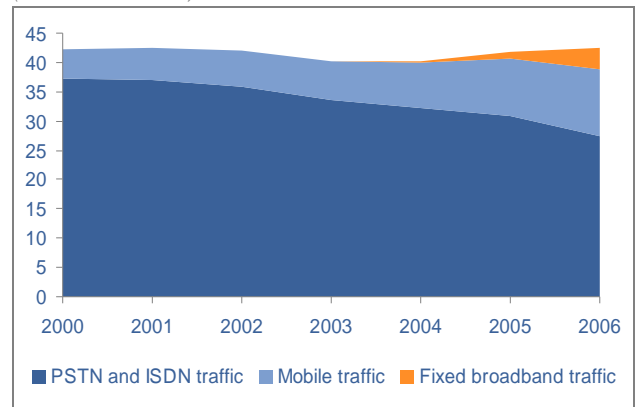
Emerging in a number of European countries, telephony via broadband became very popular across France, Sweden and to a lesser extent Germany. In Germany the lower landline traffic was merely compensated by higher mobile traffic, meaning that total telephony traffic stagnated. In France and Sweden, mobile traffic continued to grow, but was not enough to offset lower landline traffic, and total traffic has dwindled over the last few years. Nevertheless, with the advent of broadband, overall telephony traffic (landline and mobile) business has been perkier. Use of broadband networks for voice communications totalled 18% of landline traffic in France, 12% in Sweden and 4% in Germany.

Graph 2: Evolution of traffic volume in France (Billion minutes)



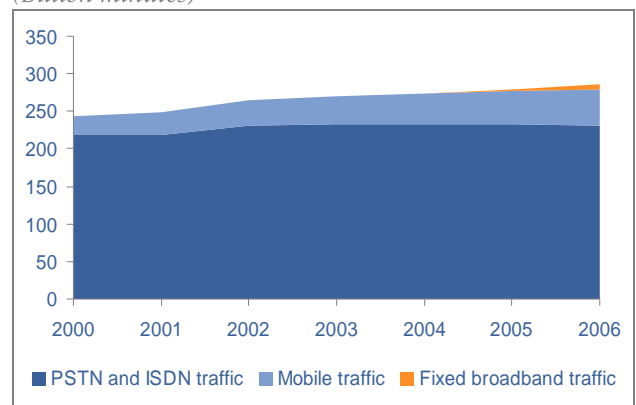
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Graph 3: Evolution of traffic volume in Sweden (Billion minutes)



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Graph 4: Evolution of traffic volume in Germany (Billion minutes)



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Two models: open service vs integrated service

There are two types of voice over broadband offers. The first offer uses specific software for IP voice (such as Skype) and the second offer is provided by Internet service providers via bundled offers, known as dual, triple or quadruple play.

The open model

The user generally chooses his/her software and already has an IP access. Software can be downloaded for free and allows the user to make phone calls worldwide from a computer or an IP-based telephone. Calls between users are free and unlimited. A user can also make calls to landline subscribers who do not have an IP access (communication out) or make calls from a non IP telephone to a user (communication in). Calls are not free in the last two cases.

The integrated model

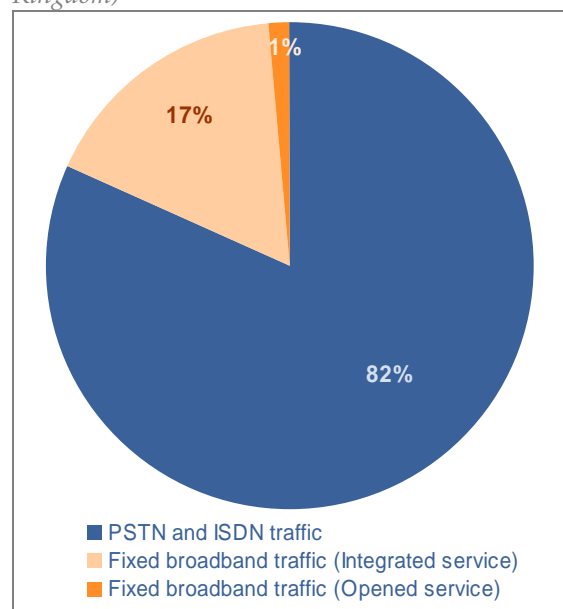
As of 2003, Free (France), Fastweb (Italy) and others such as, Bredbandsbolaget (Sweden), offer « triple play » linking broadband Internet access, to IP telephony and TV. A triple play subscriber has IP telephony included in his/her offer and, therefore, has no real need to use an open model supplier.

Across a number of European countries, the two models, integrated and open, are offered as competitors. Both models are used in Germany, while the integrated model has met more success in France. In the United Kingdom, users have opted for the open model.

The integrated model generates higher traffic

Traffic generated from integrated service offers is not as high as open service traffic. In the five European countries (Finland, France, Germany, Sweden and the United Kingdom), broadband consumption in bundled offers represented 6% of landline traffic, whereas outbound calls from open services totalled 1% of the traffic.

Graph 5 : Share of narrow and broadband traffic in total voice traffic in five countries (Finland, France, Germany, Sweden and the United Kingdom)



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Two factors explain this phenomenon:

- Open services are primarily used for international calls where tariffs on switched networks are high or cannot be included in bundled packages; international traffic accounts for only 5% of outbound calls on Europe's landline telephony networks.
- Service quality may be mediocre and incite users to make shorter calls. Open service providers are not network operators and have less control over the quality that ISPs have over their own network.

Within EU15, France has the highest integrated service success rate

Boasting 6.3 million subscribers to an ISP-based voice offer over broadband, France leads the way for European countries (53% of the subscribers). More, while a Skype software user in France makes an average 22 minutes of calls a month, an integrated service ISP user will rack up an average 5 hours a month.

What are the key success factors for this integrated model?

- The cost of service and market specificities: the first offers appeared in France, at end 2003, and French households benefited from broadband Internet services, unlimited IP voice services and TV over ADSL, for an average 25 € (VAT not incl) a month. This compares with the French household ARPU for landline telephony. Over 2003, the average French household had an analogue line, and paid a monthly subscription fee to France Telecom of 10.9 € (VAT not incl), and spent 20 € (VAT not incl) for calls, totalling 30.9 €. A triple play offer entails savings of 6 € and cumulates 3 services instead of just one analogue voice service.
- Content of the voice offer: in bundled packages, calls are unlimited and free to national landline numbers, as well as to many international

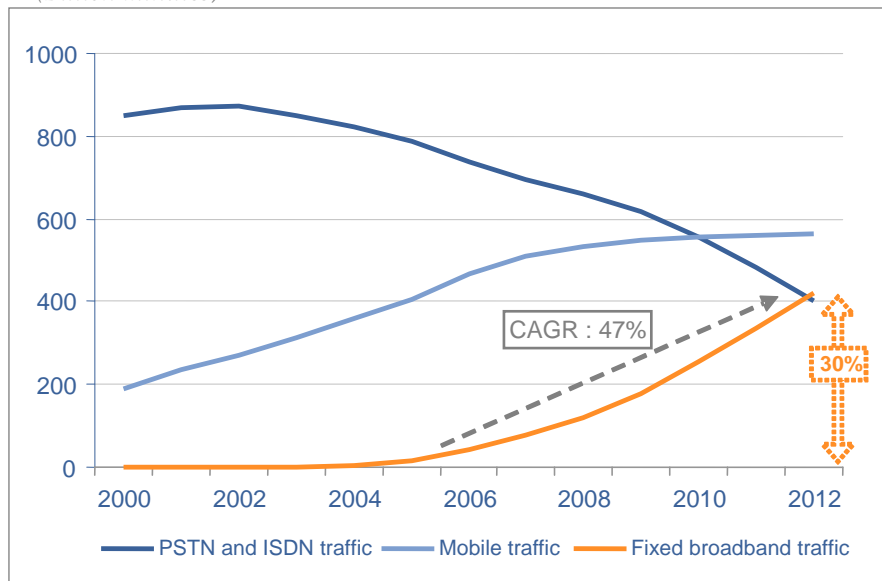
destinations. Calls to mobile phones can be included as well. The Skype offer means that calls are free between Skype subscribers, but outbound calls to landlines are paying.

- A single bill: three distinct services are now housed on a single bill, simplifying customer services.
- Use: a customer who signs on with an ISP and receives the required boxes to set up and use the services, can contact the service provider if a problem arises and even use the same traditional landline handset. In open services, the user is independent, must download and install the software and may run into some problems or need new tools for a more ergonomic use (headphones, microphone, etc) or even buy a dedicated IP-phone (60-80 euros) to have a traditional landline environment.

2012: ToIP on broadband networks will top landline telephony networks

Between 2006-2012, Omsyc estimates that Europe's broadband telephony will increase an average 47% a year and top POTS in 2012, totalling 30% of overall telephony traffic (landline and mobile).

Graph 6 : Evolution of EU15 traffic volumes from 2000 to 2012
(Billion minutes)



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Like in France, if triple play offers develop across other European countries, the integrated ISP model will have an even higher take-up rate, and will likely push overall telephone traffic up.

Data used to write this article can be purchased directly online at www.omsyc.com

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