

## BT – Fusion of Fixed and Mobile Services is Out of the Bag

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### WHAT WE ARE SAYING

- BT is pushing the right buttons with Fusion, but launching with a single handset model will keep adoption to a minimum.
  - Fusion aims to improve loyalty, and it will deliver provided the regulator does not interfere.
  - Fusion's Bluetooth-based launch is a mere proof of concept; we believe the future of UMA and convergence is in WLAN, and Fusion will have to adjust accordingly.
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After months of planning, BT finally came out with the details of its new consumer Fusion service, formerly known as Bluephone. Fusion, which will allow for a seamless switch between mobile and home fixed networks, will be fully rolled out in September 2005. About 400 Motorola v560 handsets, the only handset capable of supporting Fusion at this time, will be sold until then. Fusion is the first fully convergent service on one device, with one bill and seamless handover between fixed and mobile networks. Will it succeed and will similar services take off in other markets?

### THE PYRAMID PERSPECTIVE

- **Fusion is no more than a proof of concept in the short term.** As is the case with any new service and technology, Fusion will need to find its customers and yield revenue to succeed. Ultimately, the attraction of convergent services is in its lower price, convenience and improved customer service. Fusion delivers on some of these requirements, but still has some key shortcomings:
  - **Discounts are the main attraction for convergent services.** Fusion, in its current shape, is more a proof of concept than a commercial money-maker. The service shaves as much as 40 percent off the price for unbundled fixed, mobile and broadband services (see **Exhibit 1**). People who use only mobile or only a fixed line do not benefit; at least 7 percent of all UK households belong to one of these categories.
  - **While convenience of a single device is a big attraction, it is hard to see how BT can make Fusion compelling to a large number of subscribers in the short-term with only one handset offering.** This absence of segmentation is a major deterrent to the uptake of any service in a developed market. BT's future plans reportedly involve offering Fusion on Motorola's best-selling RAZR model which will most likely help the sales of the service. More

importantly, BT's plan to move the service to Wi-Fi handsets in the future, with Wi-Fi built into the access hub for home connectivity, will be a key factor for Fusion's success. Vendors, such as Nokia, Samsung and SonyEricsson, are planning to bring Wi-Fi handsets to the market in 2006. The availability and range of the handsets will determine the rates of the service adoption.

## Exhibit 1: BT Fusion Tariff Plan

	BT Fusion Service	BT Home Service	Vodafone Mobile Service
Connection Fee	<p>Access hub and handset: both FREE.</p> <p>Up to three handsets can use the service at the same time, sharing the same minutes.</p> <p>Handsets can also be used on a friend's hub once a PIN is entered.</p> <p>The service is available only to BT's broadband subscribers to give another boost to the incumbent's fast Internet service.</p>	<p>Handset: from £30 to £200 per handset plus £100 for WLAN.</p> <p>Hub/router: £30-£100.</p>	<p>Handset: from free to £200 (per handset).</p>
Monthly Fee	<p>£9.99/month: 100 min included. £14.99/month: 200 min included. £10.50 /month for local connection.</p> <p>£17.99/month for broadband connection.</p>	<p>£17.99/month for broadband connection. £10.50 / month for BT Together Option 1 (60 inclusive minutes).</p>	<p>£25 for Anytime 125 inclusive minutes.</p>
Total	£38.48 (in BT charges)	£53.49 (fixed and mobile)	
Price per minute	<p>3p per minute – peak calls. 5.5p per hour for off peak calls. Each call is billed at the rate on which it started. Calls to mobile, incoming calls, 0800 numbers, international calls, voicemail and directory inquiries will be charged at mobile rates regardless of from where they are made.</p>	<p>3p per minute – peak calls. 5.5p per hour for off peak calls.</p>	<p>15p per minute – peak calls. 45p per off-peak hour on the new Stop the Clock plans (payment only for the first 3 minutes).</p>
Additional features	<p>Future services will include converged email and voice messaging and IM.</p>		

Source: BT, Vodafone.

- **The service will be a big loyalty booster – regulator allowing.**  
The primary attraction of a convergent service is the improved customer loyalty. Cunningly, BT is offering Fusion only to its DSL 1.5m subscriber base, which represented 64 percent of the total market in the end of 2004 with 1.5m users. The company also provides the most attractive pricing for calls to fixed-line networks. This combination should enable BT to experience an improvement in loyalty rates for both DSL and voice subscribers. The main question is whether this approach will be allowed by Ofcom going forward. Compare the UK's current lenient approach with the restrictions imposed on the Korean incumbent KT, which also offers a fixed-mobile convergent service under the DU brand. The Korean regulator does not allow KT to offer its subscribers a single bill or discounts on the bundled services, and requires that all mobile operators have access to the service upon request. Similarly, Japan's NTT Communications is not allowed to offer one bill for NTT East/West and NTT DoCoMo's services.
- **Bluetooth is an unlikely long-term alternative.** Being the first to market with a fully convergent UMA service with a single bill and seamless mobility is a tall order for BT. What happens in the UK will determine the shape of the future convergent services in other markets, even though BT's position as a fixed provider without a mobile network arm is relatively unique. At this time, the future of convergence looks more likely with WLAN than Bluetooth. While previously WLAN lost to Bluetooth due to technological problems, it has now matured and reached the level of adoption that makes its use more justified. Motorola is currently the major vendor supporting Bluetooth-based UMA, but its support alone will not be enough. BT itself has built WLAN into the end-user devices and plans the Fusion Enterprise service based on SIP. This means that in the next year or two, another metamorphosis in Fusion should be expected.