

# Bezeq's success shows the value of a strategic focus on home Wi-Fi routers and services

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Bezeq is the incumbent and largest operator in the increasingly competitive fixed broadband market in Israel. However, the size of its retail subscriber base had started to decline due to an increase in the number of competing FTTP networks, changes in wholesale broadband regulation (which have squeezed Bezeq's revenue) and regulatory constraints that limited its ability to bundle services together. As such, Bezeq needed to formulate a new winning strategy for the retail fixed broadband market. In this article, we examine how Bezeq has successfully focused on home Wi-Fi as a differentiator, and we analyse the implications for other operators.

## The nature of the Israeli fixed broadband market pushed Bezeq to focus on home Wi-Fi as a differentiator

Regulations in Israel mean that the incumbent Bezeq has had to open up its broadband access network to competitors, which removes its ability to use access network quality as a differentiator. Indeed, important competitors in the fixed broadband market, Partner and Cellcom, partly rely on wholesale access on Bezeq's VDSL network to operate. There have also historically been regulatory prohibitions on bundling, which prevented Bezeq ISPs from offering bundles with the company's YES pay-TV proposition, for example, although such bundles are available today. To overcome these issues, Bezeq made an early move to focus on home Wi-Fi as a differentiator in the retail market.

## Bezeq initially launched a connected home cyber-security proposition, followed by a new Wi-Fi router and Wi-Fi hardware

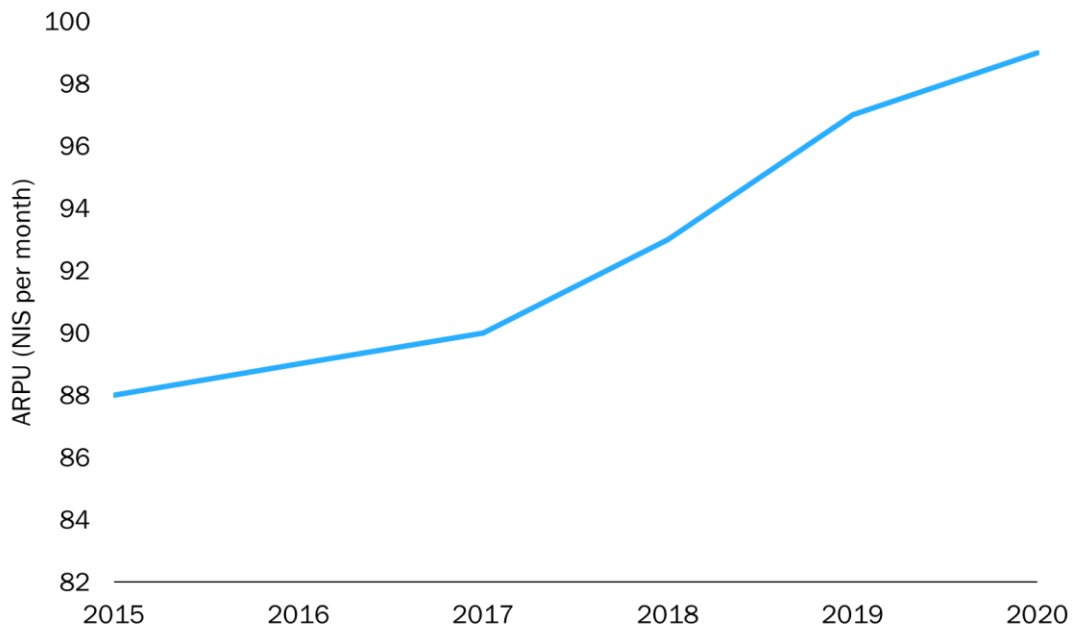
Bezeq's launch of its connected home cyber-security service, Bcyber, in June 2017 heralded the operator's focus on home Wi-Fi as a differentiator in the retail market. The service is supplied by SAM Seamless Network and was initially offered on a standalone basis for NIS9.90 (USD3.2) per month. Subscribers could use it free of charge for 3 months and no contracts were required to take the service. 50 000 of Bezeq's 1.12 million retail broadband subscribers had signed up to the service by September 2017.

The next step in Bezeq's strategy was to launch the BE router in April 2018. At this point, the connected home cyber-security service and other associated features such as parental controls became available to all BE router users. The monthly router rental fee was set at NIS12.99 (USD4.1) per month for the first 2 years and was then increased to NIS19.99 (USD6.3) per month. Over time, Bezeq has added mesh Wi-Fi and Wi-Fi extender hardware to its portfolio. It charges separate monthly fees for these devices.

## Bezeq's retail fixed broadband ARPU has grown in recent years and its subscriber base is now expanding

Bezeq's focus on home Wi-Fi has yielded very positive results. For example, the operator's retail fixed broadband ARPU increased from NIS89 in 2016 to NIS106 in 2Q 2021 (Figure 1). This ARPU growth was partly driven by an increase in the take-up of the BE router from 21% of all Bezeq subscribers at the end of 2Q 2019 to 60% at the end of 2Q 2021.

**Figure 1: Retail fixed broadband ARPU, Bezeq, Israel, 2015–2020**

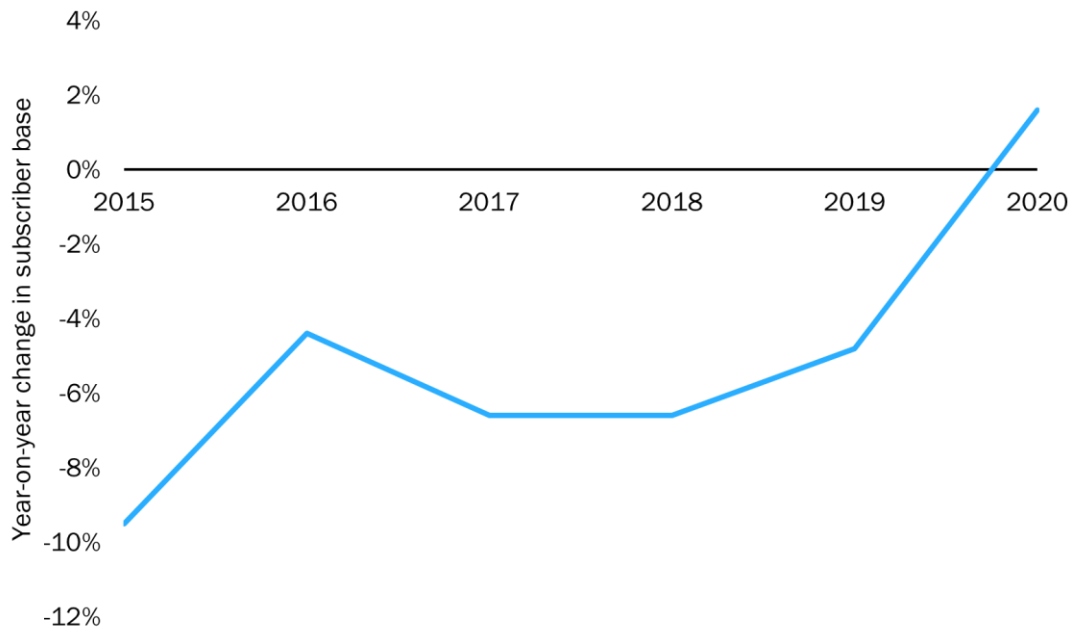


Source: Analysys Mason, 2021

Bezeq has always charged monthly router rental fees. This meant that it was in a good position to increase the monthly fee when launching the BE router (with associated services and improved features) without affecting the take-up of the new device. Furthermore, initially offering the Bcyber connected home cyber-security service for a separate monthly fee of NIS9.90 (USD3.2) on a standalone basis and then marketing it heavily helped to establish a value for the service in consumers' minds. Preinstalling Bcyber on the BE router further helped to justify the modem rental fees that Bezeq was charging for the new device. As subscribers have come out of the initial discount period for the BE router, there has been a boost to ARPU.

Bezeq's early focus on home Wi-Fi as a differentiator has left it well-placed to capitalise on the growth in the demand for Wi-Fi hardware that has been particularly apparent since the outbreak of the COVID-19 pandemic. Around 30% of Bezeq's retail subscribers take either the BSPOT or MESH Wi-Fi hardware device from the operator as of the end of 2Q 2021, compared to just 8% at the end of 2Q 2019. This growth will have played a very significant role in the increase in Bezeq's ARPU.

Bezeq has also stopped the decline in the size of its retail fixed broadband subscriber base. Indeed, the size of its retail fixed broadband subscriber base increased by 1.6% in 2020 after a number of years of decline (Figure 2). This is a particularly impressive result because the coverage and take-up of competitors' FTTP networks is simultaneously increasing. For example, Partner's number of FTTP subscribers grew from 76 000 at the end of 2019 to 139 000 at the end of 2020.

**Figure 2: Year-on-year change in retail fixed broadband subscriber base, Bezeq, Israel, 2015–2020**

Source: Analysys Mason, 2021

The Bezeq case is interesting because the operator had nationwide FTTC-VDSL coverage before the launch of its home Wi-Fi-centric strategy. However, it only launched retail FTTP access at the start of 2021, so the improved performance during the preceding years was not due to infrastructure improvements. Nonetheless, it should be noted that other players are growing their retail subscriber bases more quickly, and Bezeq's growth in 2020 was partly due to the overall boost to the market caused by the pandemic. Bezeq's losses in the early part of the period shown in Figure 2 were also driven by regulatory changes that enabled operators using Bezeq's infrastructure to offer more competitive plans.

## Bezeq's success shows the power of a strategy based on home Wi-Fi and CPE in the retail fixed broadband market

Fixed broadband operators around the world should take note of the success that Bezeq has had with its strategy of focusing on home Wi-Fi and developing services based around its CPE. Bezeq has shown that focusing on home Wi-Fi can deliver benefits, even in cases when retail service providers do not have a competitive edge in terms of the quality of their fixed broadband networks. Bezeq has opportunities to continue its connected-home-centric strategy and plans to launch a fibre-to-the-room offering soon. In the future, there will be even more scope for fixed broadband operators to offer services based around home Wi-Fi and fixed broadband CPE, and operators must be prepared to capitalise on these opportunities.<sup>1</sup>

<sup>1</sup> For more information, see Analysys Mason's [Comcast's success shows the power of a connected-home-centric strategy](#).