

TAG's view on the new regulatory approach for EU Roaming

Geneva, 22 March 2012

Competition is the right tool to bring roaming prices down

- > Telekom Austria Group welcomes the Commission's philosophy of introducing a structural solution to the Roaming Market
- > We are convinced that a new structure for competition will (better) solve 'the EU Roaming issue', especially as price cap regulation has proven to be unable to alleviate the problem of sticky retail prices
- > Separation of roaming from national services will solve this problem as customers would turn their attention on roaming prices giving operators an incentive to compete on roaming prices
- > However, for 'roaming separation' to successfully open markets for alternative roaming providers, policy makers have to provide the right framework conditions

'Separation' of EU - Roaming services - a short description

- > 'Separation' means that a customer will be able to buy roaming services from a different provider than its national services:
 - > Today all mobile services are offered in bundles: The customer has to buy national, international, and roaming services in a bundle from one operator. With 'separation', EU roaming services can be purchased individually, without all the other services
 - > This will give all operators the opportunity to compete for customers on EU roaming services exclusively. As a positive effect the new roaming solution would increase competition between operators, minimize customer costs for mobile services, and even help building a common EU mobile market.
- > For customers nothing changes except that they have two contractual and billing relation instead of one: one with an operator providing roaming services and one with an operator providing national services
- > The roaming experience itself will remain the same as today: after going abroad customers switch on their mobiles and use it for any roaming service they want - voice, SMS and data and they will be able to make and receive calls under the same number as at home

'separation' and its effects on retail competition - overview

- > Today, customers have to make a purchase decision on the complete bundle of mobile services
 - > Customers take this decision based on the predominant 'use case' - in most cases domestic mobile usage
- > 'separation of EU-roaming' services will release the competitive forces and introduce price competition:
 - > On national level: between existing national MNOs and MVNOs
 - > On international level ('transnational' competition): entry into the market of 'new players' based on EU wide (wholesale) roaming coverage
- > Competition will try to attract all customer segments
 - > Business customers : via targeted offers
 - > Residential customers: mass market (above the line communication); availability at all points of sale
 - > No differentiation between 'frequent travelers' and other customers at marketing communication level to be expected
 - > However, different products (for frequent travelers and others) to be expected (bundles, etc)

'separation' and its effects on retail competition - national dynamic

- > With roaming prices in the focus of customers, operators would try to attract customers also via attractive roaming prices.
- > Especially from challengers on national markets, we expect competitive pressure to start:
 - > As for the domestic mobile service market, challengers with own mobile infrastructure have to grow in order to become more profitable ('investment in license & network is largely 'sunk cost')
 - > This market logic will also apply for the new segment 'EU roaming customers': challengers will try to grow via the capture of 'separated roaming customers'
 - > We estimate the total market revenue volume for EU roaming to be between 5-15% of the relevant market
 - > This allows market players significant growth, even if due to price reduction (combined with under proportionate volume growth) the total EU roaming market in revenue terms will shrink.
- > Furthermore: the 'roaming only' relationship is a perfect starting base for a consecutive 'full acquisition' of the customer (billing relationship, trust, customer insight, etc)

Retail competition could be even increased by the advent of transnational operators

- > Operators from smaller member states can tap into the huge customer base/potential of large member states with very little incremental effort (growth potential)
- > Large operator groups are enabled to complete their footprints, use their international brands and their footprint network coverage advantages (cost advantages) as well as address large international account customers
- > As the costs for customer support are the same for frequent as for infrequent roamers, such transnational operators would not just focus on frequent roamers but increase the pressure on prices for all roaming customers
- > An example for such a transnational operator for data roaming services (dongle use only) is “abroadband” (www.abroadband.com)

The screenshot displays the 'abroadband' website. At the top, the logo 'abroadband' is followed by navigation links: 'what is abroadband', 'my abroadband', and 'help & support'. A search icon and a 'your country' dropdown menu are also visible. The main visual is a blurred street scene with yellow taxis, overlaid with a white USB dongle. The central text reads 'just € 0,59/MB everywhere' and '€ 19,90 € 17,32 approx. incl. VAT'. Below this, three columns provide information: 'WHAT IS ABROADBAND' with a video introduction, 'YOUR BENEFITS' stating it's a perfect solution for travel, and 'BEST PRICE' highlighting the low cost. A 'DETAILS' button is on the right. The footer contains 'Sitemap', 'Search', 'FAQ', and 'Contact' links, along with social media icons and payment logos for Mastercard, VISA, and PayPal.

'separation' can only be successful if two important preconditions are met

- > Price caps have to provide operators with incentives to compete for roaming customers:
 - > Retail safeguard caps are set in a way that allows market entry
 - > Wholesale caps are not below costs
 - > Implementation costs are reasonable - no duplication required
 - > No 'backdoor' for a early re-opening of the Regulation as otherwise the initial investment will be too risky
- > The way the technical solution will be implemented has to be easy to use by customers:
 - > No change of SIM card when choosing a new roaming provider
 - > No change of telephone number
 - > No need to use a separate PIN number when crossing borders
 - > Quick change of roaming provider
 - > Choice of roaming provider possible at home or when abroad
 - > Alternative Roaming offer includes all services (voice, data, SMS)

Four technical solutions to implement ‘separation’ under discussion...

- > European stakeholders are currently discussing the feasibility of several technical solutions such as “single IMSI”, “single IMSI+”, ‘dual IMSI’ and “Data LBO”
 - > ‘dual IMSI’: customer gets a new SIM card and roaming provider takes full control of customer and traffic management whilst roaming
 - > ‘single IMSI’: a virtual roaming provider offers retail services whilst traffic is still managed by H-MNO
 - > ‘single IMSI+’: enables direct commercial agreements between roaming providers and V-MNOs
 - > Alternative roaming providers can enter directly into commercial negotiations with visited network operators
 - > H-MNO can steer traffic on behalf of the alternative roaming provider
 - > ‘Data LBO’: visited network provides data services whilst H-MNO provides voice/SMS

...which have different properties and effects on competition

- > dual IMSI:
 - > Increased retail & wholesale competition as alternative roaming provider fully controls roaming call and can use his own wholesale deals/footprint
 - > Competitive advantage for bigger operator groups
- > single IMSI:
 - > Provision of better customer experience (no change of SIM card) increases the number of potential customers willing to switch to an alternative roaming provider, hence increased level of competition
 - > Creates level playing field for smaller M(V)NOs and bigger operator groups
- > Single IMSI+ might combine advantages of single and double IMSI
 - > combines the better customer experience of single IMSI with the greater autonomy of wholesale arrangements offered by dual IMSI
 - > Lower market rates also for small operators instead of regulated caps
 - > Competitive advantage for bigger operator groups
- > Data LBO seems not viable and is reducing effectiveness of the separation solution
 - > Marketing, language and usage barriers

Thank you