

Costing and Pricing Infrastructure Access

Rabat, MOROCCO

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Session 14:

Practical exercise 5: Tying it all together

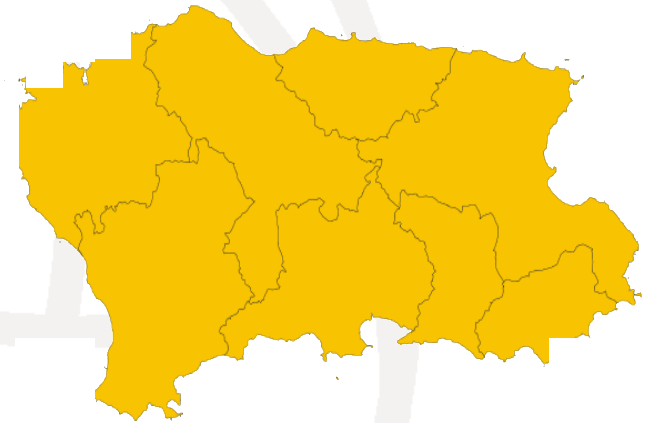
Agenda

Aims and objectives for this session

- Integrate the findings from the various cost models to determine the profitability of quad-play
- Consider the implications for quad-play strategy and regulation

A final visit to Normalia

- This practical exercise concerns the fictitious country of Normalia.
- Normalia is a typical (“normal”) country with regulatory challenges similar to those in your country.
- The details required for each practical exercise are presented in the slides / handouts.



STOP PRESS – Normalia Times

- The Telecommunications Regulatory Authority of Normalia (TRAN) is pleased to announce that it has formally approved a deal between three leading telecommunications providers in Normalia – Cloud, Normcell and Newtel. The deal will create the first quad-play service provider in the country, and one of the first in the wider region, and will bring substantial consumer benefits through lower prices and one-stop-shop facilities.
- TRAN carefully analysed all aspects of this deal and, despite concerns expressed by some other industry players, is satisfied that there are no anti-competitive consequences. Nevertheless it will re-assess the market in 2-years time and take any actions that may be necessary at that time.

Now what?

- After intense negotiations and regulatory hearings a quad-pay deal has been reached between Cloud, Newtel and Normcell.
- The “new force” in Normalian communications has been launched to much press and public fanfare.
- Now it has to make its business work – there is a 2-year window to achieve scale and profitability to rival that of the incumbent, Telecom.
- The last piece of the jigsaw puzzle of costs and prices is for Newtel and Normcell to demonstrate to their Boards that this new deal can be profitable.

What happens next?

- A working group has been established tasked with preparing a presentation to the Boards of Normcell and Newtel
- Each Board has set an ambitious 35% target profit margin.
- Each party should use the **Group Worksheet for Practical Exercise 5** file that TRAN has prepared for the occasion
 - you only need to refer to the third worksheet: ***Quadplay Costs and Prices*** at this stage.
- The worksheet requires various inputs to be made from the various ITU Training Cost Models
- It also requires a price plan to be made for 2018.

Format of the presentation

Presentations should:

- Demonstrate that 35% profit margin in 2018 is achievable
- Indicate the prices that will need to be charged to reach this goal
- Justify the changes from today's prices
- Identify the main assumptions/ sensitivities in the analysis.

Possible outcome

Newtel assumptions

Assumptions

	2016	2018
Contention ratio for broadband	20	15
Newtel cost of fibre access \$ per subscriber p.a.	88.0	88.0
Newtel cost of core network \$ per Mbps p.a.	6.10	7.27
Norm cell cost of access to KLT cable \$ per Mbps p.m.	2.63	1.34
Cost of sale	40%	30%

Newtel services and prices

Service	Maximum bandwidth (Mbps)	Tariff 2016 (\$p.m.)	Tariff 2018 (\$p.m.)
Vitesse 2	2	10	10
Vitesse 10	10	20	15
Vitesse 25	25	35	23
Vitesse 100	100	50	36
TOTAL			

Newtel outcomes

Average Newtel subscribers (with Cloud)

Service	2016	2018
Vitesse 2	202790	221445
Vitesse 10	140940	232919
Vitesse 25	74715	151626
Vitesse 100	31715	105369
TOTAL	450160	711358

Newtel profit margin by service

Service	2016	2018
Vitesse 2	-21%	-7%
Vitesse 10	39%	26%
Vitesse 25	98%	62%
Vitesse 100	46%	43%
TOTAL	44%	35%

Normcell assumptions

Assumptions

	2014	2016
Normcell cost of mobile access \$ per Mbyte	0.032	0.031
Normcell cost of core network \$ per Mbyte	0.005	0.005
Normcell cost of access to KLT cable \$ per Mbps p.m.	2.63	1.34
Contention ratio for broadband	20	15
Cost of sale	40%	25%
Annual growth in broadband usage within each data package	20%	

Normcell tariffs

	2016	2018
Service	Fixed fee	Fixed fee
Basic	10	12
Enhanced	25	26
Maxi	30	38
Unlimited	60	80
TOTAL		

Normcell outcomes

Normcell subscribers

Service	Subscribers (2016)	Subscribers (2018)
Basic	513000	461700
Enhanced	252450	236041
Maxi	84150	78680
Unlimited	160400	249079
TOTAL		

Normcell profit margin by service

Service	2016	2018
Basic	8%	37%
Enhanced	95%	106%
Maxi	6%	37%
Unlimited	-53%	-38%
AVERAGE	20%	35%

In summary

- On the **fixed network** high bandwidth means high revenue without substantial increase in costs (after fibre investment)
- For Newtel migrating customer onto high bandwidth services is highly profitable; 35% margin is relatively easily achieved.
- On the **mobile network** high bandwidth means high cost without substantial increase in revenues.
- For Normcell the challenge is increasing tariffs for high bandwidth services while migrating customers to these data packages; 35% margin can only be achieved through tariff increases that it has to justify with TRAN; more significant changes to tariff structure would help!