

Costing and Pricing Infrastructure Access

Rabat, MOROCCO

9–12 July, 2018

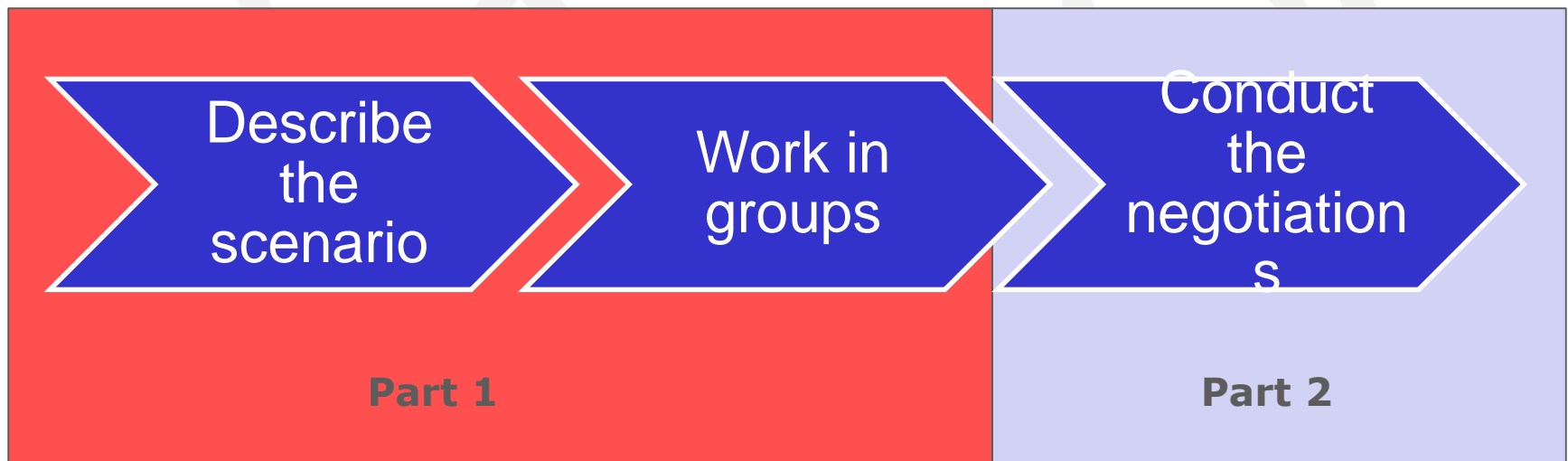
David Rogerson, ITU Expert

Session 6:

Practical exercise 2: role play of a broadband service and price negotiation

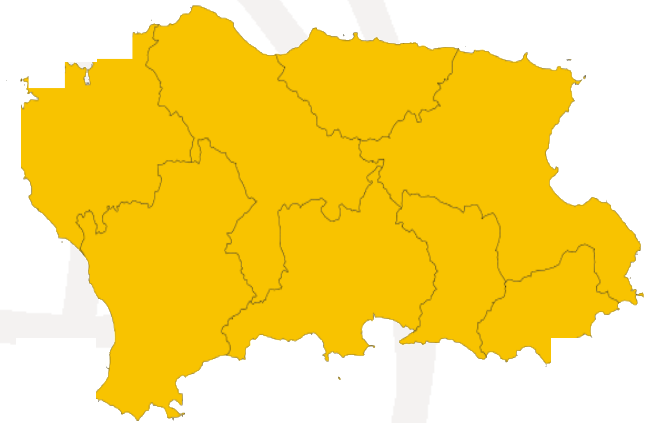
Agenda

Aims and objectives for these sessions



Remembering 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.



Telecoms in Normalia

Regulator - TRAN

(Telecom Regulatory Authority of Normalia)

Fixed Telecoms

- 4m subscribers
- Telecom (75%)
- Newtel (25%)

Mobile Telecoms

- 10m subscribers
- Telecom (60%)
- Normcell (40%)

Content and service providers

(various including **Cloud** an ambitious entrant providing digital TV services)

Broadband service negotiations: Cloud & Newtel & Normcell

Cloud's confidential proposal

- Cloud has approached Newtel and Normcell and asked for tri-partite discussions on a deal regarding the provision of its digital TV content
- It has acquired the rights for key sports fixtures (including cricket, baseball and football) in Normalia and wishes to secure access to customers.
- It has already held discussions with Telecom, but has not been able to reach a deal (as yet).
- It suggests that Normcell, Newtel and Cloud establish a joint venture to provide exclusive access to its TV services across fixed and mobile platforms.

Relevant information in the public domain - Newtel

- Newtel has 600,000 voice-only customers and 400,000 on broadband services.
- Tariffs for the broadband customers (in addition to voice only tariff of \$20 per month) are as follows:

	Vitesse 2	Vitesse 10	Vitesse 25	Vitesse 100
Monthly tariff (USD)	10	20	35	50
Maximum download speed (Mbps)	2	10	25	100
Number of subscribers	200,000	120,000	60,000	20,000

Relevant information in the public domain - Normcell

- Normcell has 1m contract customers and 3m pre-paid customers.
- Tariffs for the contract customers are as follows:

	Basic – voice, text and up to 50MB data	Enhanced – up to 250MB of data	Maxi – up to 1 GB of data	Unlimited – data
Monthly tariff (USD)	15	25	40	70
Cost per additional 250MB data	15	15	15	none
Number of subscribers	600,000	270,000	90,000	40,000

Relevant information in the public domain - Cloud

- Cloud is a new company established by a local businessman (50% of shares) and a US venture capital firm (50%).
- It has been reported in the press that they paid \$240m for the exclusive rights to certain sports coverage in Normalia for a period of 2 years, with an option to extend for a further 2 years.
- Analysts have reacted favorably to the deal but warn that Cloud needs to obtain “eyeballs” quickly if it is to obtain a ROCE and cover estimated monthly operating costs of \$1m.

Evidence from Parland - 1

- Although Cloud has no operational experience in other countries, another digital TV company has been offering the same sports package in the similar/neighbouring country of Parland for the past 12 months.
- In Parland, the evidence suggests that:
 - 40% of fixed broadband subscribers took up a free 1-month trial of the equivalent sports TV package
 - Half of these converted to an on-going subscription service for which they paid an \$10 per month (in addition to their broadband tariff)
 - 40% of the customers with the TV package also upgraded their broadband service, for which they paid a further \$10 per month
 - 1% of incumbent fixed operators broadband subscribers changed supplier to access Cloud's services.

Evidence from Parland - 2

- In Parland, the evidence suggests that:
 - Mobile broadband customers taking the digital TV service require at least 500MB per month of data.
 - 10% of “Basic” customers migrated to data packages so as to use the sports TV service
 - Generally these customers go for the unlimited data option just to be sure that they have sufficient capacity and to cap their monthly spend.
 - 15% of customers on data packages under 500MB migrated upwards in order use the sports TV service.

Conduct of the negotiations

What happens next?

- The parties have appointed negotiators who have been tasked with preparing negotiating positions based on instructions from their Boards.
- A **confidential** data sheet will be provided to each team containing further information to assist in the establishment of these proposals.
- It has been agreed that a maximum of **two** meetings will be held between the parties:
 - First, they will meet to understand each other's positions and to see in broad terms if a deal can be done.
 - After refining their proposals they will meet again to see if an agreement can be reached.
- They should also prepare a summary presentation to TRAN seeking approval for any deal reached.

TRAN's public statement

- The regulator TRAN has issued a public statement concerning the future of “quad-play” (the combined offering of fixed voice, internet, mobile and TV services in a combined package)
- TRAN recognises the potential consumer benefits of quad-play but is concerned that:
 - Consumer should obtain short-term advantages: prices should reflect supplier cost savings
 - Consumer should obtain long-term advantages: effective competition should not be undermined.
- It has stated that any quad-play deals should be referred to TRAN for final approval.

Format of the deal

	Normcell	Newtel
Up-front investment (\$m)	A	B
Monthly fees per Cloud subscriber (\$)	x	y

The negotiation process

Prepare negotiating positions



Conduct first round negotiation



Reappraise the situation



Conduct second round negotiations



Refer to TRAN

Possible outcome

One deal that works for all parties

	Normcell	Newtel	Cloud
Up-front investment (\$m)	93	36	111
Fees per Cloud subscriber (\$ pm)	7 then 6	6	-
Why acceptable to the Board?	Net additional revenues of \$93m in two years	Net additional revenues of \$37m in two years (with Normcell)	Upfront investment below \$120m, and \$0.3m over minimum WACC in two years

Points to note

- The deal is finely tuned:
 - Other than for Normcell (which has planned 10% p.a. price cuts) there is almost no scope for price cuts while meeting Board objectives
 - The operators are vulnerable to Telecom price cuts – they may not be able to respond without undue loss of revenue
 - There is little margin for error – e.g. if the results from Parland and/or market research prove optimistic.
- Cloud could maybe accept slightly lower investment or slightly lower per-subscriber fees:
 - But the negotiators have an incentive not to do this
 - Their bonus pool on the above deal is \$106k.

TRAN's perspective

- The deal should help to increase competition:
 - Both Normcell and Newtel will be better able to compete with Telecom as a result
- The deal is not anti-competitive:
 - A 2-year exclusive deal is not overly restrictive
 - Telecom had the opportunity but did not take it (as the SMP operator TRAN would have been concerned about anti-competitive practices if it had!)
- The deal does help consumers through lower prices:
 - No customers will be no worse off in price terms and they will have greater service choice; Normcell is promising broadband price cuts
 - TRAN would like to see wider price benefits but accepts that these may come in 2 years time rather than now.