



International Price benchmarking

4th OOCUR Annual Conference
Grenada
8th November 2006

Halvor Sannæs
Director Tariff Services
Teligen, Harris Interactive UK
halvors@c2i.net

www.Teligen.com

© Teligen, 2006. All rights reserved.

What is Price Benchmarking?

- A comparison of prices or price levels between different service offerings
 - Between similar services in the same market
 - Between similar services in different markets
 - Between different services
- Price benchmarking uses a defined methodology to ensure equal handling of all price elements for all services
- A usage profile is often used to calculate usage based costs
- The price benchmarking should be accompanied by a commentary, as not all properties of a service can be expressed by price.



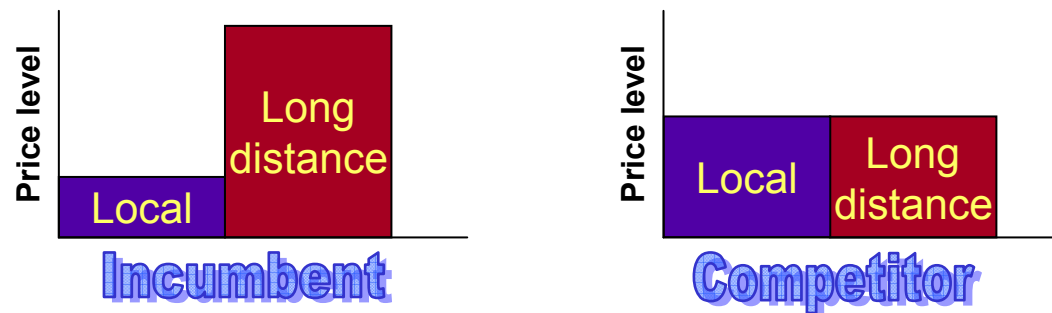
Why benchmark telecoms prices? (1)

- Are your market prices in line with other comparable markets?
 - Consumers will inevitably question price differences in otherwise similar markets, for example neighbouring countries, or countries of similar structure
 - Questions like: Why is the per minute charge of a local call more expensive in country A than in country B? Why do I pay more per month to have a telephone line here than across the border?
 - Some of these questions may be highly relevant, while some may be based on misunderstandings or lack of understanding
 - Price benchmarking against other markets may answer such probing questions
 - Demonstrating the true relationship between prices
 - Showing which prices are really high, and which are low
 - An objective comparison of price levels rather than individual prices



Why benchmark telecoms prices? (2)

- Will your market be a target for external operators?
 - When the prices of for example long distance or international calls are significantly higher than cost, other operators or service providers may try to undercut and “steal” market shares
 - A typical scenario:



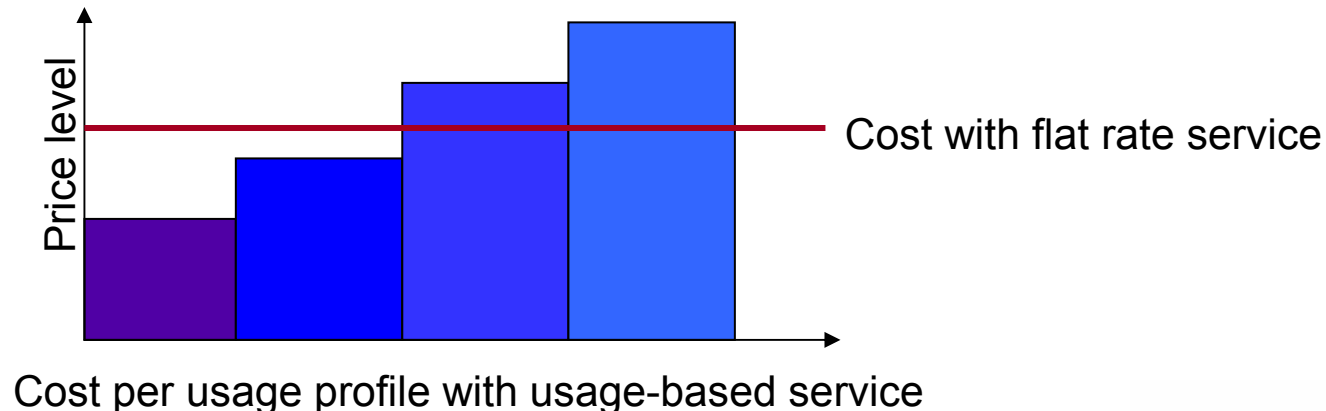
The competitor allows the end user to select the cheaper local service from the incumbent, and use the cheap long distance service from the competitor, thus reducing end user cost.

However, the low local price of the incumbent is subsidised by the more expensive long distance.....

Price benchmarking may uncover such possible threats.

Why benchmark telecoms prices? (3)

- Will more efficient technologies eat into your market?
 - When price levels are high there is always the danger that cheaper services may take over
 - Will Internet-based services take over from regular voice services?
 - It is important to know the true price level (cost to end user) of the services, in order to compare and assess the threat.
 - Will for example a broadband-based telephone service become cheaper than the regular PSTN? And with which usage profile, i.e. for which customer segments?



Who is using Price Benchmarking?

- OFCOM, UK
 - Updated regularly for internal assessment of competitive situation
 - Available to customers who need to compare offerings
- European Commission
 - Assessing the competitive “climate” in member countries annually
- Regulators in OECD countries
 - Regular assessments of price situation and development
- Regulators in small countries
 - Assessment of price situation and competitive threats and opportunities
- Operators
 - Basis for adjusting their prices, and to pre-empt competitive threats
 - Both mobile and fixed line operators
 - Will often use tailor-made usage profiles for their home market



Comparing prices isn't that difficult, is it?

- An example with a simple and a more complex approach

France Telecom

US\$	Call set up	Peak	Off-peak
Local	0.078	0.028	0.014
National	0.105	0.078	0.053
Mobile	0.179	0.115	0.063
Rental/month	15.00		

Deutsche Telekom

US\$	Call set up	Peak	Off-peak
Local	0	0.039	0.015
National	0	0.049	0.029
Mobile	0	0.212	0.212
Rental/month	15.95		

Which of these tariffs are the cheapest, and by how much?

It is hard to tell, but using a basket benchmarking methodology these are the results:

With medium usage	Total	Difference
France Telecom	355.30	
Deutsche Telekom	322.80	-9%

With high usage	Total	Difference
France Telecom	582.80	
Deutsche Telekom	516.50	-11%

Important points when comparing prices:

- Individual prices may be deceiving
 - The price of a call can be calculated in a multitude of ways
 - Low monthly rental is often combined with high call charges
 - It is the overall cost to the customer that is interesting
- Comparing price levels rather than prices
 - The overall cost calculation must reflect real usage
 - All relevant price elements must be included
 - The usage profile (“basket”) must reflect a relevant usage
 - For international benchmarking the usage profile must be relevant to all markets covered, i.e. a cross-section of the usage levels in all markets.
 - Using several usage profiles will broaden the view of the prices in the market.
 - A usage profile is not the same as a real user, i.e. do not confuse benchmarking results and real bills.
 - The results of price benchmarking are relative, and do only make sense compared to other results from the same benchmarking exercise.

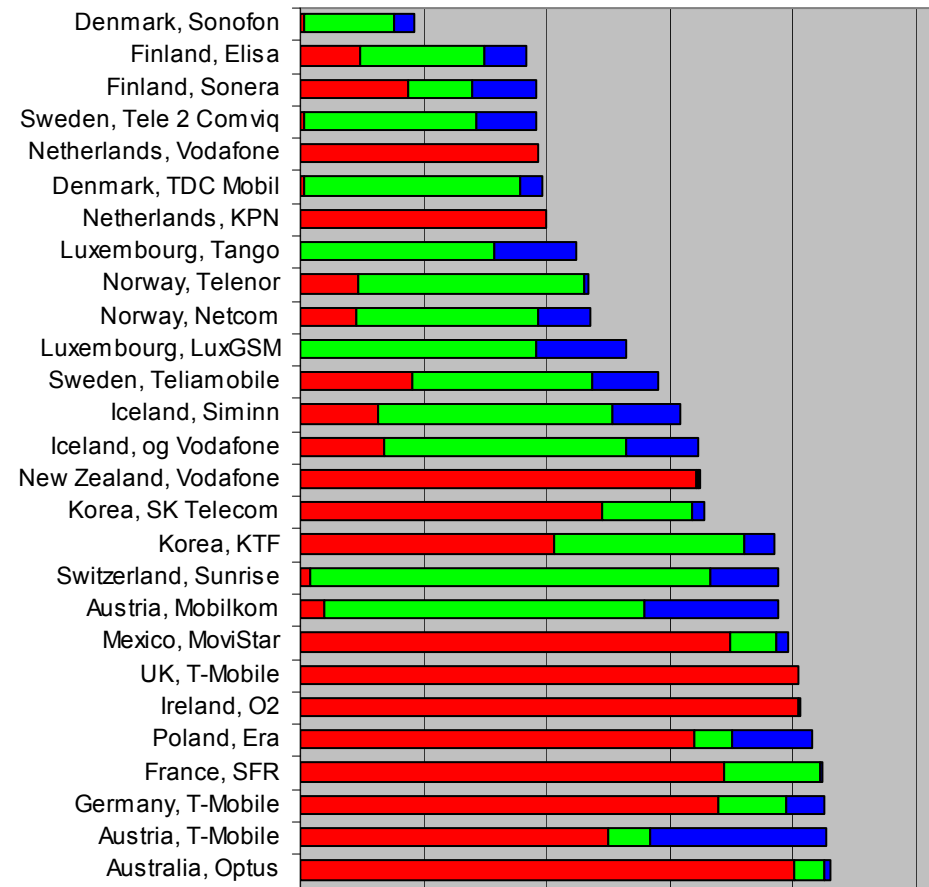


Case 1: Price benchmarking for a developed market

- OECD baskets cover 30 developed markets around the world
- Usage profiles are developed based on usage data from all major markets
- Baskets are produced for Fixed telephony, Mobile telephony and Private circuits.
- Results are shown in US\$ per year, with or without Purchasing Power Parity adjustment.
- **Example to the right: Extract from mobile medium usage basket;**
Red=Fixed; Green=Voice; Blue=SMS

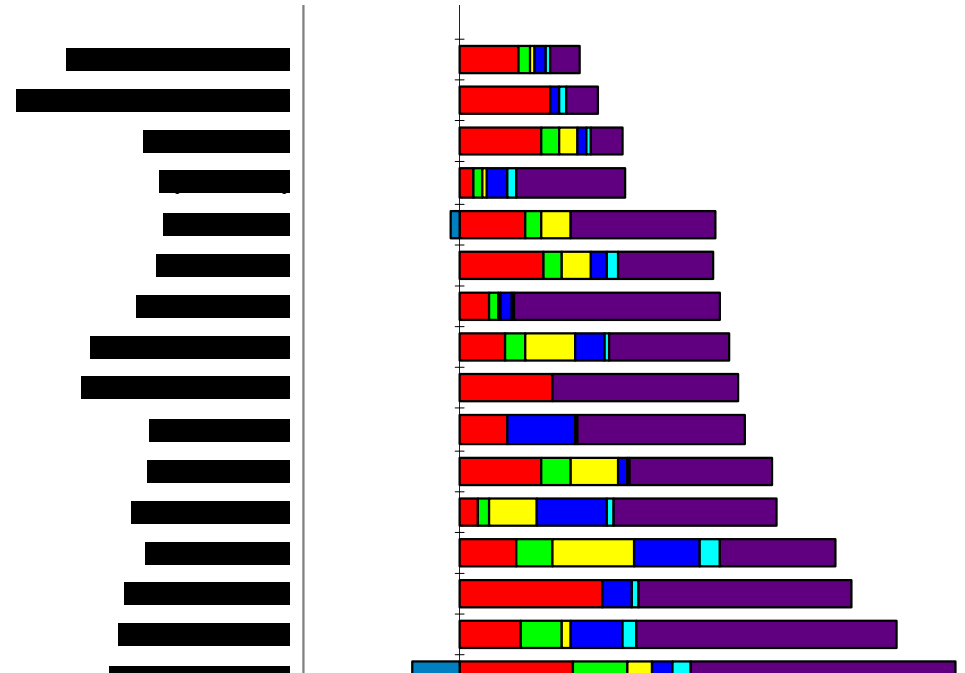
Medium user basket

Post-paid



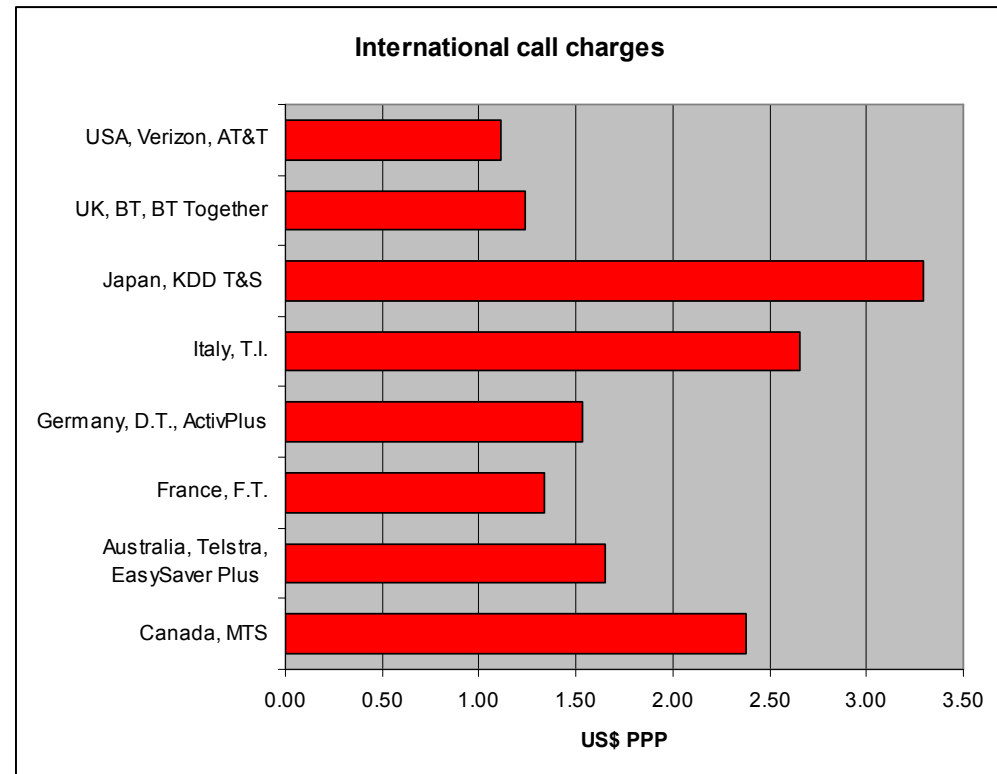
Case 2: Price benchmarking in an emerging market

- The same methodology can be used in for example the Pacific Islands
- The usage profiles are based on traffic information from the Pacific region, reflecting actual usage in the countries covered
- Price information cover basic services in Pacific countries, plus some other relevant countries for reference
- The example to the right shows an extract from the results using a Pacific usage profile:
Red=Fixed; Green=Local;
Yellow=Internet; Blue=LD;
Light blue=Mobile; Purple=International



Case 3: International calling

- Benchmarking prices for international calls from a range of countries
 - Comparing prices for single destinations is misleading
 - A basket methodology can weight the prices for a range of destinations
 - Makes the comparison more robust and less sensitive to “strategic pricing” by the operators
- **Example: Average price of an international call, for a residential user.**
Calls to 29 other OECD countries, weighted by traffic density on each route

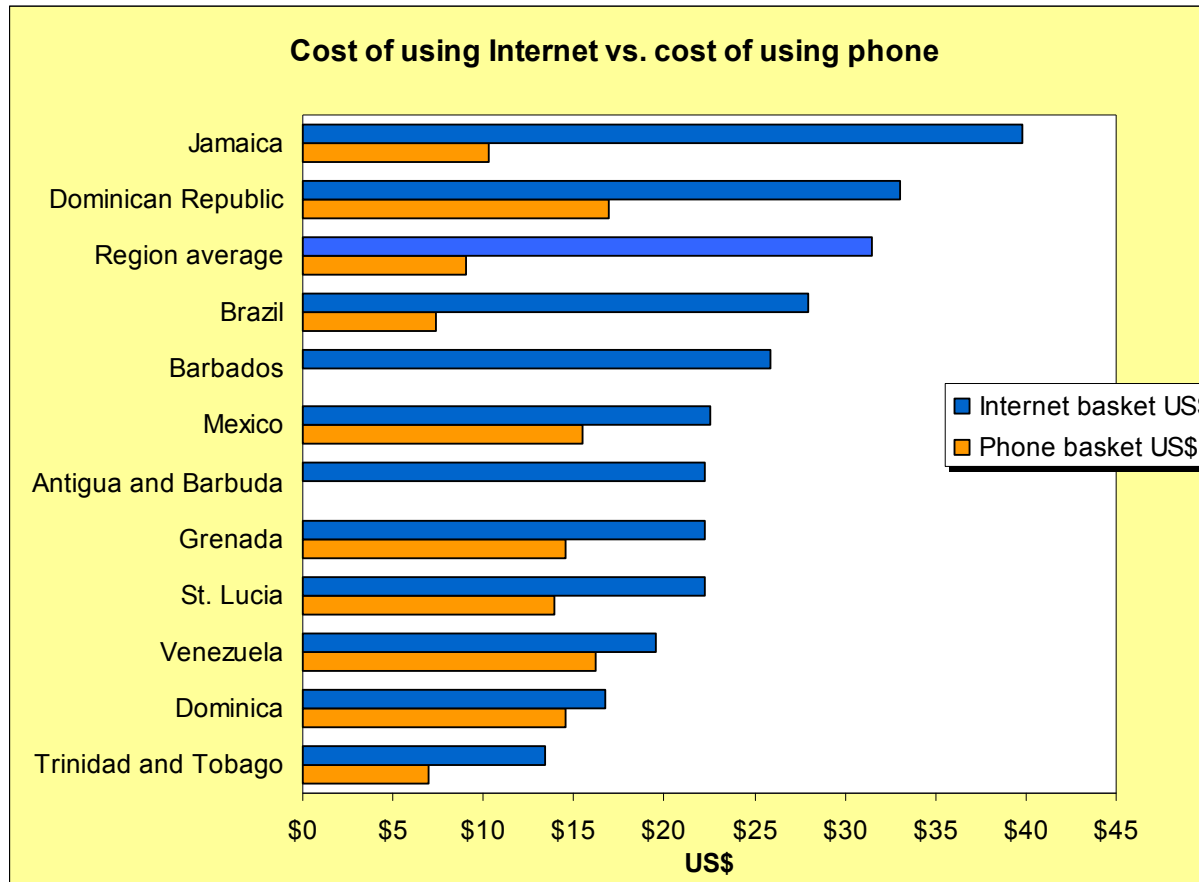


What can price benchmarking give you?

- Knowledge about “real” price levels
 - Actual price relationships
- An unbiased view
 - Using an internationally based methodology will add credibility to the results
- An insight into the price competition
 - The benchmarking results will show which tariff elements are most under pressure from competition, and allow for analysis of where competitive threat may create problems for the market
 - Price pressure may ultimately result in financial problems for the incumbent
- Arguments for (or against) price regulation
 - A combined analysis of the benchmarking results along with the tariff structures and price elements will enhance the basis for regulatory decisions



Case 4: Cost of using Internet vs. cost of using phone



However, in such cases it is important to know and understand the methodology behind the numbers. If the basis' for such comparisons are not compatible they can lead to wrong conclusions.

Comparing basket results with other relevant factors, for example: Internet basket price compared with the price of a phone basket.

Source: World Bank

What does price benchmarking involve?

- Price data
 - Price data from as many relevant tariffs in own and foreign markets must be collected
 - Tariff details are important to get the calculation structures right
 - Tariffs must be available
- Traffic data
 - Typical usage data (number of calls, length of calls, spread of calls number of lines) must be collected from one or more operators, requiring the collaboration of the operators.
- Market data
 - Data about the players in the market(s) and the services they offer is important background information for the analysis following the benchmarking results
- Results
 - Analysing the results does require intimate knowledge of the baskets and how they work, any caveats and shortcomings of the basket methodology must also be considered.



Case 5: Mobile price benchmarking in the Caribbean

Typical basket output may look like this:

(This is an example with mobile services in 4 Caribbean countries, with a High Usage basket according to OECD. Results in US\$)

Country, Provider	Package, Option	Fixed	Voice	Messages	Grand Total
Jamaica, Digicel	Select Access	136.71	336.46	30.08	503.25
Jamaica, Digicel	Select 150	182.28	159.66	16.41	358.35
Jamaica, Digicel	Select 375	364.56	114.95	16.41	495.91
Jamaica, Digicel	Select 750	546.84	55.52	10.94	613.30
Jamaica, Digicel	Select 1500	1,002.54	-	2.73	1,005.27
Jamaica, Digicel	Flex	-	509.15	30.08	539.22
Bahamas, BTC	GalaxC MercuryPac	-	292.77	33.41	326.18
Bahamas, BTC	GalaxC VenusPac	728.88	-	33.41	762.29
Bahamas, BTC	GalaxC MoonPac	1,214.88	-	-	1,214.88
Bahamas, BTC	GalaxC EarthPac	1,700.88	-	-	1,700.88
Barbados, Bmobile	bSmart	292.38	158.96	23.45	474.79
Barbados, Bmobile	bBold	438.57	-	23.45	462.02
Barbados, Bmobile	bSharp	639.58	-	23.45	663.03
Barbados, Bmobile	bConnected	883.22	-	23.45	906.68
Grenada, Digicel	digiSelect 150	213.33	211.55	61.11	486.00
Grenada, Digicel	digiSelect 320	440.00	-	61.11	501.11
Grenada, Digicel	digiSelect 520	666.67	-	61.11	727.78
Grenada, Digicel	digiSelect 1000	1,266.67	-	61.11	1,327.78

A range of tariff packages tested

Normally the cheapest package will be presented

The balance between different tariff elements can be examined, with varying levels and profiles of usage.

Thank you

Halvor Sannæs
Director Tariff Services
Teligen, Harris Interactive UK

Phone: +47 3702 3400

Email: halvors@c2i.net

Web: www.teligen.com

