Pricing of Mobile Services

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The general rule

- Market situation: There is vigorous competition in each market segment the firm operates in.
- Within some limits, the company is constrained by the market in regard to its pricing.
- In each market segment, the price for the firm's service must cover that service's direct cost.
- Across all market segments, the margins above direct cost (multiplied by the services' volumes) must cover total common cost and provide for profit.

The case of opening the telecommunications market with an incumbent operator

- Market situation: Competition evolves quickly in some market segments but hardly takes off in other segments, e.g. the local market.
- Incumbent may want to load all its common cost onto prices for local services (low price elasticity) to be better able to face new competition in other market segments.
- Regulator needs to prevent this as it comes pretty close to the strategy of predatory pricing.
- Note: The regulator's policy must balance its intention to prevent an unfair pricing strategy against the fact that local services are usually price inelastic and in general should carry a higher share of common cost.

The pricing rule derived from the network externality and merit good argument

- Market situation: There is low penetration and a substantial segment of the population does not have the means to pay for a telephone.
- Both the network externality and the merit good arguments support in this case lower priced access to low-income people and remote rural areas.
- It is important that the so subsidized price options are targeted and primarily are used for the people for whom they were designed .

Penetration pricing

- Market situation: A new service is being launched in a competitive environment.
- To attract customers, the firm starts selling the service at a low price with the intention of raising the price later.
- Alternatively, the firm provides for a give-away at the time of take-up of service in the hope of compensating its cost with higher usage prices.

Types of mobile services pricing structures

- Two different approaches to mobile services pricing : Calling Party Pays (CPP) and Receiving Party Pays (RPP).
- They provide incentives for different penetration pricing strategies.
- They also imply quite different situations as far as interconnection and its pricing are concerned.
- The data indicate that in countries where operators use a CPP pricing structure, mobile operators have been growing faster.

The network externality argument used in the case of mobile services

- The observed relationship of mobile termination charges under CPP
  - to fixed termination charges, and
  - to their costs.
- The argument brought forward by mobile operators.
- The determination by the UK regulator.
- Network externality as an argument to justify higher mobile termination charges.
- This policy amounts to an untargeted subsidy tending to benefit also users who do no need it.
- Do fixed operators have the margins in their business to provide for this kind of cross-subsidization?