

OTT Workshop

Impact of internet applications in mobile networks' costs

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AXON 
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There is an ongoing debate about who should pay for the network expansions required to carry the traffic of big Internet companies



Over the last few years, Telcos have highlighted the substantial **investments required for enhancing their networks** to accommodate the huge loads of traffic generated by Internet companies using Telcos' networks to provide their services and generate big profits



On the other hand, Internet companies typically claim that Telcos would not have **demand for broadband services without their services**

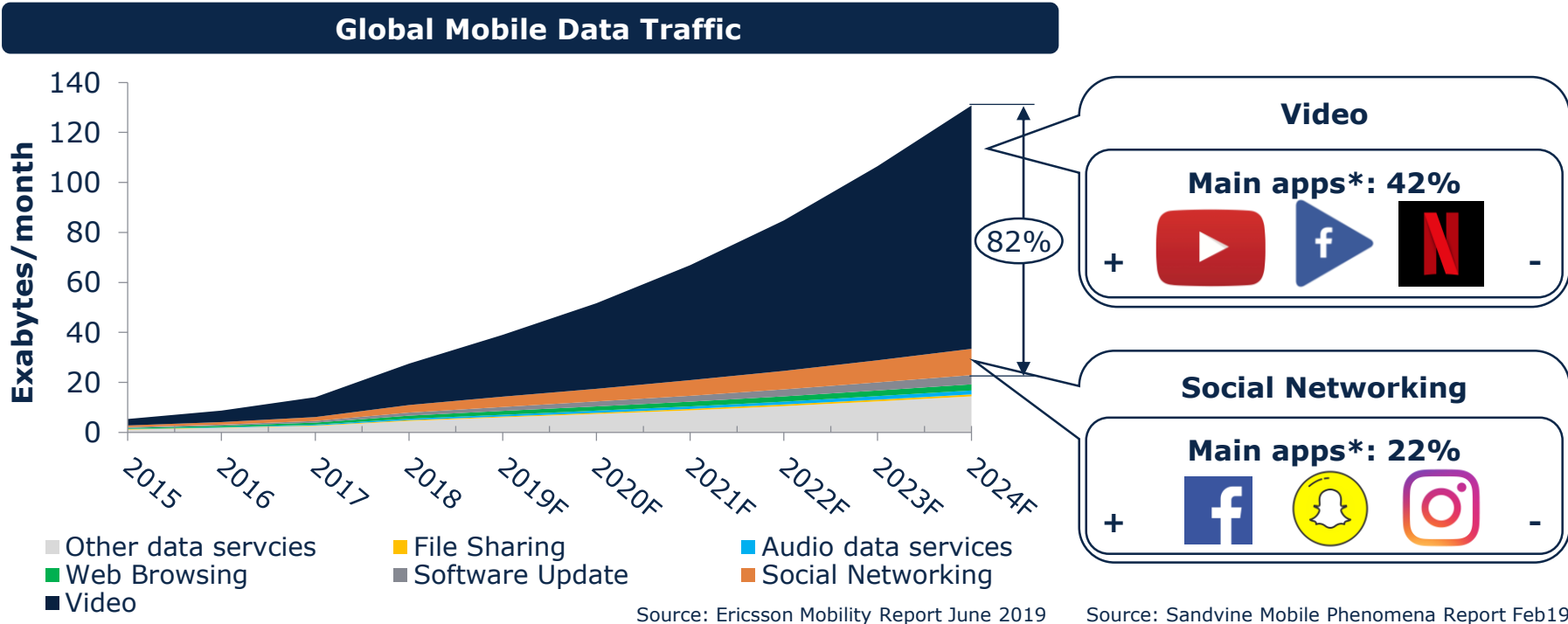


Beyond the economic arguments, the entire discussion has been complicated by the discussions about **Net Neutrality** (a topic that deserves a session on its own)

Let's focus on the financial implications of internet services on (mobile) Telcos

Industry Reports indicate that most of internet traffic handled by mobile networks is associated to few application categories

...and few companies

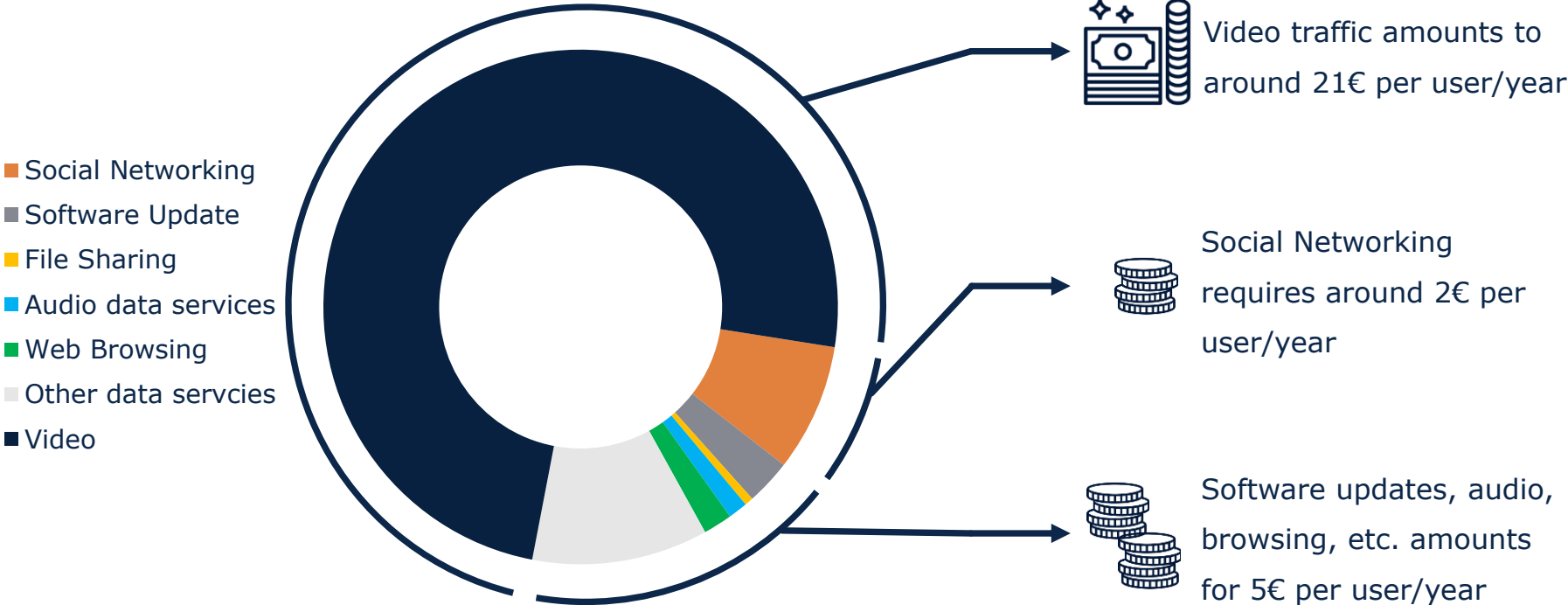


But, which is the impact of such traffic on mobile network costs?

Note (*): Main apps in terms of traffic. Percentage of global download traffic of the three main apps per category as per Sandvine's Reports

Internet applications are estimated to account for additional mobile network costs of 28€ per user/year

Network costs to provide broadband (per user/year)*

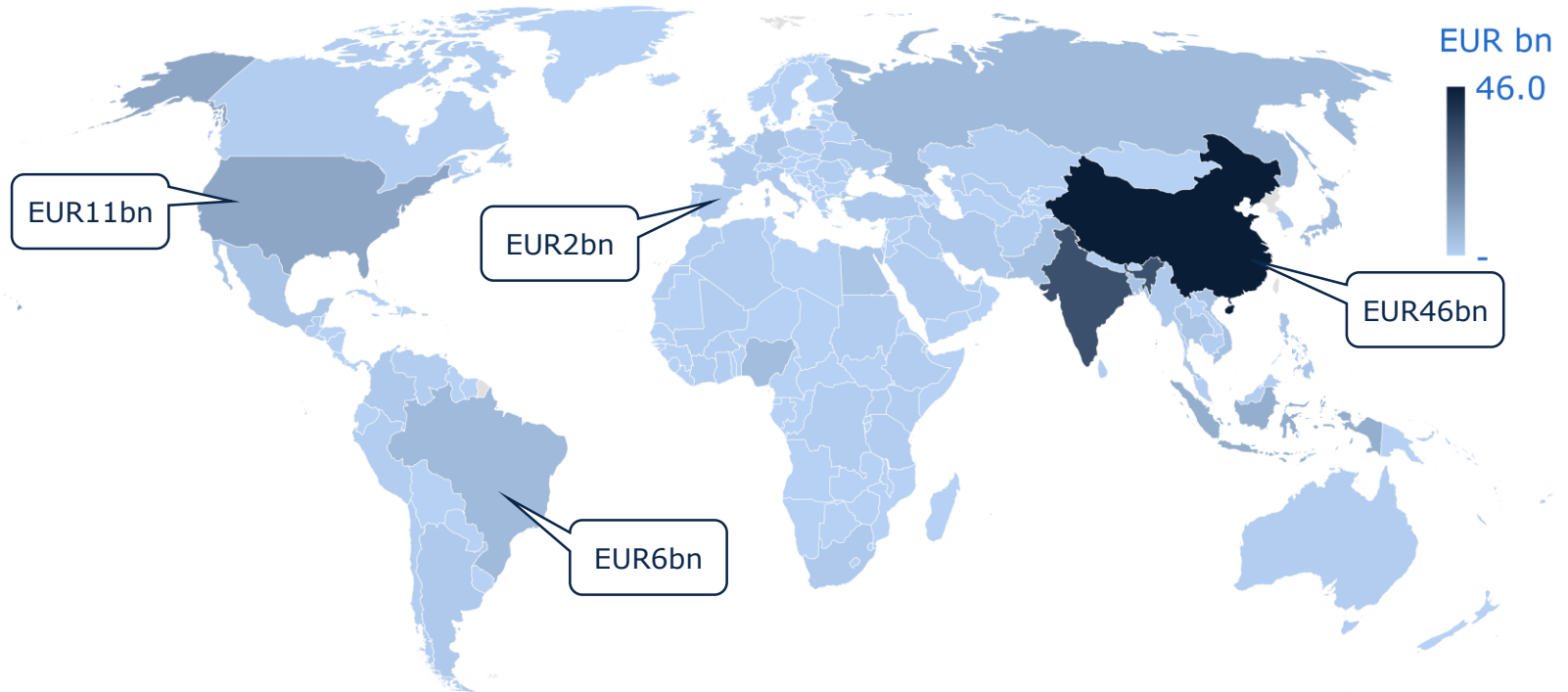


How much does this represent in absolute terms?

Note (*): Estimations for an hypothetical generic operator, based on Axon’s Cost Model published by the European Commission ([link](#)). Costs include national network operational expenditure, national network assets depreciation and associated cost of capital. The costs of specific mobile operators may vary depending on several factors such as size, coverage levels, traffic density, technology mix, country specificities, etc.

Based on Axon's estimates, Telcos should be spending amounts in the order of hundreds millions EUR to accommodate internet traffic

Estimated mobile network costs associated to internet traffic (per World region and year)*



Who should pay the bill...?

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Note (*): Estimations for an hypothetical generic operator, based on Axon's Cost Model published by the European Commission (*see previous slide*) and mobile users numbers reported by the World Bank.

For now Telcos are still assuming the whole burden but we see an increasing willingness by Internet companies to cover (at least) part of the cost



Traditionally, and most frequently, **Telcos recover the costs associated to internet traffic from subscribers** purchasing broadband services



Certain business cases may not be viable based only on subscribers' payments, especially if end users do not see the value or cannot afford the prices



A number of collaboration initiatives between operators and internet companies aim at **co-investment in network infrastructure***

Much more about this topic in following sessions today

Note (*): Examples:

- Telxius deployed a submarine cable between USA and EU (Marea) in collaboration with Microsoft, Facebook and, later, Amazon ([link](#)).
- Telefónica Perú launched the initiative "Internet for Everyone" in collaboration with Facebook, Corporación Andina de Fomento (CAF) and International Development Bank (IDB) Invest to connect several rural areas ([link](#)).

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