# ITU ADVANCED LEVEL TRAINING

# Strategic Costing and Business Planning for Quadplay

WINDHOEK, NAMIBIA

6-10 October, 2014

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# Session 11:
# 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, July 2014

- 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 2016.

# Format of the presentation

**Presentations should:**

- Demonstrate that 35% profit margin in 2016 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**

| | 2014 | 2016 |
|---|---|---|
| Newtel - cost of fibre access - $ per subscriber p.a. | 88.0 | 88.0 |
| Newtel - cost of core network - $ per Mbps p.a. | 5.35 | 5.10 |
| Normcell - cost of access to JKL cable - $ per Mbps p.m. | 2.13 | 0.98 |
| | | |
| Contention ratio for broadband | 20 | 15 |
| Cost of sale | 40% | 25% |

**Newtel services and prices**

| Service | Maximum bandwidth (Mbps) | Tariff 2014 ($p.m.) | Tariff 2016 ($p.m.) |
|---|---|---|---|
| Vitesse 2 | 2 | 10 | 10 |
| Vitesse 10 | 10 | 20 | 15 |
| Vitesse 25 | 25 | 35 | 20 |
| Vitesse 100 | 100 | 50 | 25 |

# Newtel outcomes

**Average Newtel subscribers (with Cloud)**

| Service | 2014 | 2016 |
|---|---|---|
| Vitesse 2M | 202790 | 221445 |
| Vitesse 10M | 140940 | 232919 |
| Vitesse 25M | 74715 | 151626 |
| Vitesse 100M | 31715 | 105369 |
| **TOTAL** | **450160** | **711358** |

**Newtel profit margin by service**

| Service | 2014 | 2016 |
|---|---|---|
| Vitesse 2 | -21% | 0% |
| Vitesse 10 | 42% | 39% |
| Vitesse 25 | 108% | 63% |
| Vitesse 100 | 63% | 27% |
| **TOTAL** | **51%** | **35%** |

# Normcell assumptions

| | 2014 | 2016 |
|---|---|---|
| Normcell - cost of mobile access - $ per Mbyte | 0.094 | 0.087 |
| Normcell - cost of core network - $ per Mbyte | 0.003 | 0.003 |
| Normcell - cost of access to JKL cable - $ per Mbps p.m. | 2.13 | 0.98 |
| | | |
| Contention ratio for broadband | 20 | 15 |
| Cost of sale | 40% | 25% |
| Expected annual growth in broadband usage within each data package | 25% | |

**Normcell tariffs**

| | 2014 | 2016 |
|---|---|---|
| **Service** | **Fixed fee** | **Fixed fee** |
| Basic | 15 | 20 |
| Enhanced | 25 | 36 |
| Maxi | 40 | 75 |
| Unlimited | 70 | 120 |

# Normcell outcomes

**Revenue per MB (at 2014 tariffs)**

| | 2014 | 2016 |
|---|---|---|
| Basic | 0.22 | 0.17 |
| Enhanced | 0.16 | 0.11 |
| Maxi | 0.08 | 0.06 |
| Unlimited | 0.08 | 0.05 |
| **AVERAGE** | **0.18** | **0.12** |

**Normcell profit margin by service**

| Service | 2014 | 2016 |
|---|---|---|
| Basic | 26% | 79% |
| Enhanced | -9% | 32% |
| Maxi | -54% | -14% |
| Unlimited | -55% | -26% |
| **AVERAGE** | **6%** | **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; major changes to tariff structure would help!