

ITU ADVANCED LEVEL TRAINING

Strategic Costing and Business Planning for Quadplay

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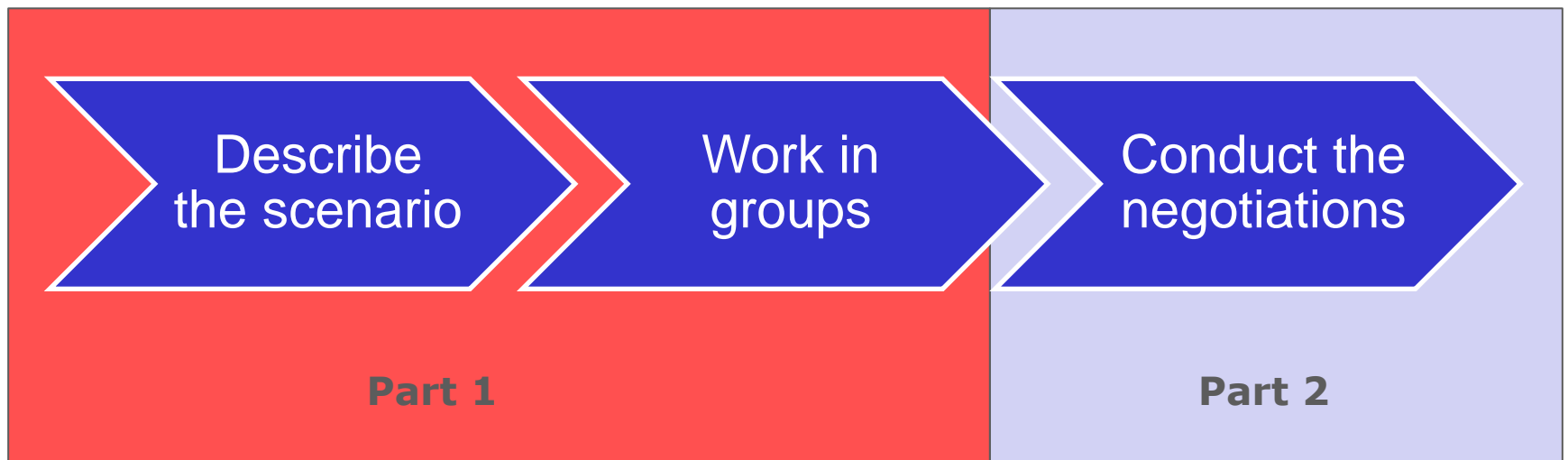


Session 6:

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 voice-only 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.

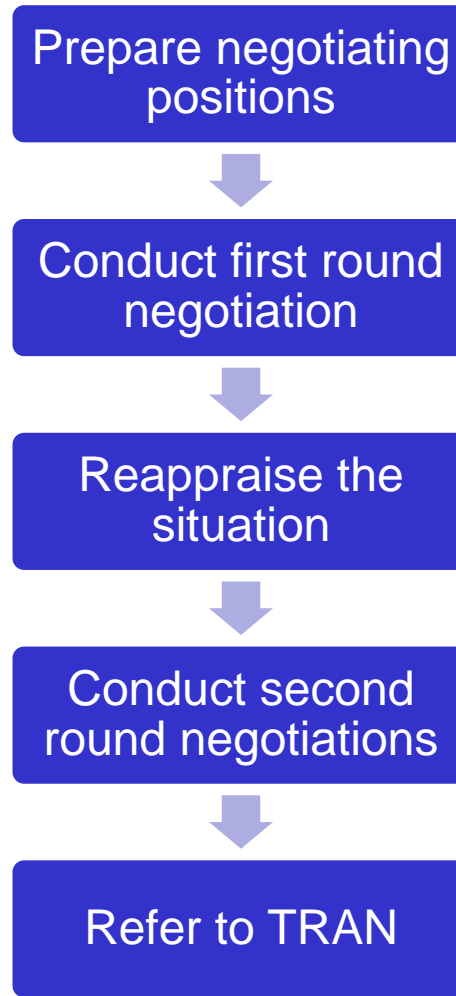
TRAN's public statement

- 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



Possible outcome

One deal that works for all parties

	Normcell	Newtel	Cloud
Up-front investment (\$m)	90	30	120
Fees per Cloud subscriber (\$ pm)	6	6	-
Why acceptable to the Board?	Net additional revenues of \$96m in two years	Net additional revenues of \$30m in two years	Upfront investment below \$140m, and \$0.1m 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 \$203k.

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 helps 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.