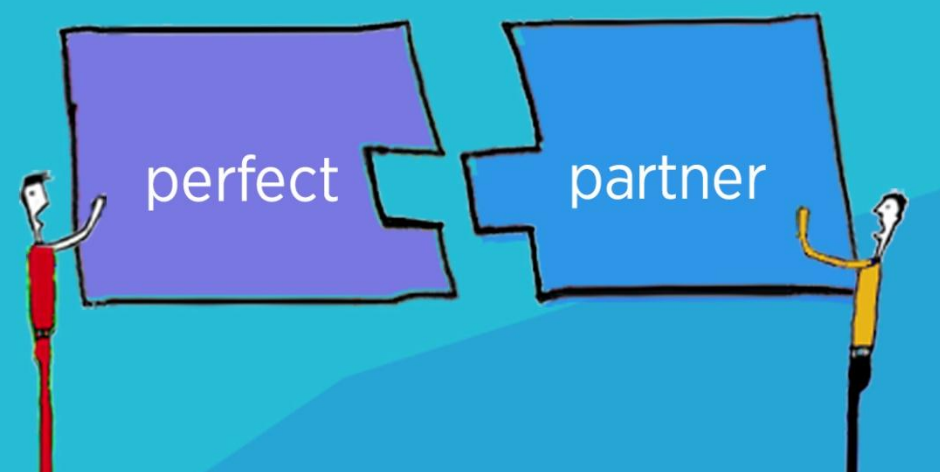
EU Roaming Regulation

Webinar



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March 2013

Piran Partners

Providing clear, practical and straightforward commercial advice to our clients

- **Consultancy focusing on the telecoms, media & technology industry**

- **Piran Partners specialises in:**

  Structuring partnerships with operators & MVNOs

  Go to market proposition development & improvements

  Economic, business & traffic modelling for profit improvement

  Market due diligence and Strategy for M&A

  Programme management & delivery

- **Across all sectors:**

  Retail

  Mobile operators

  Business to Business (fixed line operators)

  Financial services (remittance, NFC)

  Machine to machine

  Aggregation (MVNA, MVNE) and Vendors (platforms, SIM, etc.)

- **Based in Windsor, UK, founded in 2005**

Agenda

1. **The new regulation**
   Introduction & background to the regulation
   Who is affected?

2. **Technical solutions**
   The options
   Customer perceptions & ARP challenges

3. **The market & opportunities**
   Demand & pricing
   New entrants

4. **2014 & beyond**
   The industry reaction
   The economics of an ARP

5. **Next steps**

- **Question & Answer**

The new regulation

Goal of EU 531/2012

"Reducing the difference between national and roaming tariffs"

- EU commission's Benchmarking Framework 2011-2015

"Create an internal market for roaming services in the Union with no significant differentiation between national and roaming tariffs."

"The ultimate aim should be to eliminate the difference between domestic charges and roaming charges, thus establishing an internal market for mobile communication services."

"Given the rapid development of mobile data traffic and the increasing amount of customers using voice, SMS and data roaming services abroad, there is a need to increase the competitive pressure, to develop new business models and technologies."

REGULATION (EU) No 531/2012 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 13 June 2012 on roaming on public mobile communications networks within the Union - http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2012:172:0010:0035:EN:PDF

Regulation III (EU 531/2012) introduced 1st July 2012…

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- **Retail pricing of data is now regulated through 2017**

  Wholesale pricing to be regulated through 2022

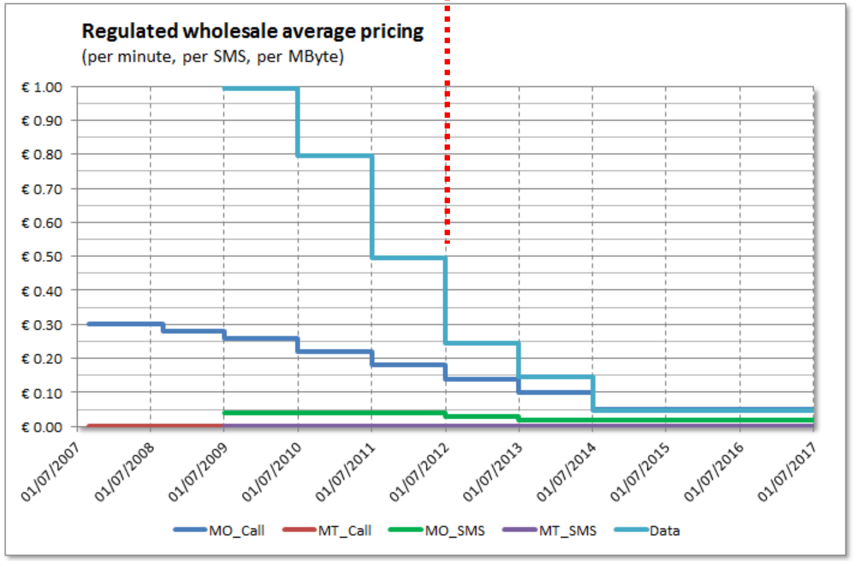
  Subject to review in 2016

- **From 1st July 2014 onwards:**

  'customers will be able to choose another cheaper operator when abroad without having to change their phone number'

- **New concept of an Alternate Roaming Provider**

  Permitting 'de-coupling' of domestic and EU roaming provision



Alternative Roaming Providers…

- **Article 3 introduces the requirement for EU / EEA mobile network operators to provide ‘*wholesale roaming access*’ to Alternate Roaming Providers**

- **ARPs will be able to offer roaming customers a choice of tariffs for voice, text and data services**

- **Definition is suitably vague to permit:**
  - Existing national MVNOs
  - New roaming-only ‘MVNO’
  - An existing fixed or mobile operator or group
  - New entrants: Easyjet, Apple, Skype, Google etc.

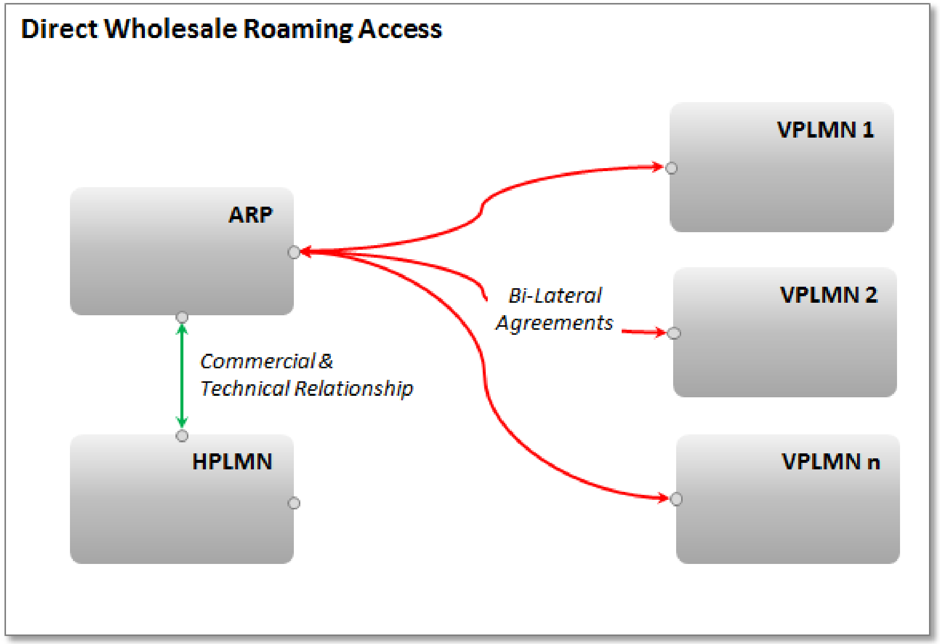
- **Customers must be able to switch within 3 days**
  - Keeping their existing mobile phone number

- **How will such a scheme work? Will it bring benefits for Europe’s consumers & businesses?**

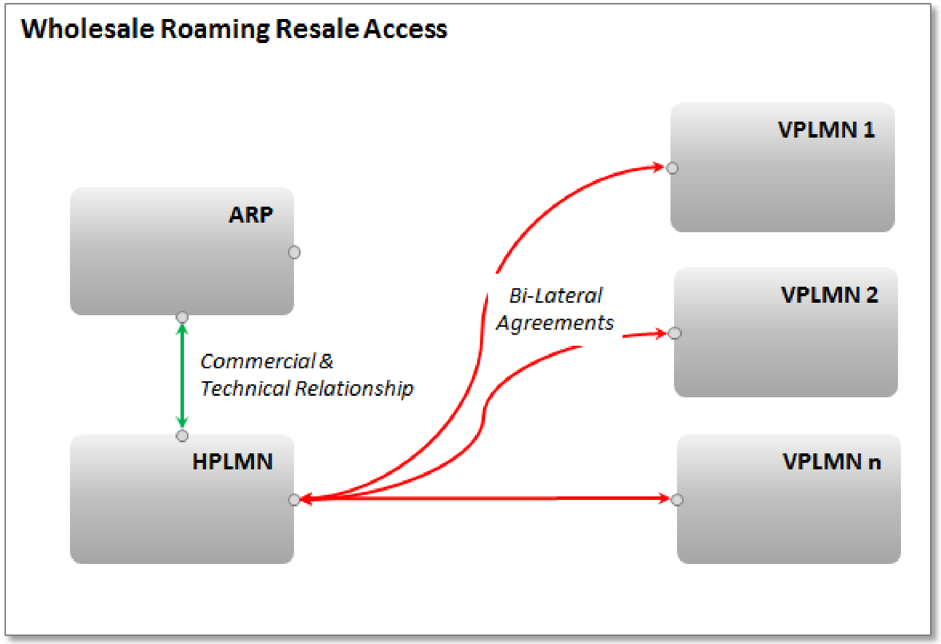
30/08/2007	First EU-wide retail & wholesale voice caps introduced
01/07/2009	First retail & wholesale text caps First wholesale data cap
01/07/2010	€50 data roaming limit & Customer text notifications
01/07/2012	**Articles 7 - 13:** EU Roaming regulations extended. Retail data cap
30/09/2012	**Article 3 (8)** BEREC: Wholesale roaming access guidelines published
31/12/2012	**Article 5 (2):** Detailed rules on information obligations & technical solution published
01/01/2013	**Article 3 (5):** Roaming reference offers available
30/06/2013	**Article 18:** Penalty provisions published
01/07/2013	Further reduction in price caps
01/07/2014	**Articles 4 & 5:** Alternate Roaming Providers launched. Further reduction in price caps
30/06/2016	**Article 19:** Review of regulations
30/06/2017	End of current retail voice, text, data regulation subject to Article 19
30/06/2022	End of current wholesale voice, text, data price regulation

Wholesale Roaming Access definitions…

- **Dutch-based company (likely full-MVNO) enters roaming agreement directly with Vodafone Germany (domestic provider) for Dutch customers of MVNO roaming onto Vodafone Germany's network**



- **EU company (ARP or domestic Dutch MVNO) enters resale agreement with KPN (home provider) to access KPN's regulated roaming agreements with other EU operators for Dutch ARP customers roaming in EU**



ARP: *Alternative Roaming Provider*
HPLMN: *Home network operator*
VPLMN: *Visited network operator*

Operators, MVNA & MVNO all impacted...

Obligation to abide by EU Roaming Regulations	Direct Wholesale Roaming Access	Wholesale Roaming Resale Access	Regulated Retail Roaming	Customer Rights	Example
Mobile Operator (GSMA Member, with IMSI)	Must offer Roaming Access to ARPs & non-domestic MVNOs	Must offer Resale Access to ARPs & domestic MVNOs	Must offer option of Euro-tariffs to their customers	Must permit their customers to select an ARP	Vodafone
MVNA	Possibly: Likely subject to operator / MVNA agreement	Must offer Resale Access to ARPs & domestic MVNOs	*N/A*	*N/A*	Cognatel, Transatel
Roaming Hub	Possibly: Via 'home' operator agreements	Possibly: Via 'home' operator agreements	*N/A*	*N/A*	TIM Sparkle, BIC
Light MVNO (with / without BSS)	*Unlikely to be viable*	Resale Access must be provided by domestic operator / MVNA partner	Must offer option of Euro-tariffs to their customers	Must permit their customers to select an ARP	ASDA Mobile, BTMobile
Full MVNO (Non-GSMA Member, with IMSI)	Roaming Access must be provided by non-domestic EU operators	Resale Access must be provided by domestic operator / MVNA partner	Must offer option of Euro-tariffs to their customers	Must permit their customers to select an ARP	Truphone, Virgin France
Alternate Roaming Provider	Roaming Access must be provided by non-domestic EU operators	Resale Access must be provided by domestic operator / MVNA partner	Must offer option of Euro-tariffs to their customers		

source: Piran Partners LLP, interpretation of BEREC + REGULATION (EU) No 531/2012

Legal right to obtain Direct or Resale Access	Clear obligations to supply	Potential obligations to supply

Technical solutions

Two options…

- **BEREC in their position paper# defined 4 options**

  Two ruled out for 1st July 2014*

  Key criteria include '*consumer friendliness*' and '*consumers must be able to keep their same phone number and device*'

- **Single IMSI**

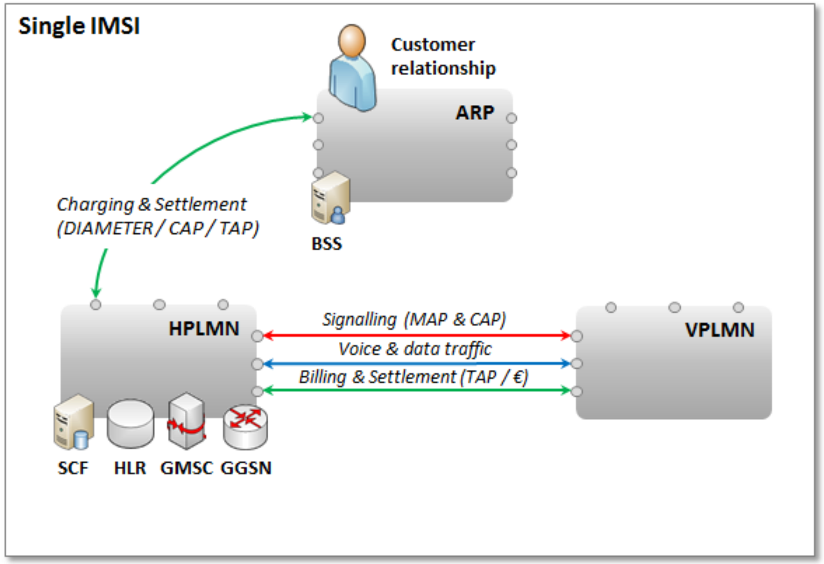
  National MVNO-like model with ARP taking advantage of host operator's wholesale rates and roaming partners to offer a retail roaming offer

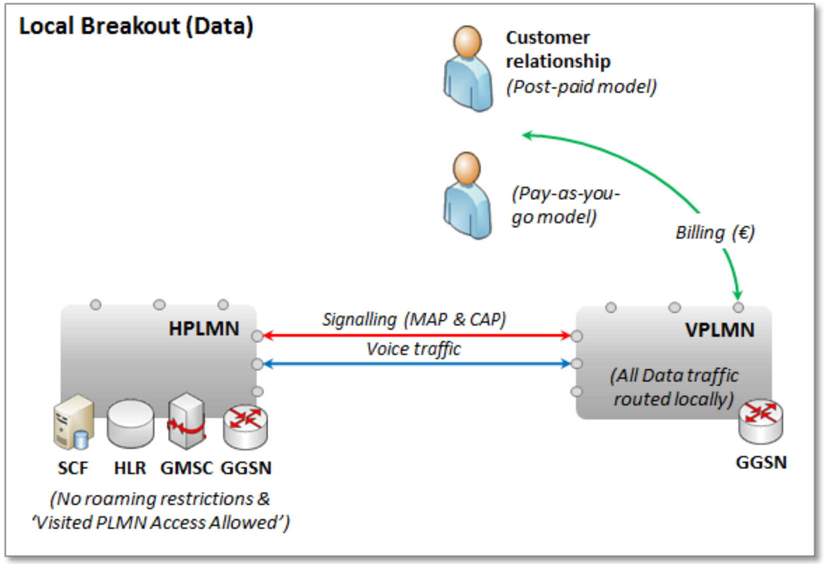
- **Local Breakout**

  Data-only, using EU-wide mandated APN (*EUInternet*) to route customer's data traffic locally

  Voice & texts handled and billed as normal

  Legislation applicable to mobile operators only (though doesn't preclude a commercial deal with third-party)





#BEREC BoR (12) 68: Roaming regulation - choice of decoupling method. A consultation to assist BEREC in preparing advice to the Commission on its forthcoming Implementing Act, June 2012

*BEREC BoR (12) 108: Roaming Regulation – Choice of Decoupling Method, Summary of responses received during the public consultation and BEREC view on issues raised by stakeholders, 27 September 2012

Customer perception & ARP challenges…

- **Single IMSI (voice, texts & data)**

Customer experience:

Solution conforms to standard GSM roaming experience

Two separate bills (one for domestic, and one for roaming – assuming ARP provides both EU & Rest of World roaming)

ARP Challenges:

ARP will need access to charging infrastructure to provide credit control (€50 cap) & regulated text alerts

ARP will need to manage credit risk and fraud

Potential policy management issues – is an enterprise employee allowed to change their ARP? How will ARP / 'home' operator know?

Our view:

Suits existing national MVNOs (seeking to amortise their investment in Billing & CRM and gain domestic business)

- **Local Breakout (data-only):**

Customer experience:

Requires chosen network and alternate APN to be selected by user (manually, or via an app or Over-the-Air)

Blackberry BES and VPN services unlikely to work

Loss of coverage as user is potentially restricted to chosen network for calls & texts whilst using data

Customers must remember to switch APN when back home

ARP challenges:

Charging infrastructure required, unless PAYG model adopted

'Home' network operator must make an HLR change ('*Visited PLMN Access Allowed*' flag)

Our view:

Has potential to offer real choice, and is relatively simple to implement if restricted to a WiFi PAYG-type model

The market & oportunities

Will further reducing roaming prices affect demand?

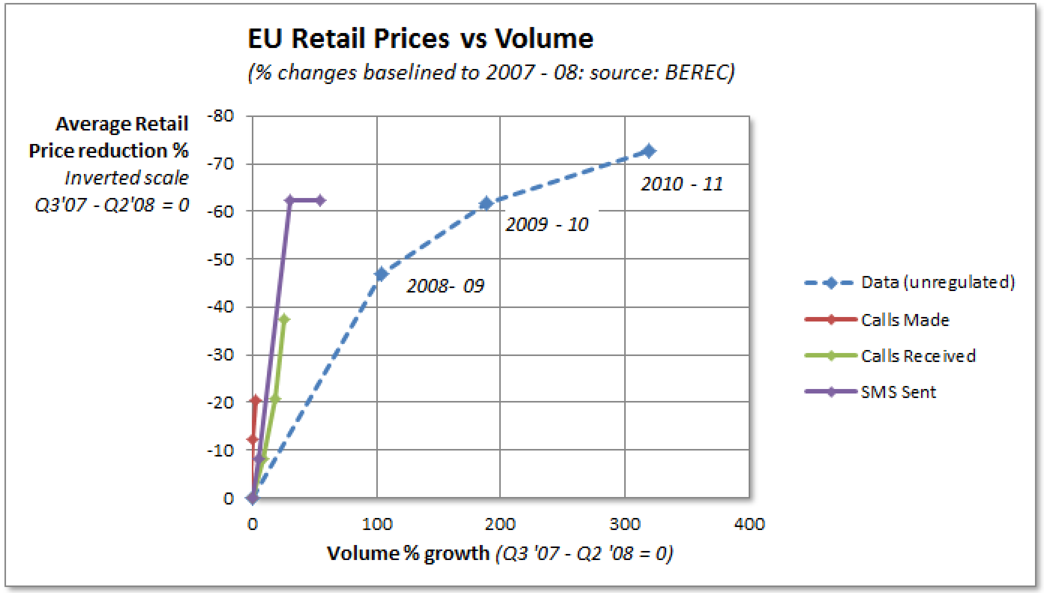
- ***"Demand for roaming has not increased in light of reduced prices introduced by the Regulation"*** *(BEREC)*

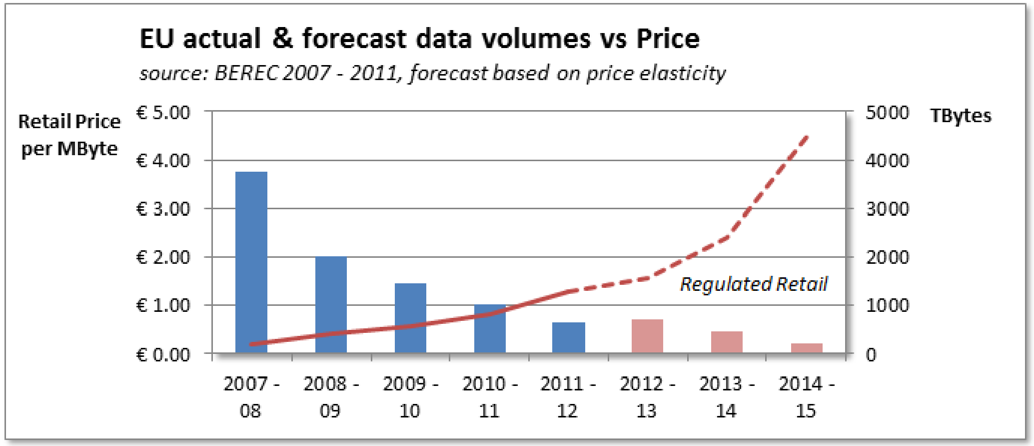
  Consumers probably only aware of prices following their holidays, and roaming prices unlikely to affect choice of domestic tariff

  Even frequent EU travellers may not know the true prices if their businesses pay their bills

- **True for voice & text messaging, data is exception…**

- **Data consumption likely to grow exponentially given price reductions & rise of smartphones**





Opportunities: New entrants & arbitrage…

- **Crux of the commercial challenge is how ARPs will engage potential customers, either before they leave home or upon arrival in-country**

Offers some intriguing possibilities:

- **Competing operator groups might be very keen to obtain the roaming traffic of their competitors**
  Though GSMA members abide by a non-solicitation clause
- **Internet-only travel retailers such as easyJet**
  Just another item to add to the basket
- **Apple or Google could emerge as credible alternates using LBO, given their smartphone investments**
  Though only under commercial (rather than regulated) terms
  Cross-subsidised from local-advertising & mapping revenues
- **Wholesale roaming prices, may not eventually be different from those of national MVNOs leading to arbitrage opportunities**
  A EU-wide ARP could offer 'roaming' services in a customer's 'home' country without the necessity of purchasing spectrum
  When is a roamer NOT a roamer?
- **OTT VoIP players such as Skype / Microsoft in partnership with LBO operators**

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2014 and beyond…

The industry in 2015…

- **Big 4 control 80% of EU customers in a mobile market worth €164 bn, but retail roaming revenues represent < 4%** *(2009 EU figures)*

- **Mainly price innovation by existing players**

  Bundled roaming offers will be the norm, focused on data

  Rates will drop to below regulated caps

  Consumer 'apathy' & domestic tariff considerations will still drive consumer choice

- **Mobile operators will offer Local Breakout**

  Ubiquity of smartphones and tablets will drive data demand & offer LBO opportunities

  However this growth will also favour OTT via WiFi, where available

  Operators themselves are trying to offload data

- **Non-EU roaming needs will favour existing operators**

  For many Enterprises, EU roaming accounts for 80% of average usage but only 40% of their costs

  ARPs will struggle to access better non-EU wholesale rates

- **ARPs will need scale, domestic presence, or low-cost channels to market, to attract customers**

  Favours existing European MVNOs such as Lebara or Lycamobile, with existing infrastructure & capabilities

  Domestic ARPs will need to interconnect with all their home mobile operators for scale

The economics – an example…

- **Acquisition costs, scale and operating costs determine viability…**

Acquisition costs	*€ 10 per customer*	
ARP price discount in market	*-20%*	

UK-based ARP *(all € million unless)*	**2013**	**2014**	**2015**	**2016**	
Market Share (high-value)		1.0%	2.0%	3.0%	
Net Travellers ('000s)		88.4	176.8	265.2	
Net Adds ('000s)		88.4	88.4	88.4	
EU Revenues		€ 1.5	€ 3.1	€ 4.6	*80% Traffic*
Non-EU Revenues (as % of EU)	*123%*	€ 1.9	€ 3.8	€ 5.6	*20% Traffic*
Revenues		**€ 3.4**	**€ 6.8**	**€ 10.2**	
***ARPU** (per year)*		*€ 39*	*€ 39*	*€ 39*	
EU Wholesale Costs (less x%)	*20%*	-€ 0.5	-€ 1.1	-€ 1.6	
Non-EU Wholesale (Retail minus basis)	*25%*	-€ 1.4	-€ 2.8	-€ 4.2	
Gross Margin		**€ 1.5**	**€ 2.9**	**€ 4.4**	
GM %		*43%*	*43%*	*43%*	
Cost of Acquisition		-€ 0.9	-€ 0.9	-€ 0.9	
Billing (per user per year)	*€ 6.00*	-€ 0.5	-€ 1.1	-€ 1.6	
SG&A (15% of GM)	*15%*	-€ 0.2	-€ 0.4	-€ 0.7	
Net Margin		**-€ 0.2**	**€ 0.5**	**€ 1.3**	
Establishment Costs	**-€ 0.5**				
NPV (at 10% IRR)	**£0.7**				

- **Assumptions:**

Regulated wholesale resale access model

UK-based ARP, targeted at top-10% of roamers, representing 82% of current revenues

EU & non-EU roaming retail revenues

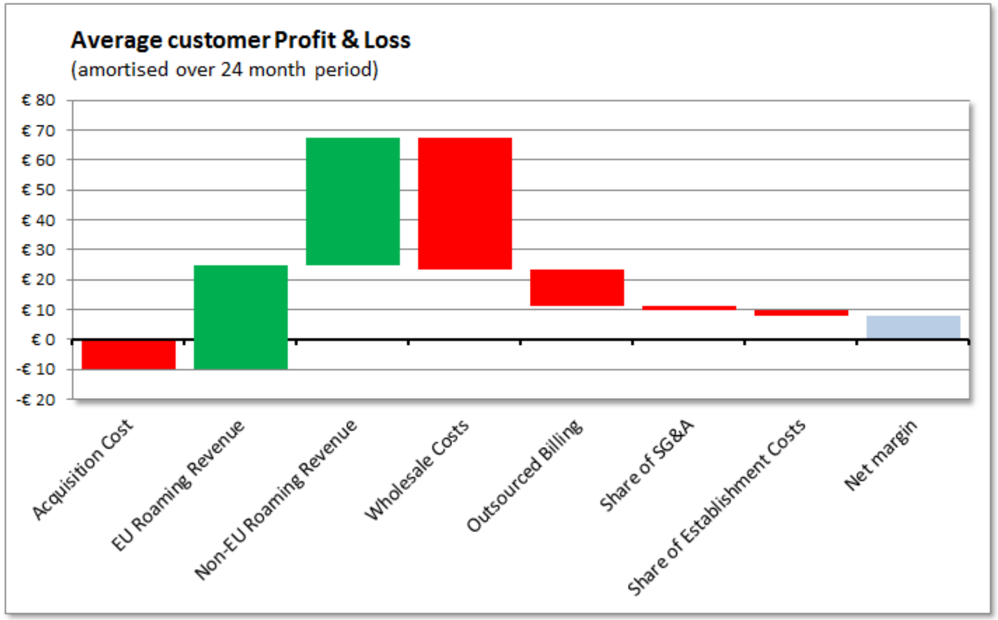
ARP offers 20% discount to prevailing retail pricing as switching cost

Operator partner offers 20% discount to regulated EU wholesale pricing: with 25% retail margin on non-EU roaming

Cost to terminate voice (MT) assumed: €0.03 / minute

Cost levied by operator to terminate SMS (MT) €0.00 / SMS

Churn excluded



Next steps

Piran Partners offers…

- **Strategic advice – Provide advice & support to help you create your strategy**

  Whether to assist your business avoid the risks of EU531/2012, or take advantage of the opportunities it might present

  Strategy creation, business modelling & proposition development

- **Preparedness – Assistance in getting your business functions up to speed with the new regulations**

  Helping you work with your operator partners, or your MVNOs to ensure their compliance and integration with your strategy

  Technical – Operational – Process development

  Ensuring your wholesale & retail roaming rates meet the obligations of EU531/2012

- **Immediate practical steps**

  Workshops to educate each relevant function of your business regarding the necessary changes

  Facilitate the appropriate discussions between functions and partners to ensure a consistent and aligned approach to fulfilling the regulations and your own internal strategy

- **Piran Partners – an experienced team**

  Strategists with multi-year experience of roaming, MVNO and regulation

  Technical, operational and CRM / BSS expertise webinar@piranpartners.com

Thank you: Q&A

