# How corporates can squeeze better mobile termination rates

**Michael Wigley**

Last week's Commerce Commission decision to drop mobile termination rates will lead to better deals for corporate and public sector customers.

Larger companies in particular have increasing leverage to push for change. This is one time when corporates should be across telco regulation.

In this column I hone in on the "must have" features to include in corporates' negotiations with mobile network operators, whether they already have a mobile services contract or are looking to negotiate a new one.

Particularly important is to leverage off and build in flexibility to change price/product options over the short to medium term as full corporate benefits will be achieved over time. Our experience is that closer analysis shows flexibility is often possible within the contract term, contrary to initial corporate views. So this is not just an opportunity available on contract renewal. This also has the side benefit of giving corporates the flexibility to move more quickly to new models such as unified communications, without being stuck in legacy commitments.

### What are mobile termination rates?

Mobile termination regulation is about what a mobile network operator – like Telecom, Vodafone or 2degrees – charges other networks to receive (or "terminate") calls from the customers of those other networks. So, mobile termination rates are a wholesale charge as between telcos. As an input cost, the calling party's network operator needs to recoup that termination charge out of retail prices charged to its customer.

There are two main categories to consider: fixed-to-mobile calls and mobile-to-mobile calls and texts. (Termination rates for texts have been wiped from 9.5c to a nominal 0.06c per text (in practice, zero cost).

### Fixed-to-Mobile calls

Take, as an example, a Telecom landline customer calling a Vodafone mobile customer. To date, Vodafone has billed Telecom about 17c a minute for that call. That's an input cost into the service provided to Telecom's customer, which Telecom will need to recover from its retail customer (such as a corporate).

By this time next year, that input cost is regulated down from 17c to about 4c a minute (via intermediate reductions including an immediate drop to 7.5c). These regulated prices apply for all mobile voice termination. For example, Telecom's termination rate was 15c (not Vodafone's 17c), and that also will drop to around 4c.With the input cost payable by fixed line operators to mobile network operators dropping by around 11-13c (that is, the difference between 15-17c and 4c), fixed line operators forwarding calls to mobile network operators will do one or more of the following over the next year:

A call terminating on Telecom's mobile network would have cost around 15c a minute (instead of the 17 payable to Vodafone).

With the input cost payable by fixed line operators to MNOs dropping by some 11-13c (that is, 17c or 15c less 4c), fixed line operators forwarding calls to MNOs will do one or more of the following over the next year:

- drop retail charge to their customer by 11-13c or less to reflect their lower input costs;
- add services to improve value to the customer (changes in kind rather than cash); and/or
- retain some or all of the 11-13c.

Regulation doesn't require network operators to pass through the benefit of the reduced input cost to their retail customers. Some network operators say there are additional factors that mean the full 11-13c doesn't get passed on. There will be competition dynamics as well, so there won't necessarily be a direct link with the 11-13c wholesale drop, rightly or wrongly.

Of course, calls made from an integrated landline and mobile telco to a mobile customer on its own network does not involve paying a termination charge. An example is a Telecom landline customer calling a Telecom mobile customer. This is an aspect that corporates should also watch closely to see if wins can be obtained.

### Mobile-to-Mobile calls

When there are mobile calls between networks the same sorts of issues crop up but with further complications. The distinction between on-and off-net calls is key as I outline below. A call, for example, from a 2degrees customer to a Vodafone customer is known as an "off-net" call. A Vodafone customer to Vodafone customer call is an "on-net" call. The mobile network operator terminating the off-net call (Vodafone in the example) now will bill the other network (2degrees) only around 4c a minute by this time next year instead of around 17c (about 15c if it was Telecom). The termination rate regime is the same as for fixed-to-mobile.

The mobile network operators now have the same sort of choices faced by fixed network operators as noted above, with the additional complication that they both receive and pay out termination rate charges as between their mobile networks. So, there is less likely to be retail drops in the order of 11-13c a minute.

Obviously there is no wholesale termination charge payable when an on-net call is made (for example, a call from a Vodafone customer to a Vodafone customer).

### The commission's new weapon

Most telecommunications regulation is at the wholesale level, on the basis that this provides the platform for retail competition. But the commission has decided that there is a major retail-level problem that may need regulatory treatment: large mobile network operators (Telecom and Vodafone in particular) charging their customers much lower retail prices for on-net calls (within their own network) than for off-net calls to other network's customers .

It has now reached the point where about 87% of all mobile calls and texts in New Zealand are made on the same network. The commission says:

- the current situation is largely due to the lower price to make calls on the same network;
- that results in large measure from the power of lower on-net pricing to keep customers on the same network. For example, Auckland is mainly a Vodafone city but Dunedin is mainly a Telecom city. If you were in Dunedin, why would you switch to Vodafone or 2degrees when most of the people you want to call are on Telecom?

This makes it difficult for new entrants such as 2degrees to crack into the market. Lower prices for on-net calls and SMSs might seem beneficial to retail customers in the short run but, in the long term, they are harmful to those retail customers as competition is impaired as outlined by the commission.

If the MNOs do not move to reduce or eliminate the differential between on-net and off-net pricing, the commission has firmly indicated that it may require this to happen by regulation, and has promised monthly reviews.

These are some tips that will help corporates capitalise on this significant change in the mobile environment.

### Push for lower prices and other value

It's an obvious point: those negotiating new deals should look to drive lower prices and also the same or similar pricing for on-net and off-net mobile calls and texts, plus better pricing, especially with full service telcos like Telecom, for fixed to mobile calls. Careful planning and strategy is required.

This is not just about price drops. Corporates may get better value in kind, such as more and/or innovative services. Seeking lateral solutions makes it easier: It's often easier for example to get an additional service thrown in than reduced headline retail rates per minute.

### Build in the flexibility

This really is the key point. The market will keep changing in the short to medium term. For example:

- as this new regulation plays out over time, there will be downward pressure on price and/or pressure to enhance the quality of services for the same price. All changes won't happen overnight;
- the competitive impact of 2degrees' entry into the corporate market, assuming that happens. Currently, 2 degrees has a strong residential and small business focus: preserving flexibility to be able to migrate to 2degrees opens up the market for corporates;
- new business needs and services that may require new providers and new types of service combinations, such as unified communications.

Because of these factors it is of considerable advantage to build in the ability to exit the corporates' telco services agreement early and in an inexpensive way.

Corporates can of course look to build in price flexibility through price reviews and benchmarking. However, if they want the best price, the ability to end the agreement and go back out to market is often the most effective means of achieving that result.

Pushing for this type of flexibility does mean that the corporate will need to prune back the early termination fees that frequently lock in corporate customers.

Providers might say that they need the certainty of a long term agreement to recoup their investment but checking this carefully can often produce a solution where that is not an issue.

For example, taking a hardware fund in advance may be more of a hindrance than a help to corporates. The net cost/benefit may not be significant relative to the freedom to get out of contracts quickly if there is no component by which the hardware fund gets repaid out of monthly charges.

If the corporate's contract is mid-term, often it will still have options.

Those with "locked in" contracts should also look at what options are available to improve the position before the contract term ends.

In my experience, corporates frequently assume nothing can be done before the stated contract end date, when closer analysis often shows there are strong options. Often the outcome can be a win-win for both the vendor and the customer.

This will be an important issue also for those looking at major changes, affecting several of the corporate's supply, such as unified communications.

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