

# **Business communications, economic growth and the competitive challenge**

## **Study results**

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- **Background and context of the study**

- Limited analysis on specific communication needs of multi-site companies (MSC) and multi-national companies (MNC)
- Hypothesis: insufficient level of service and lack of competition
- Opportunity to address barriers regarding an effective internal market for Business Communication Services (BCS) in the ongoing review activities of the EC

- **Objectives of the study**

- Analysis of the role of MSC/MNC in the European economy and their specific communication needs
- Identify competition issues in the provision of BCS
- Assess benefits of an effectively competitive market for BCS
- Set out recommendations on how to foster a single market for BCS

- **Methodological approach for research of MSC/MNC**

- Online survey with 112 participants operating in all countries of the EU 27 zone
- In-depth interviews with 4 big multinational companies (aviation, environmental industry, chemical industry, manufacturing)
- Interviews and data collection from 4 major multi-national business communications service providers
- Benchmarking of regulatory approaches for business services
- Estimation of economic benefits achievable through consistent regulatory approach

- **Importance of business communication services**
- **Key competition problems for BCS and their causes**
- **Identifying the relevant markets for BCS**
- **Benefits of appropriate wholesale regulation**
- **Options to achieve a harmonised market for BCS**
- **Conclusions and recommendations**

# Importance of MSC/MNC for the European economy (1)

- **Understanding of multi-site companies (MSC) and multi-national companies (MNC)**
  - No official definition of MSC/MNC available
  - Companies with multiple business locations or direct investment activities in one or more countries
- **Assumption for identification of MSC/MNC in statistical sources**
  - Small companies (< 49 employees): 15% MSC/MNC
  - Medium companies (50 – 249 employees): 50% MSC/MNC
  - Large companies (250+ employees): 95% MSC/MNC
- **Total number of MSC/MNC in EU27**
  - Calculation based on the above assumption and figures of United Nations Conference on Trade and Development (UNCTAD) related to MSC/MNC lead to comparable results
  - About 360,000 MSC/MNC in EU27

# Importance of business communication services

## Importance of MSC/MNC for the European economy (2)

- **MSC/MNC are a major part of the European economy**

Indicator	Total EU27	MSC/MNC	% of total
Number of enterprises	21.4 m	360,000	2%
Persons employed	138.9 m	60.0 mn	43%
Turnover	21,600 bn Euro	11,500 bn Euro	53%
Value added	6,315 bn Euro	3,200 bn Euro	51%

Source: WIK calculations for 2010 based on Eurostat figures and UNCTAD

# Importance of business communication services

## Role of communication services for business processes of MSC/MNC (1)

### ■ Survey and interviews highlight the significant importance of BCS

- MSC/MNC are highly dependent from adequate communication services in order to use the wide range of applications that support their core businesses
- Without appropriate fixed and mobile data connections many business processes would not be workable, i.e. the existence of modern business models is at great risk

*„Our business would no longer exist if we are not able to use our ICT applications with the same level of quality at all locations across the world“*

Head of Unified Communications of a multi-national company in the transport sector

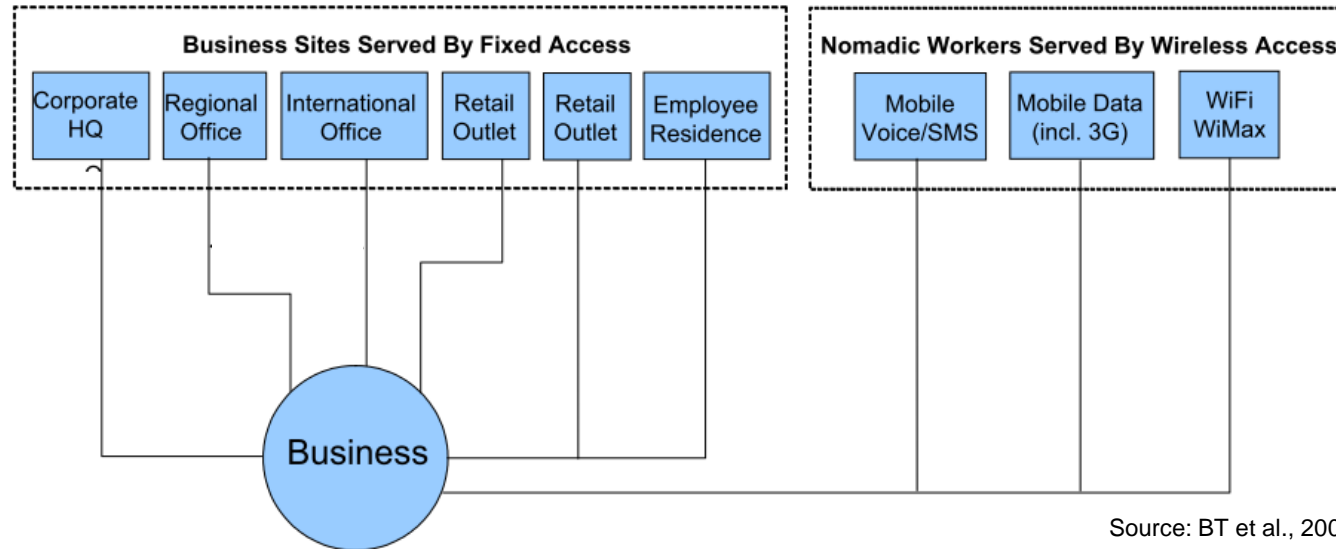
### ■ Main drivers of future demand for BCS at MSC/MNC

- Comprehensive disaggregation and internationalisation of value chains
- Growth of complex business applications, in particular regarding CRM and ERP
- Substitution of traditional ICT structures by cloud computing solutions
- Increasing importance of mobile services, particular in the context of mobilization of business processes, BYOD and machine-2-machine communication

# Importance of business communication services

## Role of communication services for business processes of MSC/MNC (2)

### ■ Illustration of an MSC and its required access services



### ■ Core set of underlying products required to meet needs of MSC/MNC

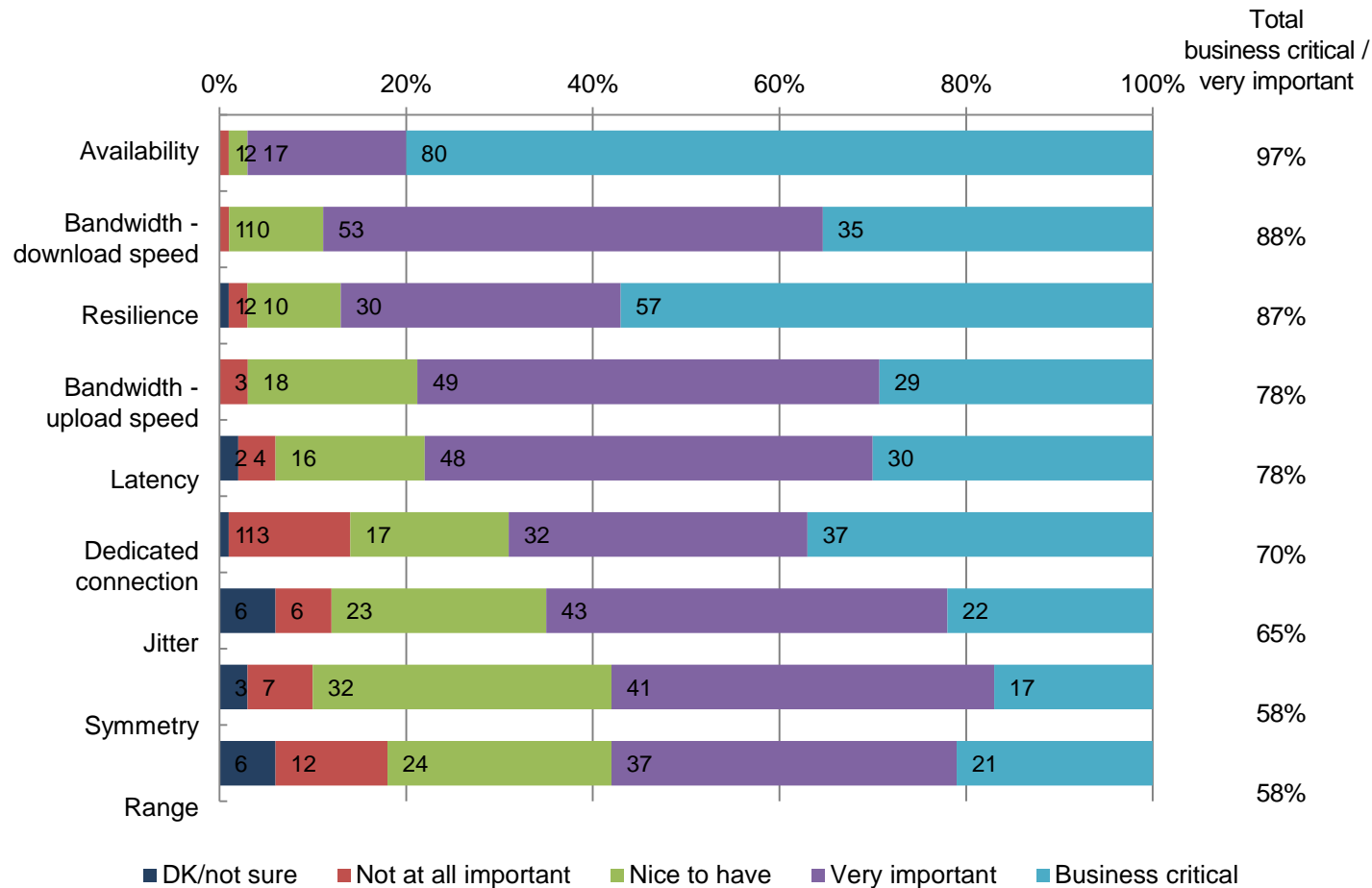
- Physical infrastructure (e.g. fibre lines)
- Dedicated lines (e.g. leased lines)
- Fixed Internet access (e.g. xDSL)
- Mobile data services (e.g. 3G, 4G)
- Telephony services (fixed line, mobile)



# Importance of business communication services

## Role of communication services for business processes of MSC/MNC (3)

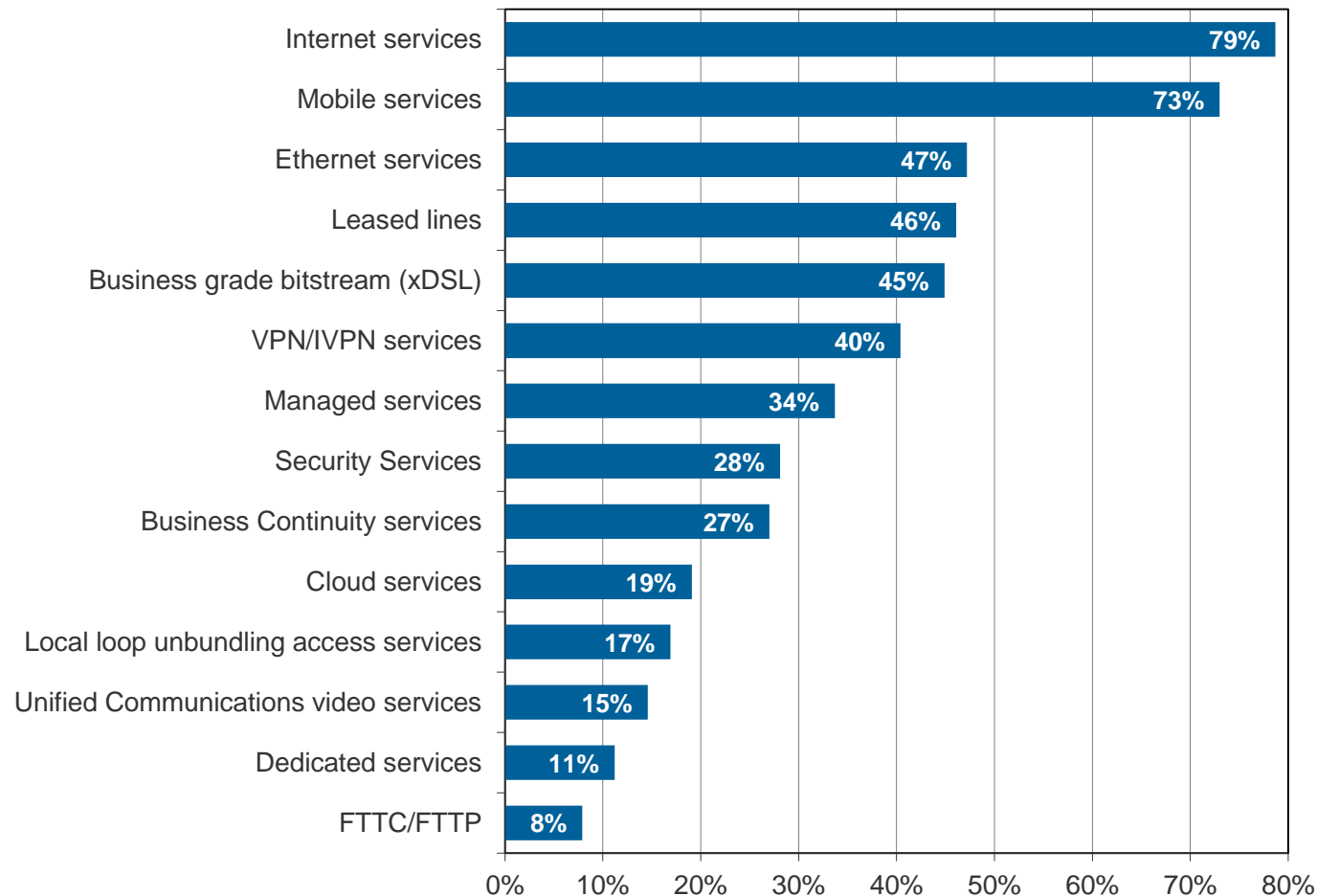
- Importance of service characteristics for business connectivity services demonstrates significant differences compared to residential requirements



# Importance of business communication services

## Role of communication services for business processes of MSC/MNC (4)

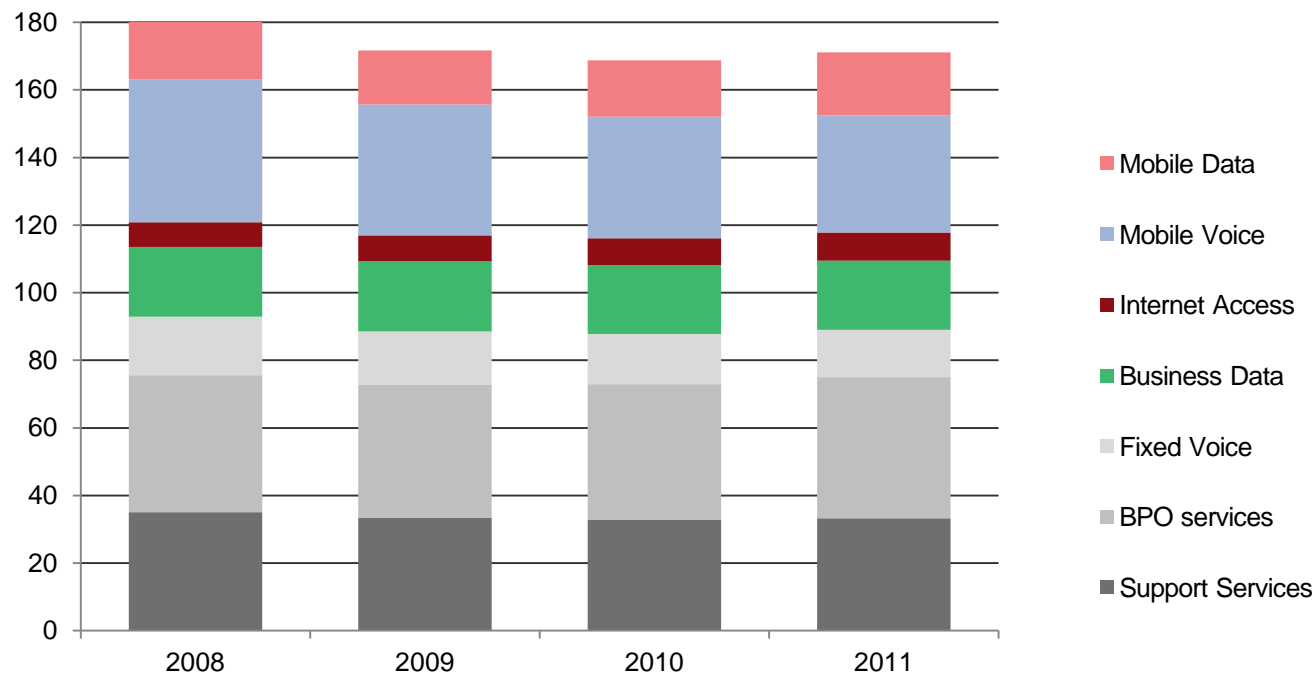
- **MSC/MNC are primarily interested in communications services rather than the technological elements which underpin them**



# Importance of business communication services

## Role of BCS in the communications market (1)

Market volume for communication services in the complete business segment in Europe

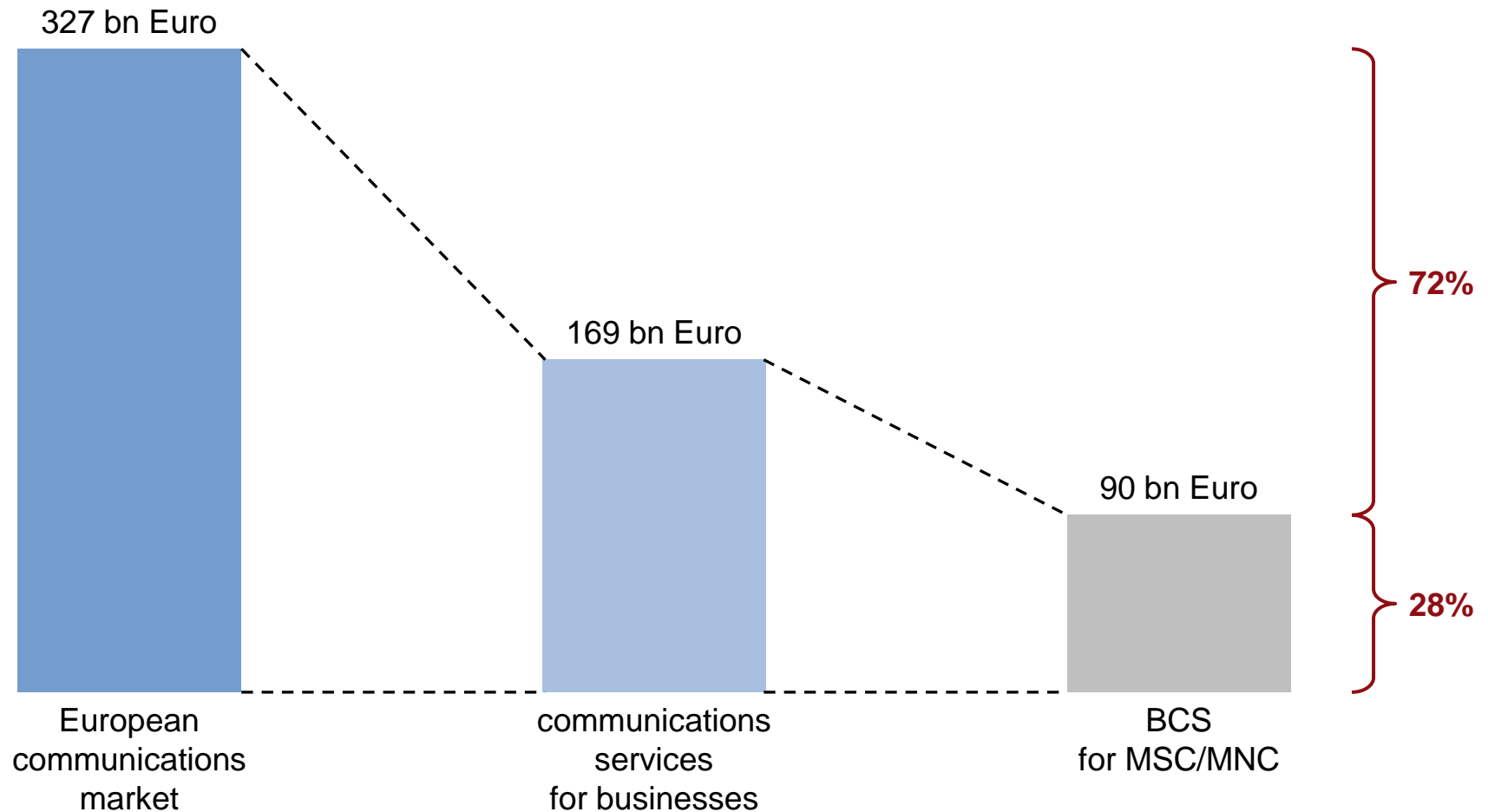


- Total business communications market volume estimated at circa €170bn of which €90 bn for MSC/MNC

# Importance of business communication services

## Role of BCS in the communications market (2)

- **BCS provided to MSC/MNC account for about 28% of the overall European communications market in 2010**

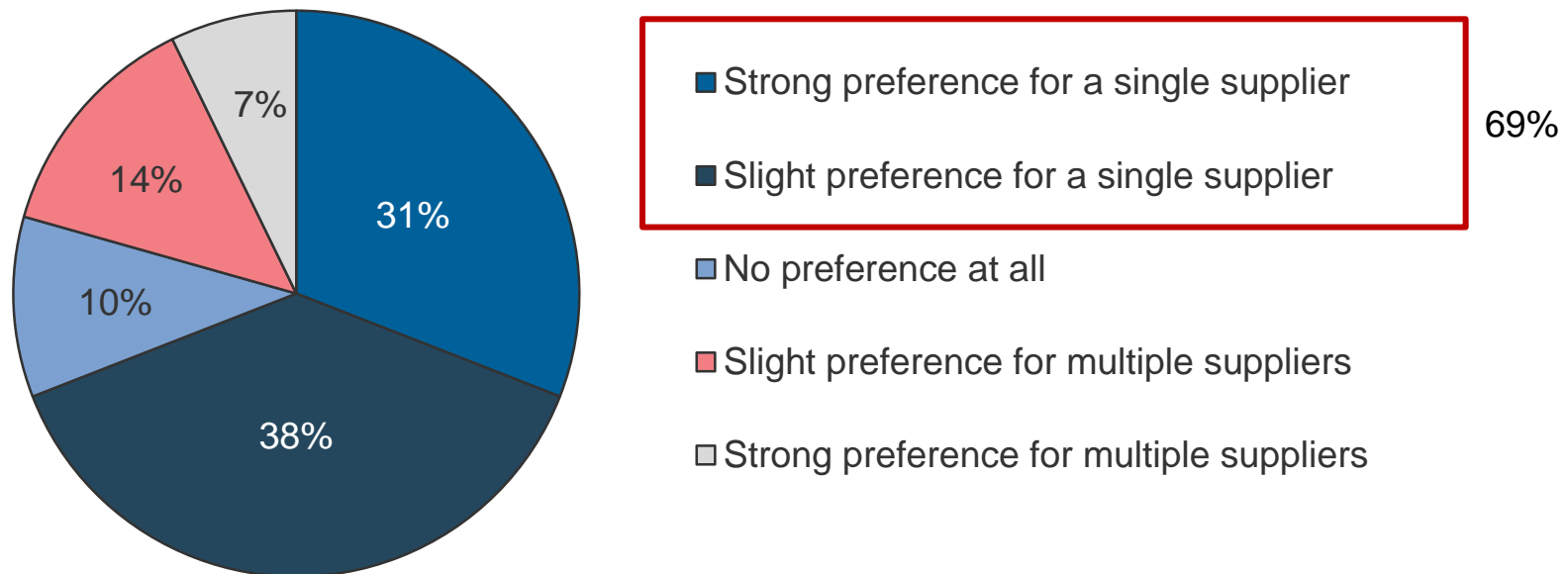


Source: Digital Agenda Scoreboard, EITO, WIK calculations

# Importance of business communication services

## Buying behaviour of MSC/MNC with regard to BCS (1)

- **MSC/MNC show an overall preference for using a “single supplier” covering a range of services to all relevant sites rather than separate suppliers for each site and/or service**

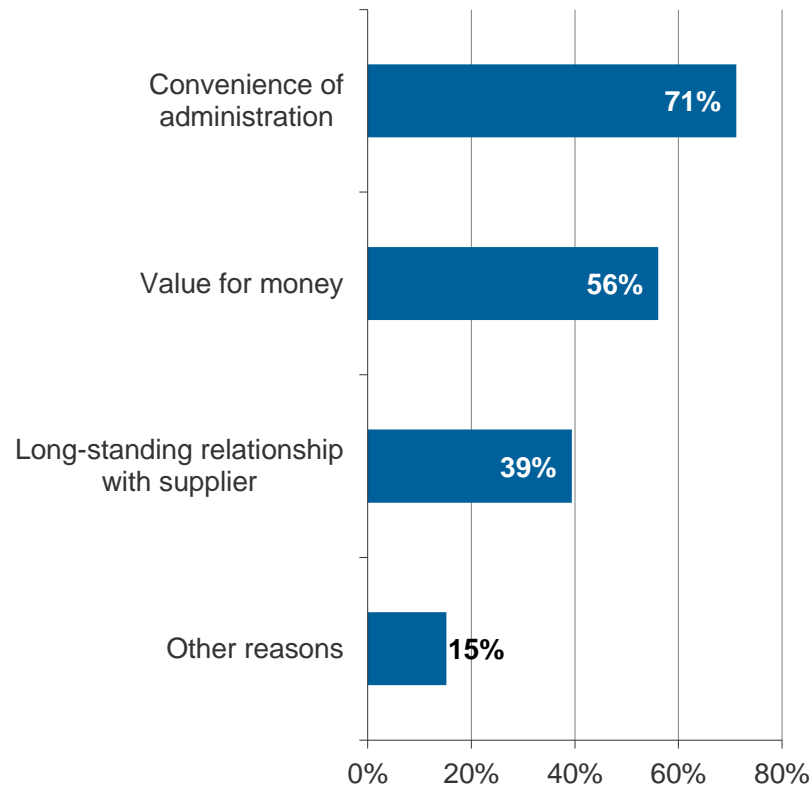


# Importance of business communication services

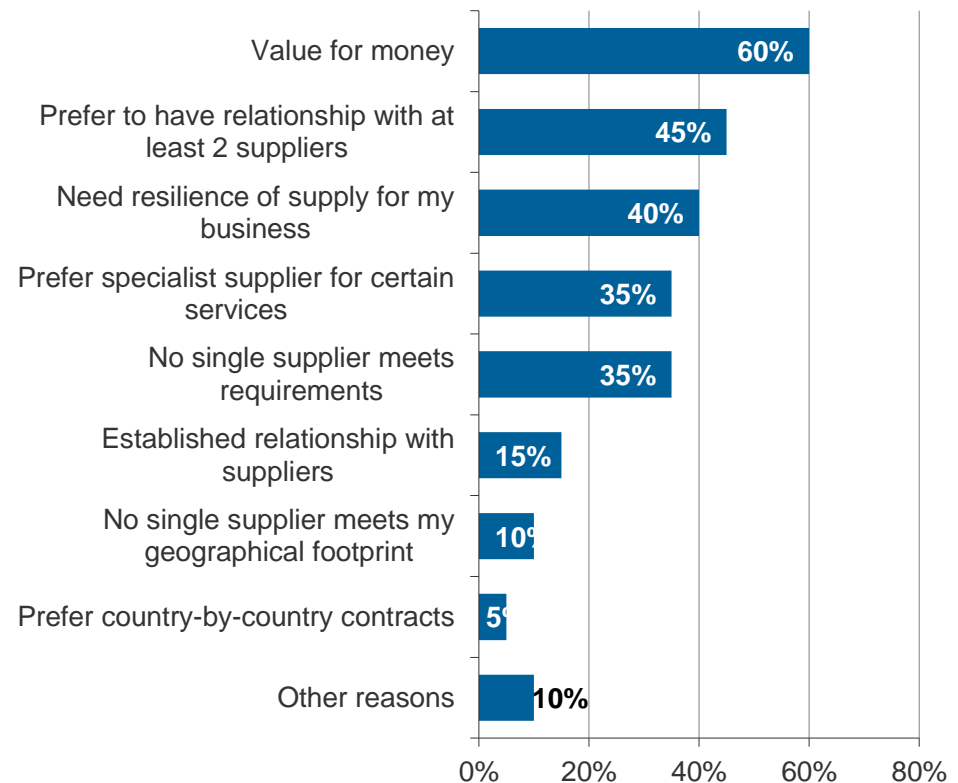
## Buying behaviour of MSC/MNC with regard to BCS (2)

- The main reason for preferring a “single supplier” refers to more convenience, whereas “multiple suppliers” are mainly preferred for financial reasons and resilience. Country by country contracts are not generally preferred.

### Preference for a single supplier



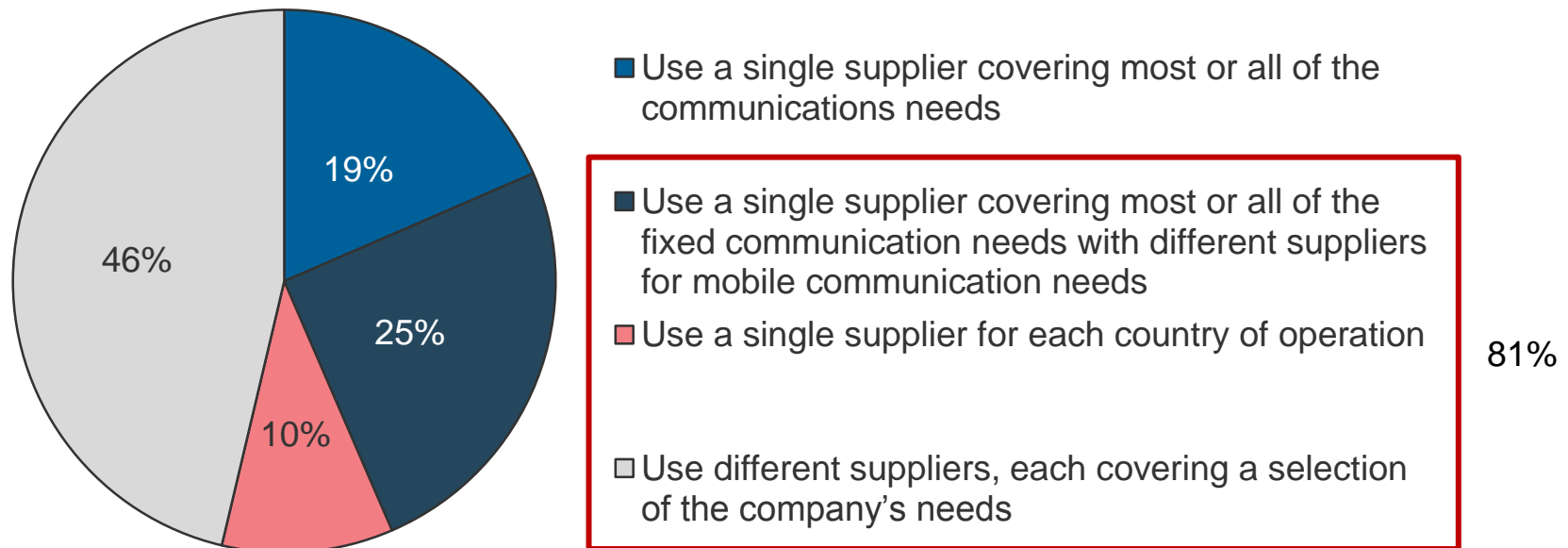
### Preference for multiple suppliers



# Importance of business communication services

## Buying behaviour of MSC/MNC with regard to BCS (3)

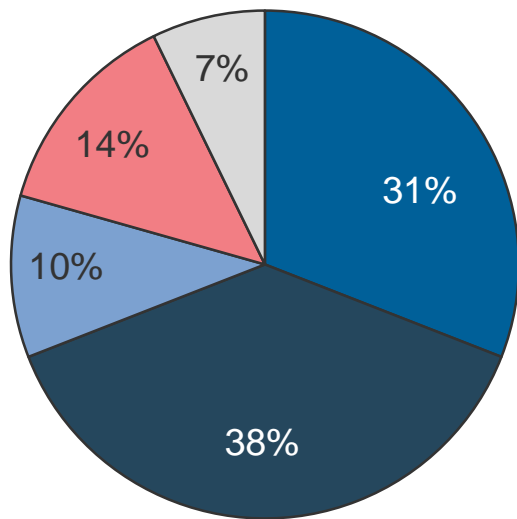
- Despite an overall preference for using a single supplier for BCS, most MSC/MNCs actually use several suppliers for their BCS needs



# Importance of business communication services

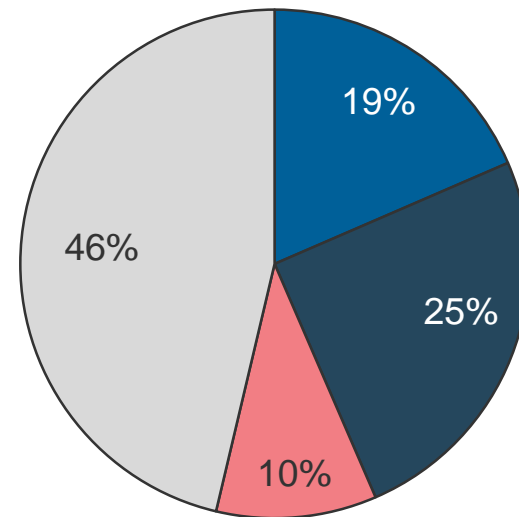
## Buying behaviour of MSC/MNC with regard to BCS (4)

- Comparing preferences and real buying behaviour of MSC/MNCs reveals a great discrepancy



69%

- Strong preference for a single supplier
- Slight preference for a single supplier
- No preference at all
- Slight preference for multiple suppliers
- Strong preference for multiple suppliers



19%

- Use a single supplier covering most or all of the communications needs
- Use a single supplier covering most or all of the fixed communication needs with different suppliers for mobile communication needs
- Use a single supplier for each country of operation
- Use different suppliers, each covering a selection of the company's needs

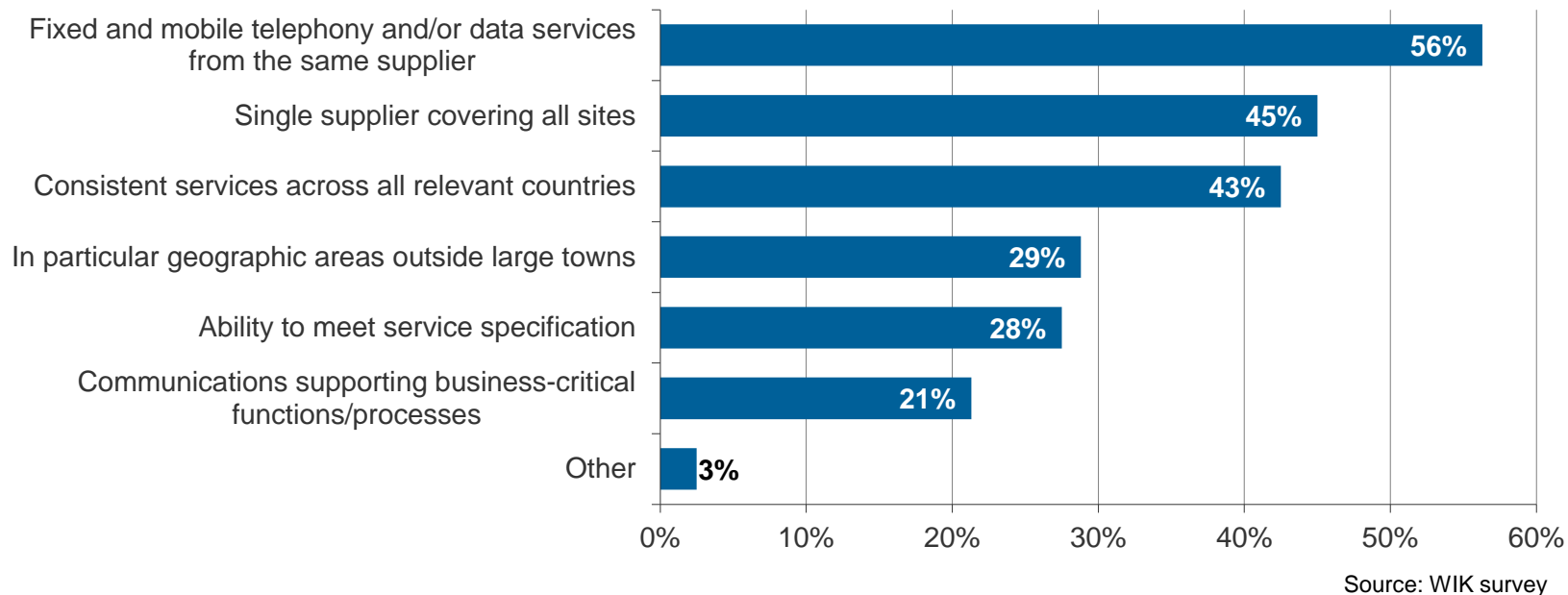


- Importance of business communication services
- Key competition problems for BCS and their causes
- Identifying the relevant markets for BCS
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# Key competition problems for BCS and their causes

## End-user perspective (1)

### Difficulties in obtaining multiple fit-for-purpose offers covering any of the following aspects

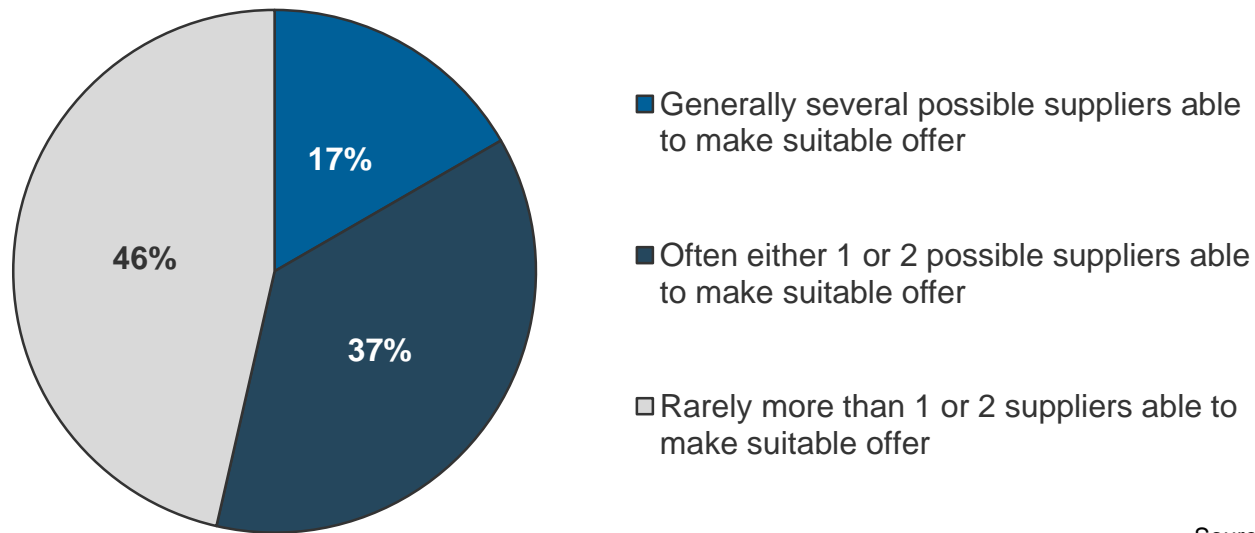


- **End-users face significant difficulties obtaining fit-for-purpose offers**
  - Sourcing fixed and mobile telephony and/or data services from the same supplier
  - Consistency of service across countries and coverage of all sites also problematic
  - Whilst most end-users prefer single supplier, nearly half respondents said was not always a practical option

# Key competition problems for BCS and their causes

## End-user perspective (2)

### Experiences regarding the number of telecoms suppliers able to make a fit-for-purpose and competitive offer



Source: WIK survey

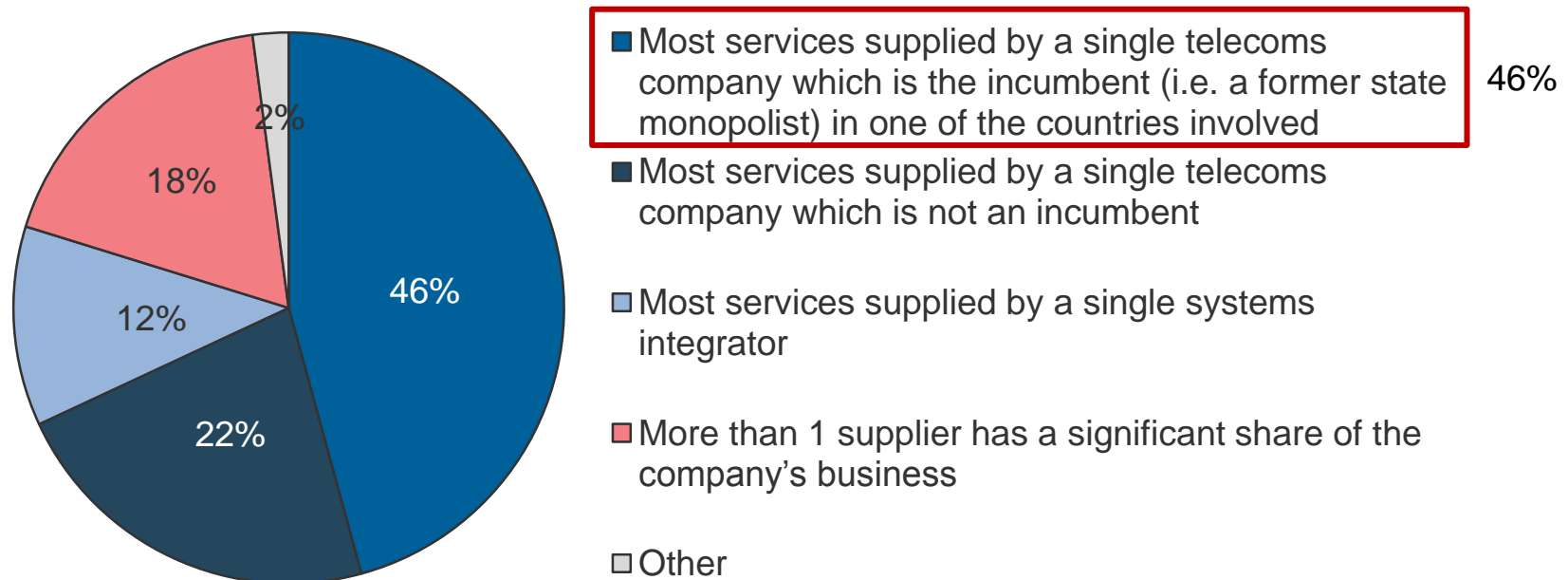
#### ■ Choice of suppliers often limited

- Only 17% of the respondents stated that generally several suppliers are able to make suitable offers
- In most cases at most 1 or 2 suppliers are able to serve customer needs

## Key competition problems for BCS and their causes

### End-user perspective (3)

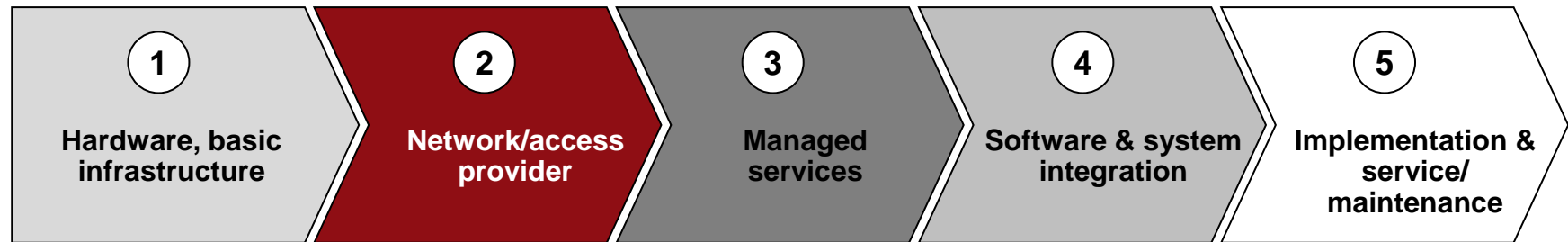
- With regard to telecommunication services incumbents are primary suppliers in many cases, as in 46% of cases most services are supplied to MSC/MNC by an incumbent



# Key competition problems for BCS and their causes

## Supplier perspective (1)

- **Value chain for the provision of BCS leads to complex and diverse relationships between stakeholders with different business focus**



- MSC/MNC generally do not procure services on the lower levels of the value chain directly, rather they mostly rely on service providers/systems integrators
- Access is a critical bottleneck in the provision of BCS to MSC/MNC as it is an essential input for service applications on higher levels
- Market players owning the most essential bottleneck might be able to leverage their market power to other parts of the value chain
- Usually, only incumbents have all stages of the value chain within their control

# Key competition problems for BCS and their causes

## Supplier perspective (2)

### ■ Suppliers cite problems connecting dispersed sites

- BSC provision is focused on “value add”, but access links are essential to business case
- Due to coverage of dispersed sites, self-supply only feasible in minority of cases
- Access costs high proportion of overall revenues – up to 40-50%
- Outside countries where vertically integrated, interviewed providers use access from third parties for >90% of access circuits (with some national variations)
- More than 75% of circuits sourced from national incumbent
- Competitive supply of access is limited or fragmented. Cable operators and consumer-focused LLU operators are often not interested or able to make business-relevant offers. High transaction costs associated with using multiple wholesale suppliers
- The decision of BCS providers on whether or not to bid for contracts is influenced by the proportion of sites in areas where access is not available on reasonable terms
- BCS providers consider availability and quality of wholesale access to be fragmented within the EU. A key problem is variations in regulation applied by NRAs in different jurisdictions

## Key competition problems for BCS and their causes

### Supplier perspective (3)

- **Wholesale demand focused on certain key access products**
  - Terminating segments of leased lines (but declining in favour of newer interfaces)
  - Wholesale ethernet services
  - Wholesale broadband access supplied by means of xDSL or FTTx
  - Copper and fibre unbundling relevant, especially for operators with a national focus, but requires significant customer density (high market shares in specific areas) and therefore tends not to be economically viable for suppliers to MNCs

# Key competition problems for BCS and their causes

## Supplier perspective (4)

- **Access is not uniformly available or adequate**
  - Business-grade wholesale products not available in certain regions on satisfactory regulated or commercial terms
  - Traditional interfaces are being replaced with modern technologies such as ethernet, but regulation does not always keep pace
  - If available, access may be at locations which are uneconomic for business provider (too close to customer requiring greater scale than viable)
  - Integrated incumbents may not offer products on equivalent terms or may supply only after significant delay
  - QoS and other technical standards may not be sufficient for business purposes
  - Limited opportunity to innovate if cannot request improved service conditions from SMP operator



# Key competition problems for BCS and their causes

## Supplier perspective (5)

- Significant variations in perceived adequacy of PPCs

	PPCs effectively available?	Reasonable prices?	Adequate SLAs/KPIs?
Austria	Partially	No	No
Belgium	Yes, but only point to point regulated	Partially - competitors cost-effective but lack Belgacom reach	Not satisfactory
France	Yes	Partially - up to 10Mb	Not satisfactory. QoS major concern
Germany	No	No	No
Ireland	Yes	Yes	No - Active negotiations to improve
Italy	Partially: T&T but not PPC	Partially - from competitors where available	Standard SLA not adequate. Enhanced SLA are expensive
Netherlands	Not currently, but proposed	Partially	Yes
Spain	Yes up to 70km	Yes	Perfect SLA in theory but unfulfilled and KPIs not published
Sweden	Partially - wholesale leased lines (PDH/SDH) available but not true PPCs	Partially	Yes
UK	Yes	Yes, although charges subject to disputes upheld by NRA	Yes

Source: BCS provider interviews

# Key competition problems for BCS and their causes

## Supplier perspective (6)

- Significant variations in perceived adequacy of WES

	Ethernet effectively available?	Reasonable prices?	Adequate SLAs/KPIs?
Austria	Partially	No	Yes
Belgium	Yes	Yes	Yes, but very complex
France	Yes but unavailable above 100 Mbits	Relatively expensive and unregulated above 10Mbit/s	Not adequate - QoS major concern
Germany	No	no	no
Ireland	Yes	Yes for Access, excessive prices for core services	No - Active negotiations to improve
Italy	Yes	Partially. High prices for backhaul bandwidth	Standard SLA not adequate. Enhanced SLA are expensive
Netherlands	Currently copper only	Partially	Yes
Spain	Yes	Partially	Perfect SLA in theory but unfulfilled and KPIs not published
Sweden	No (only ethernet over SDH)	No	N/A
UK	Yes	Yes, although charges subject to disputes upheld by NRA	Yes

Source: BCS provider interviews

# Key competition problems for BCS and their causes

## Supplier perspective (7)

- Significant variations in perceived adequacy of business-grade bitstream

	Business-grade bitstream product effectively available?	Reasonable prices?	Adequate SLAs/KPIs
Austria	Partially	No	No
Belgium	Yes	Yes	Yes, but very complex
France	Regulated bitstream product only available on copper (DSL)	High prices	Not adequate - QoS is major concern
Germany	Yes, but not satisfactory	No	No
Ireland	Yes	Yes but margin squeeze concerns against LLU	No - Active negotiations to improve
Italy	Partially - when available from alternative suppliers	Partially when alternative suppliers available. Bitstream ETH offer has still high prices for backhaul bandwidth	Standard SLA not adequate. Enhanced SLA are expensive
Netherlands	Yes	Partially	Yes
Spain	Properly defined but implementation is just starting now	Interim prices which are unreasonable	No, but implementation has just started
Sweden	Yes	No	Not satisfactory
UK	Yes, but primary focus on consumer-grade	Regulated only in certain geographic areas	Partially – more suitable for consumer grade

Source: BCS provider interviews

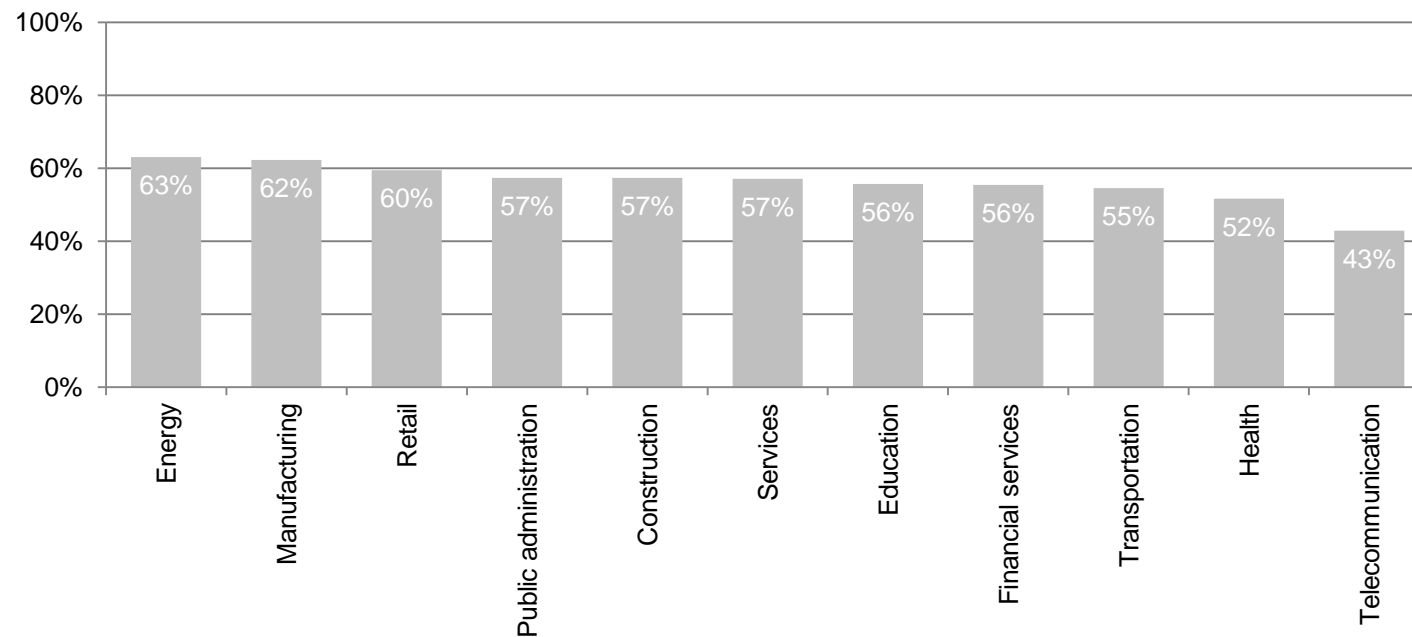
# Key competition problems for BCS and their causes

## Retail market shares

- **Available retail data suggests incumbent market shares are high**
  - Retail market shares for “cross-border” business services not possible to calculate accurately due to fragmented nature of market
  - National analyses have shown typical retail market shares for incumbents in business service provision >50%
    - AMA survey in Germany suggests telecoms only market where DT share <50%
    - CMT in 2011 study found Telefonica with market shares >50% in all segments – especially high for multi-site customers
    - OPTA estimates KPN retail business share at 55-60% in 2011

# Retail market shares: Germany

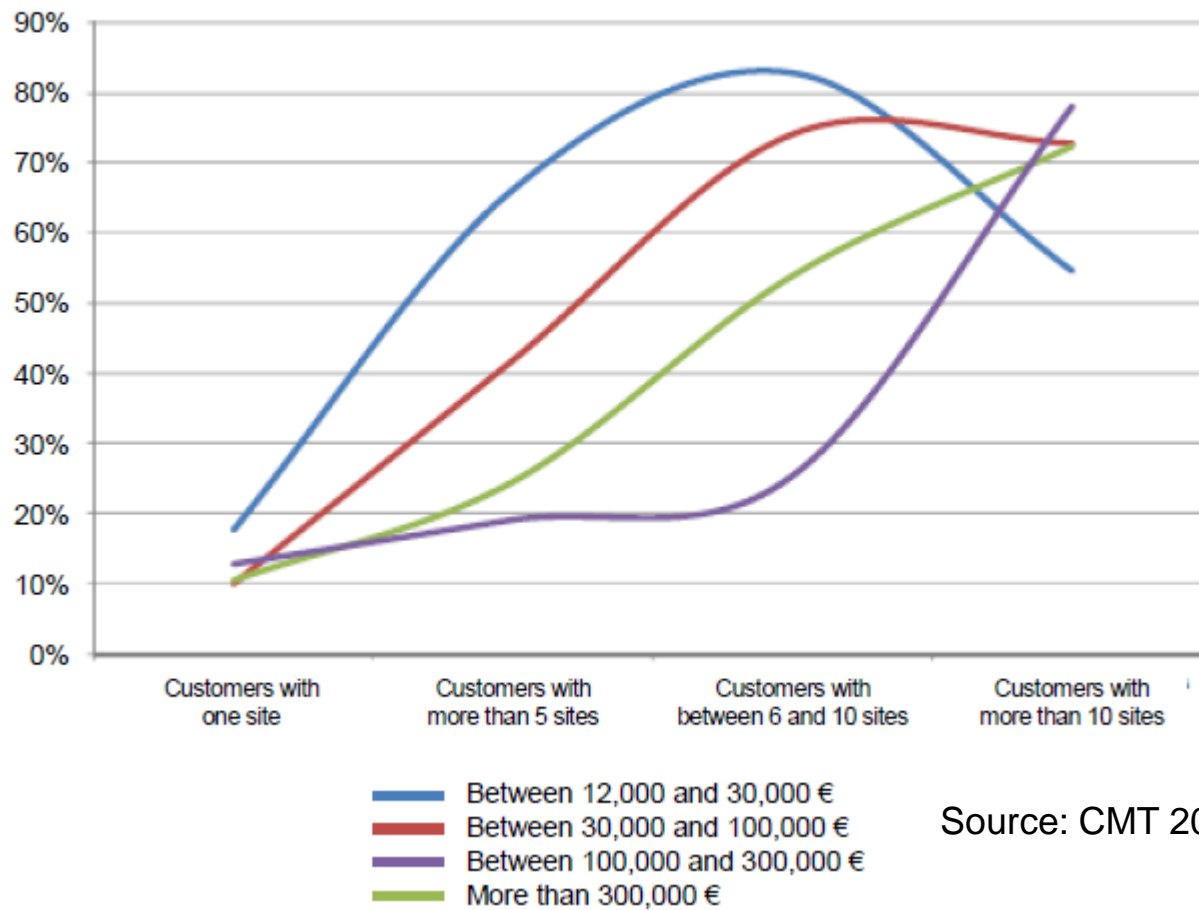
Market share of Deutsche Telekom



Source: AMA (2012).

# Retail market shares: Spain

Telefónica's market share depending on number of customer sites and company size



Source: CMT 2011

# Key competition problems for BCS and their causes

## Application of regulation

### ■ Terminating segments of leased lines (market 6)

- SMP found by most NRAs with typical wholesale market shares >70%
- Some countries segment by speed. >155Mbit/s excluded from regulation in Germany and Austria. >2Mbit/s in Romania, Hungary and Czech Republic. No price regulation for lines >10Mbit/s in France. Contrasts with no or high speed limits eg UK 1Gbit/s
- Some countries have geographic segmentation eg 12 municipalities excluded from regulation in Austria. Limited segmentation (parts of London) in UK
- Price control approaches vary with strict cost-orientation in some countries and looser controls eg retail minus on wholesale ethernet in others eg Spain and Portugal

### ■ Wholesale broadband access (market 5)

- SMP finding varies depending on whether NRAs segment markets for residential and business WBA
- Partial deregulation of WBA on basis of (primarily residential) competition from cable and LLU in some countries eg UK, Poland, Portugal
- Nationwide business segment for WBA identified in Netherlands (part of business access market), Austria – cable and mobile excluded from scope of retail market

# Key competition problems for BCS and their causes

## Market 5 (Wholesale broadband access)

Country	Bitstream nationwide?	FTTx included?
AT	Yes - separate business market	Excludes FTTH
BE	Yes	Excludes FTTH
CZ	Yes - proposal for segmentation and deregulation on basis of cable + Wifi opposed by Cion	Proposal to limit or exclude FTTH remedies
DE	Yes in principle	Yes
DK	Yes	Yes
ES	Yes for ATM and IP technology, no for Ethernet technology.	Yes, but >30Mbit/s remedies excluded
FR	Yes	Excludes FTTH
HU	Yes	Yes
IE	Yes where rolled out	Yes FTTC (Curb/Cabinet) launch due Feb 2013
IT	Yes, for BS on copper; for BS on fibre, availability depends on TI NGA deployment plan	Yes, but TI RO for bitstream on fibre is still under evaluation by NRA
NL	Yes (business grade – distinct from low quality WBA)	Excludes FTTH
PL	Yes, but remedies geographically segmented (no cost orientation in major cities)	Yes (lack of FTTH cost-orientation challenged by Commission)
PT	Geographically segmented	Existing – no detailed NGA remedies. Proposal – yes, except for excluded areas
RO	No	No
SE	Yes (in theory)	Yes
UK	Markets geographically segmented (no SMP in significant proportion)	Yes

Source: Cion article 7 letters  
November 2012



# Key competition problems for BCS and their causes

## Market 6 (LL terminating segments)

Country	Regulated PPCs available?	Cost orientation?
AT	Geographically segmented with major cities excluded and no regulation >155Mbit/s	
BE	Yes, awaiting BIPT decision following consultation	Yes
CZ	No regulation >2Mbit/s (3 criteria test not met)	No price control
DE	Yes, but no regulation >155Mbit/s	Yes
DK	Yes	Copper <2Mbit/s but not above
ES	Yes (but no lines >70km traditional interfaces or >35km Ethernet interfaces)	Copper traditional, retail minus for Ethernet
FR	Yes	No cost orientation >10Mbit/s
HU	No regulation >2Mbit/s (3 criteria test not met)	No price control
IE	Yes, but no regulation >155Mbit/s for trunk between certain listed cities.	Yes
IT	Terminating segment of leased lines are regulated (but lines to mobile operators excluded)	Yes, price cap (less stringent for WES and >155Mbit/s)
NL	Yes	Yes
PL	Yes	Yes
PT	Yes	Yes, but not WES (retail minus)
RO	No regulation >2Mbit/s (3 criteria test not met)	No
SE	Yes (proposed up to 30Mbit/s, DWDM unregulated)	Yes (where regulation applied)
UK	Yes (limited geographic segmentation), no remedies >1Gbit/s	Yes

Source: Cion article 7 letters  
November 2012

# Key competition problems for BCS and their causes

## Case study - Netherlands

- In 2012 market review, OPTA estimates KPN retail market share of business connectivity at 55-60% (2011), or 75-80% in the absence regulation. KPN has widest network coverage – nationwide copper, 85-90% of potential clients within 250m of KPN fibre network
- Defines single wholesale market for business access combining high quality wholesale broadband access and terminating segments of leased lines. KPN found SMP.
- Concludes that the ability of competitors to deliver services based on their own infrastructure without making use of access from KPN or third parties is strongly dependent on the number of sites for which coverage is required
- Remedies mandated include access, non-discrimination (including margin squeeze test) and cost-orientation
- OPTA also segmented market for unbundled fibre – identifying a market for “fibre to the office” (FttO) distinct from fibre to the home

# Key competition problems for BCS and their causes

## Case study - Austria

- **Wholesale broadband access segmented between consumer and business**
  - 2009 decision concluded TA had SMP in business segment, but not in residential segment. Cable, LLU and mobile broadband considered in same market for consumer broadband
- **Leased lines segmented geographically and by speed**
  - Market ordinance of 2008 concluded that lines >155Mbit/s did not meet 3 criteria test due to presence of competing networks
  - 12 municipalities excluded from scope of remaining regulation on basis of assessment of population (>15,000 inhabitants, 3 operators and TA share <50%)

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# Identifying the relevant markets for BCS

## Retail market

- Product characteristics for “retail business communications services”?
  - Requirements for bundles of services provided at “business grade” – ie with product specifications and SLAs that exceed those typically supplied for residential customers
  - Contracts above a given value
  - Multi-site or multi-national provision
- Retail demand and supply for bespoke business communications includes significant cross-border dimension – potentially cross-border market
- Business communications for single site companies are not analysed within the study. Hypothesise that remedies for cross-border business would meet requirements for single site business (but not vice versa)

# Identifying the relevant markets for BCS

## Wholesale market

- **Market for terminating segments (technologically neutral) and business grade WBA or single “business access” market combining 5/6 (eg NL)**
- **Product definition should:**
  - Be technologically neutral and encompass all technologies capable of meeting business specifications ie including FTTC/VDSL, FTTH/FTTB and interfaces such as Ethernet and excluding cable and wireless/mobile technologies which do not offer required capabilities
  - Not be delineated as regards speed; function of technology – not significant cost driver
  - Encompass both symmetric and asymmetric bandwidth – needed for different sites
  - Enable the provision of business services without restriction
- **Wholesale demand is cross-border, but supply is national**
  - Wholesale market/s are not cross-border due to ownership, contractual fragmentation
  - Analogous to NGA Recommendation: geography should be “nationwide”, except if there are regions with multiple business infrastructures and wholesale demand is met on commercial basis
  - Products, remedies should be defined consistently in view of cross-border retail market

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# Benefits of appropriate wholesale regulation

## Benefits of effective ex ante regulation

- **Consistent regulation of wholesale business access would enable development of single market in business communications**
  - Enables greater competition and expansion possibilities within EU amongst players irrespective of their scale of ownership of SMP assets
- **Potentially greater impact than harmonisation in residential markets**
  - Inadequate regulation of business access in one country has “knock-on” effect, undermines competition in business services across EU, affects ability of EU-based business providers to gain regional scale and compete against players in other regions
  - Increased innovation – business services are “bespoke” and value added
  - In absence of regulation, fewer competitive constraints in multi-site business provision than residential because cable and mobile less or not relevant



# Benefits of appropriate wholesale regulation

## Economic benefits (1)

- **Three types of effects caused by an appropriate regulation**
  - Welfare gains through lower prices for BCS provided to MSC/MNC
  - Efficiency gains through improvement of internal ICT related processes
  - Productivity gains through reorganisation of business processes and value chains
- **Basic assumptions for modeling economic benefits**
  - Effects steadily increase over 10 years
  - Assessment of effects based on net present values (NPV) for periods of 5 years, 10 years and 15 years
  - Analyse two scenarios with regard to the discount rate ( “base case”: 1.5%, “economic recovery”: 3%)
- **Total economic gains NPV**

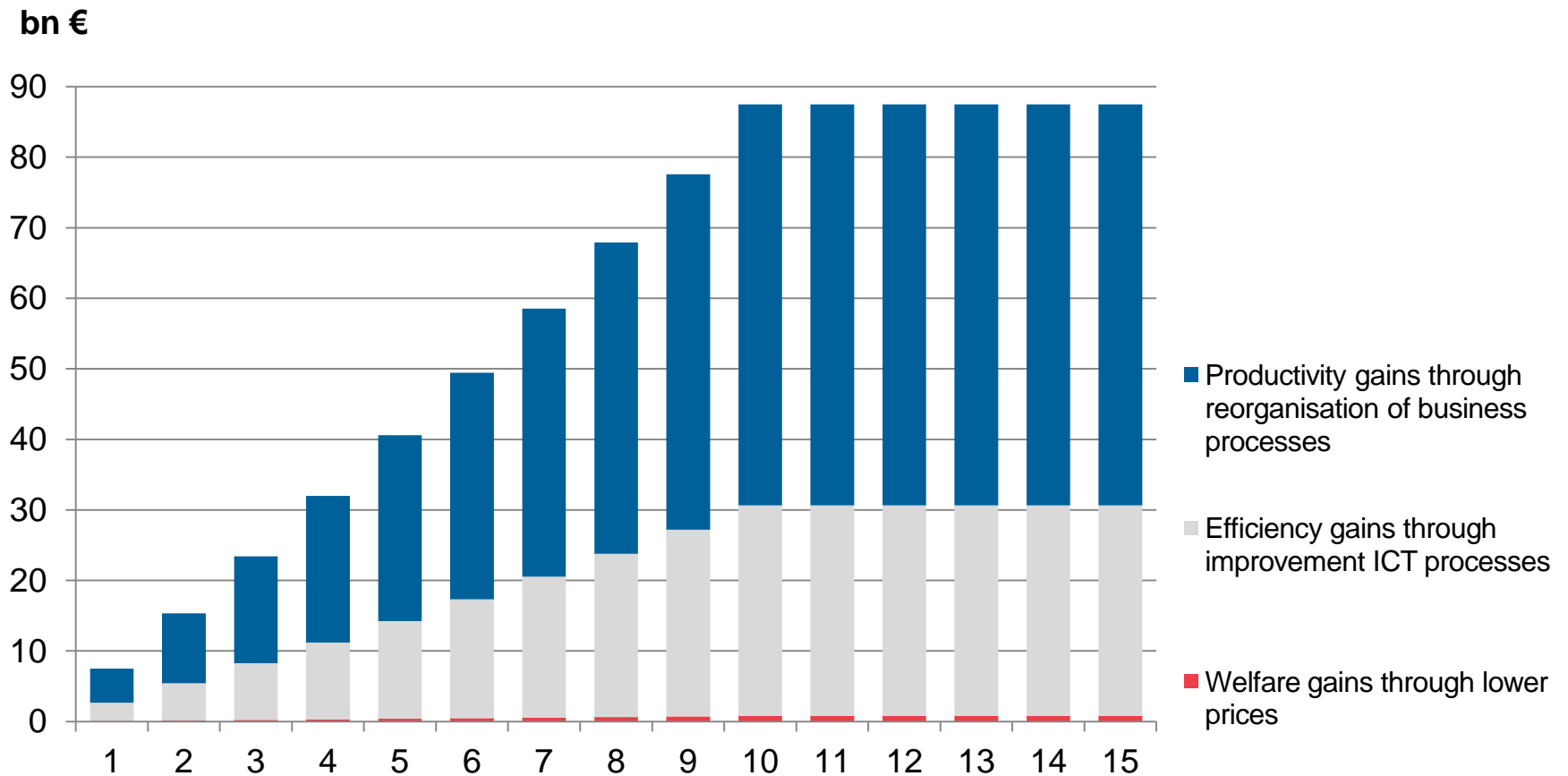
Period	NPV (scenario 1 – base case)	NPV (scenario 2 – economic recovery)
Up to year 5	112.49	106.60
Up to year 10	413.98	373.78
Up to year 15	774.45	671.86

Source: WIK calculations based on methodology of Indepen (2008)

# Benefits of appropriate wholesale regulation

## Economic benefits (2)

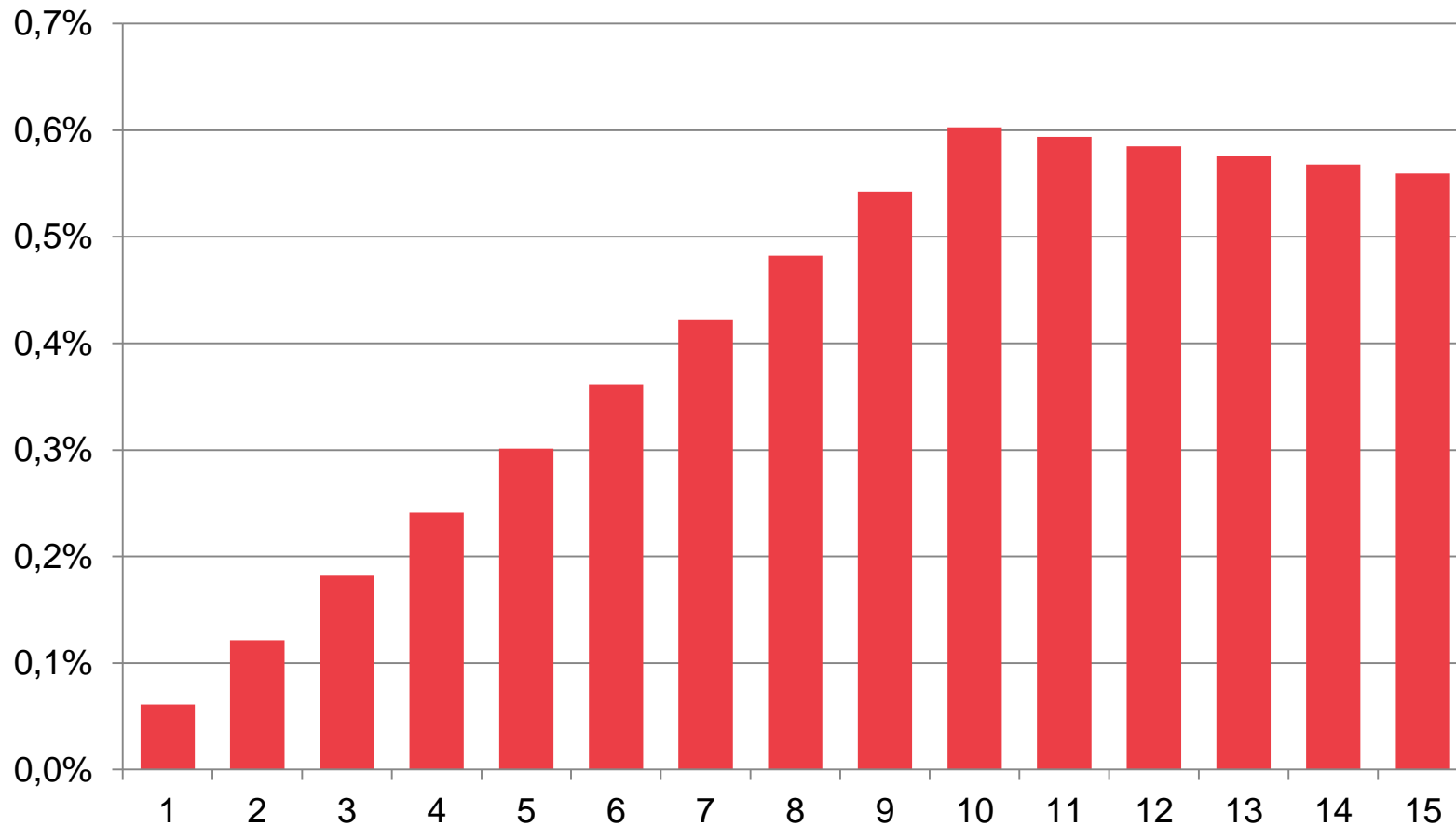
- Total economic benefits (not discounted) should reach approx €90bln pa



## Benefits of appropriate wholesale regulation

### Economic benefits (3)

- **Total economic benefits per year (not discounted) in relation to the GDP in EU27 – estimated to reach circa 0.6% GDP**



Source: WIK calculations

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## Option 1: Commission Decision on cross-border market

- **Commission can issue “Decision” on cross-border markets**
  - Article 15(4) Framework Directive enables the European Commission to adopt a Decision identifying trans-national markets which may be susceptible to ex ante regulation. In accordance with article 16 (5) Framework Directive, relevant NRAs should jointly analyse such markets and decide on the imposition of any regulatory obligations
- **Bespoke business retail market may be cross-border, but wholesale market/s are not**
  - Cross-border retail market would not meet 3 criteria test because it should be effectively competitive in presence of upstream regulation
  - Wholesale market/s for business access do meet 3 criteria test but not cross-border due to ownership and contractual fragmentation
  - Current legislation would not permit use of this instrument to address barriers to creation of cross-border retail market
- **Problem with current EU Telecoms Framework provisions on cross-border markets?**
  - Framework review not due until 2014 – solution not likely until 2017

# Options to achieve a harmonised market for BCS

## Option 2: Relevant Market Recommendation

- **Current 2007 Recommendation on relevant markets seems to view retail business provision as “single site”, and WBA as residential**
  - Retail and wholesale markets for “dedicated capacity/leased lines” (market 6) are considered as “broadly parallel”
  - Residential and business fixed access for telephony considered to have similar characteristics ie single site
  - WBA considered largely in residential context – cable and wireless viewed as potential constraints
- **Address multi-site and multi-product characteristics in Review of Relevant Markets?**
  - Identify retail market for business communications services as “cross-border” in explanatory memorandum. Advise that consequently national wholesale market or markets should be consistently analysed
- **Consider Commission Recommendation on harmonised treatment of business services or task BEREC with producing common guidance**
  - Costing and non-discrimination Recommendation targets residential markets. Scope for business Recommendation to harmonise inputs for cross-border retail market?

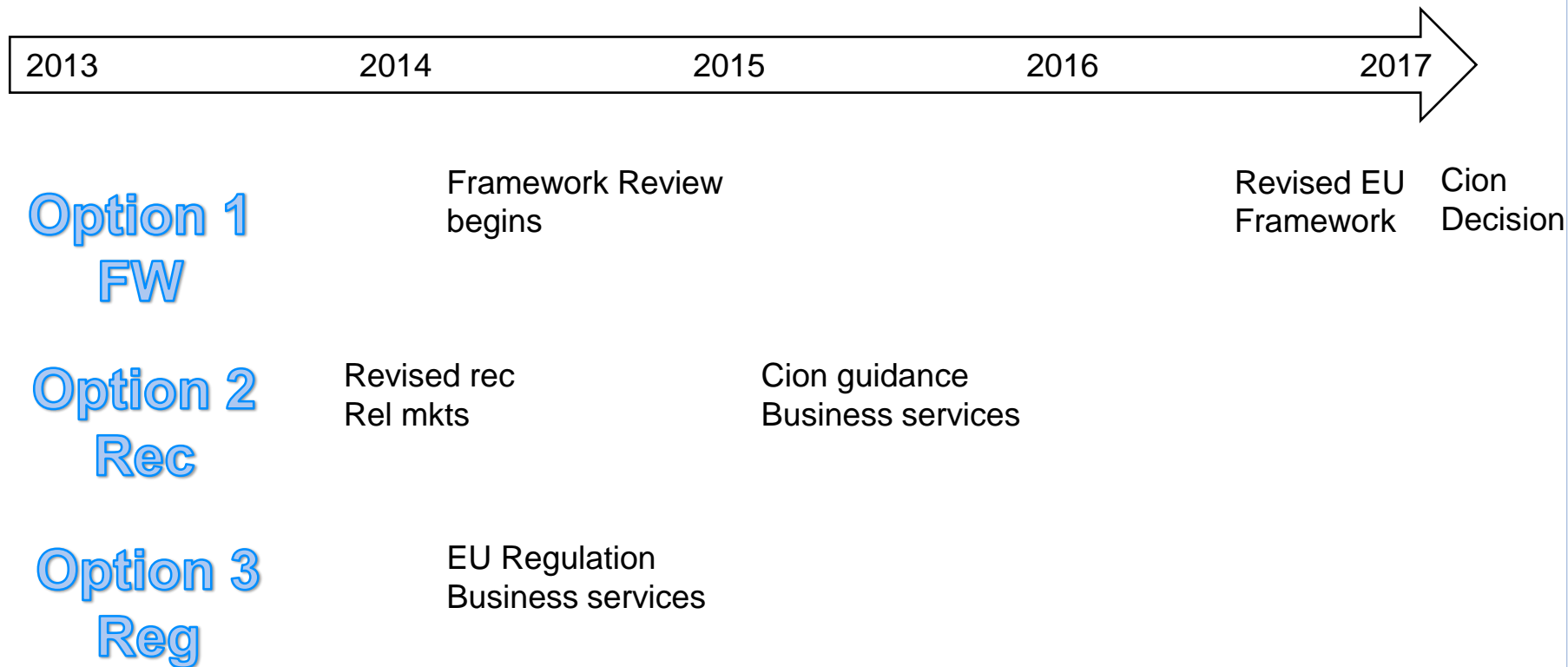
# Options to achieve a harmonised market for BCS

## Option 3: EU Regulation

- **Preference to address problems within scope of SMP Framework, but precedents exist to handle outside:**
  - 2000 Regulation on Local Loop Unbundling: introduced to ensure harmonised treatment and address lack of clarity in ONP framework. Superseded by SMP regulation in EU Telecoms Framework.
  - Mobile roaming Regulations: Introduced because neither SMP regulation nor competition law seemed able to solve
- **Some parallels with LLU Regulation**
  - Current Framework is not clear on how to address bottlenecks to competition in cross-border markets
  - Regulation on business services could provide a temporary solution
- **This option would require significant political impetus but solution could be rapid (roaming and LLU Regulation concluded within 1 year under fast track procedure)**

# Options to achieve a harmonised market for BCS

## Timelines





- Importance of business communication services
- Key competition problems for BCS and their causes
- Identifying the relevant markets for BCS
- Benefits of appropriate wholesale regulation
- Options to achieve a harmonised market for BCS
- Conclusions and recommendations

## Conclusions and recommendations

# Conclusions (1)

- MSC/MNC make up a significant proportion of the EU economy – more than 50% turnover and more than 40% of jobs
- Businesses rely heavily on electronic communications to maximise efficiency and productivity. We estimate:
  - More than 50% of electronic communications sector revenues of €330bln in 2010 relate to business communications.
  - €90bln may be attributable to MSC/MNC.
- End-user survey and interviews suggest they demand sophisticated, tailored services which deliver seamless connectivity across multiple sites nationally and often cross-border.
  - 70% prefer a single supplier for all telecoms services.
  - Only 5% preferring multiple suppliers prefer country-by-country contracts

### Conclusions (2)

- Many regulators have assumed that such businesses have sufficient negotiating power
- But end-user surveys for ERG, CMT and now this report suggest that the market is not as competitive as might be expected
  - Fewer than 20% respondents found several suppliers able to make suitable offer. In nearly half of cases only 1 or 2 suppliers able to make suitable offer
  - More than 40% respondents cited problems finding supplier that could cover all sites or provide consistent services across countries
- Available market research in Germany and NRA data (Spain, NL) suggest incumbent telecoms operators maintain retail market shares above 50% for services large businesses, and that shares may be higher for multi-site firms

### Conclusions (3)

- Interviews with business service providers suggest that regulated access important for BCS provision because operators lack scale to self-build links to multiple sites on a pan-European basis
  - >90% access lines sourced from third parties of which more than 75% from national incumbents
- Business service providers suggest they are impeded in their ability to meet customer needs and compete on a level playing field across Europe by the absence of effective and consistent wholesale inputs
- Regulatory benchmarks show significant divergences in approach for business wholesale inputs
  - Market 5 (wholesale broadband access): inclusion/exclusion of NGA, segmentation or not of business WBA leading to different geographic scope for market
  - Market 6 (leased lines, WES): some countries delineate by speed (in market definition or remedies), differences in geographic segmentation

### Conclusions (4)

- Retail market for business communications may be cross-border – suggested by both demand and supply-side
- Wholesale demand is cross-border, but supply is national due to fragmented ownership of SMP operators and national contractual arrangements and regulatory regimes
- Benefits of achieving single market for business communications could be significant amounting to €90bln per year once realised (approx 0.6% GDP), but would require consistent wholesale regulation across EU

## Conclusions and recommendations

# Recommendations (1)

- Business communications should be recognised as core to the EU Digital Agenda
- The provisions concerning Decisions on transnational markets in the EU Telecoms Framework should be reviewed at the next availability opportunity such that Decisions can be made where consistency at wholesale level is necessary to achieve competition in a retail market which has been found to be cross-border
- In the meantime, interim action should be taken to achieve a harmonised outcome for core wholesale business inputs through either:
  - **Commission Recommendation** on Relevant markets together with complementary guidance (Recommendation or BEREC common position on business remedies)
  - **EU Regulation** on business communications harmonising market definitions and remedies relevant to business communications services

## Conclusions and recommendations

# Recommendations (2)

- **Guidance/legislation concerning business access should define the retail market as incorporating**
  - bespoke bundles of fixed voice and data,
  - multi-site/multi-national provision and/or contracts of a minimum value, and
  - business-grade specification for example through premium SLAs and technical requirements.

## Conclusions and recommendations

### Recommendations (3)

- **Scope of the relevant wholesale product market/s should be**
  - Separately assessed from “low-grade” products aimed at residential market
  - technologically neutral and encompasses the most modern technologies including FTTC/VDSL and FTTH/FTTB and interfaces such as Ethernet
  - In general exclude technologies such as wireless and cable which do not provide the requisite service levels or resilience demanded by business users when compared with xDSL/FTTx technologies
  - not delineated as regards speed
  - Encompass both symmetric and asymmetric bandwidth
  - Enable the provision of business services without restriction
  
- **The geographic scope of the wholesale product market/s should be**
  - In principle nationwide unless (following similar logic to the Commission NGA Recommendation) there are multiple business infrastructures and wholesale products are available on fair commercial terms to meet demand



## Conclusions and recommendations

# Recommendations (4)

- **Guidance concerning remedies should provide for:**

- Non-discrimination in provision of wholesale services for business. Wholesale products including those with more modern interfaces and/or with enhanced SLAs should be launched 6 months in advance of retail launch
- Connection points which are economically viable for providers which lack mass-market scale
- Business-grade SLAs and associated KPIs by which the fulfilment of SLAs may be measured. Penalties for failure to meet SLAs should have deterrent effect.
- Technical characteristics of wholesale broadband access which satisfy the needs of business providers and end-users such as low contention rates, capability to offer multiple VPNs
- Requirement to meet reasonable demand from wholesale customers for enhanced service levels, whether or not the SMP operator plans to offer such services at retail level



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