

ILLUMINATING BROADBAND PRICING

Information, and access to information, continues to be the key driver of growth and development of the information society and the knowledge driven economy. This in fact is becoming vital not only for businesses who need quick, easy and inexpensive transfer of data but also for individuals whether they want to buy the latest best seller or conduct transactions with banks or the Government. The market for Voice and Data is undergoing enormous changes and higher bandwidth services are increasingly required if businesses are to be able to maximize their full business potential and individuals to take full advantage of the information age for example via high-speed Internet access.

Industry players have identified that: -

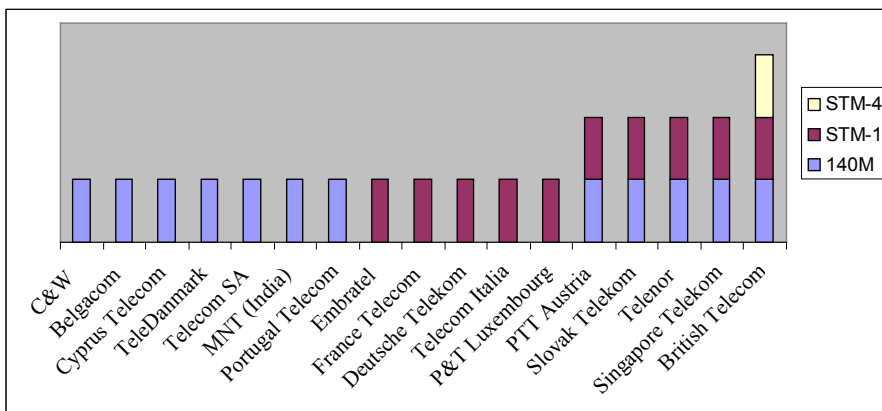
1. Higher bandwidth services are vital in building a digital future and in particular for the development of electronic commerce and other electronic services to users.
2. Higher bandwidth services enable more information to be delivered at higher speeds to the end user. In many cases, higher bandwidth is essential if there is to be efficient interactivity between the services being provided and the consumer. It will facilitate the development of new multi-media services that make use of the greater technical capabilities.

The industry has recently seen the emergence of new alternative carriers mainly offering high bandwidth and incumbents have also woken up to this trend in order to respond to the harsh competition.

Who supplies high bandwidth?

As a result of its worldwide tariffs research, analysis and implementation for its pricing tool 'netVESPA', Magenta netLogic has found the following:

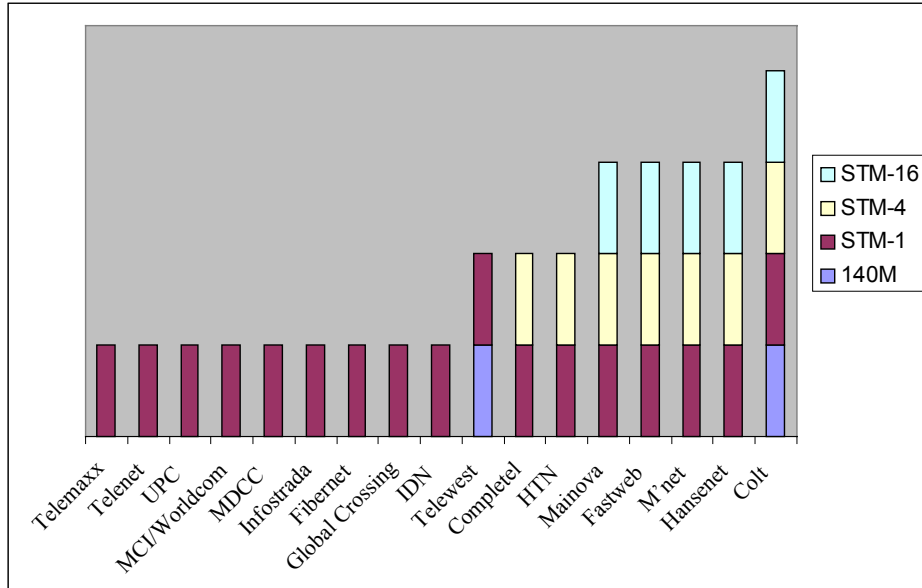
From the 59 incumbent operators researched, only 17 publicly publish tariffs for 140/155M and 1 for 622M. So far none publish prices for STM16.



17 out of 59 offer high bandwidth tariffs outside US

Incumbent Operators offering High Bandwidth Tariffs

Pricing from alternative carriers is highly secretive and they do not publicly publish their tariffs. Magenta netLogic has however had the opportunity to analyse tariffs from 21 alternative carriers provided by its customers. 17 of them provided tariffs for high bandwidths. It is clear from the



prices provided that these operators are mainly interested in supplying high bandwidth to meet the increasing demand.

17 out of 21 offer

high bandwidth tariffs

An Example of European Alternative Carriers offering High Bandwidth Tariffs

High bandwidth pricing structure

Since the collapse of Iaxis, carriers are striving to hit revenue targets meaning operators make small margins if any at all. The newer alternative operators are less concerned with profit margin than their incumbent counterparts and are concerned mainly with market share, encouraging them to offer bandwidth at knockdown prices. The operators' concern is now to stay within the market value whilst offering the best possible quality of service.

From the study of the 17 incumbents offering high bandwidth, the pricing structures are the same as for smaller bandwidths and will include the same level of tariff intricacies.

Alternative carriers have in general adopted a much simpler tariff structure, which is in most cases composed of a fixed price irrespective of the on-net location of the customer sites. There are however few variations such as: -

- Distance-based
- Fixed and specific prices between cities.

Both types of operators offer term and volume discounts. However, it is more frequent to find alternative operators offering discounts schemes than incumbents. Additionally, discount structures tend to be much simpler than those of incumbents.

Customer loyalty is nonetheless lacking as only 33% of STM1 contracts exceed 1 year. Shorter contracts enable buyers to follow the rapidly changing market, which itself contributes to the overall decline in prices.

The Future of broadband pricing

Pricing will be influenced by increasing competition, the emergence of further new entrants, new alliances and the constant development of new technologies. As such, one can predict important changes in such a dynamic environment:

1. High bandwidth prices are likely to decline.
2. New pricing structures put into place such as 'Route pricing' i.e. price determined by competitive routes, which is been adopted in Europe such as London–Paris, London–Frankfurt.
3. 'Just-right pricing', identifying a method that would be fairer to the user and still profitable for the operator.

Incumbent operators may need to develop broadband tariffs to meet the needs of a competitive market and new entrants may need to develop competitive broadband tariffs, which maximise the return on their infrastructure investment.

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