

Price transparency for Namibia's Telecommunication Sector

The reduction in termination rates by the NCC in July increased the competition among Namibia's mobile operators. Leo re-designed its product offerings and Telecom Namibia reduced off-net calling rates for its Switch product. MTC changed its off-net pricing only for its Tango per second product despite having to pay less for terminating calls (N\$0.60 instead of N\$1.06). Regulatory interventions addressing retail price regulation may be required to ensure that market dominance is not being misused

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Leo

Leo has designed new products that makes it competitive and beat MTC on all but the high usage basket.

Telecom Namibia

SWITCH remains the cheapest products for all but the passive user basket. Per second billing from the first second for off-net calls would give Switch another competitive edge.

MTC

MTC only changed off-net prices for Tango per second despite a reduction in termination rates. Per second billing from the first second would make MTC's products more attractive.

Per second billing

The NCC/CRAN should recommend per second billing for all products. It is a fairer billing system and makes it easier to control expenditure for the poor.

Retail price regulation required

Discussions should be started with operators regarding the regulation of off-net and mobile to fixed line prices.

Number Portability

Number portability would increase the competition between operators and provides mobile phone users a fairer choice in selecting networks.

Introduction

The reduction in termination rates by the Namibian Communications Commission (NCC) in July increased competition among Namibia's mobile operators. Leo re-designed its product offerings and Telecom Namibia reduced off-net (calls to other networks) calling rates for its Switch product. MTC has not changed its off-net pricing despite having to pay less for terminating calls (N\$0.60 instead of N\$1.06).

This policy brief introduces a section that tracks off-net and fixed-line prices in relation to termination rates. Further regulatory interventions addressing retail price regulation may be required to ensure that market dominance is not being misused.

Cheapest Product by Operators

The redesigning of Leo's product offerings and Telecom Namibia's price reductions led to both operators winning attractiveness compared to MTC. Leo now also offers handsets with each of its postpaid products, differentiating its postpaid product range more clearly from its prepaid service. Leo also switched all its products to per second billing, effectively reducing the cost for the end-user.

Telecom Namibia has still the cheapest products on offer for all usage baskets except for the passive user. Leo is now cheaper than MTC for the passive, low, medium and the international usage baskets, while MTC leads still leads Leo on the high user basket.

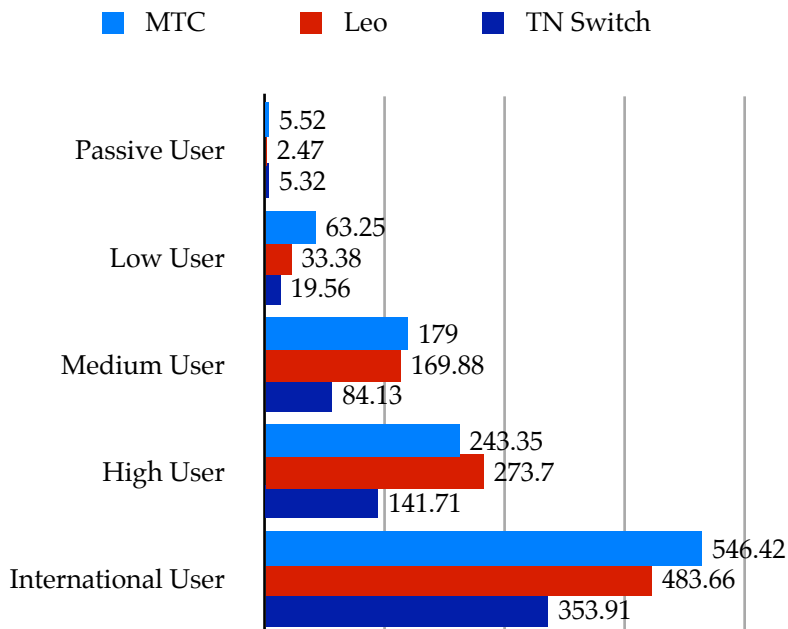


Figure 1: Operators compared in terms of their cheapest product for each usage bundle.

Passive User

A passive user makes very few and short calls and only rarely sends SMS. A Passive user uses the mobile phone mainly to be reachable and for emergencies. The specifications of the usage baskets can be found in NEPRU Policy brief 22.

Operator	Product	Price (N\$)
Leo	Prepaid	2.47
MTC	Tango per second	3.28
TN	SWITCH easy	5.32
TN	SWITCH time	5.32
MTC	Tango Day and Night	8.34
MTC	Tango per minute	8.36
MTC	Tango Seven to Twelve	15.30
MTC	Fusion 39	53.19
TN	SWITCH self1	64.47
MTC	Connect 50 Leisure	72.45
MTC	Fusion 59	76.19
TN	SWITCH self2	104.47
MTC	Professional	104.80
MTC	Connect 50 Freedom	119.00
MTC	Connect 100 Leisure	142.45
Leo	Postpaid Control Chat50	149.40
MTC	Connect 100 Active	179.00
Leo	Postpaid Control Chat150	249.40
Leo	Postpaid Classic150	249.40
TN	SWITCH self3	304.47
Leo	Postpaid Classic200	350.40
Leo	Postpaid Control Chat200	359.40
MTC	Connect 250 Achiever	375.00
Leo	Postpaid Control Chat300	500.40
Leo	Postpaid Classic300	500.40
TN	SWITCH self4	584.47
MTC	Connect 500	700.00
Leo	Postpaid Classic400	700.40
Leo	Postpaid Classic500	1,000.40
MTC	Connect 1000 Pioneer	1,200.00

Table 1 displays the cost of all pre and post-paid products in Namibia for the passive user basket. Leo's prepaid is the cheapest at N\$2.47. This is followed by MTC's Tango per second. MTC reduced last week its per second rates for its Tango per second product from 6 cents to 2.5 cents for on-net calls and 3 cents for all other calls. MTC's Tango per second scored 4th place in terms of affordability. Telecom's SWITCH Easy and SWITCH Time come in third and fourth with N\$5.32.

Low User

A low user makes on average one call a day and sends one SMS to someone every second day. Telecom Namibia's price reduction has led to SWITCH being the cheapest product for the low user basket at N\$19.56 a month. Leo's prepaid comes in third at N\$33.38, still half of MTC's cheapest product: is now the Tango per second at N\$ 37.69. MTC's price reduction led to a clearer differentiation to its postpaid product like the Connect 50 Leisure at N\$69 which comes with a free basic handset.

Operator	Product	Price (N\$)
TN	SWITCH easy	19.56
TN	SWITCH time	19.56
Leo	Prepaid	33.38
MTC	Tango per second	37.69
MTC	Tango Day and Night	63.25
MTC	Tango per minute	63.80
MTC	Connect 50 Leisure	69.00
MTC	Tango Seven to Twelve	74.52
TN	SWITCH self1	75.41
MTC	Fusion 39	108.10
TN	SWITCH self2	113.66
MTC	Connect 50 Freedom	119.00
MTC	Fusion 59	131.10
MTC	Connect 100 Leisure	139.00
MTC	Professional	139.40
Leo	Postpaid Control Chat50	169.67
MTC	Connect 100 Active	179.00
Leo	Postpaid Control Chat150	269.67
Leo	Postpaid Classic150	269.67
TN	SWITCH self3	313.41
Leo	Postpaid Classic200	370.67
MTC	Connect 250 Achiever	375.00
Leo	Postpaid Control Chat200	379.67
Leo	Postpaid Control Chat300	520.67
Leo	Postpaid Classic300	520.67
TN	SWITCH self4	593.41
MTC	Connect 500	700.00
Leo	Postpaid Classic400	720.67
Leo	Postpaid Classic500	1,020.67
MTC	Connect 1000 Pioneer	1,200.00

Medium User

A medium user makes about four calls a day and sends one SMS a day. The top four cheapest products for the medium user basket are occupied by Telecom Namibia's Switch products. The cheapest of them being N\$84.13. Leo's cheapest product for this usage basket is prepaid, and at N\$169.88 and about N\$10 cheaper than MTC's Connect 100 Active at N\$179. MTC's product comes with basic handsets. MTC's Tango per second is marginally more expensive at N\$180.95.

High User

A high user makes about six calls a day and sends two SMSs a day. Telecom Namibia is the price leader for this basket. The higher user basket would cost a Switch easy or time user N\$141.71. Leo has caught up in this segment but has not yet beaten MTC on cost effectiveness. The higher user segment is mainly won through service and bundled handsets.

Table 3: Medium User

TN	SWITCH easy	84.13
TN	SWITCH time	84.13
TN	SWITCH self1	123.48
TN	SWITCH self2	163.23
Leo	Prepaid	169.88
MTC	Connect 100 Active	179.00
MTC	Tango per second	180.95
MTC	Connect 50 Leisure	181.18
MTC	Connect 50 Freedom	208.05
MTC	Connect 100 Leisure	224.53
Leo	Postpaid Control Chat50	253.88
MTC	Professional	267.00
MTC	Tango Day and Night	284.28
MTC	Tango per minute	286.90
MTC	Fusion 39	329.13
MTC	Tango Seven to Twelve	338.59
MTC	Fusion 59	352.13
Leo	Postpaid Control Chat150	353.88
Leo	Postpaid Classic150	353.88
TN	SWITCH self3	362.98
MTC	Connect 250 Achiever	375.00
Leo	Postpaid Classic200	454.88
Leo	Postpaid Control Chat200	463.88
Leo	Postpaid Control Chat300	604.88
Leo	Postpaid Classic300	604.88
TN	SWITCH self4	642.73
MTC	Connect 500	700.00
Leo	Postpaid Classic400	804.88
Leo	Postpaid Classic500	1,104.88
MTC	Connect 1000 Pioneer	1,200.00

Table 4: High User

TN	SWITCH easy	141.71
TN	SWITCH time	141.71
TN	SWITCH self1	177.51
TN	SWITCH self2	210.46
MTC	Connect 100 Active	243.35
MTC	Connect 50 Leisure	260.98
Leo	Prepaid	273.70
MTC	Connect 50 Freedom	292.30
MTC	Connect 100 Leisure	302.48
MTC	Tango per second	306.19
Leo	Postpaid Control Chat50	321.51
MTC	Connect 250 Achiever	375.00
MTC	Professional	381.40
TN	SWITCH self3	406.96
Leo	Postpaid Control Chat150	421.51
Leo	Postpaid Classic150	421.51
MTC	Tango Day and Night	478.40
MTC	Tango per minute	482.77
Leo	Postpaid Classic200	522.51
MTC	Fusion 39	523.25
Leo	Postpaid Control Chat200	531.51
MTC	Fusion 59	546.25
MTC	Tango Seven to Twelve	568.91
Leo	Postpaid Control Chat300	672.51
Leo	Postpaid Classic300	672.51
TN	SWITCH self4	686.71
MTC	Connect 500	700.00
Leo	Postpaid Classic400	872.51
Leo	Postpaid Classic500	1,172.51
MTC	Connect 1000 Pioneer	1,200.00

International User

An international user has same usage bundle as the high user only with additional international calls and SMS to three neighbouring countries and the USA. For International users Leo has managed to improve its product offerings dramatically. Though not able to compete with Telecom Namibia's Switch products Leo's Postpaid and newly launched Hybrid Top-up extra (mix between postpaid and prepaid) beat MTC's postpays on cost. Leo's hybrids have the advantage over MTC's Fusion products in that they can be registered as residential and hence avoid VAT payment.

Price Change

Telecom Namibia cheapest product for each basket is more than 10% cheaper in December 2009 compared to the beginning of the year. Leo also has cheaper products on offer for all but the high user basket. MTC's rate reduction for Tango per second meant that prices for the passive and low user basket are now at 60% of the cost of January 2009. Namibia's mobile subscriber base has expanded in 2009 and will expand further in 2010, catching up with the teledensities of South Africa and Botswana as a consequence of the price reductions seen in 2009.

Table 5: International User

TN	SWITCH easy	353.91
TN	SWITCH time	353.91
TN	SWITCH self1	389.96
TN	SWITCH self2	423.16
Leo	Postpaid Control Chat150	483.66
Leo	Postpaid Classic150	483.66
Leo	Postpaid Control Chat50	483.66
Leo	Postpaid Classic200	534.66
Leo	Postpaid Control Chat200	543.66
MTC	Connect 100 Active	546.42
MTC	Connect 50 Leisure	575.54
Leo	Postpaid Control Chat300	584.66
Leo	Postpaid Classic300	584.66
MTC	Connect 50 Freedom	603.17
MTC	Connect 100 Leisure	617.04
TN	SWITCH self3	619.91
MTC	Connect 250 Achiever	674.17
MTC	Professional	680.57
Leo	Postpaid Classic400	708.46
Leo	Prepaid	780.91
MTC	Tango per second	881.31
TN	SWITCH self4	899.91
MTC	Connect 500	999.17
Leo	Postpaid Classic500	1,008.46
MTC	Tango Day and Night	1,197.04
MTC	Tango per minute	1,201.41
MTC	Fusion 39	1,241.89
MTC	Fusion 59	1,264.89
MTC	Tango Seven to Twelve	1,459.76
MTC	Connect 1000 Pioneer	1,499.17

Table 6: Changes in retail prices in 2009

		Dec-09	Jan-09	Price Change
Cheapest MTC	Passive User	5.52	3.28	59%
	Low User	63.25	37.69	60%
	Medium User	179.00	179.00	100%
	High User	243.35	243.35	100%
	International User	546.42	546.42	100%
Cheapest Leo	Passive User	2.47	2.82	88%
	Low User	33.38	37.29	90%
	Medium User	169.88	184.25	92%
	High User	273.70	276.08	99%
	International User	483.66	515.34	94%
Cheapest Telecom Namibia	Passive User	5.32	6.10	87%
	Low User	19.56	21.90	89%
	Medium User	84.13	94.46	89%
	High User	141.71	158.94	89%
	International User	353.91	na	na

Ratio between off-net retail prices to termination rates

Currently Off-net prices are between 248% and 417% of the termination rate at peak time. Leo is the only operator that also offers off-peak and off-off-peak rates for off-net calls. The ratio between off-net calls and termination rates widens from January 1, 2010 when the next termination rate reduction, down to N\$ 0.50, becomes effective if off-net prices are not reduced.

Figure 3 is based on per minute off-net retail prices and per minute termination rate. Termination is however billed per second and not all retail products are billed per second. The difference between off-net rate and termination rate per second can be very high for a short call for a product that applies per minute billing (Figure 4). Leo's products are all per second billing. Switch bills for the first minute and then in 8 seconds intervals. MTC's Tango and Day & Night bill per 30 seconds, while Tango Seven Eleven bills per minute. MTC also offers Tango as a per second prepaid product. MTC's postpaid is billed for the first minute in full and then in 6 second intervals.

Figure 3 shows how MTC's off-net prices are the highest currently. The ratio between off-net and termination rate widens over the next 18 months as termination rates come down. Figure 5: shows the result of recognising billing systems in the calculation of ratios between off-net and termination rates.

Using off-net prices and termination rates in minutes and expressing it as a ratio results in MTC's Tango (30 second billing) having an off-net price of 417% of the termination rate. Using the average cost per second for 180 seconds or three minutes show that the actual ratio is 689%. That ratio will increase to 1378% in January 2011 if off-net prices are not reduced.

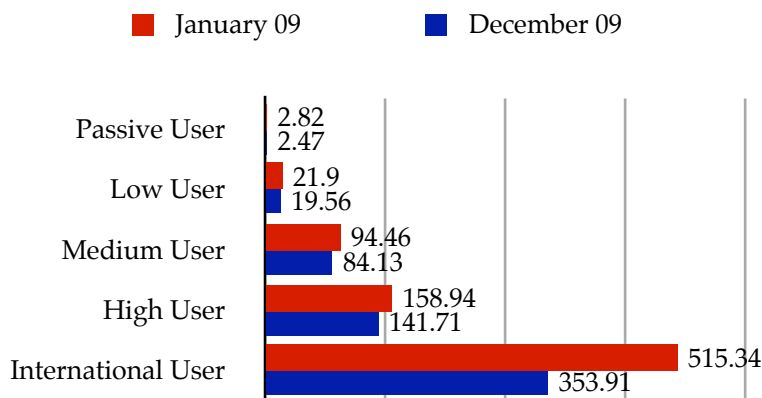


Figure 2: Cheapest product available in Namibia in January 2009 and December 2009

- MTC Postpaid
- MTC Prepaid & Fusion
- MTC Tango per second
- Leo Peak
- Leo Off Peak
- Leo Off Off Peak
- Telecom Namibia Switch

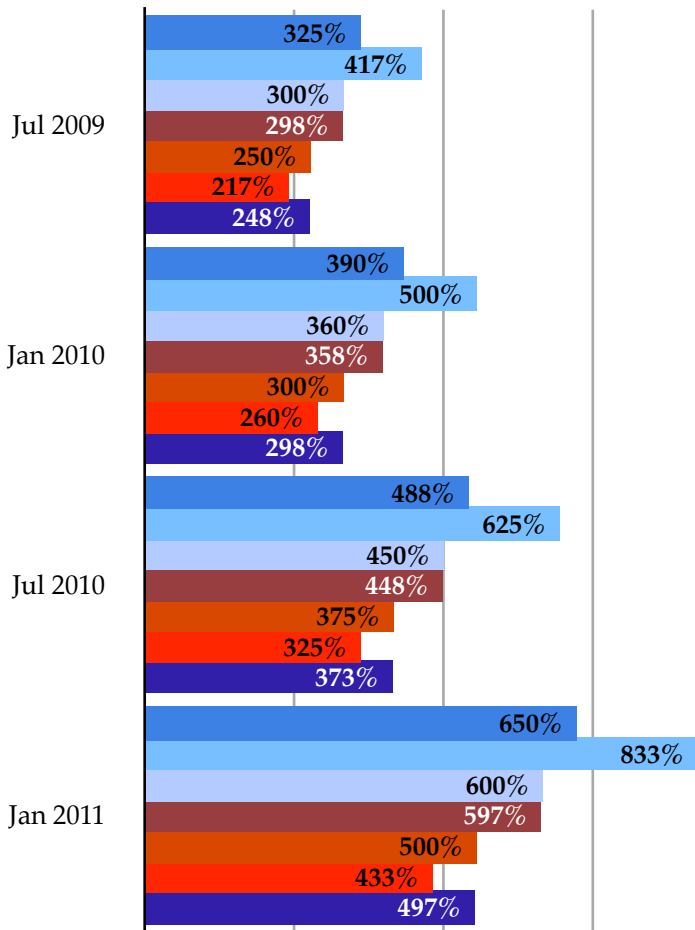


Figure 3: Current Off-net rate as multiple of mobile termination rates along the glide path

Generally operators can pass on the savings from lower termination rates to the subscribers through lower off-net rates and therefore stimulate more out going traffic. However, they can also keep off-net prices constant and benefit from the wider profit margin (off-net - termination rate). MTC can use high off-net calling prices to keep traffic on its network and make it unattractive to move to a smaller network were it is expensive to be called. Dominant operator usually choose the later since it allows them to provide an disincentive for its subscribers to leave its network and join a smaller operator. If it is expensive to be called one will probably be called less. From an operator's perspective it is preferable to keep all traffic on its own network. From an economic perspective however, one would want to have as least network bias as possible. The size of an operator in terms of subscribers should not be an advantage to that operator other than being able to afford wider coverage and higher economies of scale. The subscriber number of an operator should not matter for the network selection of an individual. This would only be the case if off-net and on-net prices are equal. It then does not matter whom one is calling since the price will be the same.

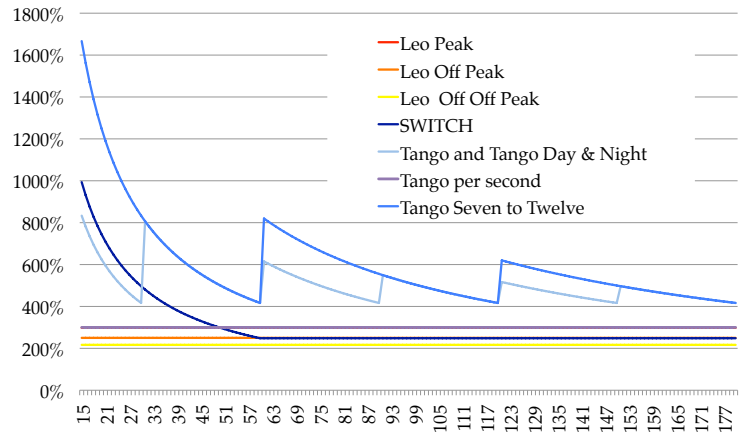


Figure 4: Impact of billing on ratio between off-net and termination rates for 15 -180 seconds

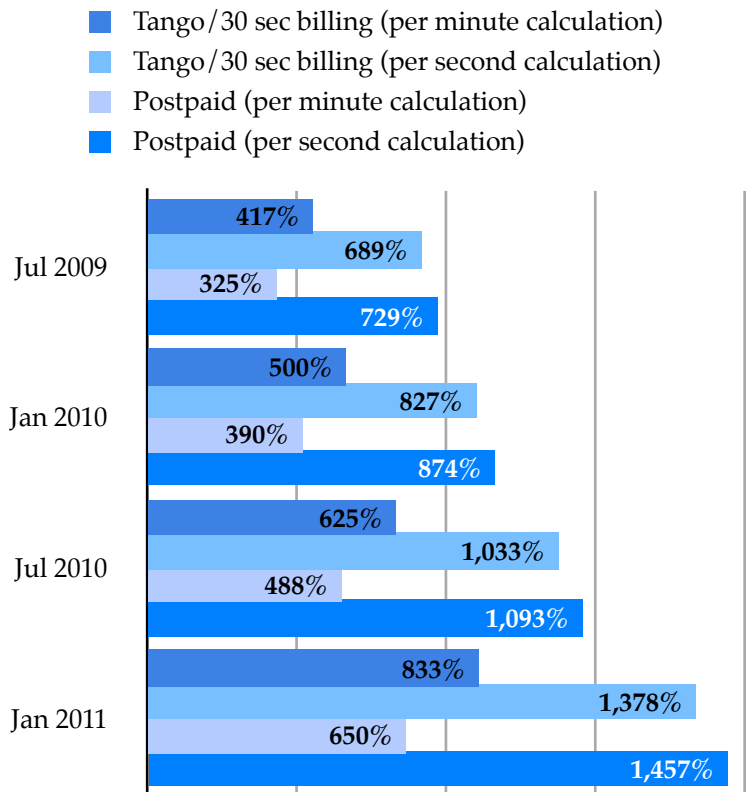


Figure 5: MTCs Off-net rate as multiple of mobile termination rates along the glide path comparing per minute with per second as an average for 180 seconds

Retail Price regulation

Common regulatory goals that may justify retail price regulation include preventing the exercise of market power by ensuring that prices are fair and reasonable, where competitive forces are insufficient. If competition does not lead to lower off-net prices while the cost of termination is falling then setting a limit for off-net prices would be justifiable. Retail price regulation can increase competition and economic efficiency if applied correctly. However, it is seen as a measure of last resort since it impacts on the way operators can structure their prices. International best practice is to regulate wholesale prices (termination rates) and leave retail prices untouched.

Table 7: Options for Off-net price caps

Options	Consequences
Option 1: Off-net equals on-net Mobile to fixed equals on-net	<ul style="list-style-type: none"> • Size of an operator in terms of subscribers will not be relevant for choosing a network. • User can call without having to think on what network the receiver is on. • Consumer will benefit from number portability more, with less risk of calling number without knowing which network this number is on. • Leo would not be able to offer free-on-net calling off-off-peak since off-net is linked to on-net.
Option 2: Off-net and mobile to fixed equals on-net + termination rate	<ul style="list-style-type: none"> • Same as Option 1 only with less benefit for the consumer through number portability.
Option 3: Ratio between off-net divided by termination rate and mobile to fixed divided by termination rate may not exceed 300% for any number of seconds billed	<ul style="list-style-type: none"> • Will make per second billing compulsory. Per minute billing or per 30 second billing would violate the limit during the first 30 seconds of a call unless the off-net rates are very low. • Off-net prices would be capped to N\$0.90 in January 2011.
Option 4: Off-net and mobile to fixed less or equal to termination rates times five	<ul style="list-style-type: none"> • Allows MTC to maintain its current off-net prices until July 2010, (5 x N\$0.50 from 1 January 2010). From 1 July 2010 the upper off-net limit would drop to N\$ 2 (5 * N\$0.40)

One would not want to restrict operators in their ability to design products for niche markets and specific customer needs. Leo offers, for example, free off-off-peak for on-net calls. A limit suggesting off-net equals on-net would require Leo to change its pricing and charge at least the termination rate for on-net so that it does not lose money on the equal off-net prices.

At the same time one cannot allow anti-competitive behaviour. The options in Table 7 could serve as a starting point for discussions with operators. The NCC/CRAN could invite official comments regarding its intent to regulate off-net prices. The options presented in Table 7 can be extended to fixed-line prices. Termination on fixed-line networks will become cheaper as well over the next 18 months and pricing is even more excessive than for off-net rates.

Conclusion

Leo managed to get the postpaid-prepaid differentiation right by introducing per second billing and bundling handsets with its post paid products. MTC has taken the first step in the same direction with the price reductions for its Tango per second. Any current Tango per minute user should move to this flavour of Tango since the new rates make it the cheapest prepaid product of MTC.

Table 8: Average Mobile to Fixed line call rate divided by termination rates (average out of peak, off-peak and off-off-peak)

	Product	Average July 2009	Average January 2011
MTC	Connect 50 Leisure Connect 50 Freedom Connect 100 Leisure	272%	544%
	Connect 100 Active Connect 250 Achiever	233%	467%
	Connect 500	215%	430%
	Connect 1000 Pioneer	196%	392%
	Professional	233%	467%
	Tango	425%	850%
	Fusion 59, Fusion 39, Tango 7 to 12	417%	833%
	Tango Day and Night	417%	833%
	Tango per second	300%	600%
TN	SWITCH easy	185%	370%
	SWITCH time	169%	339%
	SWITCH self1	175%	350%
	SWITCH self2	167%	333%
	SWITCH self3	158%	317%
	SWITCH self4	150%	300%
LEO	all products	255%	510%

Leo and Telecom Namibia have effectively reduced off-net prices. Leo through per second billing and Telecom Namibia through a reduction to N\$1.49. MTC only reduced off-net prices for its Tango per second product. Given MTC's market dominance it may be required to regulate off-net and mobile to fixed-line prices.

Recommendations for NCC/CRAN:

- Start a public discussion process similar to the Interconnection process by requesting formal comments from operators regarding off-net and fixed to mobile price regulation.
- Issue a recommendation to operators for per second billing. Though a recommendation is not binding it may lead to the desired effect in combination with competitive pressure.
- Consider implementing number portability swiftly. It is required in the new act and will allow small operators to compete more fairly and consumers to choose more freely.

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