

## **Business Customers Precluded from the Benefits of Competition:**

### **Some background information**

#### **Introduction**

From the start of liberalization of the telecoms markets in Europe in 1998, national regulators and the European Commission alike have focused their regulatory efforts on such measures which would bring the most benefit to private or residential end consumers. Since then not only prices for telecommunication services have dropped significantly (with a notable exception for calls from fixed lines to mobile customers) but residential consumers today can expect a greater variety of products suitable for their needs. Competition flourished and over time residential consumers had the choice between a variety of alternative operators. This was possible because alternative operators were given technical access to their potential customers via corresponding viable wholesale products.

On the other hand, no significant competition for services for business customers developed. Hardly any specific regulation occurred with a focus on wholesale products which would enable alternative operators to develop services geared at business customers. Rather, these kinds of customers were left to benefit only from the bow wave of the existing regulation in order to get at least some drift of its results.

Admittedly, the initial primary focus on regulating wholesale access services which may be used for creating alternative offers for residential consumers was necessary to give the effects of deregulation a head start and to achieve benefits of competition fast. However, almost 8 years after the liberalization of the European telecoms markets began, a new focus must be created so that also business customers can benefit from the same result to a similar extent. This paper seeks to draw the attention of regulators and policy makers alike on that specific need.

#### **What telecommunication services do residential consumers want?**

Before going into a more detailed discussion, it is necessary to carve out the different requirements and needs which differentiate private / residential from business customers. Generally speaking, residential consumers seek affordable local, national and international voice telephony services as well as broadband internet access. Competition in those areas has always been a matter of price rather than of high quality or complex solutions.

#### **What does an alternative operator need for providing services to residential consumers?**

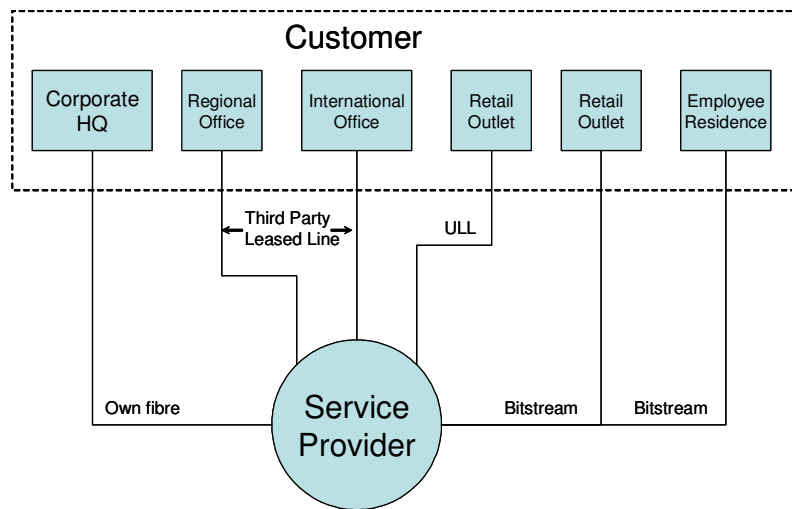
In the fixed line world, offers from alternative operators were made possible in principle by telecoms regulation providing for carrier selection, regulators obligating incumbents to give competitors access to their Unbundled Local (copper) Loops (ULL) and more recently by enforcing at least a resale version of incumbents' retail ADSL services. As a result, residential customers were able to pick and choose alternative operators as their service providers.

#### **What telecommunication services do business customers want?**

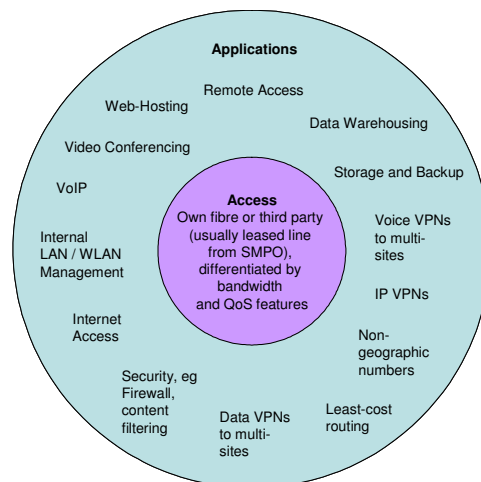
No regulator to date has set forth a specific definition of what would legally define a business customer. For the purpose of this paper, when defining the customer group which is relevant for the business model of pan-European operators we would submit to look at least as a first step at those customers which can be detected without any doubts as business customers, namely those with a certain significant amount of employees and a certain number of branch or home offices that are located geographically in diverse, national and sometimes international regions. These kinds of "business customers" are the ones that attract the most attention from alternative operators who are able to provide national and international services.

These business customers normally request to connect their head offices (e.g. corporate headquarters) with other offices, factory locations or branches in other geographic regions nationally or

other countries, often including home offices, for voice, data and internet access services. The graph below sets forth the different access requirements and the infrastructure that would commonly be used for such customer networks:



Business customers not only request end-to-end connectivity but offers which include a vast, often complex variety of services or applications that run over these customer specific networks. It is not uncommon that business customers outsource their entire telecommunication needs and ask for managed network management, maintenance and service. Customers often purchase by tendering the services they require to the market. Operators then will put together and submit their individual bids, nationally or internationally. The graph below shows possible services that are asked from operators by business customers.



**What does an alternative operator need for providing services to business customers?**

As it can be derived from graph 1 above, it is of utmost importance for alternative operators to be able to reach or access the business customer. In order to be able to offer high qualitative services it is equally important that this access is of high quality which can be controlled and influenced by the operator.

Since it is economically not viable to replicate an incumbent's entire infrastructure, and since alternative third party offers are mostly not available with a full geographic coverage, alternative operators will mainly have to rent any access from the incumbent operator. Since the applications business customers require are complex and run simultaneously, high bandwidth access is the rule.

Often it has been suggested that operators which are serving business customers should use the ULL together with own access products to access their customers. However, this method is not an option in most cases. Reason for this is that business and government customers regularly have

various locations that need to be accessed. Those locations are often spread around the country. Especially with government customers, those locations often are situated in rural areas and therefore out of reach of alternative networks. In addition, there is almost never any customer density around main distribution frames (MDFs) that need to be rented to connect customers via an ULL. Such access can be justified from an economic point of view only if at least more than 200 customers can be connected to one single MDF. As a result, the lease cost for MDFs will almost always prevent an alternative carrier from using this access product to connect business customers as almost never that much (business) customers will be connected to the same MDF. Furthermore, even if numerous MDFs have to be rent, no benefit from the economies of scale will be made due to the constellation described above. It is needless to say that although alternative operators, which are serving business customers, have invested in own fibre, their own network reach does generally not enable them to access all customers that are seeking products of the alternative operator. It has to be stated that even if an alternative operator has own fibre and built out its own (metro) network in a certain city, only a limited number of addresses and locations can be connected directly to the alternative network (in most cases between 5 and 10% of the addresses) as it is in most cases only built out in business districts or central parts of the city. Almost never all parts of town can be made accessible.

As a consequence, the most common access that is needed by alternative operators, which are serving business customers, is the "classic" leased line, in essence the only feasible equivalent of the ULL in the residential consumer market. Due to recent developments in technology and manageability, Ethernet access is beginning to and will likely be in the future the substitute for the leased line access today. VoIP and similar applications will require a bitstream access product which will in an ATM handover version be able to allow an alternative operator to create different service classes and to utilize the own infrastructure in which the alternative carriers have heavily invested. A bitstream access product is also able to substitute an ADSL resale product that is currently offered by incumbents.

As one can derive from the products that are needed to serve business customers, the focus of alternative operators in the business sector is less on the simple price of the service but more on quality and reliability issues. In addition, business customers regularly do need services and products in a timely manner so that delivery times are in their focus as well. As a result, simple resale products offered by the incumbent do not fulfil this requirements as the alternative operator simply resells a product that is (pre-) configured by the incumbent and that does not allow for further quality modifications.

Only high quality services such as Bitstream access with an ATM handover enable alternative operators serving business customers to set their own SLAs and to define their own demands to quality.

### **What do regulators need to do?**

The above described constellation makes clear that the regulatory authorities urgently need to become active to ensure that the existing divide between the success story of residential consumer regulation and business consumer regulation can be closed.

After the first years of opening the telecoms markets for competition regulators around the globe need to refocus on what has been achieved in regulation and what needs to be addressed next. This paper has outlined that business customers so far in almost any jurisdiction have been precluded from the benefits of competition. Although the price for voice minutes has dropped significantly since the market was opened for general competition, the telecoms market now faces new challenges which need to be addressed properly. The old circuit switched voice telephony is about to be replaced by "All-IP" communication including not only data but also voice traffic that soon will be transported in packet-switched networks solely.

As a result, high bandwidth and high quality products and services are key to enable business customers to also participate from the benefits of competition. However, those important key issues will not be reached by price wars. It is far more important that viable wholesale products are avail-

able to alternative operators. Although those products shall primarily focus on business customer's needs such as delivery times and reliability issues it has to be mentioned that nevertheless those services and products must be offered at cost-oriented prices by the local operators having SMP in the respective markets.

In addition, regulators have to broaden their field of activity to regulate not only with a focus on residential but also on business customers needs. This requires that regulators review the markets of the market recommendation of the EU also under aspects whether business customers would benefit from certain remedies. Activities of the regulators have to be shifted away from only focusing on the price residential consumers will have to pay for their needs in telecoms services but will also have to understand that regulation for the benefit of business customers needs a different approach. This new approach has to include a focus on new technological aspects on the one hand (replacement of traditional leased lines but lines with Ethernet interface) and reliability issues on the other hand.

Finally, regulators will need to liaise among themselves around Europe in order to harmonize their different approaches towards business customer regulation and especially to harmonize the different remedies applied upon the same markets. As outgrowth of globalization, business customers tend to demand network solutions provided by one single pan-European operator. Those requests can only be fulfilled in case services and products are available throughout Europe at the same technical and price level. So called national special ways hamper a European harmonized approach in which business customers would benefit from competition in the telecoms markets as well as residential customers.

High quality services need high quality regulation! It is now time to face the new challenge.

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