Symposium on International Roaming

Views of Vodafone Group

1. **Market developments**

2. International roaming is a significant activity for Vodafone, accounting for around 5% of total Group revenues and reflects our broader business. The majority (over 60%) of roaming traffic and revenues is accounted for by business users, the majority of whom are employees of large multi-national companies . The roaming market is relatively mature in Europe and the US, with revenues declining by low single digits in Europe. It is growing modestly in Asia and Africa.

3. Demand for roaming is in many respects a derived demand. That is, the key driver of volumes is the propensity of users to travel internationally. European roaming revenues have fallen or grown as European short haul travel has grown (with budget airlines) and then declined (with economic downturn and cuts in business travel budgets). Global airline travel is forecast to grow by around 5% through 2012, reflecting robust growth in Asia, and China in particular, but weak performance in Europe (and getting worse) and the US.

4. The composition of roaming revenues broadly reflects general trends in mobile composition – data revenues are growing strongly whilst voice revenues erode through price effects (and some substitution by data). Data is about 25% of total revenues, and growing by about 25% a year. Voice is 65% and declining by a little under 10% a year.

5. Roaming prices have fallen very significantly over the past 10 years. It is of course true that roaming services have generated higher margins and contribute proportionately more to profits than domestic services. That said, Vodafone has increasingly pegged its roaming prices to domestic prices through the use of tariffs like Passport which embody the concept of ‘taking your home tariff abroad’. This concept will be extended to other services.

6. I do not believe that policymakers should have any particular difficulty with the idea that retail roaming services should earn a higher margin than other services. In my view this reflects an efficient and proper mapping of the demand curve which our customers present. Some European policymakers seem to think that all mobile services should earn identical margins or that there is some reason, normally founded in vague references to the single European market, why retail romaing prices should equate to prices for domestic services. Like many things in the European debate, this is pure political artifice and has nothing to do with the proper functioning of competitive markets. One feature of debates about international roaming has been the constant confusion between what firms like Vodafone, operating in competitive markets, can deliver and what politicians think might be a desirable output for some reason or another. In most cases the two are fundamentally irreconcilable and no amount of competition will deliver what the politicians want. It is disingenuous to pretend otherwise.

7. Roaming services are clearly part of the retail bundle that our customers buy and, to the extent that the retail market is competitive, our prices are competitive too. It is of course true that the majority of customers (although not enterprise buyers who actually account for the majority of our traffic) do not focus their attention on roaming prices when making their network selection. This is a perfectly rational thing for them to do. I am fine to provide more information about roaming services and prices at the point of purchase (as well as at the point of consumption), but I don't believe that this will fundamentally change the hierarchy of needs which our pricing structures are trying to match. Roaming services will subsidise devices in most markets.

8. Although I think current roaming prices are broadly rational and efficient, rather than being evidence of some kind of market failure, Vodafone has experimented with a large number of pricing models and transparency tools in the past 10 years – far more than our competitors – in an attempt to unlock demand.

9. Part of the problem the industry faces is that years of media and political commentary – and poor management by the industry itself - has led customers to approach roaming with a very defensive mindset. About a third of roamers still turn their phone off and the majority use it less – only 50% or less - than when at home. This means there is a lot of supressed demand. Many customers are in a pretty defensive mindset when travelling overseas anyway. Our research shows that users typically think roaming is more expensive than it actually is – in other words demands is already subdued relatively to what we'd actually expect at current prices. Our first challenge has been, and remains, not lowering prices but communicating the prices we already charge in an effective way. This is a challenge when roaming appears relatively low on our users hierarchy of needs, at least until they are roaming. Many of our operations would say that advertising and marketing budgets yield a better commercial return if invested in promoting particular devices than in promoting roaming tariffs. That said. I'd claim that Vodafone has spent more in marketing international roaming services, and seeking to use this as a basis for differentiation, than any other operator.

10. We've tried several approaches over the years:

    a. flat rate tariffs that apply a single rate across a range of countries, such as the EU, so that users only have to remember one price

    b. 'domestic tariffs plus' which mean that if users are comfortable with what they pay at home they only have to remember how much extra it costs when abroad – thus, for example, our Passport tariff under which users pay another $1 or so per call plus their domestic rate when roaming

    c. Time based rather than volume based tariffs, allowing users to buy data access on a daily, weekly or monthly basis

    d. requiring customers to opt in to new tariffs to ensure that they actually internalise the price message

e. a lot of investment in user interfaces for PCs and smartphones, which allow us to tell users how much they've actually used and to give them much more control over usage in order to alleviate concerns about bill shock

11. We've still not solved this challenge – data usage in particular continues to fall off sharply when users switch from their home to a roaming environment, reflecting bill shock concerns and confusion about tariffs. That is why we introduced daily smartphone roaming tariffs last year at around $5/day (customers don't understand volume but they do understand time and money) which were intended to remove anxiety about data roaming. The results are good but there is still more we can and will be doing in the coming months to unlock demand, particularly amongst smartphone users.

Regulation

12. This brings me to my main criticism of retail roaming regulation, of which we have considerable experience in Europe, which is that it is primarily a consumer protection measure which protects but disempowers users rather than stimulating greater usage or expanding overall welfare. Notwithstanding the efforts of Commissioner Reding and others, the regulated caps that have been applied to European roaming rates did not alter user behaviour because the prices were imposed rather than marketed by the industry or internalised by its customers. Prices went down, consumers paid less, but they did not roam more as a result. The secondary economic benefits of the single market have not been realised y regulation.

13. This is why, on the retail side, Vodafone has been consistently opposed to retail price caps and consistently in favour of sensible transparency measures for consumers. Price caps have not served to stimulate activity in retail voice roaming and are much more difficult to apply to retail data services, which are much more complex and non-linear in nature. The Europeans are just about to try to do so, although I think we will see lots of unintended consequences for consumers and I expect the majority of Vodafone's data roaming customers to opt out of the regulated tariffs onto more suitable commercial alternatives. At the same time, the Europeans have recognised that our 5 year experiment with retail price caps has failed to do anything other than dampen competition in the roaming market, and so we are now looking at alternative 'structural' measures which might do a better job. This is a step in the right direction although also clearly a big step into the unknown. We will have to see how many customers are actually interested in buying international roaming on a standalone basis from somebody other than their domestic service provider.

14. Many of the transparency measures have been more successful. We intend to extend the alerts and the €50 data cut off limits to roaming wherever our customers are in the world, rather than just within Europe. This helps remove worry about data bill shock and unlocks demand. The industry was too slow to address the concerns as mobile broadband roaming began to take off a couple of years ago: excessive bills do not get paid anyway, create large wholesale liabilities

and result in reputational damage for the operators concerned. We are implementing similar measures across all our operating companies.[Is this true?]

Other solutions

15. In my view the experience we have had in Europe over the past decade confirms what we have long known: that regulation can protect consumers but this is often at the cost of innovation and competition. There is no doubt in my mind that competition has been stifled by regulation in Europe. Company resources which previously focussed on differentiation and new services have been diverted to compliance activities as the regulators add new obligations every three or four years when they come to review. Mobile operator IT systems are complex and significant releases have to be included in a carefully managed pipeline: an upgrade to implement regulatory obligations displaces some other new service.

16. There has also been a reduction in corporate activity which might otherwise be an important part of the solution for international roaming. Ten or so years ago when I joined Vodafone there was a great deal of M&A and consolidation activity in Europe as Vodafone acquired the Mannesmann group of companies and then Telefonica acquired O2. Vodafone's pan-European scale created fears that we could internalise and thereby eliminate wholesale margins in roaming and offer much more competitive roaming services as a result. Our competitors persuaded the European Commission to apply regulatory restrictions which dampened our ability to do this for a number of years, but they nonetheless created commercial alliances such as Starmap to build a pan-European footprint of their own. All of this dynamism effectively ended once wholesale regulation was applied to the European market, since regulation removed the need for operators to seek competitive advantage through other means.

17. This has not happened in either the US or in Africa, where we have seen much more M&A and consolidation over the past decade. Retail roaming charges within the US have been largely eliminated because AT&T and others have created their own continental scale networks on which they can now internalise all their traffic. The Africa operators, in particular Zain and MTN, have built up networks with continental scale which allow them to do much the same thing across a large number of borders. This kind of vibrant competitive activity is what we need to safeguard in roaming markets, but what we have effectively killed with price caps in Europe. The European Commission's current attempt to replace price caps with new structural measures which are intended to reinvigorate a degree of dynamism into the market is explicit recognition of this analysis.

18. Ultimately, however, the challenge with roaming is that is symbolic of our desire to travel freely in a shrinking world and is therefore a potential political symbol. Competitive markets won't deliver changes quickly enough for most politicians, whilst the cost of regulation in this area – in terms of foregone innovation and network consolidation – are largely invisible or unquantifiable. The fact that Europe is now trying to remove price caps should give others pause for thought, but continued interest in this market from policymakers is probably inevitable.