Bundling of Handset and Subscription

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Outline

• Terminology
• Bundling of Handset and Subscription
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Bundling:

“Bundling means grouping of various telecommunications services as a package to increase the appeal to potential customers and to reduce advertising, marketing and other expenses associated with delivering multiple services.”
Handset subsidy:

“A mobile handset subsidy offered by mobile operators can be defined as a monetary value, which is given to a customer during the subscription process. The amount of the handset subsidy is the difference between the mobile operator’s purchase price of a handset from a manufacturer and the sale price of the handset to a customer.”
Bundling of Handset and Subscription (1/3)

• Widely used in mobile communications industry

• Why?
  – To respond to consumer preferences and convenience
  – Cut down the number of bills
  – $\text{Price}_{\text{bundle}} (A+B) < \text{Price}_{\text{separate}} (A) + \text{Price}_{\text{separate}} (B)$
  – In mobile industry:
    • Preconfigured handsets
    • Operator branding
    • Volume discounts
“No subsidy” case (e.g. Finland):
- The handset vendor manages multiple retail channels
- The mobile operator focuses on basic services
- Unclear who orchestrates the user experience
Bundling of Handset and Subscription (3/3)

“Strong subsidy” case (e.g. Japan):
- The operator manages services and handsets
- The operator exploits buying power for:
  - brand visibility
  - handset volume discounts
  - handset features and configurations
  - managing content provider

“Strong bundling” case (e.g. Japan):
- Mobile operator
- Handset vendor
- Handset volume
- Service + handset
- End user
Handset Subsidy (1/4)

• Widely used in mobile communications industry and go hand in hand with bundling of handset and subscription
  – A key marketing strategy to attract subscribers and to promote market penetration, i.e. to boost sales
  – A means of lowering the cost of a new subscriber’s entry to the mobile service market
  – One reason for the rapid growth in the mobile handset industry
  – There are markets that have managed to do very well without handset subsidies, e.g. Finland and Italy
Handset Subsidy (2/4)

- The relationship between subsidization and the level of handset sales is hard to prove.
- A more relevant analysis would be to look at the total customer acquisition costs, rather than considering the handset subsidy alone.
  - The prohibition of subsidization does not prevent operators from providing e.g. packs with free airtime.
  - Customer acquisition costs in Finland and Italy are no different from those in other countries where subsidization is permitted.
Handset Subsidy (3/4)

• Pros:
  – Has enabled the mobile operators to raise their subscriptions rapidly
  – Might be considered as a good tool to, in short to medium term, help stimulate the adoption of next generation services, e.g. 3G.
  – If well planned, they can lead to more usage of mobile data services and hence more revenues for the operators.
  – Mobile operators can use handset subsidies for postpaid plans as a way to get their own subscribers to switch from prepaid plans to postpaid plans.
Handset Subsidy (4/4)

• Cons:
  – Usually require a long contract with the mobile operator (usually 1-2 years)
  – Can be extremely difficult for the mobile operator to stop subsidizing handsets after they have started the practice
  – The consumers do not realize the real value of the mobile phone. They regard the handsets as disposable goods!
  – The mobile operators who subsidize handsets need to find ways to recoup the losses from the subsidies. This usually leads to higher tariffs.
Implementation

• Mobile operators usually attempt to capture their new subscribers through agreements that make it difficult to move to another operator.

• Methods:
  – Long term contracts
  – Penalties for braking a contract
  – SIM-locks
  – Amount of subsidy
  – More on postpaid, less on prepaid
Market Status (1/3)

• Europe:
  – Technology neutrality
  – Market-driven, i.e. competition is taking place on the horizontal level
  – Open standards
  – Bundling of handset and subscription, and handset subsidies widely used (except for Finland and Italy)
Market Status (2/3)

- Japan:
  - In general quite deregulated market, but e.g. no MNP and independent regulator authority
  - Vertically integrated, i.e. the mobile operators control almost everything from the handset to the content
  - Strongly branded handsets
  - Large subsidies, up to 90%
Market Status (3/3)

• South Korea
  – Has shown remarkable advancements in mobile communications, both in services and technology
  – Achieved much of this without handset subsidies
  – Development of the South Korean handset subsidy policy from 1997-2001:
    • Phase I: Handset subsidy with an obligatory subscription period (1997 – April 1999)
    • Phase II: Handset subsidy without an obligatory subscription period (April 1999 - May 2000)
    • Phase III: No handset subsidy period (May 2000 –> )
Situation in Finland

• Bundling of handset and subscription currently not possible in Finland (70 §, Communications Market Act (393/2003))

• Regulator currently considering changes
  – Industry interest
  – To speed up the adoption of mobile data

• Opinions from the industry:
  – Only Elisa and Ericsson would want to allow
  – Others either neutral or against
Conclusions

• Allowing bundling of handset and subscription could work as a cure, but only partly
• Relying on only one measure is a too narrow approach
• The Finnish mobile operators need to start looking into the future and realize that competing only with price cannot be a longtime solution
• Why not compete with price for mobile data?
Q&A

Thank you!