The EIDQ Association is an association of member companies offering directory information and related search services across multiple channels including mobile, voice and online. Its members span the entire value chain including service providers, content suppliers, vendors and consultancies. It has 43 member organisations in 23 countries.
The mission of the Association is to promote and support the directory information and related search industry in helping customers to find people, businesses, products and services.
The scope of the Association includes commercial, technical, regulatory and operational issues within the directory information and related search services market, primarily in Europe. It is a non-profit organisation.

Mobile Network Operator Mark-ups to Directory Enquiry Charges
EIDQ Position Paper - August 2011

1. Executive Summary

This paper highlights the retail margin mark-ups applied by Mobile Network Operators (MNOs) to Directory Enquiry (DQ) services as an area of concern in order to establish that the issue is of sufficient concern that regulatory intervention is required.

The paper outlines the two principal methods by which DQ services and the resulting MNO retail charges are set, namely ‘bottom-up charging’ and ‘top-down charging’. It describes the features and disadvantages of both methods and concludes that whilst they are very different, they both give MNOs an unrestricted ability to determine their own retail margin mark-up.

International evidence demonstrates that both the retail charges and mobile retail margin mark-ups vary between different countries, but in almost every case the mobile network mark-up in a particular country is higher, sometimes considerably higher, than the equivalent fixed network mark-up. It is only where regulation of the retail margin mark-up/origination charges exists (usually in relation to fixed operators) that those charges are kept to a reasonable level, demonstrating that regulation is the only effective means of addressing the problem.

The current situation has adverse impacts for consumers, businesses that want to be accessible via DQ, as well as for the DQ providers themselves.

The EIDQ is not proposing a specific remedy to address the situation because there are a number of factors to consider, which might mean that there is no *one-size fits all* approach which is appropriate in all cases. However, there are two potential options which could be considered.

Firstly, a defined market for DQ (or value added service) call origination, which could lead to a finding that the MNO had SMP (Significant Market Power) in the market and regulation was therefore required.

Secondly, a separation of access and service charge, including an access charge cap to limit the mark-up and prevent excessive retail prices. It could also be possible to have an option which combines these two.

A firm commitment to resolve this issue would benefit the consumer as the pricing for DQ calls would then be more transparent and it would therefore remove the uncertainty associated with what the eventual bill might be for a consumer when they dial a 118 DQ number or any other national short code dedicated to DQ services. With such price transparency, competition could also be stimulated with the potential for more affordable DQ services.

This position paper focuses on issues considered significant and relevant from the perspective of the directory information and related search industry. It does not necessarily reflect the official position of all EIDQ Member companies.

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2. Overview & Objectives

This paper has two principal objectives:-

- to highlight as an area of concern the retail margin mark-ups applied by mobile network operators (MNOs) to directory enquiry (DQ) services
- to establish that the issue is of sufficient concern that regulatory intervention is required, as the evidence demonstrates it will not be resolved by other means

The paper outlines the two principal methods by which DQ service charges and the resulting MNO retail charges are set and the disadvantages of each. Crucially, it identifies that, whilst the charging methods are quite different, in both cases the MNOs have an unrestricted ability to determine their own retail margin mark-up and that this has an adverse effect both on DQ providers as well as consumers.

The paper does not propose a single solution to resolve the problem. EIDQ recognises that there are a variety of factors to consider and also that every market is different, which may mean that no one option is appropriate in all member states. However, we do provide a couple of options which could provide the basis for a way forward.

It should be noted that fixed incumbent operators are generally regulated to limit the revenue share which they receive, so few problems arise. Whilst there may sometimes be issues with high unregulated mark-ups being applied by non-incumbent fixed operators, that is outside the scope of this paper which solely addresses MNO mark-ups

3. International Market Comparisons

We outline in the following section the two alternative methods by which DQ service charges and related retail charges are set. However, it is useful in advance to look at the evidence from various countries as to the margins which currently exist. The relevant graphs are included in the annex.

The evidence demonstrates that both the retail charges and mobile retail margin mark-ups vary between different countries. However, in almost every case, one fact is immediately clear, namely that the mobile network mark-up in a particular country is higher, sometimes considerably higher, than the equivalent fixed network mark-up.

The simple reason for this is because incumbent fixed networks are generally regulated to limit the revenue share which they receive and non-incumbent fixed networks invariably enter into reciprocal charging arrangements and thereby mirror those regulated revenue shares.

The couple of exceptions to this general rule further underline the point. For example, EIDQ's research amongst its members revealed that one European country in which mobile mark-ups do not exceed fixed mark-ups is Austria and this is only because in Austria mobile origination charges are regulated as part of Austria´s interconnection regime. Another example is the UK, where the reason why the retail mark-up of one fixed network significantly exceeds the mark-up of the incumbent (and indeed the MNOs) is because that fixed network does not reflect the incumbents regulated rates.

A different but interesting example is Finland, where the origination charges are communicated and applied separately from the premium rate service charge. The third party billing fee is the same among the fixed and mobile network operators, mainly due to generally standardised interconnection practices. Thus, the situation in Finland is similar to the approach that Ofcom has proposed in the United Kingdom (see Ofcom's "Consultation on Simplifying Non-Geographic Phone Numbers", 16 December 2010). In Finland however, this approach requires an operator status for the DQ provider.

The conclusion of this evidence is very clear. That is, only where regulation of the retail margin mark-up/origination charges exists, are those charges kept to a reasonable level. Where it does not exist, the charges are inevitably higher than they would otherwise be. Whilst that is regrettable, it demonstrates that regulatory intervention is the only means of addressing the problem.

4. Methods of DQ Charging

In order to understand the harm which these high MNO mark-ups cause, it is first necessary to understand the different charging methods which are adopted. Broadly, there are two ways in which MNO retail prices for DQ services may be set:-

- ***Bottom-up charging*** – the DQ provider sets its wholesale service charge and the MNO adds an additional mark-up to determine the price which consumers actually pay.
- ***Top-down charging*** – the DQ provider chooses a retail price which consumers pay and the MNO subtracts its revenue share from that amount, leaving the DQ provider with the remainder.

5. An area of concern

Whilst the bottom-up and top-down approaches represent quite different ways of setting DQ retail charges they both present significant difficulties for DQ providers.

As the provision of DQ services is labour intensive, these difficulties directly impact the service providers ability to provide employment, often in urban areas with above average rates of unemployment.

i. *Bottom-up charging*

This method of charging gives the DQ provider no control over the price which customers actually pay. This means that the MNO has an unlimited ability to increase those charges without the consent of (or even notice to) the DQ provider that is actually providing the service.

There are several adverse consequences which result from this charging method:-

- retail charges can be increased to an excessively high level leading to clear consumer harm
- those high charges have a hugely detrimental effect on customers willingness to call and the resulting decrease in call volumes reduces the revenues of DQ providers
- if the charges are set at a prohibitively high level, consumers are effectively denied access to a service which would otherwise be of great value to them
- as DQ providers have no control over retail charges, they are unable to compete on price and this lack of competition has further adverse consequences for consumers
- as DQ providers have no control over retail charges, they cannot advertise them, which reduces consumer pricing transparency and therefore consumer harm. For DQ providers, this is reflected as reduced willingness to call.

ii. ***Top-down charging***

Although this method of charging gives DQ providers control over retail prices, they normally do not have control over their own service charges, as a result of the MNO having the freedom to determine its own retail margin. This produces various distortions and adverse consequences:

- by subtracting its margin from the retail price set by the DQ provider, the MNO is able to take money directly from the DQ provider
- this means that where the DQ service provider needs to increase the charge in order to innovate or improve its service, the MNO will receive a windfall percentage benefit of the new charge, which it has done nothing to earn
- as a result the DQ provider either has to put the retail price up higher than it would wish to do (in order to compensate for the MNOs increased share) or be discouraged from making the necessary innovation or investment
- the MNO is unrestricted in its ability to decide how much of the retail charge it keeps for itself, which means the DQ provider does not control its own service charge, which in turn creates significant risks and uncertainties
- significant market distortions occur if the MNO does not set a non-discriminatory margin applying to all DQ providers
- if one particular MNO sets its margin at an excessive level, it would not be economically viable for the DQ provider to continue to allow incoming calls from that network without increasing the overall retail price, but that increased retail price will be charged to all customers on <u>all</u> networks.
- a single MNO (or group of MNOs) should not be able to distort the market (and determine the financial viability of a service) by affecting the price at which that service is charged on other networks
- in this situation, blocking access from one network setting an excessive margin is highly undesirable, as it:-
    - would be detrimental to the DQ service provider's brand and marketing
    - undermine the principle that all numbers should be accessible from all networks
    - run contrary to interconnection and network access principles, whereby any user of a publicly available telephone service should be able to connect with any user or service provider of a different public network operator

6. Remedies

A firm commitment to resolve this issue would benefit:-

- the consumer as DQ calls would become more affordable
- the local businesses as they would be more accessible through increased DQ call volumes
- the DQ provider as it would allow more transparency and predictability for business planning.

At this stage, EIDQ is not proposing a specific remedy to address the situation. There are a number of factors to consider, which might mean that there is no *one-size fits all* approach which is appropriate in all cases. For example, the different charging models, the margins currently earned, the level of competition in the market, as well as the particular approach favoured by national regulators are all matters that need to be considered

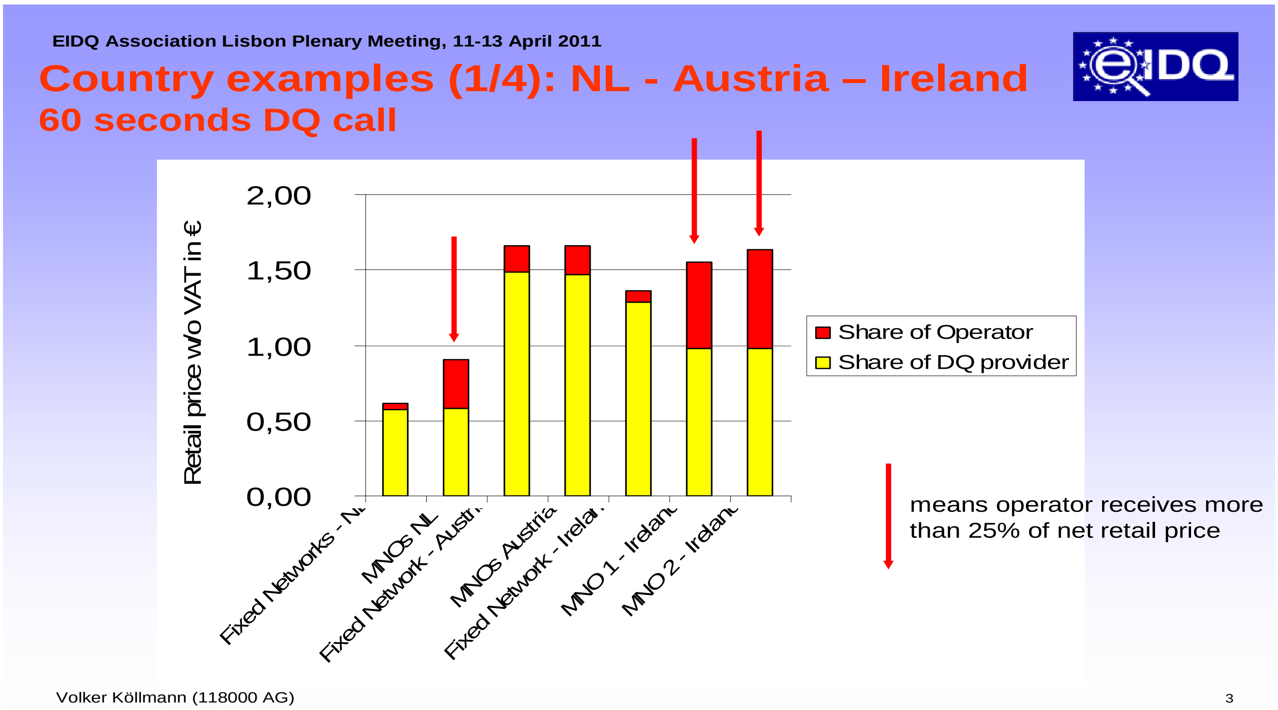
However, we set out below some potential ways in which policy makers and regulators might consider:-

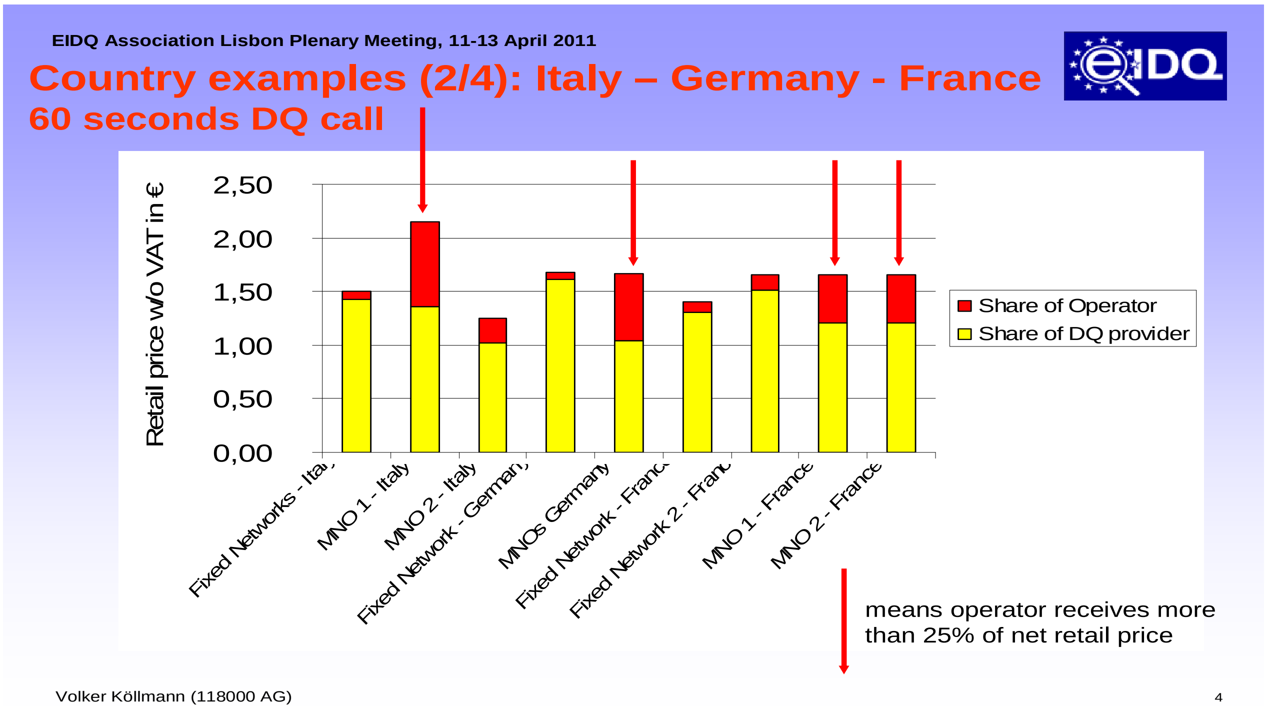
- *A defined market for DQ (or value added service) call origination* – if such a market were to be defined, one might find that all MNOs had SMP in that market (as they do in the mobile call termination market). Consequently, regulatory obligations would be imposed, most obviously caps on their retail margin mark-up. Cost orientation requirements should be applied to both access and billing charges.

- *A separation of access and service charge* – forcibly separating the MNO's access charge from the DQ provider's service charge would increase both competition and transparency in the interests of consumers. The access charge would need to be controlled (directly or indirectly) in order to limit the mark-up and prevent excessive retail prices.

The EIDQ Association believes that either approach could result in significant improvement in many markets. Also, a combination of the two remedies, the proportion of which should be assessed according to national market characteristics, could be an efficient way forward in some Member Countries.

Annex





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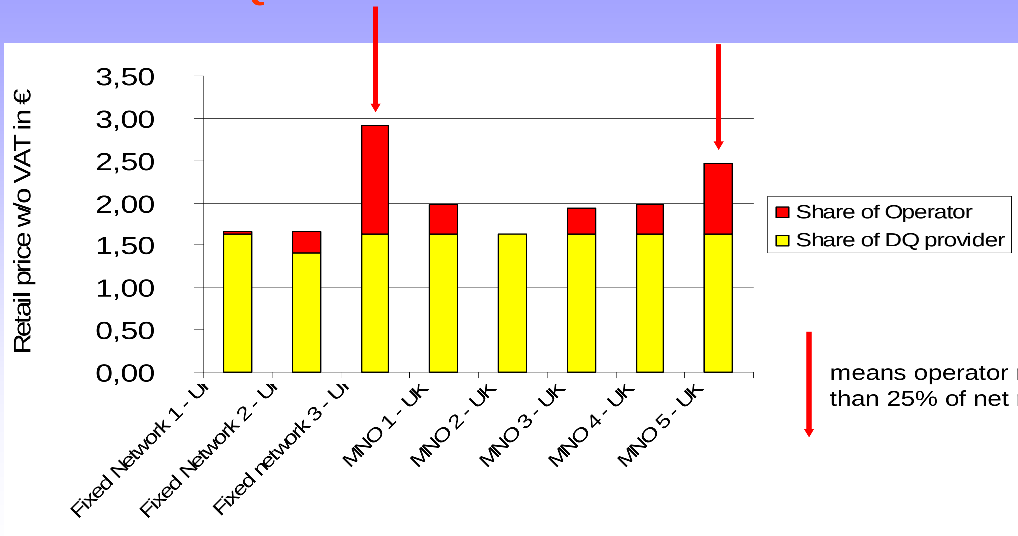
EIDQ Association Lisbon Plenary Meeting, 11-13 April 2011

Country examples (3/4): UK – "high-price DQ"
60 seconds DQ call



means operator receives more than 25% of net retail price

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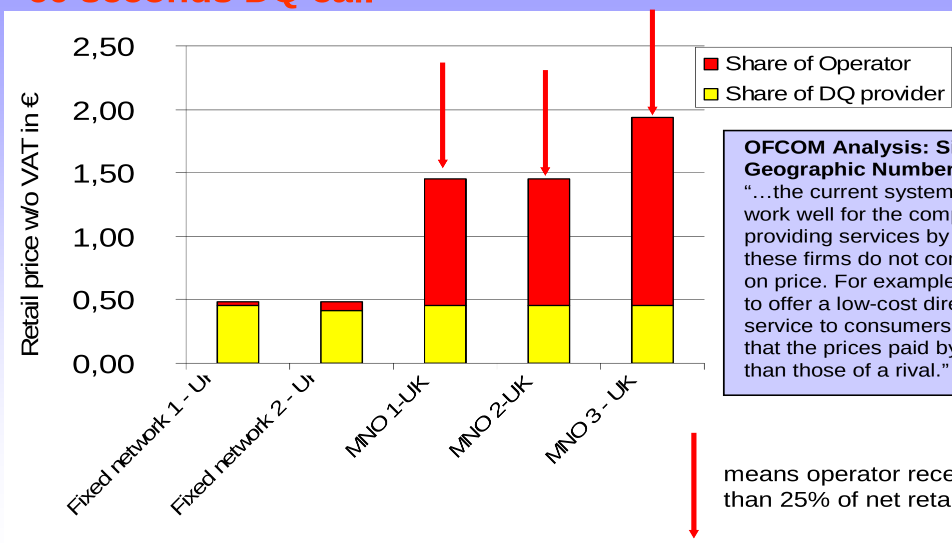
EIDQ Association Lisbon Plenary Meeting, 11-13 April 2011

Country examples (4/4): UK – "low-price DQ"
60 seconds DQ call



OFCOM Analysis: Simplifying Non-Geographic Numbers, 16 Dec 2010):
"…the current system does not appear to work well for the companies being called (or providing services by means of the call)… these firms do not compete with each other on price. For example, a company wishing to offer a low-cost directory enquiries service to consumers is unable to ensure that the prices paid by consumers are lower than those of a rival."

means operator receives more than 25% of net retail price

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