

# Benchmarking Manx Telecom's pricing

## December 2004

# Preface

- This paper summarises the results of a benchmarking analysis of Manx Telecom's fixed and mobile tariffs undertaken in November 2004 by Pure Pricing, an independent London-based consulting firm specialising in telecoms industry pricing.
- The primary object of the study was to compare Manx Telecom's tariffs for products most commonly used by businesses with the tariffs in other offshore centres with which the Island competes for inward investment.
- A secondary object was to provide an update of the tariff analysis undertaken by Interconnect Communications (ICC) for the Isle of Man Government in 2001. The ICC study included both business and residential tariffs.
- The data analysis was undertaken by Pure Pricing using public domain information from Manx Telecom and from a number of fixed and mobile telecoms operators in the UK, Eire, Jersey, Guernsey and Gibraltar.
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In 2001, InterConnect Communications Ltd (ICC), a UK-based consulting firm, carried out a review of Isle of Man telecommunications sector policy for the Communications Commission. This review included an assessment of Manx Telecom's fixed and mobile tariffs.

- ICC benchmarked Manx Telecom's fixed tariffs against tariffs in six large European markets (the UK, Ireland, France and Germany) and mobile tariffs against the four UK mobile operators: One 2 One (now T-Mobile), Orange, Vodafone and BT Cellnet (now O2) and four "small market" mobile operators: Jersey Telecom, Guernsey Telecom and Gib Tel.
- From this benchmarking ICC drew the following general conclusions regarding Manx Telecom's pricing (*ICC Final Report July 2001 Executive Summary Pages 5 and 7*):
  - "we do not find the [Pronto] tariffs overall, to be excessive"
  - "in general terms, members of the public agreed that Manx Telecom's services were good although perhaps expensive"
  - "in some areas Manx Telecom's tariffs do appear to be high"
- In its detailed analysis ICC painted a mixed picture, drawing attention, for example, to low access line rental tariffs (*ICC Main Report Page 65*), off-peak fixed-line local calls (*page 66*) and peak-rate mobile to fixed calls (*page 73*) but high peak-rate fixed line local calls (*page 66*) and off-peak mobile to fixed calls (*page 73*).
- The comparison of mobile tariffs with other small mobile operators also produced mixed results with Manx Telecom shown to have relatively low peak-rate calls tariffs but relatively high monthly subscription charges and off-peak call tariffs (*page 78*).

The ICC report also considered the quality of the services provided by Manx Telecom drawing the following conclusions:

"During the consultation process users from both the business and residential sectors confirmed that Manx Telecom provides a very high quality of service. Indeed the quality of telecommunications on the Island has been cited by one large business customer as being a major factor in the decision of that business to locate to the Isle of Man." (ICC Report April 2001 page 60)

"Throughout our study we have heard very few complaints concerning the quality of service provided by Manx Telecom. On the contrary, it has been highly praised" (Page 65)

"In the final analysis, we consider Manx Telecom to be an asset of IoM PLC..." (Page 66)

It is now over three and a half years since the ICC report was produced and much has changed in the global telecoms industry and in the Manx Market with prices of many products falling while operators commit to large scale capital investment programs in both fixed and mobile networks

- In developed telecommunications markets around the world, both fixed and mobile call tariffs have fallen driven by competition, technological innovation and regulatory developments
- Fixed network operators who had not already done so – eg Eircom, have increased their access line rental tariffs in line with underlying investment costs.
- In mobile telecoms, operators in competitive markets now in general offer packages with bundled voice call minutes and/or text message.
- In developed markets, ADSL and other broadband access technologies are taking over from dial-up as the preferred means of accessing the Internet. Increasing broadband market penetration has been a primary objective for governments and for telecoms operators. Higher broadband take-up has been driven by lower retail prices enabled by falling network technology costs
- Mobile operators in developed telecoms markets are making substantial capital investments in 3<sup>rd</sup> Generation mobile networks while fixed operators are moving towards “Next Generation” fixed networks which will utilise Internet technology to provide a wide range of voice and data service

Manx Telecom have responded to these developments by reducing call charges and broadband (ADSL) monthly tariffs but have not changed access line rental tariffs for many years. This tariff is now very low compared with benchmarks (see pages 7 and 10 below)

Manx Telecom is commencing two very substantial capital programs covering an advanced 3<sup>rd</sup> Generation HSDPA mobile network and an integrated Next Generation fixed network. These investments will give the Island one of the most advanced telecoms networks in Europe.

The company is also working with the Manx Government on the implementation of an integrated voice and data network connecting all Government sites (the Connect Mann project) and is deploying advanced telecoms technology in support of Government inward investment initiatives, particularly in the e-gaming area.

Against this background, the appropriate level and structure of pricing remains one of the most complex issues facing Manx Telecom.

- Late in 2004, Pure Pricing, a London-based consulting firm working exclusively in the area of telecoms pricing, was commissioned to undertake a detailed benchmarking of Manx Telecom's prices
- The object of this review was to update the picture presented by ICC and also to focus on the competitiveness of telecoms pricing on the Island compared with other offshore financial centers against which the Island competes for international business.
- The review compared public domain pricing information from Manx Telecom with the corresponding data from a number of fixed and mobile telecoms operators in the UK, Eire, Jersey, Guernsey and Gibraltar.
- Jersey, Guernsey and Gibraltar were chosen because they compete directly with the Isle of Man for inward investment. The UK and Eire were chosen as the two large in closest proximity to the Isle of Man. Both Eire and (to a lesser extent) the UK also compete with the Island.
- The UK telecoms market is the most visible to Manx businesses and consumers and is one of the world's most competitive although the prices paid by businesses in the UK for telecoms services are not as low those in some liberalised European markets (Ofcom The Communications Market 2004 Appendix 3 – pages 23-24)

Although this report focuses on Manx Telecom's pricing, It should be noted that pricing is just one aspect of the overall service which the company provides to its customers.

As the ICC report confirmed, for business telecoms customers in particular, service quality is at least as important as pricing. For the financial services and technology companies which account for a large proportion of the Island's economy, access to reliable world-class telecoms services is business critical and a major factor influencing decisions to locate on the Island.

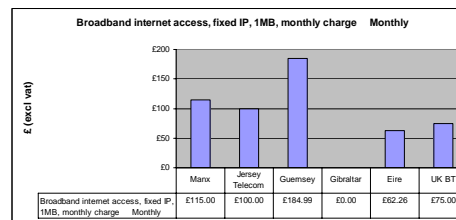
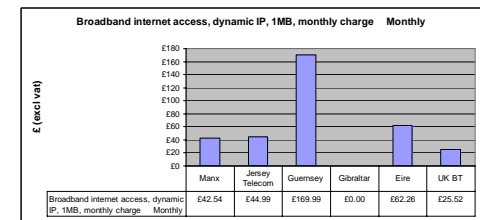
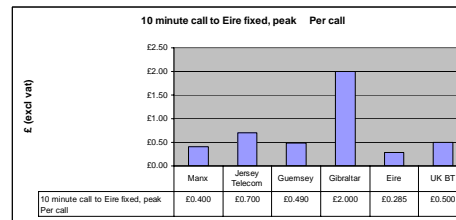
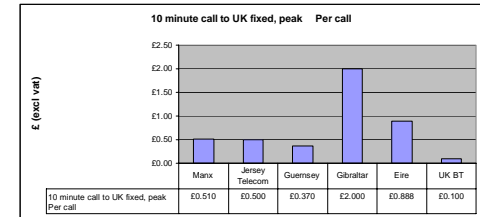
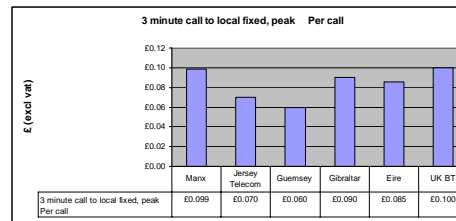
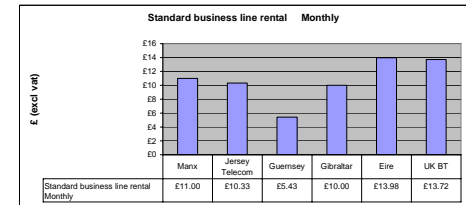
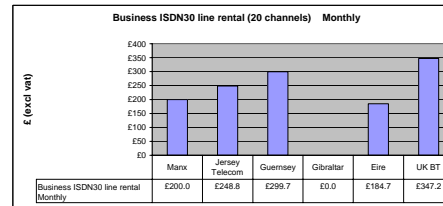
For demanding business customers, particular considerations include resilience, performance and the responsiveness and quality of installation and repair services.

In each of these areas, the Island scores highly. For example:

- Manx Telecom's on-island fibre network and the two self-healing fibre optic cable rings connecting the Island to Britain and Northern Ireland (owned by BT and Cable & Wireless) together provide a level of resilience not available in most other offshore centres.
- Manx Telecom's offers a range of wholesale ADSL products (used by ISPs on the Island to provide business and residential broadband services) which are configured to provide higher performance than corresponding products in the UK.

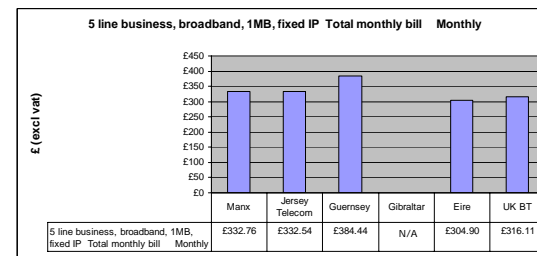
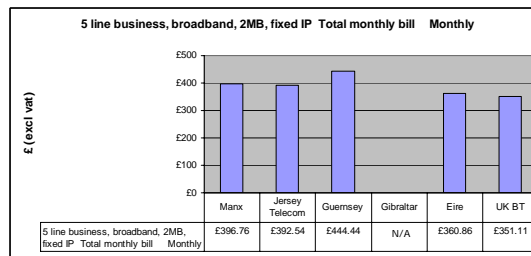
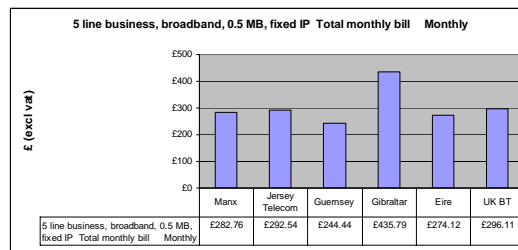
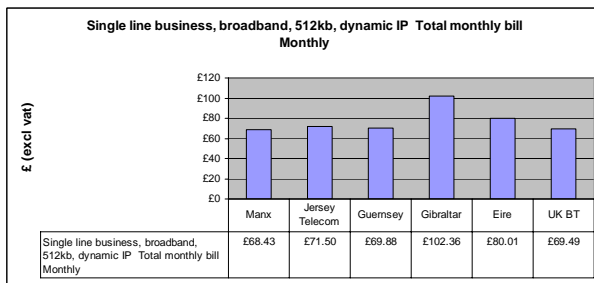
Main conclusions from Pure Pricing study: Business fixed line tariffs (1/2)

- Overall, Manx Telecom's business tariffs compare favourably with the international benchmarks. However there is some considerable variation across the product range with some products being relatively cheap and others relatively expensive
- Business access line rental products (including ISDN30) come in the middle of the range of benchmarks
- Peak-time calls to local fixed line numbers are relatively expensive, particularly for longer time durations but calls to local mobile numbers are relatively cheap
- Standard Peak-time Calls to the UK, Eire and the USA (taken as a representative "low cost" international destination) are relatively cheap
- Dynamic IP ADSL access (used by small businesses and residential customers) is relatively cheap compared with all benchmarks other than BT
- Fixed IP ADSL access (used by larger businesses) is relatively expensive



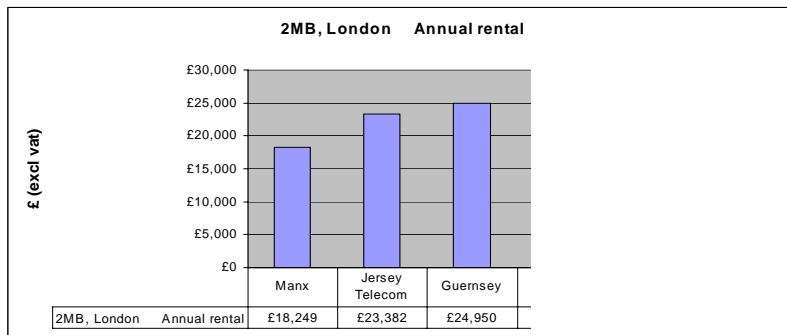
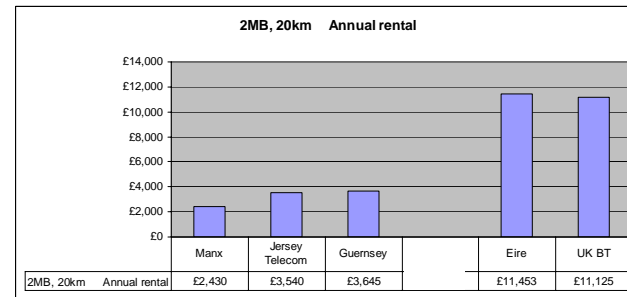
Main conclusions from Pure Pricing study: Business fixed line tariffs (2/2)

- Representative business bills (line rental, ADSL access plus calls basket) for small businesses using a single access line compare favourably with benchmarks
- For larger businesses, representative bills (taking for illustration, a business using five access lines and running an email server) are more expensive but in no case is Manx the most expensive operator

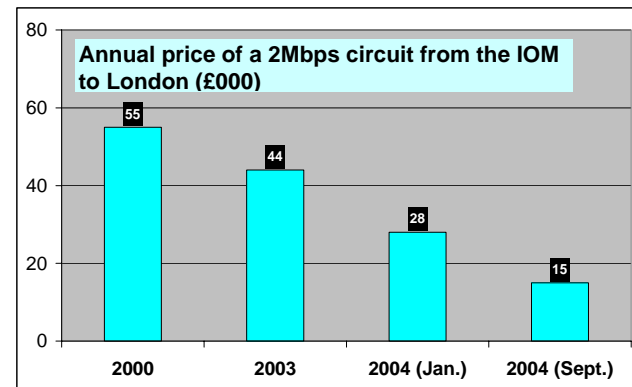


Main conclusions from Pure Pricing study : Business fixed line tariffs – leased circuits

- For 2Mbps leased circuits up to 20Km, MT is cheaper than the benchmarks
- For 2Mbps leased circuits to London, MT's prices have fallen significantly in recent years and MT is now cheaper than Jersey and Guernsey (Gibraltar and Eire benchmarks not available; BT not-comparable)
- For circuits to London, Manx Telecom competes with a number of other providers both on and off the Island including Cable & Wireless, BT and Domicilium

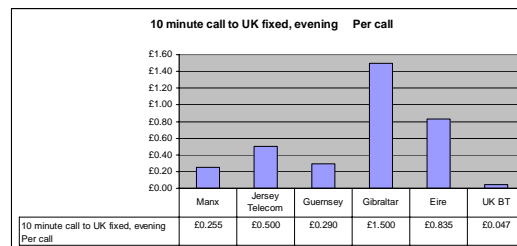
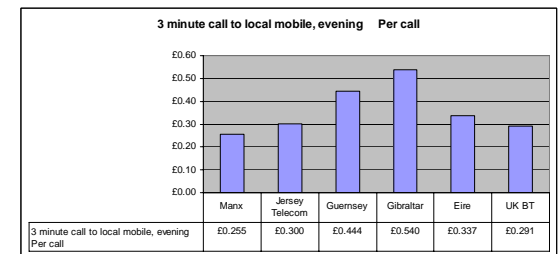
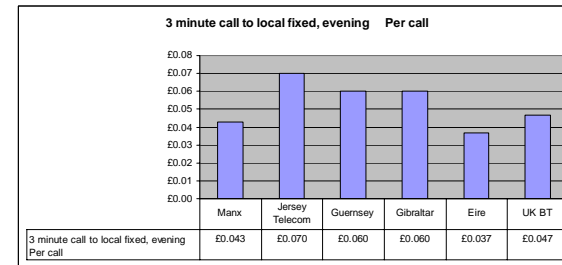
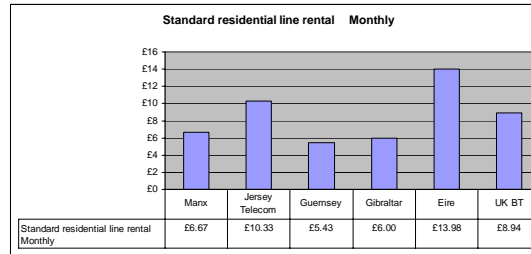


Note: the price of £18,249 shown above is made up of the IOM-London circuit charge of £15,000 plus London local circuit charges of £3,249



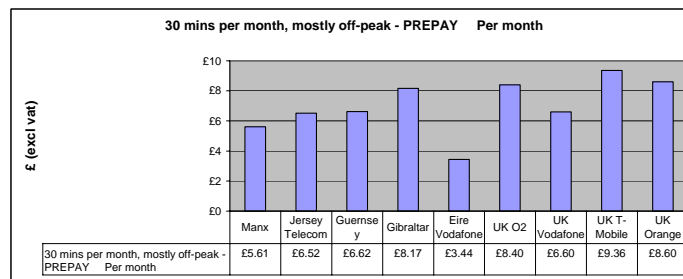
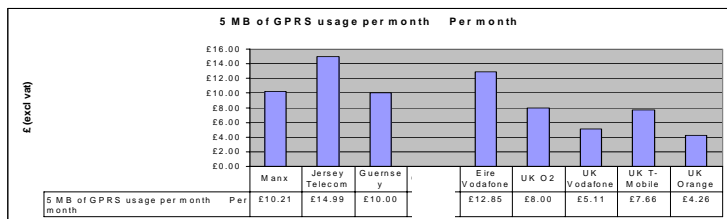
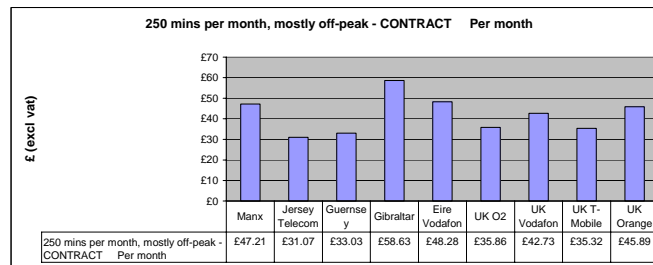
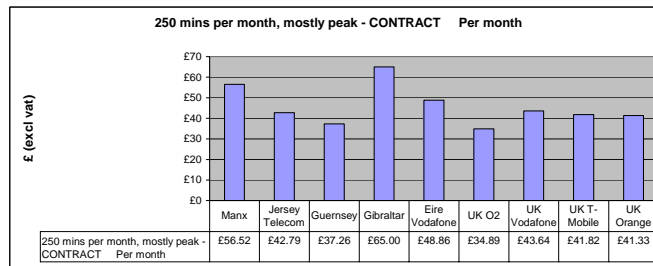
Main conclusions from Pure Pricing study : Residential fixed line tariffs

- The Manx Telecom’s residential access line tariff is very cheap compared with Jersey, the UK and Eire. Guernsey and Gibraltar are somewhat cheaper than Manx.
- Off-peak calls to local fixed and mobile numbers are on a par with or cheaper than the benchmarks but for longer peak rate calls to fixed line, Manx is considerably more expensive because of the per minute charging structure
- Off-peak calls to the UK are cheaper than all the benchmarks other than BT
- Manx Telecom’s dial-up Internet access product is relatively expensive but un-metered internet access is relatively cheap
- Representative monthly residential bills (including a basket of calls) are relatively cheap (partly because of the impact of the monthly rental)



Main conclusions from Pure Pricing study: Mobile tariffs

- Manx Telecom’s contract tariffs are relatively high (only Gibraltar’s are higher)
- Pre-paid tariffs are relatively low (for a 30 minute per month customer only Eire is lower)
- Manx Telecom’s calls to the UK and roaming charges from the UK are low compared with the other non-UK operators in the comparator group
- Manx’s international calls and Eire roaming charges are somewhat higher than the charges of UK MNOs
- The benchmarks show much variation in GPRS pricing. Manx’s GPRS pricing is mid-range.

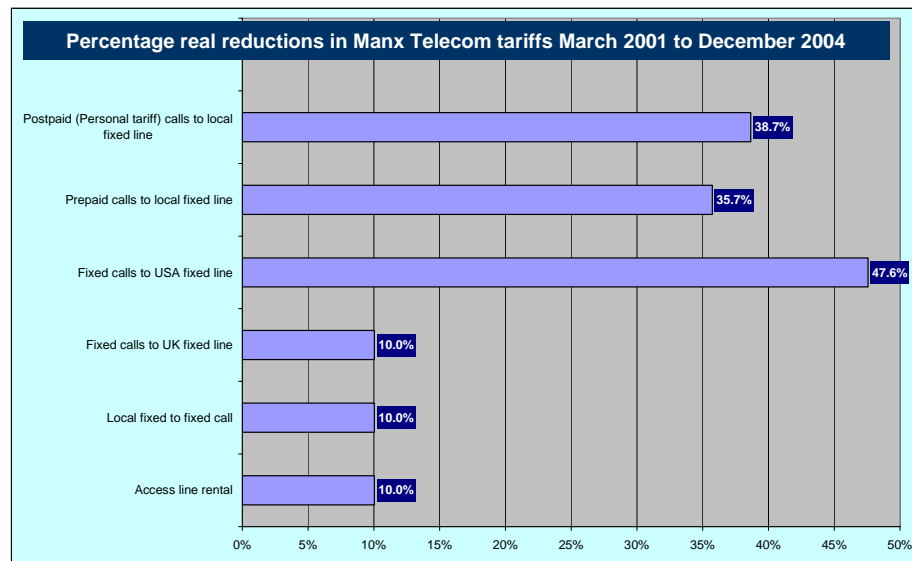


Since the ICC report was published in 2001, Manx Telecom's main fixed and mobile tariffs have not been increased (despite relatively high levels of general price and wage inflation) and in some areas have been significantly reduced, resulting in substantial reductions in real tariff levels...

Real tariffs for post and pre-paid mobile local calls and international calls have fallen significantly over the period reflecting the impact of large reductions in nominal tariffs.

For those products where nominal tariffs have remained constant over the period (eg the access line rental tariff), real tariffs have fallen by 10% reflecting the increase in the Manx retail price index over the period.

Since 2001, Manx Telecom has also introduced a business discount scheme (not included in the figures shown on this chart) which provides discounts of up to 20% on voice calls by business customers



Progress in telecoms pricing was confirmed in a recent report for the Manx Government on e-commerce strategy by Charteris, a UK consulting firm

**“There has been very good progress on telecoms and infrastructure**

We can see some very big steps forward here, in an area which was, in 2000, somewhat problematic. .... and we have seen a much more positive view of MT's service quality and costs. There is much more of a can-do, partnership atmosphere today, ... we still have some areas of concern on costs, but overall much has been achieved.”

(e-Business Strategy – a three year review, Charteris 21 September 2004)



Manx Telecom's tariff roadmap addresses the issues identified in the Pure Pricing study and ongoing feedback from customers. It is based on four guiding principles.....

1. **Choice:** - eg the introduction of new rental packages – the first package to be introduced early in 2005 will offer free off-peak local calls in return for a higher line rental. It will be available to both business and residential customers.
2. **Simplicity:** - eg moving away from “time of day” pricing – time of day pricing for international calls was removed at the end of 2004
3. **Supporting the “e-Island”:** eg lower broadband prices – Manx Telecom's broadband access (ADSL) prices were reduced in January 2004 to under £1 per day and further reductions are under active consideration. Capacity prices have also seen substantial reductions (see graph on page 9)
4. **Competitiveness:** eg lower call prices for key destinations – in November 2004 significant price reductions were made to fixed and mobile calls to Spain and Portugal and further similar reductions are planned

Future changes in pricing and product pricing currently being progressed by Manx Telecom include the introduction of new postpaid mobile packages; new GPRS and new retail and wholesale ADSL pricing and further reductions in international call tariffs.