

Authority for
Consumers & Markets



Scoping the market for business communications

Findings from the Dutch market

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The Dutch business markets











Market view

- ✓ Market players active on various segments with various business models
- ✓ Transition towards modern techniques and infrastructures (IP-based)
- ✓ Many investments in fixed and mobile and business solutions

Regulatory view

- ✓ Market definition
 - ✓ Separation between business (HQ) and residential (LQ) market
 - ✓ Market is national in scope

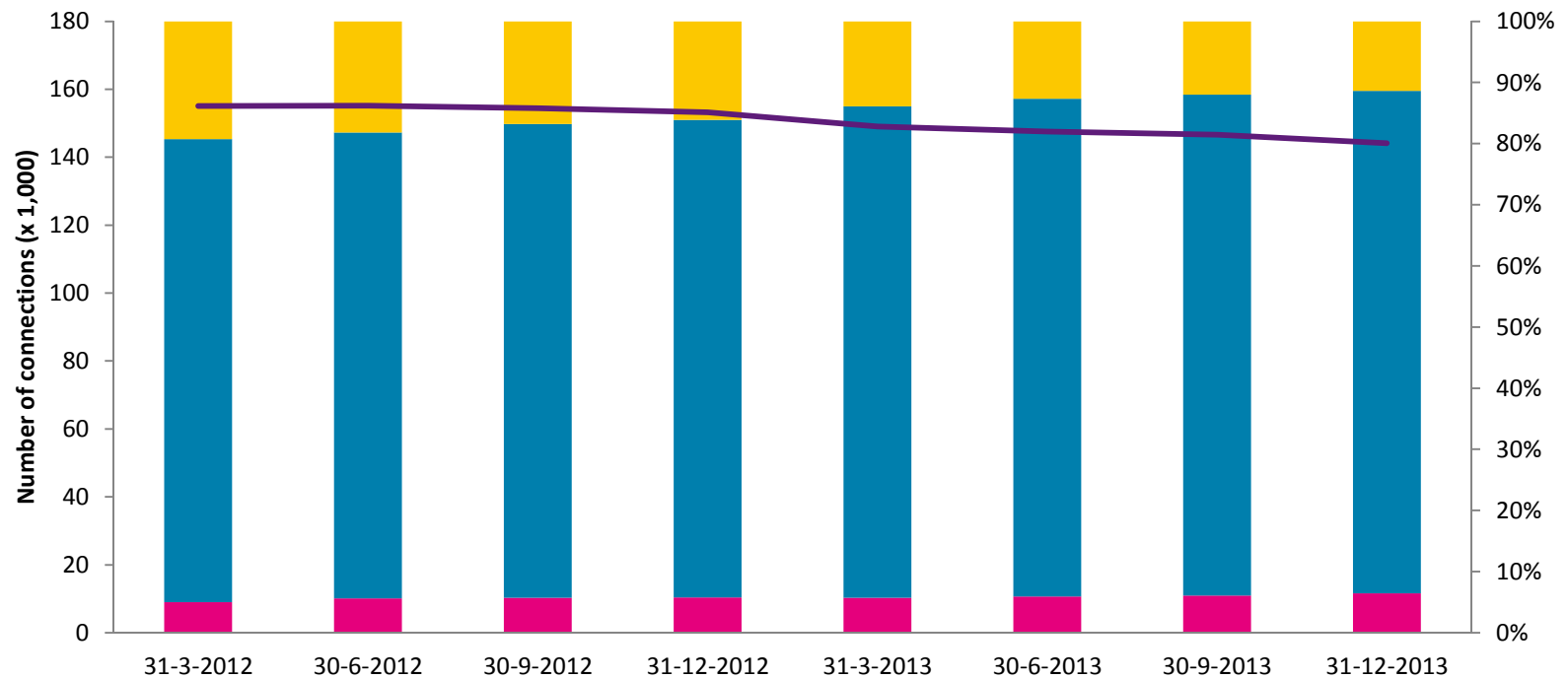
Business market players

Own access network	ULL-based	WBA-based
  		     

Business market developments

#1 The number of leased lines is decreasing

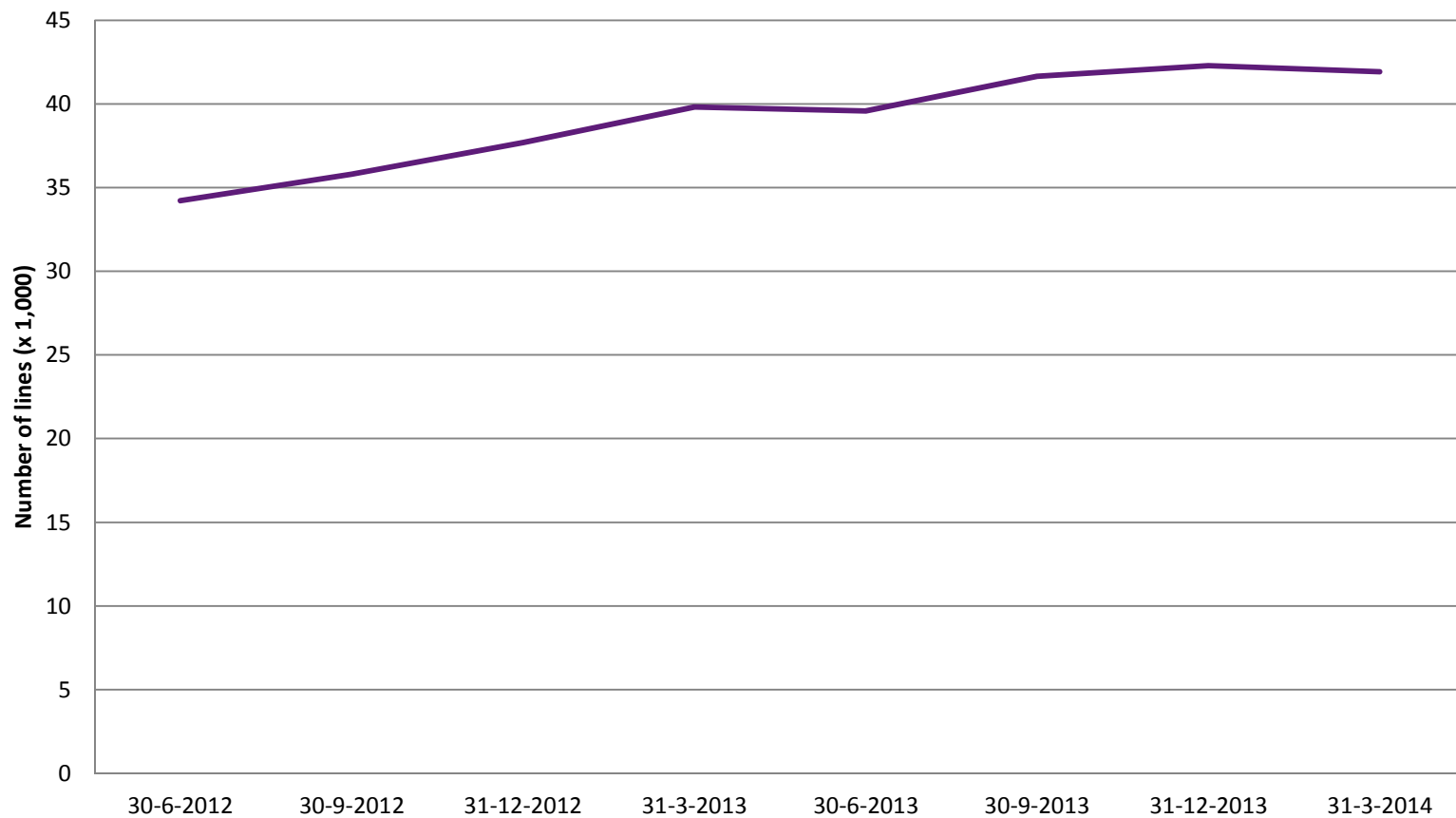
Broadband and leased lines: retail business network services



	31-3-2012	30-6-2012	30-9-2012	31-12-2012	31-3-2013	30-6-2013	30-9-2013	31-12-2013
Traditional leased lines	19%	18%	17%	16%	14%	13%	12%	11%
Datacom	76%	76%	78%	78%	80%	81%	82%	82%
Dark fiber	5%	6%	6%	6%	6%	6%	6%	6%
Retail business network services (x 1.000)	155	155	154	153	149	148	147	144

#2 The number of fiber connections is increasing

Broadband and leased lines: Retail business active fiber connections



Regulatory Framework

LLU/VULA
(FttH, MDF and SDF access)

High-quality WBA +
wholesale leased lines

Low-quality
WBA

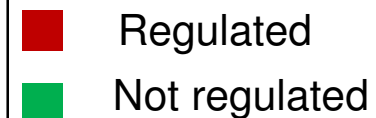
Leased lines, IP VPNs,
Ethernet VPNs, dark fiber
and Internet VPNs

Internet access
services



✓ Additional regulatory measures include:

- ✓ Tariff differentiation prohibition
- ✓ Margin squeeze prohibition
- ✓ Transparency obligation
- ✓ Nearnnet obligation (fiber)



Near-net obligation (fiber)

- ✓ Near-net obligation: obligation to provide near-net access (dig <250m) to wholesale customers
 - ✓ Closest supplier can offer cheapest connections → Large advantage for incumbent
 - ✓ Unconnected users constitute a large part of the total potential market
 - ✓ Competition for *unconnected* end-users as well as connected users
- ✓ Danish case: near-net FttH
 - ✓ European Court of Justice found that Danish regulator could require TDC to dig <30m at request of competitors

The market for high quality WBA and leased lines

Product market

- ✓ Distinction between low and high-quality WBA (boundary at oversubscription of 1:20)
- ✓ High-quality WBA and wholesale leased lines belong to the same product market



Geographic market

- ✓ Similar competitive conditions
- ✓ Regional differences not large and durable enough → Market is national in scope

High-quality (>1:20) vs. low-quality WBA (<1:20)

- ✓ Oversubscription of 1:20 corresponds with other factors:
 - ✓ Products based on ATM offer a minimum oversubscription of 1:20
 - ✓ Correlates with SLAs, availability guarantees
 - ✓ Products for business use vs. residential use

- ✓ However, times are changing
 - ✓ ATM-based products are being replaced by Ethernet-based products
 - ✓ Quality of the internet improves
 - ✓ Use of internet VPNs increases

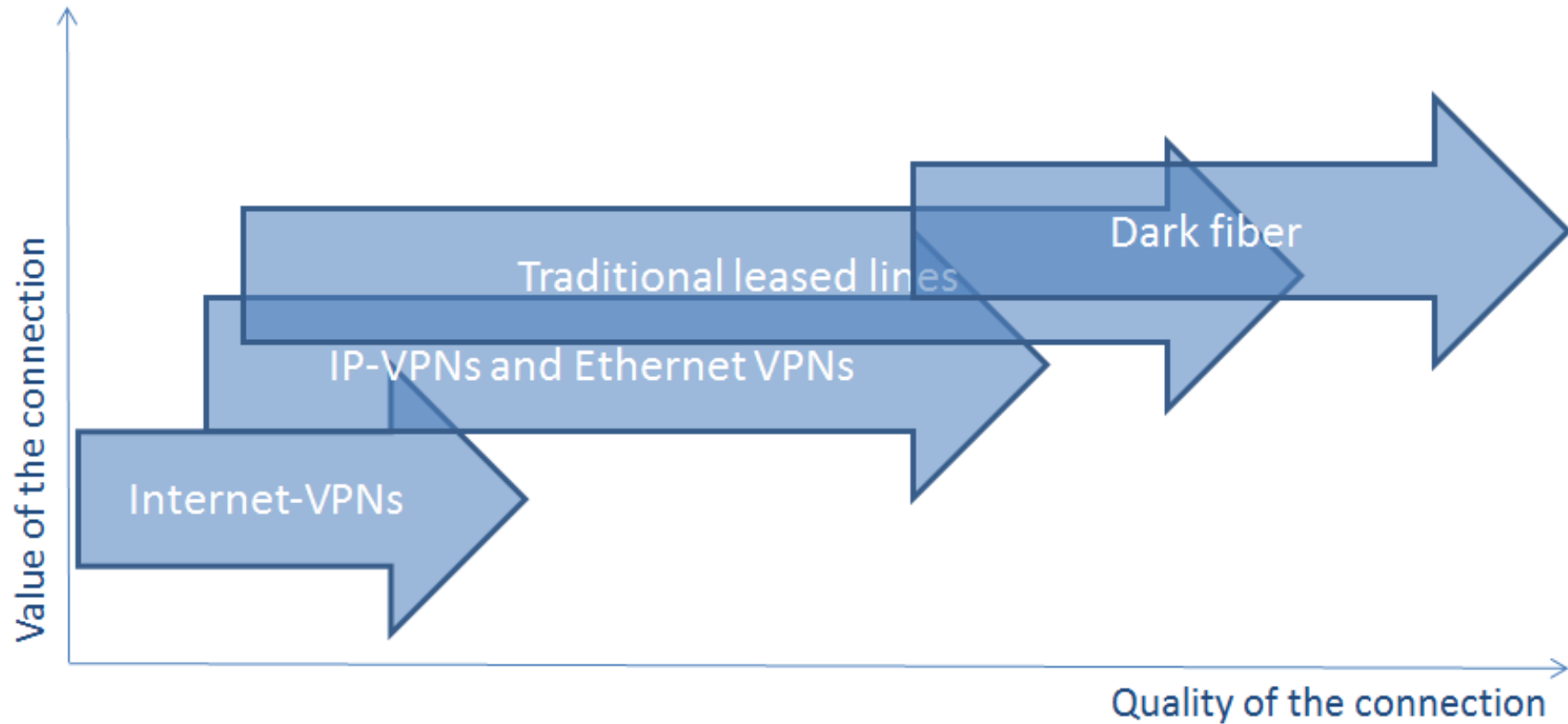
The market for business connectivity services

Product market Traditional leased lines + IP & Ethernet VPNs + dark fiber + internet VPNs



- ✓ Migration from traditional leased lines to Ethernet VPNs
- ✓ Inclusion of Internet VPNs
- ✓ Chain of substitution

The chain of substitution



The role of multi-site

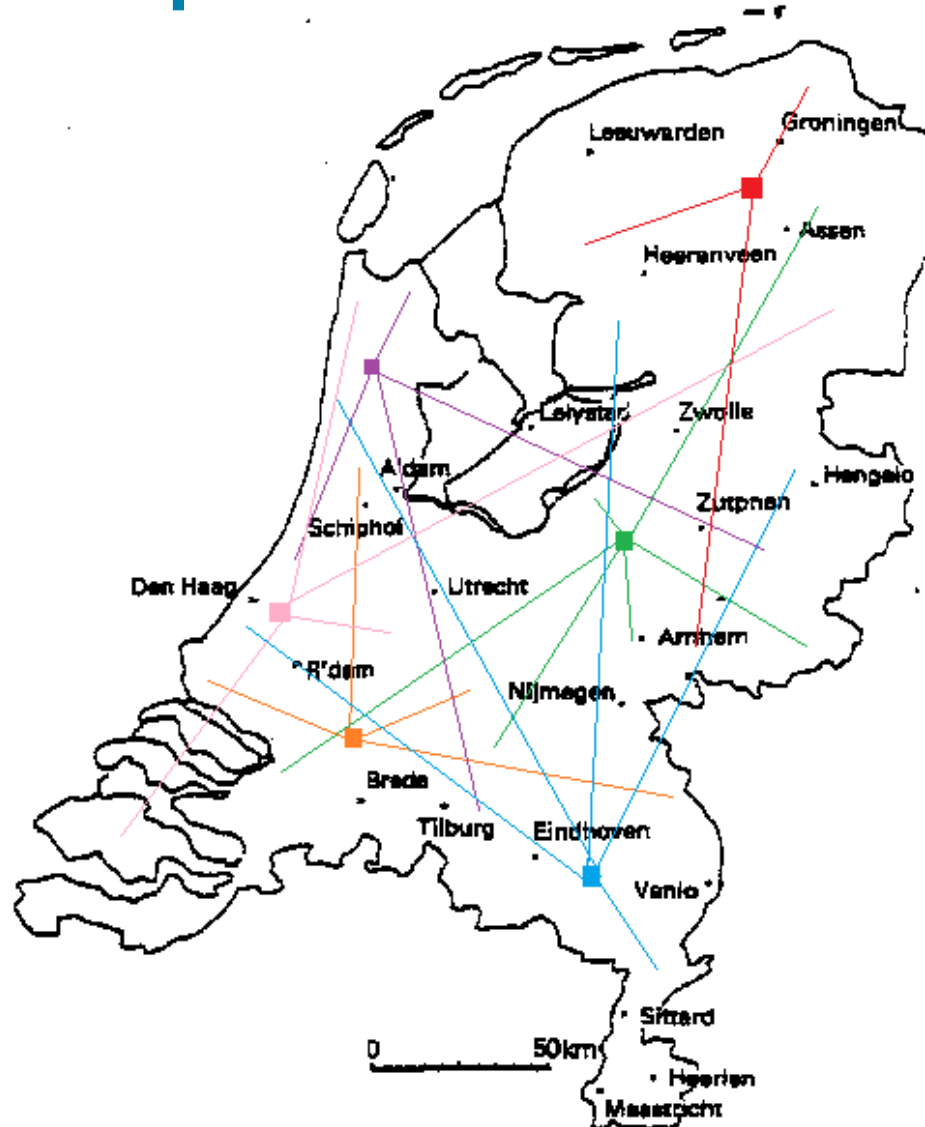
The multi-site characteristics of business markets play an important role when analysing:



1. The geographic scope of the market
2. The level of competition

The role of multi-site (1): Geographic scope of the market

- ✓ Multi-site demand structure leads to national market



The role of multi-site (2): Competition analysis



No. of multi-site client locations					
Network coverage	2	5	8	10	50
10%	1%	0%	0%	0%	0%
20%	4%	0%	0%	0%	0%
30%	9%	0%	0%	0%	0%
40%	16%	1%	0%	0%	0%
50%	25%	3%	0%	0%	0%
60%	36%	8%	2%	1%	0%
70%	49%	17%	6%	3%	0%
80%	64%	33%	17%	11%	0%
90%	81%	59%	43%	35%	1%
100%	100%	100%	100%	100%	100%

Probability of connecting all client locations:

1. Declines quickly when no. of client locations increases
2. Increases quickly with larger network coverage

→ Advantage for incumbent player

Table: probability of connecting a multi-site client

Recommendation and regulation, forward looking

Recommendation ₂₀₀₇	ACM (2012)	Recommendation ₂₀₁₄	ACM (≥ 2014)
FttO + LLU	FttO	FttO + LLU	LLU
LQWBA + HQWBA	LLU	LQWBA	?
Leased lines	LQWBA	HQWBA + leased lines	To be analysed
	HQWBA + leased lines		

Conclusion

- ✓ Business markets evolve
 - ✓ Through innovation and investment in networks, products become better & more affordable and businesses become more productive
- ✓ Gap between “business” and “residential” will narrow in the future
- ✓ Third party access is (still) key
- ✓ New recommendation on markets takes this into account, and adds VULA
- ✓ Discussion will be on migration, harmonisation of products (EU-wide), QoS, investments, choice