

## 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 roaming 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 suppressed 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 demand is already subdued relative 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

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

#### Other solutions

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