

Paying for Incoming Cell-Phone Calls? Yes, please.



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June 2008

To express their displeasure with the proposal, some users have suggested “bombarding” EU telecommunications commissioner Viviane Reding with phone calls, so as to inflate her cell-phone bill. However, the commissioner could simply choose not to answer. The rest of us can adopt this same attitude towards calls made by providers offering us different commercial products via cell phone, which are apparently of great concern to users. Would anyone truly lament not being able to answer calls such as from a bank offering a loan with far better rates simply because it would cost money up front? In actuality, the EU telecom chief is right: splitting the cost of a cell-phone call between the sender and receiver would stimulate competition and translate into lower costs for subscribers at the end of the month.

Market Logic

Spain currently has four cellular carriers: Movistar, Vodafone, Orange and Yoigo. The former accounts for 48.5% of the revenues generated by cellular customers, both in the prepay and contract categories. It is followed by Vodafone (33.9%), Orange (16.7%) and Yoigo (0.4%), according to the latest report from the Spanish telecom commission (CMT). These companies have invested a considerable sum in the deployment of their own cellular telephone network. Together, they chipped in more than 2 billion euros in 2005, according to Fundación Orange.

This money is necessary for providing a new, high-capacity network that can handle mobile broadband services. The traffic on cellular networks in Spain has increased substantially in recent years and most subscribers want an infrastructure that is capable of supporting the country's rate of consumption. It is also clear that in order for these companies to continue allocating resources to updating their networks, they will need to turn a profit and charge a fee for use of their infrastructures.

At present, when a cell phone subscriber calls someone on another network, the sender's

carrier is the one that bills the call, despite this being possible only thanks to the use of both parties' networks. But the invoicing carrier is required share its revenues with the other through interconnection rates, which are regulated by a law that establishes the maximum price that one cell-phone carrier can charge another for using its network. In the last quarter of 2007, carriers were paying an average of 10.34 euro cents a minute for each use of the interconnection service, according to the CMT.

If the interconnection cost were able to be set arbitrarily, the dominant cell-phone carrier could fix prices that would make it economically unfeasible to call their customers using another carrier, which would inexorably lead to a single-carrier market. On the other hand, the fact that a company must pay another to "complete" its calls would mean the calls would always involve a cost for the sender's carrier. This variable cost for the carrier makes it rather risky to offer flat-rate plans without carrier restrictions. When a company exclusively uses its own network for making the call, there are virtually no incurred costs. And the fact is that the telecommunications sector has extremely high fixed costs, yet no variable costs; the investment corresponds to the deployment of the infrastructure, not its use.

Users Benefit

Under the much-criticized proposal of the European Union, each customer would merely pay for the network they are using. If a user calls a cell phone from a land line, they would only pay to use the land-line network, which offers much lower rates than cellular networks. For calls to a land line operated by another carrier, charges apply only for the use of the subscriber's own network.

This way, carriers are not concerned about whether their customers are calling land lines, cell phones on the same network, or subscribers of another company. They can apply the same rate in each case since all of the calling makes exclusive use of their network and does not entail any costs. The same is true with incoming calls: regardless of where they come from, the customer who receives the call would pay for the "completion" part based on the plan that they have signed up for.

In this case, carriers would simply need to charge the amount they consider necessary to recoup their network investments, and would not need to apply a minimum charge in

order to pay other companies for the use of their infrastructures. The result is that in a competitive market—and assuming that companies do not settle on prices—the rates rival one another, which would translate into a price reduction and thus customer savings at the end of the month. Of course, the new model also requires a certain amount of regulation; carriers should be required to connect their subscribers' calls to other carriers' networks.

The change would be most noted by the users. One side effect is that they would have to handle more information. Comparing the price of not only outgoing but also incoming calls; and looking over invoices that would distinguish between both types of calls.

Undoubtedly, carriers would quickly come out with flat rates for outgoing and incoming calls.

The proposal from the EU telecommunications commissioner is therefore beneficial for promoting competition. Its implementation may be a ways off, but it is important to not bury the proposal simply on the basis of an erroneous first impression. Not only would paying to receive calls not mean higher bills, but in fact it would result in lower rates.