



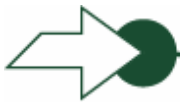
BT Dazzles Consumers with Simple Prices

An opinion by The IP Development Network

The IP Development Network has an in depth understanding of Internet, Telecoms and Media convergence. We provide Strategic Product Analysis & Design services to Service Providers, carriers, equipment manufacturers and investors in the UK market.

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Give with one hand, take with the other

“Millions to benefit from BT’s cheaper simpler packages”. True, it will be cheaper for the millions of people who don’t make short calls to mobiles. But will others find BT’s simpler packages to be simply more expensive? Will they even notice or will they be dazzled by the headline rates?

Telco Marketing Philosophy The rules of the game are clear: dazzle the consumer with a loss leading headline price (free broadband, perhaps?). It is ok if that price is only available for a short time (£9.95 a month for 6 months then £17.99). The aim is to use the headline to divert attention away from premium pricing in the “second level products”.

Second level products are anything else that’s included in the compulsory bundle with the loss leader, fixed to mobile calls is a good example, but you could also include satellite TV, mobile contracts, line rental and installation.

The outcome is that comparison between suppliers is impossible because consumers don’t understand their usage profile, so they buy brands instead. Bundling all the services into one bill makes it more difficult for them to see where they might be overpaying, increasing “brand loyalty”.

The Free Phenomenon Consumers aren’t daft, they know its not really free, but “free” sounds cheaper than “cheap” and *everything* is cheap these days... Leaving aside the subtle change to the English language, what we have is a telecoms market in which major operators loss lead headline products.

Company	Loss Leader	Core Products	Premium Margin Generators
Carphone Warehouse	Broadband	CPS, Line Rental	Fixed to Mobile
Orange	Broadband	Mobile	Roaming
Sky	Broadband	TV, CPS	Sports

Until recently, BT’s pricing was controlled by Ofcom, meaning they were unable to link the sale of one product to another.

BT Free of Price Controls On 19th July, Ofcom approved a plan first floated in March to release BT from its retail price controls covering line rental and calls. “The removal of retail price controls is enabled by – and reflects – the rapid growth of competition and continued reductions in the cost of phone services for customers.”

Where is BT Now? Line Rental: 78% (Ofcom , 20th July 2006)

Calls: 61% (Ofcom , 20th July 2006)

Broadband: 23% (Point Topic, 1st July 2006)

Dazzling New Prices On 31st July, BT announced new retail pricing to take advantage of this new freedom. The headlines were the 28% and 31% reductions in Option 2 and 3 respectively. £3.95 and £9.95 is what is on the billboard.

But what’s hiding in the shadows? Showing that they are familiar with the darker side of telecoms pricing in spite of all those years of Ofcom control, BT also introduced Whole Minute Charging and a Call Setup Fee. Between them, these changes could lead to a two-fold increase in the cost of many calls to mobiles...



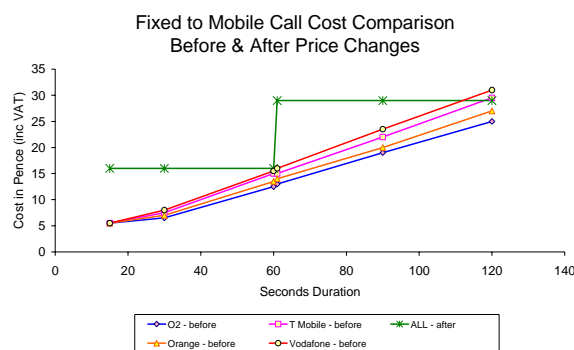


Per Minute Charging "From 1st October 2006, each call will be rounded up to the next whole minute for national and local geographic calls, international calls and landline-to-mobile calls."

Call Setup Fee "From 1st October 2006, the minimum call charge of 5.5p for residential customers will be replaced by a call set-up fee of 3p that will be charged at the start of each phone call."

Who does this affect? Anyone who makes short calls to mobile phones. As insiders in telecoms know, short calls are very, very common. *Average* call durations are typically a couple of minutes because people make short calls all the time: when they leave messages, check where someone is, make arrangements to meet...

What is the impact? The chart below shows how the cost of short calls to mobile increases as a result of the changes in BTs pricing. Calls less than 30 seconds long will be more than twice as expensive!



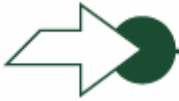
This change to BTs pricing structure is the result of deregulation, and the need to compete with the headline prices of their competitors.

When asked to comment on this paper, BT issued the following statement:

"This analysis of our new pricing focuses on a very specific example of a 30 sec call to a Vodafone mobile - this is by no means representative of the call charge changes. The reality is that this applies only to a very specific call of a certain duration to a certain network at a certain time of day and not of the overall savings to customers who make varied type of calls and/or are on a package.

Some prices have gone up, some down but the effect of the changes on what you pay as a consumer depends on what types of calls you make and no two customers are the same. However, EVERYONE can take up the £230m discounts on the inclusive calls and line rental offers. Any of our customers can take one of our inclusive call packages, which we've just heavily discounted, and the free off-peak calls for a year offer. Overall, the inclusive calls offer could represent more than a £200 million saving to customers."





So where is this going? Deregulation clearly helps BTs headline marketing and the company is now able to counter price-based competition head-on. By charging more for the second level products, BT can make sure that there is negligible bottom line impact, and may indeed find "free" bundles to be margin rich.

BT is still dominant in the provision of line rental with 78% of the UK market. This is a very strong position from which to create bundles based on line rental. One option for the company may be to give free calls with line rental in an attempt to win back CPS customers.

Consumers would find themselves paying for calls twice, once "free" with the line rental to BT and once to a separate service provider.

Another option may be for BT to give Broadband free with line rental. It is worth remembering that BT Retail is as worthy an LLU customer as any other ISP, and they certainly have the scale to make it work...

Some options for BT are outlined in the table below

BT Options	Loss Leader	Core Products	Premium Margin Generators
As announced	Geo Calls	Line Rental + Broadband	Fixed to Mobile
Leverage Line Rental	Broadband	Line Rental	Calls
Free Fusion	Home Mobile Calls	Line Rental + Broadband	Other Mobile Calls
Free Vision	TV	Line Rental + Broadband	Equipment + Services

Conclusion As ever, BTs regulatory team have played a blinder by getting the controls lifted while BT still has over 50% of minutes revenues and 75% of line rental. Whether or not the Whole Minute Charging is subtle enough to properly dazzle the consumer is another question entirely. Can competitors use this to taint BTs positioning as the honest broker in a messy world?

Other launches have certainly seen greater sleight of hand, Talk Talk's being the best, but it seems that this is the way the game is going to be played and that BT has joined the bandwagon.

