Kevin Power follows his article in the last issue by questioning whether operators are living up to the promise of the death of distance. Mobile operators are still reluctant to reduce tariffs, but competition looms

Is distance really dead?

Kevin Power: there will continue to be pressure on prices — both from regulators and the market

Frances Cairncross, former senior editor at the Economist, in a widely read and cited book a decade ago, described the "death of distance", the irrelevancy of distance and its effect on virtually all aspects of commerce and society that was occurring because of the rapid increase in investment in the telecommunications sector.

Massive investment in infrastructure and falling prices for service enabled expansion of activity on a broad geographic scale and made possible the connectivity of processes, people, and ideas. She made the compelling case that the 21st century would be dominated by the falling cost of transporting ideas and information.

Thomas Friedman, in his book, The World is Flat: A Short History of the 21st Century, described these phenomena more broadly in his ten "flatteners", expanding the narrative to include political trends such as the fall of the Berlin Wall in liberating people on the other side of that wall to participate in the economic mainstream.

On the communications side, the continued expansion of broadband connectivity — together with open source software products — allowed collaboration among larger and more dispersed groups of people. This potent mix has produced the era of globalisation as we know it.

And for good measure, Friedman describes globalisation on steroids — personal digital equipment such as mobile phones, PDAs, instant messaging and voice over IP.

Has distance truly disappeared?

Since the beginning of the telecom revolution in the early 1980s, there have always been considerable pricing anomalies to provide market opportunities for service providers which use both price and technology as arbitrage mechanisms.

Refiling of voice and data — remember telex? — terminations was once considered threatening enough to profit margins to be illegal in many jurisdictions. Yet a great many companies traded along the edges of these restrictions and some, in fact, still do.

The arbitrary accounting rate mechanism for voice calls has consistently been challenged or in many cases replaced by a combination of local termination rates and VoIP-enabled call terminations.

Carriers still trade traffic but the accounting rate mechanism introduced enough distortions in the market to allow alternative providers to exploit the gaps. Commercial and technology arbitrage has narrowed the gap but, as long as pricing anomalies exist, there will be providers willing to exploit the inefficiencies in the market.

On the enterprise side, use of VoIP technology over large scale corporate broadband networks has further eroded the revenues and margins of service providers as traffic is siphoned off the public networks and onto more secure and cost-effective private networks.

The enormous growth of these networks provides the infrastructure for Friedman's flatteners.

The same phenomenon is happening at the consumer level, and increasingly in the SME market, as the ubiquity of Skype demonstrates. It is a classic example of technology being used as a leveller or flattener, its growth largely driven by ubiquity of coverage, ease of use — anyone with a computer and broadband connection can use it — and cost.

It is probably the closest offering in the market to a flat tariff — independent of distance, free for computer-to-computer calls, €0.017 a minute for SkypeOut calls to a lot of popular phone destinations.

Skype is capturing an ever larger share of public telephony away from established operators, further eroding their revenue and margins. Indeed, Skype itself is facing a number of competitors in the market it legitimised, as many ISPs are now competing with Skype by offering VoIP over broadband connections, and bigger players such as Yahoo have recently entered the market.

Regionally, in Europe for instance, flat tariffs do exist and are frequently bundled into triple play packages offering IPTV, broadband connectivity, and "unlimited" calling. But unlimited usually has geographical limitations — perhaps for calls only to national fixed lines or, in the case of larger multi-country operators, to those areas as well.

So, from a fixed line perspective, there are a number of established trends and considerable momentum pushing toward a flatter world — but the trends are often confined within national boundaries.

European Commission's maximum rates for mobile roaming in the EU

Maximum price per minute	Summer 2007	Summer 2008	Summer 2009
Mobile calls made abroad	€0.49	€0.46	€0.43
Mobile calls received abroad	€0.24	€0.22	€0.19

Source: European Commission information society portal
Prices exclude VAT

Flattening the mobile landscape

One market segment that has consistently bucked these trends and enjoyed considerable protection from regulators has been the mobile market.

While the fixed line accounting rate mechanism was under attack, the mobile termination market — from fixed lines to mobile numbers — was protected by the closed nature of the GSM system and the lack of a technological solution providing an alternative method for termination of mobile calls.

Additionally, in the recent past, regulators were reluctant to regulate mobile call rates immediately following the 3G licence revenue windfall for governments.

To a large extent this is still true, although call termination rates have been reduced voluntarily, but frequently under impending regulatory pressure.

The European Commission's electronic communications regime, for example, allows national regulatory authorities to regulate mobile termination rates if an operator is found to possess "significant market power".

Nonetheless, these rates remain unregulated in many developed markets, and calls to mobile numbers remain stubbornly high relative to costs. Likewise, retail mobile calling rates also remain high because of the costs of termination, and the balkanized nature of mobile networks.

That is why service providers such as Skype and Vonage can approach flat calling rates for fixed line calls but calls to mobile numbers are considerably more expensive.

Regulatory intervention clearly can have an impact on the mobile landscape.

Viviane Reding, the European Commissioner for information society and media, successfully pressured mobile operators to accept price caps on roaming fees, which recently went into effect. The table shows maximum per minute roaming charges for the next three years.

Although this was a significant achievement in mobile regulation, it is a small step toward levelling the playing field and, in some cases, mobile operators with significant coverage footprints, such as Vodafone, had already introduced "flat" tariffs through its Passport service — so long as the caller uses a Vodafone service provider while roaming.

From a market perspective, true mobility and portability of communications cannot continue to command the current premium over fixed line communications. It seems clear that there will continue to be pressure on prices, both from regulators and from the market.

Encouragingly, a number of trends point to increased pressure on mobile operators to deliver value beyond basic connectivity.

Some of the same pressures that fixed line operators have been facing for years are now affecting the mobile market. Mobile communications on corporate premises are increasingly being usurped by picocells at the corporate location, which provide connectivity for mobile communications while on the corporate campus, at a substantially reduced cost to the company.

Additionally, the availability of dual-mode handsets incorporating both GSM and wifi capabilities will allow for the equivalent of on-site least-cost routing for mobile calls.

Perhaps the most interesting developments to watch involve the planned widespread rollout of WiMax service offerings. This is sure to create additional pressure on established players in the market.

Market watchers have talked about the era of convergence for more than a decade but the impetus for true convergence has not been present. Both fixed line and mobile operators are investing in next generation networks to rollout new IP-based services.

And a number of mobile operators have begun to offer fixed broadband connections to their customers, in partnership with DSL providers.

Of course, operators which have the most flexibility are those which own both fixed and mobile networks.

AT&T, which now owns Cingular, offers me a World Connect Program for my US number for an additional $3 per month. This fee enables me to call any international destination from the US at reduced call rates.

For example, before I switched to this plan, rates were over $1 a minute to the United Kingdom. Under the new plan, I can call any UK fixed number for $0.08 a minute or any UK mobile number for $0.26 a minute.

By contrast, my Vodafone plan in the UK charges £0.10 ($0.20) a minute for national and local calls and calls to other Vodafone numbers.

Calls to other mobile numbers in the UK cost £0.35 ($0.70) a minute — even for calls to the T-Mobile network, which charges a wholesale carrier rate of just £0.05 to Vodafone for the termination of that call.

It seems that the distance is still quite alive when calling within the UK — or rather, a call from anywhere in the US to the UK travels a shorter distance than one going from a Vodafone number to a T-Mobile number, perhaps on the same street in London.

As I have said previously, mandated MVNO coverage in European national markets is probably the best way to affect mobile costs and unlock additional value for the consumer.

But perhaps the most interesting developments to watch involve the planned widespread rollout of WiMax service offerings. This is sure to create additional pressure on established players in the market.

The recent decision by the FCC in the US regarding the upcoming 700 MHz wireless auctions in 2008 favours plans by Google to create an open-access wireless network, effectively lessening the power of the closed networks of cellular providers operating today.

Under the rules adopted by the Commission, customers may use any phone and software they want on these networks — and one third of the spectrum being auctioned is being allocated. Stay tuned: the mobile world is about to get flatter. ■

Kevin Power has over 25 years of experience in the telecom industry and was chairman of the European Competitive Telecoms Association from 2000 to 2006. He currently advises technology and telecommunications companies on finance, M&A, strategic planning and operations, as well as serving as an independent director on several company boards.