

Mobile Price Monitoring

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Summary of the Last Quarter

- Between May and October 03, the average annual cost of mobile telephony has fallen by 1.6%. Pre-paid packages fell by 1% and post-pay packages by 2%.
- Pre-pay prices fell due to the introduction of options which allowed customers to buy a number of SMS messages, at a cheaper per unit cost, for a monthly fee.
- The fall in post-pay prices is due to a change in Orange's tariffs in June 2003.
- In general, this has been a stable six months with no major tariff changes.

Headline Figures – Mobile Price Trends

- Over the last two years, the average annual cost for mobile telephony services has fallen by 6% in nominal terms.
- Customers on pre-paid packages benefited the most from price cuts and on average saw a fall of 8%. In contrast, post-pay users have seen a fall of only 4%.
- Zero usage customers, such as those who keep their phones purely for emergencies, benefited the least from price changes. Indeed, they saw their average phone bill increase by 3% over the last two years. The reason for this is that most mobile companies have changed their tariff structures for prepaid users over the last two years.
- The customers who benefited the most from these price changes were those with medium usage patterns. These customers are fairly heavy users but who are more likely to be on pre-paid than the medium/high and high usage customers. The changes in pre-paid tariff structures benefited them and, on average, they saw price falls of 9%.

- These price changes also benefited low-usage and medium/low users but to a lesser extent. These types of users saw falls of 4% and 6% respectively. It can be seen that the higher your usage the greater the benefit. Since early 2003, pre-paid customers have also benefited from the option of including bundled SMS for a small monthly fee.
- Customers with high and medium/high usage patterns also benefited from price changes. This was mainly due to changes in post-pay tariff structures, including the inclusion of off-net calls to mobile in the inclusive call allowance and the increasing option of including SMS bundles for a small additional monthly fee.
- Changes to pre-pay tariffs and the inclusion of SMS calls benefited “Texters” greatly. These customers, who as the name suggests, make a lot of SMS saw have seen their average bill fall by 11% over the last two years. Customers who make mainly off-peak calls and combination users also benefitted as their bills fell by 5% over the last two years.
- Peak users tend to be more likely to be on post-pay tariffs and type of customer, on average, saw falls of 7%.
- Click on the following link to see the chart.
[Mobile Price Trends \(Excluding Handset\) – October 2001 to October 2003](#)

Mobile Price Trends (Including Handset)

- The inclusion of handset charges and connection fees can change the picture significantly. It is worth noting that during the period above, none of the four main networks have charged their post-pay customers for connection to the network. For pre-paid users, the cost of connection is bundled with the price of the handset.
- The current methodology for modelling handset charge is to select a handset which all of the mobile companies make available to both pre-paid and post-paid customers. If this is not possible, then the handset which meets this criterion for the largest number of operators is selected and a cost estimated for the operators who do not use it.
- This handset used has a tendency to change over time as old handsets are withdrawn and new ones introduced. However, attempts are made to hold the handset constant for a minimum of a quarter and ideally six months. However, changes to handset can cause sudden increases to the total cost, which do not reflect underlying changes in mobile prices.
- Since October 2001, mobile prices, on average, have fallen by 1% in nominal terms. Prices for pre-paid users have increased by 1% while those for post-pay users have fallen by 4%.

- Increase in the cost of handset impacts greatest on low users as it forms a larger part of the overall cost. Once handset cost is included, zero and low usage customers saw their average mobile bills increase by 14% and 8% respectively. Users with low/medium and medium usage patterns saw falls of 1% and 5% respectively as change in tariffs outweighed the change in handset cost for these high-usage pre-paid and post-pay customers. Customers with medium/high usage have seen no change in their overall bill.
- Click on the following link to see the chart.
[Mobile Price Trends \(Including Handset\) – October 2001 to October 2003](#)

Long-term Analysis

- This table indicates how mobile price trends have fallen since January 1999.
- Overall, mobile prices have fallen by approximately 46% over the last four and a half years in nominal terms and 51% in real terms.
- It is worth noting that this table has combined two models that are based on different consumer profiles. Therefore, caution should be used in analysing it.
- The average revenue per unit index from Market Information is given for comparison. Differences between the two indices are due to the fact that, in the real world as represented by the Market Information data, customers do not automatically realise that they would be better off on another tariff and take time to change. Therefore, it is reasonable to expect the average revenue per unit index to lag several months behind the mobile monitoring index.
- Click on the link below to access the chart

[Long-term Mobile Price Trends](#)

History and Methodology

In 1999, Oftel appointed National Economic Research Associates (NERA) to construct a suitable model to allow Oftel to track price changes over time and reflect the actual experience of different types of customer.

The model classifies mobile customers into particular categories or “profiles” according to usage patterns and then applies operator tariffs to these profiles. User profiles of typical customers were identified from a customer survey carried out early in 1999. Full details of the original model, as developed by NERA, are given in the NERA report [A Price Index for Mobile Telephony](#).

In 2002, Oftel updated these profiles and made a number of small alterations to the model to better reflect current usage profiles and tariff structures, based on a detailed consumer survey carried out late in 2001.

The model continues to work in broadly the same way. For each user profile, the model estimates the proportion of different call types made by each profile. Estimates are made of the proportion of calls made to fixed networks – local, national and international; calls made to mobile networks – own or other; and other calls such as voicemail, fax and SMS. These make-up of these profiles can be found at: [Profiles](#).

The model then calculates the optimal post and pre-pay packages on each of the four main networks (and Virgin) for each profile. An average price is then calculated for each profile, by weighting each individual profile by operator market share. The network weights are derived from the consumer survey. The model also makes the assumption that users purchase a new phone as part of the package. Currently, this phone is the Nokia 3310, which is common to all networks and the cost of which is amortised over eighteen months.

It is worth noting that the methodology is broadly consistent with Oftel's benchmarking work although this uses only a sub-set of profiles and focuses on the cheapest two tariffs only. See [International benchmarking study of mobile services and dial-up PSTN Internet Access](#) for a detailed description of the methodology.

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