



Tesco Mobile
Response to Ofcom consultation

Mobile number portability

Review of the porting process

Submitted: 26 October 2009

Introduction

This document sets out Tesco Mobile's response to the proposals contained in Ofcom's consultation document, *'Mobile Number Portability – Review of the porting process'*, published 3rd August 2009.

Tesco Mobile is a telecoms service provider. Tesco Mobile offers customers a prepaid and, more recently, postpaid mobile services. Tesco Mobile operates as a mobile virtual network operator (MVNO) on the O2 network.

Tesco Mobile delivers high levels of customer satisfaction. A recent Which? Magazine survey published in May 2009 found that Tesco Mobile was the favourite mobile operator for prepay mobile services, with customers nominating the network for services including its wide handset range, affordable tariffs and exceptional customer service.

In June 2009 Tesco Mobile won the Credit Crunch Award at the Mobile Industry Awards for the brand's Triple Your Credit tariff. The award was for the company that had delivered best value to customers in the current economic climate, and was judged on three criteria - most outstanding value, value that resonates with customers, and clear communication.

Tesco Mobile is now the seventh largest mobile operator in the UK.

Key points

Tesco Mobile believes that mobile number portability (MNP) processes are in need of updating. The current processes are slow and act to customers' detriment.

Ofcom's Option A describes recipient led porting within two hours. Our sister company in Ireland works with a similar system which works well and is popular with customers.

Option A provides a timeline of providing porting within two hours. As the system will be fully automated, Tesco Mobile suggests that porting should be achievable within 30 minutes from the time when a customer requests a port. We propose that Ofcom should tighten the timescale to one substantially shorter than 2 hours.

We believe that customers in the UK should be able to benefit from such an enhanced porting system. There will be direct benefits to customers from an easy, hassle free porting process requiring no further calls to the customer's existing provider. Competition will also be enhanced as customers switch operators more easily without losing their existing number or having to expend effort to make this happen.

There will be costs in implementing the new system but there will also be significant savings from customer care operations. As the indications are that the new processes will be largely cost neutral, we do not believe that either consumers or MVNOs should be charged for porting their mobile number.

Ofcom should move rapidly to implement the new improved system with recipient led porting which will provide benefits to all customers.

Tesco Mobile welcomes Ofcom's review of the mobile porting processes. We believe that Ofcom should also review the porting process for broadband services which we do not consider to be as customer friendly or effective as it should be. The proposed improvements in mobile number portability should be reflected in a broadband porting review.

Customer experience

Tesco Mobile is predominantly a prepay operator. Prepay services have been offered since 2003 and postpay has been available from 2008.

Feedback from our customers indicates that they would prefer a much quicker MNP implementation time. The existing processes cause a great deal of confusion and could well be a hindrance to customers wishing to change providers.

Our customers have to make many calls to customer care to resolve porting related queries. In July and August 2009 calls to Tesco Mobile dealing with porting issues represented 10% of the total number of first calls handled by our customer care team. For follow up calls, porting related issues were a higher proportion of calls at 27% of second calls and 22% of third calls. (Further details are provided in the confidential annex.)

This is both inconvenient for our customers and clearly represents a cost to our business. We are not in a position to quantify the impact of this friction in the system on the propensity for customers to move between providers but it is likely to have an adverse effect. A reduction in the number of customers moving between competing providers will have a dampening impact on competition and the benefits that competition provides to all customers.

In contrast, Tesco Mobile Ireland's experience with mobile porting is very different. Customers can move their numbers painlessly and well within two hours. Porting takes place automatically and results in very few calls to customer care.

Any automated porting system should be able to port numbers within a matter of minutes. Our experience in Ireland indicates that this is possible with a good porting system. Tesco Mobile would recommend that Ofcom considers shortening the time required for porting within Option A. A time of 30 minutes would seem reasonable to allow the automated systems to put in place all of the porting requirements.

Tesco Mobile believes that an improved MNP system would bring greater benefits for customers and enhance competition. Customers should be able to move rapidly from one provider to another without having any unreasonable delay in taking their number with them. As many customers become increasingly reliant on mobile communications for all of their voice telephony communications, it is essential that porting can take place in a seamless manner.

Moving to recipient-led porting does create an increased risk of 'slamming', where customers are moved to another operator without their consent. Tesco Mobile acknowledges this concern but believes with the appropriate regulatory enforcement this risk can be mitigated. We are not aware of any particular concerns with slamming from our experience in Ireland where a recipient-led porting process operates. Strict controls and penalties should be put in

place by Ofcom against any entity which tries to abuse the porting process through slamming.

Tesco Mobile supports Ofcom's Option A i.e. a recipient-led process with porting completed within two hours, with the proviso that the timescale should be further reduced to around 30 minutes. As a MVNO we do not believe that there would be a significant cost difference between introducing a 30 minute porting time compared to 120 minutes. Ofcom should investigate further whether such a time reduction is feasible and does not present a substantial cost increase.

Financial position

Ofcom has considered the capital and operating cost of introducing Option A. Because Tesco Mobile is not a network operator, we are not in a position to comment directly on these costs.

Using numbers from Ofcom's market reports, we estimate that around 9 million customers switched operators in 2008.¹ Similarly using details from Ofcom's MNP consultation document, we deduce that the annual depreciated capital cost of introducing Option A porting would be £1.4m.

The cost to industry of customers porting would be 16p per customer. Even if only half of customers chose to port their number the cost to industry per customer would be 31p. Tesco Mobile is of the view that these are minimal costs for the likely benefit that customers would enjoy from enhanced competition and from the ease of having the same mobile number.

Ofcom conducted market research to estimate the likely perceived benefit of improved porting. It would appear that customers have an innate sense of the underlying cost or value of the porting process. 50% of consumers would definitely or probably pay 50p for improved porting.² It is perhaps unsurprising that so few customers are prepared to pay £10 or more for something that costs so little. The fact that few customers are prepared to pay a sum well above cost for an improved process is an indication of their prudent nature rather than a lack of interest in improved porting.

Variable costs have been included in Ofcom's analysis but variable cost savings do not seem to have been included. Tesco Mobile believes that with improved processes there would be significant operating cost reductions. Customers would not have to contact customer care for a PAC code. There would be far fewer queries about individuals' porting

¹ Ofcom finds that the capital expenditure to introduce Option A MNP processes would be £14.2m across all operators. (Ofcom ConDoc Review of the Porting Process para. 5.54) Ofcom's Communications Market Report for 2009 shows that over the last 12 months an average of 12% of mobile consumers switched providers. (Ofcom Communications Market Report 2008 Fig. 4.78) The same report shows that there were 77 million mobile subscriptions in 2008. (ibid. Fig. 4.43) In other words, 9 million customers switched provider in one year. Not all of these customers will utilise MNP at present but with a slick porting process it is likely that the vast majority would find it helpful and easy to port.

² Ibid. Fig. 6 and footnote 104

problems. Our experience in Ireland leads us to the conclusion that automated state of the art porting leads to very few customer care calls.

We estimate that the total customer care savings for operators in the UK would be of the order of £5m on an annual basis.³ Ofcom estimates that the total operating expenditure for Option A would be £3.8m per annum. With a ten year depreciated capital cost of £1.4m, the overall additional cost of Option A would be £5.2m. The conclusion that the savings and cost figures are at much the same level is an indication that the costs and benefits to the operators themselves are about neutral.

Ofcom should include the cost savings as well as additional cost in its cost analysis. With the benefit that consumers will enjoy factored in as well, the only conclusion can be that revised mobile number porting procedures should be implemented as soon as is feasible.

It should also be made clear that customers should not pay for the improved porting processes. With all the indications that the new processes will be largely cost neutral, it would not be right to charge customers on a per port basis.

Tesco Mobile considers that the cost implementation of porting should be borne by the mobile network operators. There should be no cost knock-on to MVNOs or other service providers. Ofcom should ensure that this is the position.

Technical implementation

MNP should be an automated process with clear technical interfaces that are simple for service providers to use. Service providers should be able to access the specifications for the interfaces in the same manner as the mobile operators. The MNP processes can then interface with other shop processes in a clear and customer friendly manner.

Tesco Mobile requests that Ofcom's external advisor should consider this issue in its proposed implementation report.

Conclusion

Tesco Mobile considers that Option A – recipient led with porting completed in two hours – is the best option for customers. The costs to the mobile industry of implementing this option are small in the overall scale of the capital investment required in the industry and are likely to be largely offset by cost savings elsewhere.

Ofcom should press ahead to implement Option A so that customers obtain the ensuing benefits as quickly as is practicable.

A review should be conducted to consider whether the porting time can be reduced further from 120 minutes to 30 minutes.

³ Calculation details are provided in the confidential annex.

Ofcom consultation questions

Q3.1: Do you agree that the bulk porting process should not be included in this review and should be left to industry agreement?

Tesco Mobile is not involved with bulk porting.

Q4.1: Do you agree with Ofcom's view that the evidence suggests consumers would prefer a faster porting process?

Our informal feedback from customers is that faster porting would be welcomed. Customers make many calls to our customer care centre about porting issues. Most of these calls could be avoided with a faster, automated porting process.

Evidence from Tesco Mobile Ireland is very positive about the benefits of improved porting. Faster, easier porting encourages more customers to consider which operator to use, enhancing competition to the benefit of customers.

Q4.2: Do you agree with Ofcom's view that the current process does not work well for all mobile consumers?

Customers are making many calls to customer care to resolve porting issues. This cannot be in their interest. We estimate that 10% of porting customers have to call again to resolve a problem. Of these second call customers, 20% have to make a third call. To have this high level of customer care interaction is very unfortunate for our customers when the process could be easy and trouble free.

Q4.3: Are there any other areas of consumer harm that have not been identified? Do you have any evidence to demonstrate other areas of consumer harm?

We believe that difficulties in porting create friction in the system which, at the margin, dissuades customers from switching and is therefore a barrier to free and fair competition.

Q4.4: Do you agree that Ofcom should intervene to introduce changes to the current MNP process to address the harm identified?

Yes.

Q5.1: Do you agree with Ofcom's view that the 'do nothing' option is unlikely to be appropriate in light of (i) evidence of consumer harm and (ii) noting the proposed one working day porting requirement under the New Telecoms Package? If not, please give reasons for your views.

Yes.

Q5.2: Do you agree with the range of potential options Ofcom has set out?

Tesco Mobile believes it is possible for porting to happen within 30 minutes. We note Ofcom's expectation at footnote 80 that porting required within two hours would mostly be completed in just over an hour, but would suggest that decreasing this time is actively considered.

Q.5.3: Do you consider that there are additional options that Ofcom should have considered? If yes, please explain what option(s) should have been considered and why.

As with our previous answer, Tesco Mobile would like porting to be recipient led within 30 minutes. We request Ofcom to consider shortening the time period.

Q5.4: Do you agree that a two hour timeframe in which to issue the PACs for Options B and D is appropriate? If not, please give reasons for your views.

Two hours is too long. If overall porting can be achieved within two hours under Option A, then issuing a PAC under Option B and D should take no longer than half an hour.

Q5.5: Do you agree there should be a difference between how the recipient-led processes in Option A and C should work for single account versus multi-account porting requests? Do you consider that the proposed authentication process (described in paragraph 5.41) for multi-line accounts is sufficient? Please explain any other differences you would expect to see whilst ensuring that any differences are still consistent with the overall objectives the options are trying to achieve.

Tesco Mobile has no view on multi-account porting.

Q5.6: For each of the options set out, do you consider that Ofcom has captured all the appropriate categories of cost likely to be incurred? If not, explain what categories you disagree with / believe are missing.

As Tesco Mobile is not a network operators, we are not in a position to comment on the details of the additional costs incurred, but do consider that cost savings should be factored into the cost analysis.

Q5.7: Do you agree with Ofcom's analysis of costs for each cost category? If not, please explain why. Please also state whether you are able to provide Ofcom with a more accurate view of costs and if so, please submit your assessment, together with supporting evidence with your response to this consultation.

As a mobile virtual network operator, Tesco Mobile has no detailed view of the implementation costs.

Q5.8: In the case of new entrant MNOs, what additional costs are likely to be incurred internally within each of the networks for each of the options? Please submit your estimates in your response to Ofcom.

As a mobile virtual network operator, Tesco Mobile has no detailed view of the implementation costs.

Q5.9: Do you agree with Ofcom's analysis of benefits for each option? If not, please explain why.

Ofcom estimates a maximum benefit of £10m⁴ to individuals. If we take Ofcom's figure of 2.6m customers porting their number on an annual basis we get a benefit per porting

⁴ MNP ConDoc para 5.133

customer of £4. We believe Ofcom's analysis significantly underestimates the benefit to customers as it is based on a survey of customers' propensity to pay for porting under Option A. We believe that the primary benefit from Option A would be the increased level of competition in the market, the benefits of which would accrue to all customers (not just those who port their number when they change service provider).

Tesco Mobile is of the view that the benefits to customers from enhanced porting are significantly understated.

Q5.10: Please state whether you consider that Ofcom should take any additional benefits into account and explain how. To the extent possible, please provide any estimates of these benefits and the supporting evidence.

Ofcom should consider the cost savings to operators that will result from improved MNP processes.

From a customer perspective, Ofcom should consider the intangible benefits available to a customer or the inability to assign a price. Customers will value the right to move rapidly from one operator to another with the same number without having to pay for the porting process.

Similarly, the benefits from increased competitiveness as customers switch between operators more easily should be assessed.

Q5.11: Please explain whether you agree with Ofcom's assessment of the pros and cons of each option and if not, why not.

As stated above, the benefits are underestimated. Tesco Mobile is also of the view that the reduction in variable costs through efficiency savings should be captured.

Q5.12: Please state which option(s) you favour and why?

Tesco Mobile favours Option A – Recipient led, 2 hour porting because this option provides the best customer experience. We believe the positive net benefit for both customers and operators is currently understated.

The other options, particularly Option D – donor led, one day porting, will feel like the 'cheap and cheerful' option. They will not provide the best customer experience.

Q5.13: What do you consider a reasonable implementation period for each of the options and why?

Twelve months implementation is reasonable.

Q6.1: Do you agree that it is appropriate for Ofcom to appoint a qualified independent consultant(s) to work with industry to develop cost estimates for different implementation options? If not, please state why.

Yes.

Q6.2: Do you agree with the remit set out above for the consultant/expert? If not, please state why.

Yes. It is though important for the external advisor to work with all providers of mobile services, not just MNOs.

Q6.3: If you would like to recommend suitable experts / consultancies to Ofcom, please do so on a confidential basis.

N/a

Q6.4: Do you agree that three months is an appropriate period of time for this feasibility assessment to be undertaken? If not, please explain why and what you consider to be an appropriate timescale.

We believe three months is reasonable.

Q6.5: Do you agree that the criteria for making this process effective as outlined under paragraphs 6.14 to 6.16 is appropriate? What else is required to make this process constructive?

Yes.

Q6.6: Do you agree with Ofcom's proposed next steps following responses to this consultation? If not, how do you consider Ofcom should complete its cost-benefit analysis and proceed to an implementation of one of the four options?

Yes.

Q6.7: Do you have any comments on the proposed timings for reaching a conclusion for this review?

The timetable is reasonable. Slippage should not be allowed because there would be lost consumer benefit. The UK has fallen well behind best practice in mobile number portability. This situation needs to be remedied as soon as possible.