Why Closed Network Txt Pricing Creates a Non-competitive Mobile Market

77% of all txt traffic from pre-paid phones is from phones with txt bundles

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The essence of the txt market

- The bulk of the traffic in the txt market is from pre-paid phones

	Share of all txt traffic %
Phone is on:	
Pre paid	72
Contract	28
	100

- The second main defining characteristic of the txt market is that it is primarily mobile users aged 15 – 24 years, with 25 - 44's making up a second but less important tier to the txt market

Source: Kudos telephone survey of N=1000 mobile users, September 2008

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Young pre-paid users are by far the biggest users of txt and txt bundles

	Total %	15 to 19 years %	20 to 24 years %	25 to 29 years %	30 to 34 years %	35 to 44 years %	45 to 54 years %	55 to 64 years %
% with pre-paid (Base: Whole market)	59	95	68	61	53	47	45	59

The proportion of all mobile users who are on pre-paid phones is close to saturation among 15 – 19 year olds, and falls away with increasing age

Source: Kudos telephone survey of N=1000 mobile users, September 2008

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% with pre-paid and regular txt user (Base: Whole market)	51	95	65	55	49	41	36	34

When the further requirement is added in that people need to be regular txt users (typically one or more a day), the fall-off with increasing age becomes even sharper
(This further filter is sometimes described as removing the "glovebox" segment, those who have a mobile on hand effectively only for use in emergencies)

Source: Kudos telephone survey of N=1000 mobile users, September 2008

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% with pre-paid and regular txt user (Base: Whole market)	51	95	65	55	49	41	36	34
Of pre-paid regular txt users % have txt bundles	50	79	71	51	45	39	26	16

When we add yet another requirement, this time having a txt bundle on the phone, the fall-off with age becomes even more pronounced again

The picture is now emerging that 15-24's are the prime part of this market, with the 25-44's the secondary market

Source: Kudos telephone survey of N=1000 mobile users, September 2008

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Of pre-paid regular txt users % have txt bundles	50	79	71	51	45	39	26	16
Average number of txts/day	# = 18	44	22	11	13	9	5	5

Looking now are average numbers (# in the table above) of txts sent per day:
15-19's do twice as many txts a day as 20-24's, who in turn do twice as many as the next age groups
Txt traffic/volumes again confirm the picture that 15-24's are the primary market for txting, with 25-44's the secondary market

Source: Kudos telephone survey of N=1000 mobile users, September 2008

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Average number of txts/day	# = 18	44	22	11	13	9	5	5
Average number of txts/day among those with a txt bundle	# = 28	46	27	17	20	14	7	5

The additional refinement of looking just at average numbers of txts per day sent from phones with txt bundles again confirms the primary txt market as 15-24's, with 25-44's the secondary market

Source: Kudos telephone survey of N=1000 mobile users, September 2008

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Average number of txts/day	# = 18	44	22	11	13	9	5	5
Average number of txts/day among those with a txt bundle	# = 28	46	27	17	20	14	7	5
Share of total txts sent	Total 100 ←	56	20	7	7	7	2	1

15 – 24 year olds clearly account for the very great majority of txts sent, 76%
25 – 44 year olds add a further 21% of txts sent

Source: Kudos telephone survey of N=1000 mobile users, September 2008

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Use of txt bundles

	Everyone on pre-paid	Exclude occasional txt'ers	Also exclude 45 +	Exclude 25 to 44's Include 15 to 24's only	15 to 24 students	15 to 24 not students
	%	%	%	%	%	%
% on txt bundles	45	50	59	75	75	75

We start at the left with the whole mobile phone market, then introduce the focuses discussed above
45% of all mobile users with pre-paid phones have txt bundles
When we remove the "glovebox" segment this climbs to 50%
When we further take out the least active txters by age (those aged 45+) the incidence of mobile users having a txt bundle on their phone rises to 59%
Specifically among 15-24's on pre-paid phone and who are more than occasional txters, 75% have txt bundles on their phones. The Kudos survey shows this 75% applies for both students in this age group and those who are not students

Source: Kudos telephone survey of N=1000 mobile users, September 2008

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Students

- Phoenix Research surveys in Auckland and Dunedin* showed 92% of secondary and university students on pre-paids** buy txt bundles (94% and 91% respectively in Auckland and Dunedin)
- Phoenix surveys focused on full-time students – two main centres only (with very consistent results): this confirms the high level the Kudos survey found, though suggests the true national figure for students could be higher
- Best estimate for students nationwide is to average the Phoenix and Kudos results. This gives the result that 84% of students buy txt bundles

* September 2008 and May 2009 respectively
** Almost all are on pre-paid (94% rather than contract)

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Putting the 15 to 24's pre-paid market back together

	Students	Non-students	TOTAL PRE-PAID 15 to 24's
	%	%	%
% on txt bundles	84	75	80
Share of pre-paid users	61	39	

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Conclusions on txting - 1

In the pre-paid txt market

- 15 to 24 year olds are a major component of the total txt market
  - There is some evidence that the sub-set of this market that are students show even higher use of txting and txt bundles than non-students in this age group
- Txt bundles are widely used – especially among 15 to 24's (best estimate 80%), but also among 25 to 44's (44%)
- A market entrant that could not offer competitive txt bundles would be seriously disadvantaged compared with the incumbents, being cut out of access to 50% of the pre-paid txt market (as a share of people) or 77% of the pre-paid txt market (as a share of txt traffic)

Conclusions on txting - 2

- These limitations on such a new entrant are much greater among the highest txt user sector of the market – the 15 to 24's
- The new entrant would not be able to provide attractive services to 80% of this high volume sector of the market, who account for about 76% of all the txt traffic originating from pre-paid mobiles
- A new entrant unable to offer txt bundling while incumbents are left free to do so would be constrained and limited to the extent that it would be unlikely to be able to grow any significant market share of the txt market
- This analysis stands without reference to the value to customers of a pricing package that integrates voice and txt services

The txt-calls connection

- 90% of pre-paid users who make calls also txt
  - This rises to 93% if one regards the core market as 15 - 44 year olds, or a staggering 97% just among 15 - 24 year olds
- 50% of calls made from pre-paid phones are made from phones with txt bundling on them
  - Again focusing on the core of the pre paid market, this rises to 57% among all 15 – 44 year olds, and 69% among the primary core of 15 – 24 year olds
- Conclusion: any new entrant must be able to offer competitive txting in order to compete for mobile **calling**
- This requirement is even stronger in the prime parts of the market

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A new entrant must be able to offer competitive txting to compete for mobile calling

- All results are consistent with a view that the incumbents are:
  - Using txt bundles as loss leaders to create locked-in customers
  - Potentially not making any money out of these customers' txts, only out of the calling these locked-in customers make
  - Using lock-in generated by txt bundling to make market entry by a competitor difficult or impossible: this applies to the total customer offer and package, i.e. including calling, not just txting
  - Using their market dominance to engage in anti-competitive tactics (i.e. offering txt bundling) that are not available to smaller or new competitors, given the lack of regulation of cross-network termination charges for both txting and calling

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