



Pricing Evolution Position Paper Unleashing the potential of the nbn™ broadband access network

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There is a compelling statistic that sums up Australia's current broadband status: while the majority of the country is still connected to ADSL services, more than 80 per cent of the three million plus services sold on the nbn™ broadband access network use plans that offer wholesale speeds of less than 25 megabits per second (Mbps).

Australians are funding this world-leading infrastructure, and the majority of them, as end users, are purchasing plans that give them no better – and in some cases lower – speeds than they can get from their legacy network.

The current state of play: why we need to change our model

There has been a lot of talk about broadband pricing, with the cost of Connectivity Virtual Circuit (CVC) criticised widely for being too expensive and for driving a poor customer experience. However, like most complex consumer services, there is usually more than one reason for unhappy customers.

Phone and internet providers want to migrate the maximum number of customers across to the nbn™ access network while remaining profitable and most end users are ultimately looking for the best value deal. Meanwhile, NBN Co needs to meet its financial commitments to shareholders while also keeping retailers and end users happy.

I have spoken about the 'land grab' for end users in the industry, and in the absence of reliable information on service differentiation, price signal is the most end users have to go on when choosing a plan.

Due to competitive pressures, most retailers seem reluctant to take the opportunity to differentiate their product and offer a high-speed service with a high-capacity component for a premium price.

The industry has traditionally gravitated towards 'unlimited' data plans around the \$60 price point, which typically deliver speeds of up to 12Mbps. This proposition sounds good value and similar to what people have now, so it's an easy migration pitch.

However, the problem, with unlimited plans at a fixed benchmark price is that retailer profit margins gradually deteriorate as consumers use more data. Meanwhile, the data consumption growth rate has been trending upwards by more than 20 per cent each year. So the results are inevitable – retailers are slowly losing profits, and/or 'choking' the speeds available at peak times.

NBN Co has tried to provide some pricing relief for retailers by introducing the dimension-based discount on CVC. This has meant that as the retailers buy more CVC (more capacity on average per end user), the unit price of CVC drops.

As a consequence, we're seeing some improvement in capacity provisioning – but it's not a complete solution. It's still not encouraging retailers to offer attractive plans at higher speeds because of the fear that, at these higher speeds, end users will simply burn through data more quickly. This leaves retailers understandably nervous about runaway usage charges.

This isn't the only problem, there are also barriers to entry for phone and internet providers who can't afford to go into new areas due to the difficulty of spreading high set-up costs across



a small number of end users. This can result in further challenges for smaller players who can't afford to buy directly from NBN Co, and have even thinner margins – with less control over the quality of their service – in the reseller market.

The research: one size doesn't fit all

NBN Co has taken an industry-wide approach to tackle these challenges and has sought feedback from retailers via industry consultation, and direct meetings, over the past six months.

We have been pleased with the positive industry response, and that those involved understand we have a great product that, put simply, is not being maximised.

Our team has been thinking creatively, but practically, about pricing and products in new ways that promote a triple-win of better outcomes: for end users, for retailers and for NBN Co.

During the consultation process it became clear that when it comes to pricing, 'one size doesn't fit all'. The challenges and opportunities between retailers differ, therefore more options are required.

To give just one example: a large retailer operating at scale with a diverse mix of low and high-use customers is able to more efficiently use the capacity it purchases because there's a lower statistical chance that everyone will be using the network at the same time. Therefore, a rebalance to increase monthly access prices and lower CVC may not suit them since they need less CVC on average in the first place and it may diminish its ability to support entry-level customers.

On the other hand, an operator with a more tech-savvy customer base that's streaming all the time and consuming higher capacity on average may like to see more certainty from a lower capacity charge and a higher monthly access charge.

NBN Co has heard directly from retailers about the specific issues they have with our pricing and what models they prefer and how these could operate. After some extensive analysis and detailed modelling inside our organisation and with our customers, we are now taking our proposed solutions back to the industry.

Where we have arrived is not any one single model, as there is no 'silver bullet' – it's a combination of the best additions to our current pricing concepts that address the issues and objectives arising in our discussions with the industry.

The aim is to provide the right incentives for retailers, regardless of size, to offer higher speed and capacity services, and reduce the barriers to entry to some markets.

We also need to acknowledge that some changes take time to implement and require reworking the systems and processes of NBN Co and our customers. As a result, there are some initial and medium-term changes with an ongoing commitment to continue to review.

Fundamentally, where we are heading is to a rebalancing of access and capacity charges with minimum capacity per user to support product differentiation at the retail and wholesale level, with the aim to improve the end user experience.

Our new options also overcome the barrier to entry for smaller players into new areas, with bundled services allowing smaller retailers to build scale and presence without high up-front establishment costs.

The new 'nbn™ bundles' to come

As detailed above, without affordable higher-speed plans, many end users aren't seeing the true potential of the **nbn™** access network. Customer satisfaction levels fall if expectations of the 'nbn experience' aren't met. The problem we have discovered with our CVC dimension-based discount is that it still isn't encouraging retailers to offer higher speed plans, because the discount applies evenly, regardless of what speed is offered.

In our pricing evolution strategy, we are looking to respond to retailer requests for a rebalancing of pricing in a way that also promotes the take-up of higher speeds, and ensures a good quality end-user experience. We need plans that offer higher speeds, and we need to reduce retailer fears that higher speeds lead to high and unpredictable usage charges.

We also recognise that we need to do something dramatic, and quickly, to encourage retailers to get end users onto higher speed plans, as growth during peak hours continues to develop on the network. Our team has been working hard to advance new measures that can be implemented almost immediately, while we work on some mid-term solutions to provide more certainty for retailers with a commitment to a better experience for consumers. While we make these changes, we will continue to consult with retailers about the long-run evolution of our pricing models.

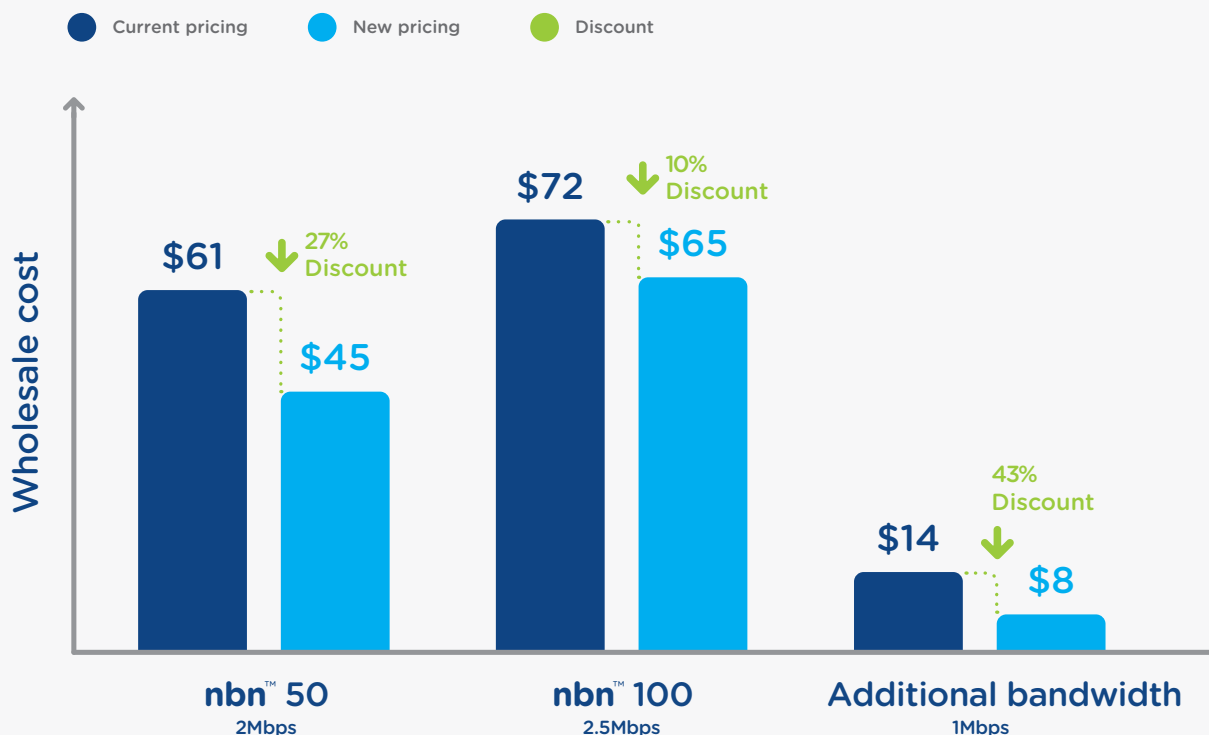


After further discussions with retailers, we plan to introduce new wholesale high bandwidth bundled services at the **nbn™ 50** and **nbn™ 100** wholesale speed tiers on our fixed line access technologies in the second quarter of 2018. The new **nbn™ 50** wholesale bundle will include a minimum of 2Mbps of bandwidth, or roughly double the average usage across all services at the current time, for a fixed \$45 a month wholesale for fixed line services. The new **nbn™ 100** wholesale bundle will include a minimum of 2.5Mbps capacity per service for \$65 per month wholesale.

We would like to see the **nbn™ 50** plan become the 'new normal', and so it is offered at a substantial discount on the current pricing (the equivalent bundle cost is around \$62).

Importantly, the included bandwidth is just the minimum. Retailers can continue to purchase additional capacity on top of the included bandwidth, as demand increases, for \$8 per megabyte per second per month – which is lower than current bandwidth costs.

Example cost comparison of nbn™ Fixed Line wholesale pricing options



A better entry level service

There is also the issue of how to provide entry level services which are typically purchased by low income households or older generations who may only want a voice service and, perhaps, some basic email.

Acknowledging that entry-level pricing has put a high floor under the price of voice-only and usage services, the new **nbn™** wholesale plans are set to cut the entry-level monthly access charge.

Included in a new voice-only and low usage plan is 50kbps data, which is enough to cover the data for a voice service. Therefore, in effect voice-only customers attract only an access charge to the retail service provider, which at \$22 per month wholesale is \$2 lower than the current entry-level plan.

At the same time, usage charges for the entry-level speed tier will increase significantly, recognising this tier is not suitable for a full high-speed broadband experience.



This is consistent with industry practice for budget services, which have low fixed prices and high usage charges, and will encourage movement to higher speed plans for those actually using more data.

The new entry-level bundle is expected to be available across **nbn**TM Fixed Line and fixed wireless access technologies by the end of 2018.

A move to higher speed plans now, better bundles later

We also plan to implement transitional measures that will smooth movement to the new pricing. One interim measure that will be implemented quickly to assist with migrating to higher speeds is a promotional wholesale discount.

This 12-month offer of the **nbn**TM 50 wholesale product for the same access price as the **nbn**TM 25 product with a boost of 50 per cent additional bandwidth will give end users access to a higher speed while we work with the industry to introduce the new bundles.

Generally, we find when end users experience genuine speed increases, they don't look back. The offer will operate as a refund of the difference between the wholesale price of the 50/20 plans (\$7 a month).

The wholesale discount is available from today on **nbn**TM Fixed Line access technologies and will remain in effect until the new 'high bandwidth bundles' are in market.

So, what's next?

Over the next few months, we will continue to consult with retailers on new pricing plans over the longer term to ensure we collectively have the right processes and systems to deliver better experiences on the **nbn**TM access network. We aim to have the new options in market by the second quarter of 2018.

Our consultation also showed that some retailers prefer our existing options so we will continue to make these available for those who choose to continue using them and to also allow a smooth migration for those who choose to progressively move their customers over to the new pricing options.

We want everyone to benefit from the promise of new technology, and the new network built to deliver it, and believe our new strategy gives us a clear way to unleash the potential of the **nbn**TM access network – while still paying our bills.