

31 March 2016

Study of the business mobile market segment

Purpose

1. The purpose of this study is to give us a better understanding of the high concentration levels in the high value business segment of the mobile market, and to understand in more detail if there are any barriers to expansion, including (but not limited to) impediments to customers switching providers and perceptions of mobile provider quality such as service delivery.
2. The research explores whether anti-competitive behaviour and/or structural, legal or systemic factors exist in the market that are inhibiting the competitive dynamics of the business segment.

Introduction

3. A characteristic of a healthy competitive market is the ability of firms to enter and develop an ongoing presence in a market. In the New Zealand mobile market there are currently three retail mobile network operators:
 - 3.1 two with an established market presence (Spark and Vodafone); and
 - 3.2 a third relatively recent entrant into the market (2degrees) with a significant share of the consumer segment (around 25%), but a negligible share of the business segment (around 3%).
4. The business segment of the market has the more valuable customers with a higher average-revenue-per-user (ARPU). Penetration in this segment can therefore be an important factor in developing and expanding a presence in the mobile market.
5. Our *Annual Telecommunications Monitoring Report 2014* noted that while there had been a small reduction in market concentration in the business mobile segment, it remained markedly higher than the consumer mobile segment.
6. Part of our role under the Telecommunications Act 2001 is to monitor the performance and development of telecommunications markets.¹
7. In order to better understand why there has only been a slight decrease in concentration in the business segment of the mobile market, we have undertaken a study of the business segment to assess whether there are any barriers to expansion,

¹ Section 9A, Telecommunications Act 2001.

including (but not limited to) impediments to customers switching providers and perceptions of mobile provider quality of service delivery.

8. We engaged UMR Research to undertake a survey of businesses in New Zealand. The study was undertaken in three stages:
 - 8.1 *Preliminary qualitative research.* The purpose of this stage was to identify key themes and to provide the focus for the questions and specific issues to explore in the phases that follow.
 - 8.2 *Quantitative research.* This stage built on the understanding of the key themes identified during the preliminary qualitative stage.
 - 8.3 *Final follow up qualitative research.* This stage provided a deeper understanding of the overall findings, with follow-up interviews used to explore specific opinions and experiences in more depth.
9. The study did not examine broader issues in relation to the development of competition in retail mobile markets including whether settings in wholesale markets are appropriate for supporting the development of competition for the long term benefit of end users of telecommunications services.

Main findings

10. The main findings contained in the UMR report “Competition for Business Customers in the Mobile Industry: A Report for the Commerce Commission” are:
 - 10.1 When selecting a mobile provider, respondents identified ‘reliability of coverage’, ‘good customer service’, and ‘competitive pricing’ as the most important considerations.
 - 10.2 Overall, respondents are satisfied with their main mobile provider. Only 5% of respondents are not satisfied.
 - 10.3 A low proportion of respondents have a “proactive” attitude to switching. Only 4% of respondents reported that they were actively looking for a new provider and 10% intended to look for a cheaper provider when their contract was up.
 - 10.4 14% of respondents had switched mobile providers in the past two years. The most cited reason for switching was ‘poor coverage’ (28%).
 - 10.5 The perception among respondents is that mobile providers are competitive compared with other industries. 44% of respondents considered mobile providers as the most competitive, behind only power companies (47%), and ahead of insurance providers, fixed line providers, and banks.
11. Overall, the UMR study did not uncover any evidence of anti-competitive behaviour and/or structural, legal or systemic factors existing in the retail market that are inhibiting the competitive dynamics of the business segment. Satisfaction with

current mobile providers by respondents, and a low proportion of business customers considering their mobile costs significant, may be limiting the level of switching in the business mobile segment. However, there remain opportunities for mobile operators to expand market share, with many respondents open to switching providers.