Price differentiation in digital industries: 2 hot topics for telecom operators

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Agenda: two specific price differentiation issues in digital industries

- From a telecom operator point of view

  Not a general assessment of pros and cons of price differentiation,

  But two specific price differentiation challenges

1. Price differentiation, investment fixed costs and access obligations

   Price differentiation/Ramsey pricing optimal to cover fixed network investment costs

   Ramsey pricing sustainable under wholesale access obligation?

2. Price differentiation in TSM

   Internalising indirect network effects implies price differentiation between 2 sides of TSM

   Should monopolies have the monopoly of network effects?

Price differentation and network investement challenge (fibre / 5G)

- Retail price differentiation necessary to cover high investment fixed costs

  Business case does not fly under uniform retail price:

  - High uniform price: not enough volume
  - Low uniform price: not enough value

  Ramsey/differentiated retail price required to cover investment costs

  Good for welfare

- Infrastructure generally subject to wholesale access obligation

  Compatibility between retail price differentiation and wholesale access obligations?

Retail price differentiation under wholesale access obligation: 3 options

- Uniform wholesale access price makes retail price differentiation unsustainable
  - High retail prices not competitive against resale of uniform wholesale price
  - Low retail price challenged under margin squeeze qualification

- Wholesale price differentiation mirroring retail price differentiation
  - Solves the economic and sustainability problems but
  - Limits access seekers pricing autonomy

- Wholesale price structure mirrors network cost structure: two-part wholesale price
  - Access seekers have same ability and incentives than access provider to differenciate retail prices
  - Does not fit equally all types of access seekers
  - Best option to support investment based competition

Price differentition in TSM

- Price differentiation between two sides of market at the heart of TSP efficiency

  Internalises indirect network effects, reflecting differentiated elasticities: typically one side (BtB) pays for the other (BtC)

  Efficiency maximised when TSM served by monopoly

- Do we have to choose between competition and efficiency?

  Could a competitive market served by several operators be able to internalise network effects as efficienctly as a monopoly?

  Competitive markets behave as monopolies when market players collude

    In principle for the worst: competition authorities deter and punish it

    Possibly for the best if they agree on price caps (Rey-Tirole 2017)

  Could agreement on price caps allow competitive markets to internalise network effects as efficiently as monopolies, allowing competitive markets to behave globally as TSP?

thank you