



BT Response to Ofcom's consultation document:  
**“Review of retail and wholesale ISDN30 markets”**  
Dated 4<sup>th</sup> May 2010

**Non confidential version**  
All redacted items are marked by ✂

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Submitted: 17<sup>th</sup> June 2010

## 1. Executive summary

This response is submitted on behalf of BT by its retail operating divisions; BT Retail and BT Global Services. It is therefore focused on the retail market for ISDN30. Openreach will submit a separate response regarding the wholesale market.

We are encouraged that Ofcom has concluded that BT no longer has Significant Market Power (SMP) in the retail ISDN30 market and that the associated SMP regulation is no longer required.

The current regulation is not delivering the best outcome for all consumers and we agree that Ofcom should remove it. Indeed, we believe that the current retail remedies are no longer effective. They are artificially constraining prices and commercial flexibility by not allowing us to compete effectively.

The retail ISDN30 market is highly competitive with over 300 companies active in the market. This competitive pressure has driven BT's market share from 60% in 2003 to the current level of 45%<sup>1</sup> and this decline is set to persist.

We are keen for Ofcom to finalise these proposals quickly so that consumers will be able to benefit fully from last year's retail Narrowband Market Review deregulation.

## 2. Current regulation

We are encouraged that Ofcom has concluded that BT no longer has SMP in the retail market. The impact of the delay in lifting the unnecessary ISDN30 retail regulation has left us at a considerable disadvantage compared to our competitors. Customers of all types are typically seeking to buy these services in "bundles". The continuation of the price publication and no undue discrimination remedies has meant we have had to publish information for all our products and bundles that contain both SMP (ISDN30) and non-SMP products. The remedies also prohibit us from offering bespoke pricing packages to meet the needs of specific consumers.

Price publication has allowed our competitors to easily benchmark and undercut our prices in both the ISDN30 market and the wider calls and lines market. It has also worked against the consumer interest as it has allowed our competitors to maximise their returns by charging more than they otherwise would.

## 3. Competitive characteristics of the market

The retail ISDN30 market is highly competitive. The availability of a wholesale ISDN30 product has ensured that the barriers to retail market entry are low, and as a result of new entry, customers can now choose from over 300 companies including C&W, Virgin, Colt, and Opal. This competitive pressure has led to a drop in BT's market share from 60% in 2003 to 45% today. We agree with Ofcom's view<sup>2</sup> that our market share decrease shows no sign of abating, and that the decline is steeper than anticipated earlier.

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<sup>1</sup> Table 5.1 of Ofcom's review of retail and wholesale ISDN30 markets, 4 May 2010

<sup>2</sup> Paragraph 5.13 of Ofcom's review of retail and wholesale ISDN30 markets, 4 May 2010

We agree that this decline is set to persist as we continue to lose customers. Our installed base declined by  $\times$  in 2009, compared to the prior year, with the total number of retail channels standing at  $\times$  at the end of March 2009. We are losing ISDN30 customers due to two key factors – price and new technologies.

### 3.1 Pricing and packaging

There is extensive competition on price, as well as on service offerings and bundles, and customers have a wide range of prices and packages to choose from, which has led to customers switching away from BT. These facts reinforce that the retail market is ready for deregulation now.

Competitors are offering increasingly aggressive prices to customers and the current economic conditions are driving many customers to make savings wherever possible. ISDN30 is an area where customers can make significant savings, on average 20%, compared to the BT price. Even some of the larger CPs are offering ISDN30 free of charge, either as part of a package or as a loss leader with the ultimate aim of tempting the customer to migrate all of their business away from BT. Due to the current regulatory constraints we are unable to match many of these offers.

The table below shows a range of different competitor offers which led to BT losing business during 2010. These examples are in addition to the information previously provided:

*Table 1: Examples of ISDN30 losses to ISDN30 competitors during 2010*

$\times$

### 3.2 New technologies

The emergence and rapid growth of new technologies has also changed the way in which customers can communicate. These technologies are increasingly playing a role in supporting these business communications. One key example is IP Voice. Market analysts agree that IP Voice is becoming a more established and credible mainstream technology, driven by cost savings resulting from convergence and by customers looking at IP Voice as a gateway to unified communications. By 2014, IP Voice is expected to capture around 50% of the business voice market<sup>3</sup>. Over the last two years, BT Retail and BT Global Services have grown their IP Voice business by  $\times$ .

Major CPs such as Cable & Wireless and Global Crossing, as well as BT, have all been active in the IP Voice space, securing some notable contracts. In addition, the mobile operators are now aggressively targeting the business market with end to end communication propositions, of which IP Voice is a critical component.

Another change is SIP Trunking, which is also expected to grow rapidly and will be the fastest growing sector of the IP Voice market<sup>3</sup> – this will not only be driven by the cost benefits arising from the economies of scale SIP provides over ISDN30, but also because SIP Trunking is the best placed of the IP Voice solutions to support real-time value added services.

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<sup>3</sup> IDC's "UK Business Voice Forecasts, 2008-13", April 2009

The SIP market is attracting established CPs and new entrants with both citing the same benefits of cost savings and a gateway to unified communications. These providers are winning ISDN30 business from BT with SIP enabled propositions – the examples cited below alone account for a loss of  $\times$  ISDN30 channels during 2009 to providers using SIP.

BT is now entering the SIP market, and is actively engaging customers in discussions around SIP – so far BT already has  $\times$  customer prospects for SIP. Within BT Global Services' top 100 ISDN30 customers, SIP prospects have been identified with customers who represent  $\times$  of BT Global Services total ISDN30 base.

*Table 2: Examples of ISDN30 losses to SIP/other IP during 2009*

$\times$

#### **4. Response to specific questions**

*Question 4.1 Do you agree or disagree with our market definition? Please give reasons for your view.*

We believe that the relevant retail market may now, or may be at some time in the near future, wider than Ofcom's market definition as IP based solutions are an increasing competitive constraint on the retail ISDN30 market (see our comments in Section 3.2). Ofcom has found that BT does not have SMP on a narrow retail market definition. Any move to a wider retail market definition which includes alternative technologies would further reinforce Ofcom's proposals to remove SMP at the retail level. Regardless of the market definition we agree that BT no longer has SMP in the retail market for the supply of ISDN30 services.

*Question 5.1 Do you agree or disagree with our analysis in which we have provisionally concluded that BT does not have SMP in the retail ISDN30 exchange line services market in the UK excluding the Hull area? Please give reasons for your view.*

We agree with Ofcom's assessment that we no longer have SMP in retail ISDN30. The market is highly competitive and BT's market share has fallen faster than Ofcom expected and now sits at 45%. There are over 300 companies selling ISDN30, including brands such as C&W and Virgin.

We believe that the current retail remedies are no longer effective and are artificially constraining competition, including price competition by not allowing us to compete on a level playing field. Regulation is not delivering the best for consumers.

Customers are leaving BT based on price and to go to new technologies. Ofcom's customer research does not take account of the former and it is important to note that there is significant switching due to price (see table 1).

We agree with Ofcom's assessment that the ISDN30 market will continue to decline and that switching to IP services will accelerate in the short to medium term.