CONSUMER PROTECTION ASSOCIATION
HIMMATNAGAR
DIST. : SABARKANTHA
GUJARAT

Comments on

Tariff Issues of Telecom Services

Introduction :

Floor prices – Fundamental Economics :

For a floor price to be effective, it must be set above the equilibrium price. If it's not above equilibrium, then the market won't sell below equilibrium and the price floor will be irrelevant.

A few crazy things start to happen when a price floor is set. First of all, the floor price has raised the price above what it was at equilibrium, so the demanders (consumers) aren't willing to buy as much quantity. The demanders will purchase the quantity where the quantity demanded is equal to the price floor, or where the demand curve intersects the price floor line. On the other hand, since the price is higher than what it would be at equilibrium, the suppliers (producers) are willing to supply more than the equilibrium quantity. They will supply where their marginal cost is equal to the price floor, or where the supply curve intersects the price floor line.

As one might have guessed, this creates a problem. There is less quantity demanded (consumed) than quantity supplied (produced). This is called a surplus. If the surplus is allowed to be in the market then the price would actually drop below the equilibrium. In order to prevent this the government must step in. The government has a few options:

- 1. They can buy up all the surplus. For a while the government bought grain surpluses in the country and then gave all the grain to other country. This might have been nice for the other country’s consumers, but it destroyed their farmers.
- 2. They can strictly enforce the price floor and let the surplus go to waste. This means that the suppliers that are able to sell their goods are better off while those who can't sell theirs (because of lack of demand) will be worse off. Minimum wage laws, for example, mean that some workers who are willing to work at a lower wage don't get to work at all. Such workers make up a portion of the unemployed (this is called "structural unemployment").
- 3. The government can control how much is produced. To prevent too many suppliers from producing, the government can give out production rights or pay people not to produce. Giving out production rights will lead to lobbying for the lucrative rights or even bribery. If the government pays people not to produce, then suddenly more producers will show up and ask to be paid.

- 4. They can also subsidize consumption. To get demanders to purchase more of the surplus, the government can pay part of the costs. This would obviously get expensive really fast.

In the end, a price floor hurts society more than it helps. It may help farmers or the few workers that get to work for minimum wage, but it only helps those people by hurting everyone else. Price floors cause a deadweight welfare loss.

A deadweight welfare loss occurs whenever there is a difference between the price the marginal demander is willing to pay and the equilibrium price. The deadweight welfare loss is the loss of consumer and producer surplus. In other words, any time a regulation is put into place that moves the market away from equilibrium, beneficial transactions that would have occurred can no longer take place.

Q1. Do you foresee any requirement of regulatory intervention at this stage in tariff fixation to protect the interest of telecom service providers as well as the consumers? Please support your comments with justification.

Comments :

No.

The prices are under forbearance should continue under forbearance because :

1. The concept of floor price is in contradiction to the 'forbearance' clause of tariff regulation which requires that it should not intervene on tariff issues, which should be left to market forces or competition.
2. If the service providers switch to a floor price, then with every new tariff offer they would need to seek Telecom Regulatory Authority of India's (TRAI) permission.
3. The floor price will depend on multiple variants, the technology, utilization of the network, volumes and many more.
4. It is a complex issue. How they operationalize this principle, is another issue.
5. It is Anti – Competitive.
6. The idea of price floors is retrograde and lowers price flexibility in the market place. Price floors will hurt consumers.
7. Floor price will raise end-user prices and provide only temporary relief to telecom companies.
8. Fixing a floor would have clearly required some explaining on its part on the balance between healthy competition and an anti-consumer anti-competitive pricing model.

9. It's difficult to set a floor price when service providers have a mix of 2G, 3G and 4G services, with each having a different cost of generating a call.
10. The Authority has already twice reviewed the policy of forbearance in telecom tariffs in 2012 and 2017. On both occasions, the Authority decided against fixing tariff because forbearance was held to be in accordance with international best practice.
11. Globally, there are only 4-5 countries where the regulator stipulates some form of tariff fixation.
12. About one billion mobile phone subscribers will pay up to 40% or so more to make calls and use data. This increase is the biggest in India's telecom industry with pricing of voice services back for most plans.
13. The higher than expected tariff increases would lead to significant revenue gain and a re-rating of stocks. This will also help to attract investment.
14. Voice pricing is completely back and termination will also not go down to zero immediately as operators are using fair usage policy and off-net calls to charge for voice.
15. Price increases would be the real game-changer for restoring health of the telecom sector.
16. Service providers have also made changes for their high ARPU customers in a bid to push them to the stickier post paid segment, which have similar prices but more benefits.

17. The tariff hikes are expected to lead to restoration of pricing power to the service providers and would result in improvement in the operating metrics of the industry.
18. The current fiscal has witnessed some stabilization of ARPU levels driven by weaning of low ARPU subscribers with the introduction of minimum recharge plan.
19. This can encourage users with multiple SIM to give up inactive connections, reducing the cost of maintaining those connections as well as increasing the operators' ARPU.
20. Data customers are increasingly as a percentage of total customers, as is the intensity of data usage per customer over the last two years. As a result, share of data ARPU has been rising for the last two years.
21. The authority has announced that telecom operators will continue to pay 6 paisa per minute for every out going call made to their competitor network till December 31, 2020. It is a relief for the debt-ridden telecom sector.
22. Most economists also advise against the fixation of price controls as it leads to economic inefficiencies, consumer harm, market distortions and reduced innovation,"
23. **If there are certain market failures, if there are certain aberrations, if one of the objectives, for example consumer protection, is not being met with, then obviously TRAI should have to think of ways to ensure that these objectives are met with.**
24. **The market is functioning in an efficient and fair manner.**

25. If a minimum floor price had been set, it could have meant an end to freebies in the market, as operators would have to keep in mind the minimum threshold while fixing tariffs for voice and data.

Government Initiatives

1. The government has constituted a Committee of Secretaries (CoS), headed by Cabinet Secretary Rajiv Gauba, to work out a relief package for the telecom sector, a move that may help mitigate the impact of the more than `1.4 lakh crore that the service providers may need to pay the exchequer following a recent Supreme Court (SC) order. The CoS will also review various demands made by the industry, including deferment of spectrum auction payment due for the next two years, reduction in spectrum usage charges and the Universal Service Obligation Fund levy.
2. Price increases and a two year moratorium on spectrum payment of 42,000 crore recently approved by the government would provide enough cash flow relief to the service providers and put them on the path to recovery.
3. The government has fast-tracked reforms in the telecom sector and continues to be proactive in providing room for growth for telecom companies. Some of the other major initiatives taken by the government are as follows:

- The Government of India has come out with a new National Telecom Policy 2018 in lieu of rapid technological advancement in the sector over the past few years. The policy has envisaged attracting investments worth US$ 100 billion in the sector by 2022.

- The Department of Information Technology intends to set up over 1 million internet-enabled common service centers across India as per the National e-Governance Plan.
- FDI cap in the telecom sector has been increased to 100 per cent from 74 per cent; out of 100 per cent, 49 per cent will be done through automatic route and the rest will be done through the FIPB approval route.
- FDI of up to 100 per cent is permitted for infrastructure providers offering dark fiber, electronic mail and voice mail.
- The Government of India has introduced Digital India programme under which all the sectors such as healthcare, retail, etc. will be connected through internet.

4. The Union cabinet has approved on 7th march 2018 two key measures in telecom sector to facilitate investments, consolidation in the sector and enhancing ease of doing business. This include restructuring the differed payment liabilities of spectrum auction of telecom service providers and revising the limit of the cap for spectrum holding for telecom service providers.

With the restructuring of the deferred payment liability, the cash flow for the telecom service providers increased in the immediate time frame providing them some relief. Revising the limit for the spectrum cap holding facilitated consolidation for telecom licenses.

5. Operators have received in-principal approval from the Reserve Bank of India (RBI) for Payments Bank license, which is expected to aide in customer retention and enables them to build on their M-Payment services.
6. Similarly introduction of the concept of mobile virtual network operators (MVNOs) by the Authority are expected to open up new opportunities for operators such as wholesale revenue stream.

Q2. Do you foresee any need for change in TRAI policy of forbearance in tariffs? Please give reasons for your response.

Comments :

No.

None of the 190 countries have implemented a floor price for the telecom sector, and from the looks of it, no developed market has even broached the subject.

1. Given example of the three SAARC and 3 other countries, out of them four countries have either withdraw the floor price or not introduced it because :

(i) The move is targeted at bringing more benefit to telecom users as well as companies.

(ii) The move will result in cost optimization and allow more competition in the industry.

(iii) Give hope for small operators.

(iv) To enable ISPs to bring down their internet data price as low as possible so as to gain more subscribers and to give the telecom

service providers the freedom to reduce their data tariff below the set lowest industry prices.

(v) Development in the mobile electronic communication market.

(vi) Increasing significance of mobile internet service.

(vii) Proliferation of over the top (OTT) services enabling communication over the internet.

(viii) Declining significance of voice and SMS services as compare to the period when the regulation were put in to practice as well as

(ix) Decline in the proportion of on net tariff and in the price difference between on - net and of net - calls.

Nigerian example :

2. In Nigeria, a decision to impose a floor price for data services caused a furore among consumers, leading the Nigerian communication Commission (NCC) to withdraw the proposal

The Nigerian communication commission (NCC) had earlier on October 13, 2015 lift the data floor prices. The removal of floor price was implemented by the NCC to promote and ensure sustainability, growth and development of the segment of the data service market.

The philosophy behind the removal is to enable ISPs to bring down their internet data price as low as possible so as to gain more subscribes, as well as make it cheaper for Nigerians to access the internet.

The Impact :

Inevitably, the telecom operators reacted to this removal by reducing their data prices considerably. This reduction in prices has also a significant effect on the reduction or increase in the number of internet subscribers amongst the telecom operators. It increased the competition among the different service providers.

Moving away from the impact on the telecom operators, there is also a positive impact on the behaviour of users of these data. This intern increased online economic activities such as online shopping, online banking and as well other economic activities which are transacted over the internet.

The most obvious benefactor in this regards is the entertainment industry which has seen the rise of such online entertainment outfits.

In conclusion, there is no doubt that impact of the removal of the data floor price in Nigeria is very good so far. The people are becoming increasingly reliant on the internet for their day to day activities, improved internet penetration and accessibility.

3. One of the arguments made by incumbents before TRAI is that this has been implemented in some other countries. But a moot point is that two countries where the telecom regulator has mandated a floor price, Sri Lanka and Zimbabwe, have a population of less than 40 million put together.

In India, a far larger market, it will be reasonable to expect a revolt from consumers as well, especially after the drastic fall in tariffs they have enjoyed in recent months.

4. Bangladesh is a rare market with a relatively large size where a floor price is applicable for voice services.

Shri Lankan Example :

5. (i) The Sri Lankan example is often touted in the debate. Its telecom industry was running high losses when the floor price was introduced by the Telecommunications Regulatory Commission of Sri Lanka (TRCSL), but turned around within two years of the move, and also resulted in higher investments into the sector.

(ii) **In Shri Lankan Supreme court, one Indian service provider had filed a petition against floor price complaining that it is against the interest of consumers.**

(iii) In Shri Lanka, even after introduction of minimum floor price, mobile penetration on an ownership basis has still not reached 50% Nationally. (as per ITU Only 34.1%)

(iv) Feature phones continue to account for the vast majority (over 90%) of shipments. Smart phones are rising, but the time taken for the hand set replacement cycle means that their share in the actual user base is lower (perhaps 5%).

(v) The use of zero-rated offers has come into play in partnership with internet firms. Here, customers are given free access to a limited part of the internet, with browsing or activity beyond this charged (one example is Wikipedia offered by Dialog).

(vi) As a result of the floor price the dominant market players become more powerful since the other players cannot reduce the price beyond the floor price level.

(vii) It was identified from the study that the ARPU has dropped over the period.

6. Half of the country is still on 2G Network, a floor price will create new barrier for those without access to data from reaping the digital dividend at a time when India dreams of a $ 5 trillion economy by 2024.

7. Setting a floor price for mobile services is a retrograde step. It ultimately rewards inefficiency.

8. Falling revenues of mobile operators and rising pressure for investment is a global phenomenon and setting floor price could be anti consumer.

9. Floor price artificially makes the telecom services more expensive for the consumers an can, thus, have a cascading effect on the other sectors of the economy that ride on telecom for the provision of their services.

10. Current policy has provided some benefits for not only the customers but also the society such as reduction of call charges (tariff), introduction of new technologies, employment generation

opportunities, increased the telephone usage, improved the telecommunication coverage in rural areas, dropped the equipment costs, grew the industry profitability, increased the government revenue etc..

Q3. If the answer to Q1 is in affirmative, is fixing a floor price, *i.e.* a standing prohibition on TSPs not to offer services below a predetermined price level, the answer? Please give detailed reasons for your response.

Comments :

The Answer is in Negative.

Q4. Do you perceive a need to fix floor price despite the fact that the TSPs have increased their tariff recently? Please support your response with detailed justification.

Comments :

No.

1. All the analysts expect the industry revenues to grow by minimum 15% in FY2020 and 18% in FY2021 to reach Rs.2.57 lakh crere, while the industry OPBDITA (Operating profit before interest, tax, depreciation and amortization) is expected to grow by 53% in FY2020 and 21% in FY2021 to touch Rs. 75,000 crore.
2. More than expected tariff hike will increase ARPU/Revenue in the near term, that may amplified by operating leverage..

3. Higher than expected tariff increases would lead to significant revenue gain and re-rating of stocks.
4. The Price hike will help increase of ARPU of all service providers to increase by 21% to 31%.
5. It expects a 55% ARPU increase by FY22 end compared from September 2019.
6. Shares of telecommunication companies have been gaining after the announced plans to increase the cost of subscriptions to their customers.
7. The quantum of the tariff hike is higher than expected and it also comes with a strategy to restrict down-trading which augur well if the hikes are absorbed by consumers smoothly.
8. The new tariff will help the sector in attracting foreign funds and help domestic banks in lending to the industry.
9. This will help operators to begin to hire again. Operaors have been losing employees because of their inability to retain them. Also, because several of operators have exited the business. With this particular move, the service providers can see financial health improving. This means better remuneration for employees, better purchasing power to them,"
10. The hike in tariffs will provide companies to invest in expanding optical fiber network and rolling out telecom networks.
11. As per our estimates, four persons at every gram panchayat level will be required to maintain telecom networks. Laying fiber is a must for the country and it will create jobs on the ground. However, in the long term, there may be a need for high-end jobs in the telecom

sector and most of the manual jobs will either be automated or outsourced.

12. only the most efficient operator would win economically. For instance, if TRAI set a floor price of 15 paise a minute, taking into account the cost of generating a call of an 'inefficient' service provider, then that operator may survive for a few quarters, but the most economically-efficient telecom service providers, whose cost of generating a call is, say, 5 paise a minute, will make windfall gains. "The efficient operator can use its gains to wipe out other service providers.
13. The floor price regulation is harmful for the consumers since they cannot get the benefit of the price reduction.

Q5 (a). What methodology should be used to fix floor price by the Authority and why? Please give detailed methodology with calculations and supporting justification.

Comments :

1. After the consultation process in 2017, the authority had said that due to the complexities involved in the fixation of a floor price, it was not an idea worth pursuing. This continues to be true even now.
2. only the most efficient operator would win economically. For instance, if TRAI has to set a floor price of 15 paise a minute, taking into account the cost of generating a call of an 'inefficient' telecom, then that operator may survive for a few quarters, but the most economically-efficient telecom operator , whose cost of

generating a call is, say, 5 paise a minute, will make windfall gains. The efficient operator can use its gains to wipe out other telecom service provider.

3. In 2010, in a bid to ensure that small telecom service providers remain competitive, the Sri Lankan government had introduced floor rates on tariffs. Charges on the same network were set at 50% higher than prevailing rates, while those between networks were set at 28% lower than existing ones. Floor rates were eventually removed.

Q5 (b). If a floor price is considered, what should be the mark up over the relevant costs for arriving at a floor price? Please give detailed calculations and justification for your response.

Comments :

It's difficult to set a floor price when service providers have a mix of 2G, 3G and 4G services, with each having a different cost of generating a call. One does not arrive at a floor price that would be agreeable to all parties and not cause damage to some?

Q6: Considering that cost of delivery of telecom services is likely to be different for different TSPs, what parameters should be considered to decide floor price and why? How can it be ensured that such a floor price fixation exercise does not result in windfall profits to few TSPs? Please give your response with detailed reasoning.

Comments :

1. The cost of provision of voice and data services varies across technologies. "Should the most efficient, least cost operator or the least efficient, highest cost operator be chosen as the representative cost operator?"

   If the most efficient operator cost is chosen, the other operators will be forced to price below cost; while if the least efficient operator is chosen, it could result another way .

2. The technology that telecom companies make use of is not even developed by them. There are standard setting organizations (SSO) such as 3GPP that develop the latest generation of telecom technology. This standard/technology developed by SSO such as LTE or WCDMA is then incorporated by a handful of telecom equipment vendors such as Nokia, Huawei, and Ericsson. Telecom companies then go on to buy the equipment from them and deploy it on their towers or towers that they have leased. But the main difference is the delivery of service. Some service providers are even today using old technology and their cost of delivery are higher than the comparison of new technology so it is very difficult to come in concusses with all service providers regarding the common pricing system.

3. Put simply, the elasticity in terms of ARPU and subscriber base is what helps telecom operators remain competitive and keeps the competition going. Putting a cap or restricting the elasticity of

subscriber base or ARPU can have a detrimental effect on the competitive intensity of the industry. Having a pre-determined floor price would end up freezing the ARPU of the industry.

4. Most Indian telecom operators already work at razor-thin margins and it is essentially their volumes that help them remain profitable. If the Government would set a floor price, then it would inevitably set it up in such a manner that on a unit level, the floor price would be gross profitable. The incumbent telecom operators given their scale would be more than happy to match the floor price.

5. When all telecom operators match the floor price, then the potential ARPU of the entire industry gets fixed. If all telecom operators price their voice, data and SMS packs at a certain amount, then that essentially fixes the ARPU of the entire industry. With the ARPU thus fixed, the revenue of telecom operators would essentially end up being a function of the subscriber base. The incumbent telecom operators would in these circumstances naturally end up earning more revenue than a new entrant or a smaller telecom operator, thanks to their large and relatively healthy subscriber base.

6. A decision to create a floor price would inevitably restrict the ARPU. This would lead to a scenario where the incumbent telecom operators keep getting stronger while the smaller ones keep getting weaker. After a particular period of time, the only operators to survive will be the ones with the largest subscriber base, and it would no longer make sense for a newer telecom operator to enter the fray. This

would lead to oligopolies that would have the least interest in competing with each other which would lead to lower quality customer service and reduced network spending. A big reason why one Indian service provider's Sri Lankan operations failed was because of floor pricing. The Sri Lankan telecom regulator had issued a floor price below which no operator could price their services, and since Indian service provider was amongst the smaller operators in Sri Lanka, this meant their operations became unviable as time passed, and are now on the verge of being shuttered or merged with someone else.

7. Competition of the level brought in by new service provider might make life uncomfortable for existing players but it benefits the consumer and indeed the industry itself in the long run. Putting a floor price would hamper this. **One of the core requirements of an open market is minimal Government intervention, and this is what the service providers would do well to remember.**

Q7. Is there a need to fix floor price for mobile data service? If yes, can such floor price be applied uniformly to different categories of subscribers such as retail consumer, corporate, tendered or otherwise contracts, segmented and any other including one on one? If it cannot be applied uniformly, will it not result in discrimination between various categories of subscribers? Please give your answer with detailed reasons and justification.

Comments :

No.

1. Low tariff are purely the result of hyper-competition resulting in a huge " Consumer Surplus ". It is because of less investment in network coverage, poor quality and old technology.
2. Before one service provider's launch, there was virtually a cartel in operation that kept price high.
3. It was a transient phase as big operators fought for new customers.
4. Foreigners point out that when they are visiting India, they offered data at almost $ 6.62 per MB, which is a staggering $ 6,779 per GB, and about 70,000 times more than what local pay for data.
5. Recent prices of one service provider is not subsidized, but is commercially viable and they made profit in it.
6. The new operator's customers are now spending more than other operator's customers. They reported 30% higher than the average revenue per user of almost 2$.
7. And so, the drivers, cooks, migrants, students and many blue and white caller workers watching and sharing videos have driven up India's average mobile data consumption 10 times in two years, to more than 10 GB per user per month, roughly the same as in the USA.

Q8. What should be the basis and methodology for floor tariff fixation for mobile data service? Give detailed justification and calculations for your response.

Comments :

1. Most economists also advise against the fixation of price controls as it leads to economic inefficiencies, consumer harm, market distortions and reduced innovation.
2. The floor price should reflect the relationship between traffic volumes, service quality and capacity.

Q9. What should be the representative cost for fixing a floor price for mobile data service? Give detailed calculations and justification for your response.

Comments :

No comments.

Q10. Should fixation of floor price be considered for voice calls also? Please give your comments with detailed justification.

Comments :

No.

1. The service providers have gone from an all mobile voice calling network to a hybrid network (Voice and Internet data), to soon an all data network.
2. The provision of voice involves the use of data in 4G networks. Thus, any exercise in fixing a floor price for data involves fixing a price for voice calls also, especially for those provided on a 4G network,
3. In a voice network, the de facto floor is the interconnection charge, question is, in the new world of data what should it be?

4. There is a blurring of lines between a voice call provided in previous generation technology and in 4G.
5. If it fixes a floor price for 4G voice calls then it must do so for 2G and 3G as well and not leave them under forbearance as that would create a disparity between the service providers providing the same service.
6. Implementing the floor price could be complex in India because, the cost structure is different for various operators. One cannot fix the floor price when on 4G network the cost of the offering a voice call is substantially lower compared to a 2G network. Whose cost one should take to calculate floor price?

Q11. If the answer to Q10 is affirmative, given that different technologies are being used to provide voice services (2G, 3G and 4G), what should be the methodology used to arrive at a floor price for voice services? Please give detailed calculations and justification for your response.

Comments : -

Q12: Should there be any limit on TSPs to offer free off net calls? Please explain your response with justification.

Comments :

No.

1. Free off net calls is more of a psychological game, where customers are relieved that they will continue to have unlimited calls to rival network. Feedback from the market made the two service providers remove these cap. A subscriber may not even reach the cap limit but he knows that there is no limit to his talk time.

   Getting subscribers on to the new plans is the main motto and the service providers do not want their customers to down grade. Losing them would means the aims of improving ARPU, a key market indication, is lost.
2. Learning is an important phenomenon in mobile telecommunication markets, as consumers who have switched more often in the past tend to face a lower expenditure per minute.
3. Most of the consumers does not correctly incorporated the structure of on-net and off-net calls in their calculation to find optimal tariff.
4. It may be more expensive for the consumers.

Q13. If your answer to Q12 is affirmative, how should unlimited voice calls be defined? Please give your comments with detailed justification.

Comments : -

Q14. If a floor price is considered, should there be any floor price prescribed for bundled offers, including those having unlimited voice calls and data? Please give your comments with methodology and detailed justification.

Comments :

Prices for packages of telecommunications services on the market are in the range including the cheapest deals. This does not change the fact that for some customers the price is still not at a satisfactory level. It is impossible to develop the offer, the price of which would meet the needs of all current and potential buyers. Contrary to appearances, consumers do not expect the lowest prices, they expect such a package of services, the value of which will justify required price. Despite the attractive price, a package of services should not be constructed on the basis of price, but on the basis of the value proposition for the buyer. **It is crucial to understand that price should not be source of competitive advantage.** Instead of price, providers should compete on usefulness of individual components of the package - the customers will not pay even a very low price for a package that includes services useless for them. Contemporary customer has a good orientation with regard to the market offer, and has clearly defined expectations. What is more, customers know their rights, and are also aware that a privileged position relative to sellers. For this reason it is necessary for suppliers to transfer their focus from the price to the utility of the individual elements of the packages, and the transparency of their pricing. Sellers should be aware that there is a change in the way in which consumers evaluate the available products. Growing expectations demand side pose a significant challenge to the supply side. The excessive focus on price as a differentiator may result in fragile foundations of loyalty. Such a situation occurs when customers use a particular service provider until the appearance of a cheaper competitor. No other features of the offer (other than price) do not encourage consumers to continue using the package of services.

One of very important issue connected with bundling is risk of cannibalization. Because of this negative phenomenon it is crucial to pay attention to set right price of the bundle. This price should be lower than the sum price of the independently priced optimized products in order to encourage different customers with different independent product valuations to purchase all products in a single bundle. At the same time this price should be higher than the price of any specific product within the bundle. The goal of conscious evaluation of the package is to avoid cannibalization. Price bundling can promote the sales of products consumers might not otherwise buy, but the combined price must be low enough to get them do buy the bundle . That type of pricing tactic can be ineffective if a company tries to support the margins of a weak product by pairing it with a high-value one. The overall value of the combined offering must be enhanced to attract consumers.

In some cases, companies abandon bundling in favor of unbundling. It is when companies offer predesigned packages of features and services that include components some customers do not need.

It is worth noting that the size of bundling is also very important. Too much components in bundle can cause customers' anxiety and even fear. So as usually, final decision about size of bundle depends on specific market situation. This issues is even more important if company concentrates not on price bundling but on product bundling. This term is not a synonymous of price bundling. Following Table presents some important terms connected with bundling.

Term	Definition	Examples
Bundling	Bundling is the sale of two or more separate products in one package.	Opera season tickets, multimedia PC.
Price bundling	Price bundling is the sale of two or more separate products as a package at a discount, without any integration of the products.	Luggage sets, variety pack of cereals.
Product bundling	Product bundling is the integration and sale of two or more separate products at any price.	Multimedia PC, sound system.
Pure bundling	Pure bundling is a strategy in which a firm sells only the bundle and not (all) the products separately.	IBM's bundling of tabulating machines and cards.
Mixed bundling	Mixed bundling is a strategy in which a firm sells both the bundle and (all) the products separately.	**Telecom bundles.**

In practice, mix-bundling like in telecom services, is preferred more than versioning or add-on strategies but the following conditions should be fulfilled: - each product in the bundle has an independent market, - the markets for each product overlap, - the consumption of one product does not subtract from the value of consuming the other product, - the distribution of reservation prices between customers is broad and contrasting with respect to their desire for specific products, - the marginal costs to produce the products are low.

The legality of price bundling :

1. It can become unclear just what the regular, or unbundled, price is for a individual service of a package. It may be possible to set artificially high prices in order to encourage customers to buy a package.
2. In competitive markets, almost all competitor are free to bundle. But situation is totally different when any single company owns significant market share – in that case bundling is more likely to be legally suspect (even if that company is not a completely monopolist).
3. The another important factor is connected with the actual purpose of offering package to customers. The question is – whether the bundle adds additional value to customers or it's goals is to block competitors? If it is possible to show that the bundle provides meaningful advantages, this tactics is legal. If not, TRAI should evaluate actions to mitigate the legal risks of bundling.

   There are certain potential disadvantages of floor prices in bundled services like :

1. Difficulty in defining in services
2. Unclear accounting
3. Implementation challenges
4. Potential avoidance of necessary services
5. May encourage unnecessary episode of services
6. Consumer may have information asymmetry.

Q15. If a floor price is considered, should there be a price ceiling also to safeguard consumer interest? Please give your comments with detailed justification.

Comments :

Floor price is not justifiable.

Q16. If your answer to Q15 is in affirmative, what should be the methodology used for fixing a price ceiling for mobile data service, voice services and bundled offers. Please give detailed calculations and justification for your response.

Comments : **-**

Q17. Should all the tariff plans (retail consumer, corporate, tendered or otherwise contracts, segmented and any other including one on one) offered by the TSPs be subject to floor price tariff orders? Please give detailed justifications for your answer.

Comments :

It is partiality with consumers.

Q18. How can it be ensured that all the tariff plans of TSPs (retail consumer, corporate, tendered or otherwise contracts, segmented and any other including one on one), comply with

the floor tariff orders? Please give you response with detailed justification.

Comments : **No comment.**

Q19. Any other relevant issue that you would like to highlight in relation to the above issues?

Thanks.

Yours faithfully,

(Dr. Kashyapnath)
President
Member Organization : TRAI