

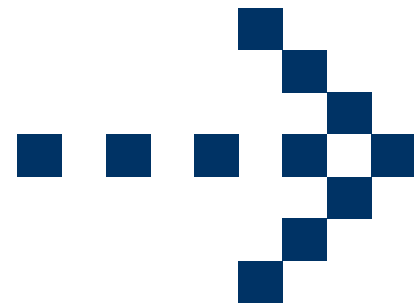
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“Who takes the money from whom?”



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Two quotations from Adam Smith

- ❑❑❑ “It is not from the benevolence of the butcher, the brewer, or the baker that we expect our dinner, but from their regard to their own interest”
- ❑❑❑ “People of the same trade seldom meet together, even for merriment and diversion, but the conversation ends in a conspiracy against the public, or in some contrivance to raise prices”

Two sources of high returns (1)

Scarcity rents: a non-reproducible asset has its return fixed by willingness to pay

Examples:

- lakeside property values and spectrum prices in competitive markets
- talent, the creative input or entrepreneurial talent which cannot be duplicated (Maria Callas, Wayne Rooney, Richard Branson)

Two sources of high returns (2)

Monopoly rents, achieved through the use of market power

Examples:

- the salt monopoly under Louis XIV (sold at auction)
- UK commercial television, granted a monopoly of commercial airtime(a 'licence to print money')
- the lightly regulated European telecoms incumbent

Bottlenecks in the value chain

☐☐☐ THEN:

Separate silos for different services

Barriers to entry in transmission (spectrum management, statutory monopolies)

Monopsony content buyers

No technical bottlenecks

☐☐☐ NOW

Convergence widens transmission markets

Barriers to entry coming down

Keen competition for 'killer content'

Exploitation of technical bottlenecks (patents, conditional access)

Companies now in the frame

Microsoft

Qualcomm

Intel

Google

Sky +the usual suspects (BT,DT, FT)

The way the world is changing

	1995	2010
Internet users	70 million	1.8 billion
Broadband users	1 million	500 million
Mobile subscribers	200 million	4 billion
Spend on e-commerce	\$22 billion	\$800 billion

“By the year 2010..bandwidth for 20 homes will generate more traffic than entire Internet in 1995” Cisco

An example of following the money-net neutrality

- ❏ The CEO of AT&T says: “What [Google etc] would like to do is to use my pipes free. But I ain’t going to let them do that.”
- ❏ Google’s chief internet evangelist, Vint Cerf, says: “Allowing broadband carriers to control what people see and do online would fundamentally undermine the principles that have made the Internet such a success”

Two models (+ hybrid)

Figure 1. Paid Content

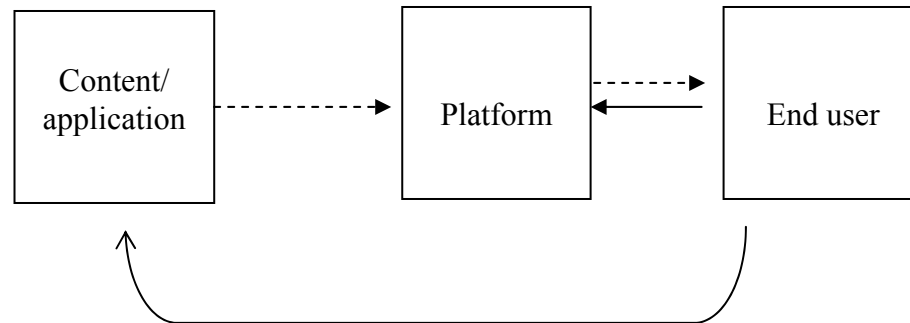
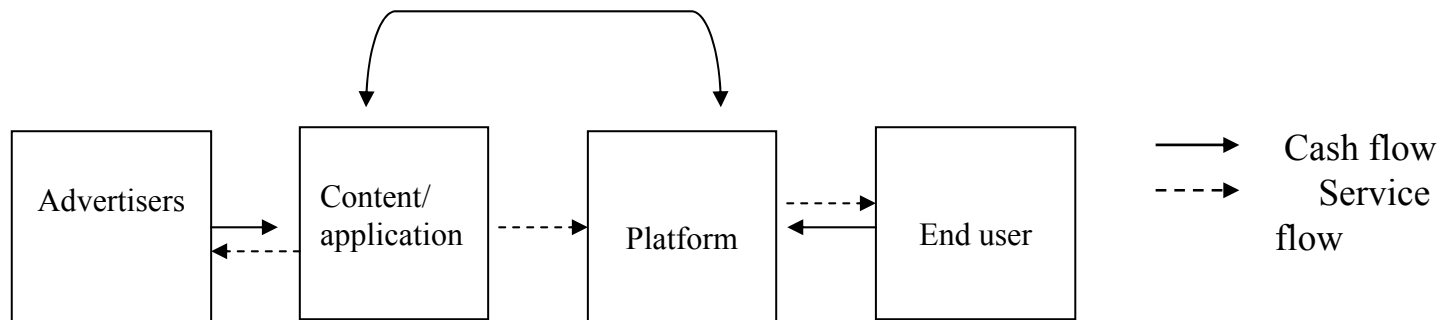


Figure 2. Advertiser Support



Reasons for imposing net neutrality

- ⌘ The internet is special –a ‘bit is a bit is a bit’(so no discriminatory pricing?)
- ⌘ Application providers should not have to pay ISPs to deliver their content to the ISPs’ customers (but who really pays anyway?)
- ⌘ Risk of vertical translation of market power- from transmission or content to other activities.

An example of 'find the money'- next generation networks

Two cases

- single network; operator sweats the assets; may need extra incentive to build NG access Network (NGAN), provided by higher returns or regulatory holiday. UK an example
- competition to upgrade; operators engage in land grab for new customers. US, Netherlands are examples. Is two enough, or will there be collusion?

The big change to come- the rise of consumer 2.0

- ❑ No interest in linear content
- ❑ Focus on self-made content, transmitted peer-to-peer, and social networks
- ❑ Mashups, widgets galore
- ❑ Huge challenge to digital rights management
- ❑ The end of asymmetry
- ❑ Bigger pipes for HD and gaming
- ❑ Achieving mobility with high bandwidth

Conclusion

- ❑❑❑ The bottleneck/money collection points are changing
- ❑❑❑ Good prospects for:
 - ❑❑❑ internet advertising
 - ❑❑❑ indispensable content
 - ❑❑❑ technical bottlenecks
 - ❑❑❑ what else-fibre?