



Towards a liberal Mobile Value Added Services Regime

Approach paper submitted by the Internet and Mobile Association of India to the Ministry of Communications and Information Technology in March 2007

Introduction:

Revenue share related to the Mobile Value Added Services in India are very lopsided compared with large MVAS user countries such as Japan, Europe and China. In China for example, till July 2005 China Mobile took 15 per cent while the service providers took 85 per cent of the revenues. In 2005 China Mobile altered the rule marginally to allow for 85 per cent share to service providers only if they undertook marketing and customer services related to MVAS product. Otherwise, China Mobile would take 30 to 50 per cent. In Japan and Europe as well the revenue share is between 85 and 65 percent in favour of the MVAS service provider.

Charging and payment settlement (revenue share across the value chain) of Mobile VAS needs rationalization as the current practice in India is neither logical nor balanced.

There is often a debate whether this exercise should be left to market forces or should the regulator step in. There is a dominant view amongst most players of the VAS value chain that the regulator does need to step in to give it a clear direction and broad guidelines as the first step – just as it did to strike a balance between the Private Telecom Operators and State-owned telecom monopolies (BSNL/MTNL) – during the initial stages of telecom liberalisation which helped the telecom sector to boom in subsequent years. This will help the nascent Mobile VAS market to grow rather be stifled at the initial stages of growth.

With this larger objective in mind, the Internet and Mobile Association of India is happy to present this approach paper which could be shared and debated by the regulatory authorities, government and industry and a consensual resolution arrived at.

This short paper suggests four successive steps of increasing regulation. The first suggests an ideal situation for everyone in the value chain whereby the through very light-handed “regulation” in the form of guidelines and suggestions the issue is resolved. The MVAS industry is hopeful that no further regulation beyond this may be necessary. The second step looks at some structural changes in order to liberalise the Mobile VAS regime. The third step suggests a couple of models along which a minimum revenue sharing can be worked out. The fourth and the final step highlight a systemic issue of payment and reconciliation and suggest a way forward.

Step 1: Guidelines/Policy Statement:

IAMA is of the view that as a first step a strong policy statement from the regulatory authority would go a long way in resolving the current inequities in the MVAS regime. The policy statement could *inter alia* cover the following areas a) the current inequities in India compared with other large MVAS markets such as Japan, Europe and China, b) the need give the industry the freedom to grow c) the need to provide open access to the networks by breaking down “walled gardens”, and d) the need for a more liberal MVAS regime to allow the industry to grow through imaginative, innovative and useful services. The main point of the statement would be to open up access in a time-bound manner

Step 2: Structural Solution:

If the first step does not work out, as the second step Mobile VAS companies would suggest a structural approach to the issue with a view of make the Mobile VAS regime more equitable between telecom operators who are typically large and have control over access, and MVAS companies who are relatively very small and have no control over access.

- The issue and problems of revenue sharing arises primarily from the problem of access
- Under ideal circumstances, the operators should open their pipes, charge for access and keep the access revenues (access charges are regulated) charge a fee for billing and collection that could be open and published and clearly mark the cost of data access. This will help bring down walled gardens and help the operators run the access/pipe business separately while give the freedom to those who are in the content and services business to avoid unfair domination by the pipe owners/telecom operators.
- The operator justifies his revenue share with 3 costs – cost of building the market (i.e., license fees and shares as well as capex/opex etc); cost of usage of the infrastructure and finally cost of billing and collection. the first and second cost (ie, cost of building and cost of usage) are one and the same thing and a 1 minute voice call price at Rs. 1 includes cost of hardware and opex and usage charge. Similarly, his data/access charge should be on the same basis.
- The consumer should have the option to take a bundled price (where s/he pays one price for both content and delivery) goods for a la carte occasional users, or a separate/unbundled price where consumers pay for bandwidth separately from the content (useful for more regular users). This will also force transparency and clarity and the mentioning of a price point that the Regulatory Authority (within its existing remit) will be able to regulate, like voice charges.
- Content suppliers/aggregators/tech companies should be given the freedom to either use or not use the operators billing and collection mechanisms. If alternate payment

mechanisms are allowed, automatically the cost of this service will come down (outside as well as through the operator) and benefit us and the end user.

Step 3: Suggested Revenue Sharing Models

The Mobile VAS industry is not keen on regulation of minutest details because of the following reasons: a) difficulty in implementation b) too tight a regulation would kill innovation. However, if the first two steps do not work out there would be the need for more detailed revenue share regulation. Towards this, two models of Minimum Revenue Share are suggested below. It may be noted that given below are just models on the basis of which minimum revenue to various stakeholders in the value chain can be guaranteed. This would, while protecting the VAS industry from being stifled, would help innovations and bilateral negotiations based on perceived value of the product and services.

The models below are based on the following assumptions:

All telecom operators in India today have implemented (or are capable of implementing) billing and charging the two legs of “VAS request” and “VAS delivery” separately and differentially. A logical way to look at charging the end-user for VAS would be to:-

1. Charge for generating the VAS request (over SMS, GPRS or Voice) from the end user
2. Charge for delivering the VAS (Content) to the end user over Data (SMS MT, GPRS session) or Voice (IVR/Video) channel

Next step would be to arrive at a fair distribution of the end user price – between the players of the value chain. There cannot be a single sweeping 80:20 formula which will work here for all categories of VAS. A better way to look at it would be to define a revenue share matrix, broadly as shown below:

Model 1

	SMS		GPRS		Voice/Video	
	Access	Content	Access	Content	Call	Content
On-Deck content						
Telecom operator	90%	40%	90%	40%	50%	50%
Aggregator/ enabler	10%	20%	10%	20%	25%	25%
Publisher/ provider	0%	40%	0%	40%	25%	25%
Off-Deck content						
Telecom operator	50%	20%	40%	25%	25%	25%
Aggregator/ enabler	10%	20%	20%	25%	25%	25%
Publisher/ provider	40%	60%	20%	50%	50%	50%

Model 2

	SMS		GPRS		Voice/Video	
	Access	Content	Access	Content	Call @	Subscp
Basic						
Telecom operator	50%	25%	50%	25%	25%	25%
Tech Aggregator/ Enabler	25%	15%	25%	15%	25%	25%
Publisher/ Licensor	0%	35%	0%	35%	25%	25%
Service Provider - SP #	25%	25%	25%	25%	25%	25%
On-Deck content - O						
Telecom operator (SP)	75%	50%	75%	50%	50%	50%
Tech Aggregator/ Enabler	25%	15%	25%	15%	25%	25%
Publisher/ Licensor	0%	35%	0%	35%	25%	25%
Off-Deck content - A						
Telecom operator	50%	25%	50%	25%	25%	25%
Tech Aggregator/ Enabler (SP)	50%	40%	50%	40%	50%	50%
Publisher/ Licensor	0%	35%	0%	35%	25%	25%
Off-Deck content - C						
Telecom operator	50%	25%	50%	25%	25%	25%
Tech Aggregator/ Enabler	25%	15%	25%	15%	25%	25%
Publisher/ Licensor (SP)	25%	60%	25%	60%	50%	50%

Service Provider in this context implies that player in the Value Chain who brands and markets the service to the end-user

@ Call session would typically include both Access and Delivery

Explanatory notes to the Models

On-Deck content: VAS provided on the Carrier's Portal under their own branding – like Reliance R-World, BSNL CellOne, Airtel Live, Planet Hutch, etc (where the Carrier carries the Marketing responsibility)

Off-Deck content: VAS provided by 3rd Party Service Providers under their own branding – like Indiatimes, Yahoo, Mauj, etc (where the Carrier acts as a channel of access, delivery and end-user billing & collection only)

Players in the Value Chain

1. **Telecom Operator** – provides the access network and end-user billing & collection in the provision of VAS. In an On-deck model, it also acts as a VAS Provider (with the marketing & branding role). Examples are Airtel, Hutch, Reliance, BSNL, etc.
2. **VAS Aggregator/ Enabler** – provides the technology layer between the telecom network and the Content Publisher/ Provider. This technology layer often includes a VAS platform, Mobile Application development & hosting, MIS & reporting tools, operator billing, collection & payment settlement engine. Examples are OnMobile, ACL Wireless, etc.
3. **Content Publisher/ Provider** – provides the core content which drives the VAS – which may be owned or sourced by it. In an Off-deck model, it also acts as a VAS Provider (with the marketing & branding role). Examples are Indiatimes, Mauj, Hungama, etc.

Step 4: Payments, MIS and Reconciliation:

MIS, Reconciliation and timely payment form the end of the business cycle if the issue of access is the beginning. It is of crucial importance that reconciliation and payments happen in a time bound manner and are based on commonly agreed parameters. This section highlights some of the issues that the MVAS industry faces regarding MIS, reconciliation and payment to highlight the inequities of the current system. However, IAMA does not envisage any regulation by the regulatory authority on this issue. It is an issue internal to the industry which can be solved by the industry coming together to either to make the Telecom operators accept a common third party audit OR to set up a mediatory industry body.

It is very important from MVAS players perspective that whole process of MIS, reconciliation and payment get completed within reasonable period at the end of every month. Non-completion of the process in time by mobile operators is very unhealthy for the growth of mobile VAS. Because of delay in MIS and reconciliation process, MVAS

players are not able to report download numbers to its content partners which in turn deteriorates trust of content partners in MVAS players.

Three major issues that arise with regards to payments, MIS and reconciliation with suggested remedies are given below:

Issue #1>. Traffic reconciliation & payment settlement cycle is too long (average cycle is upwards of 3 months, and in one or two cases it goes over 6 months)

While the traffic reconciliation process happens (and often we may find that the operator is not able to complete the reconciliation process in an agreed timeline), the Operator needs to pay the VAS vendor within 21 days (payment lead time that operators offer to their own subscribers) from the date of Invoice based on the lower of the two figures (Operator MIS and VAS Vendor MIS).

Upon completion of the reconciliation process (say within 30 days from the date of invoice), the difference should be settled in the next payment cycle. When the Operator intends to tighten the payment cycle it can surely do so. We see that happening when it comes to collecting their dues from VAS vendors for sending SMS Alerts using their PUSH pipes.

Issue #2>. Traffic reconciliation process is dictated by the Operators - through contracts which provide little or no recourse to the VAS vendor for challenging the MIS figures of the Operator.

Any traffic reconciliation process will always throw up differences between the two parties. It may be acceptable to most VAS Vendors to get paid on Operator MIS as long as the MIS difference is within 1%-2% levels. One can handle such differences by providing for it in the P&L. However, this issue becomes serious when the VAS vendors are compelled to provide for Bad debts at the end of the FY in the region of 5%+. Some operator contracts do not allow any reconciliation process till the difference in MIS is up to 5%. Others do not even provide for any formal scope for reconciliation in the contract - compelling the VAS vendor to accept the operator MIS figures (take or leave it). I guess, as an industry, we could pitch for a situation where the Contracts should allow for a formal process of reconciliation of MIS for difference above 2% - including the right of both parties to seek arbitration proceedings, if necessary.

Issue #3>. Transparency in MIS & payment settlement between the VAS vendor and Content Publisher is an issue. VAS vendors are not able to provide timely MIS to the Content Suppliers. Sometimes large Content Publishers/Licensors like Indian Railways or some big Music Labels insist on being paid on their Traffic figures and within their payment cycles - which leads to time & amount mismatch very often. In some cases, this can lead to a loss-making proposition for the VAS vendor - as it gets hit from both sides.

Once the VAS vendors know that the "business-as-usual" downside is 2% - they could prepare their Content Suppliers for creating a Provision for this difference in their P&L. This will allow the Content Suppliers to book their mobile content download revenues at

the end of the month - based on the Online MIS provided by the VAS vendor -and accepting an adjusted revenue collection later on. This way, the VAS vendor will have no problems in sharing On-line MIS with the Content Supplier - which is a critical need of the Content Publishers/Licensors.