

Verizon response to Ofcom's consultation on Wholesale Broadband Access market review

Introduction

1. Verizon Enterprise Solutions ("Verizon") welcomes the opportunity to respond to Ofcom's "Wholesale Broadband Access Market Review" (the "Review").
2. Verizon is the global IT solutions partner to business and government. As part of Verizon Communications – a company with nearly \$131 billion in annual revenue – Verizon serves 98 per cent of the Fortune 500. Verizon caters to large and medium businesses and government agencies and is connecting systems, machines, ideas and people around the world for altogether better outcomes.
3. Please note the views expressed in this response are specific to the UK market environment and regulatory regime and should not be taken as expressing Verizon's views in other jurisdictions where the regulatory and market environments could differ from that in the UK.

Context

4. Before offering detailed comments on the Review, we set out observations on the broader context of the market from the perspective of Verizon operating in the UK.
5. Outside the US Verizon is a pure business-to-business ("B2B") provider, serving mainly large corporate customers (who themselves are typically regional or global in nature) and government customers. While we are not serving the mass-market, and our customers are relatively small in number, they have strong buying power and demand high quality resilient data connectivity services for their sites.
6. Without the mass-market customer base, our business model is not based on deep investment in infrastructure roll-out and a densification of our network presence. Rather we rely instead on access to third party networks.
7. For a business such as ours, where we are primarily access-seekers, it is simply crucial that we have effective choice from viable wholesale providers or regulatory access remedies in place to ensure we can be competitive both in this market and others. From our perspective it is very important that Ofcom recognises this, and takes account of the different forms of provider and competitive dynamics that may exist in a market, such as the one under consideration here.

8. Unfortunately we do not consider that the Review reflects the realities for B2B providers such as Verizon. For the majority of exchanges where we seek access, we do not see either an effective choice of providers offering wholesale broadband access (“WBA”), or an access remedy that serves to compensate for this. This has direct knock-on consequences for our ability to compete in the market, and for those customers that we serve. We explain this in more detail below, with reference to the relevant sections of the Review.

Importance of the market to Verizon

9. The WBA market is becoming increasingly important to Verizon and its customers. Material improvements over recent years in broadband quality in terms of its resilience, speed and service level agreements, mean that increasingly business customers are considering using broadband as a cheap and effective substitute for dedicated leased lines, at least for redundancy purposes. We estimate that between 70% and 80% of recent customer bids have included a requirement for broadband access. This figure is only likely to rise as software-defined networking solutions (which layer VPNs over public internet solutions) become more common, and broadband performance continues to improve.
10. We therefore see demand strongly increasing in this market over the coming years, and this is likely to be a trend reflected broadly across the business market. It is consequently very important that Ofcom recognises and understands this shift in underlying demand in the business sector and reflects it in the analysis that it carries out.

Product market

11. We broadly agree with the product market as defined in section 3, and the inclusion of copper, fibre and cable in the same market at all bandwidths. However in relation to Ofcom’s observations regarding the substitutability of leased lines,¹ we would highlight the comments above that increasingly we are seeing business customers favour broadband at least as a back-up to leased line services. As broadband continues to

¹ Paragraph 3.18

improve in terms of its performance and resilience, it is likely that it will ultimately come to exercise a material competitive constraint, if it doesn't already.

12. Further we note Ofcom's observation that, in the absence of ex ante regulation, the commercial provision of WBA services to third parties will only occur where it is in the access provider's interest, and that the extent of wholesaling activity is likely to be more limited and/or provided on less favourable terms without regulation.² This fits with our experience, where as an access-seeker we currently do not see sufficient competition at the wholesale level for provision of WBA services. We therefore see a strong case for regulation to remedy this.

Geographic market

13. While we recognise the process that Ofcom has followed to determine the geographic markets, it does not reflect our experience of competition when purchasing WBA products. We are strongly concerned that the picture painted suggests that nearly the entire country (97.3%) enjoys competitive conditions whereas in reality, for those seeking access at the wholesale level, competition is very limited or even non-existent.
14. Ofcom does not appear to have carried out an analysis of how the geographic markets would look if they were calculated on the basis of providers present in exchanges that actually offer a WBA product to third parties. We consider that this is a serious flaw in the assessment as it overlooks the needs of access-seekers who (as explained above) are not in a position to invest in network roll-out.
15. Our customers often require broadband access to be provided at a large number of sites— for example a large retail chain may have hundreds of locations including retail stores, offices and supplier sites. In looking to fulfil this demand we will look at the viable choices available to us at each location.
16. Typically we face a choice of only two providers – namely BT and TalkTalk. Indeed in some locations only BT is able to offer a service, so there is no choice at all. Our experience is that TalkTalk is the only carrier who are able to offer a degree of flexibility on the pricing and the solution. BT tends to have a standard pricelist for their product which would be the same for all carriers regardless of size. Of the other providers that Ofcom identifies as “principal operators” (“POs”), none are currently offering a WBA

² Paragraph 3.7

product to our knowledge. We do not have any visibility into whether Sky has a suitable wholesale product, let alone whether they would be willing to offer it on appropriate terms. As far as we are aware Vodafone do not have a wholesale product available yet, although we are in talks with them, and the position is the same with Virgin Media.

17. So whereas Ofcom identifies five possible POs, in reality for us in most cases we are only able to request WBA from a choice of two. Such a scenario seems more akin to the conditions that Ofcom identifies in Market A, namely “exchange areas which are BT-only or BT+1PO”. We therefore see a strong distinction between the competitive conditions that Ofcom identifies and the nature of the competitive choice that we see in our position as an access-seeker.
18. Where this limited choice exists, and especially where BT is the only provider to third parties, there is the potential for competition to be distorted. Ofcom seems to recognise this as it imposes SMP remedies to counter the effects of reduced competition in Market A (where the number of providers is very limited). This is exactly the situation that we face on a national basis. We therefore consider that there is a strong case for the market review to take account of this fact and ensure that access-seekers such as Verizon are able to rely on properly regulated services beyond the very small geographic area identified as Market A.

Market power assessment

19. Ofcom states at paragraph 5.34 that “[g]iven the number of POs present in Market B and their wide coverage, any potential buyer of WBA services has several potential suppliers from which it could seek access. This will give buyers some degree of negotiating power when seeking to obtain access.”
20. It is not our experience that there are several potential suppliers. There seems little interest from providers other than BT and TT to engage in a pro-active discussion about WBA services and currently our options are highly limited. We do not see any evidence that Ofcom has properly investigated this in its Review. What we would therefore like to see is a regime which encourages other providers to engage in the wholesale market and provide a meaningful competitive constraint to BT.

Fibre rollout

21. In order for BB to constitute an effective substitute for dedicated point to point services, and realise the significant cost savings that this can bring, our customers need reliable

high-speed performance. This can be achieved using fibre-to-the-cabinet (“FTTC”), and it would be hugely beneficial if we were able to offer FTTC-based services to our customers on a wide-ranging basis. However the fact remains that FTTC coverage is still very patchy, and we take the opportunity to re-state our concerns about this (which we previously raised in our response to Ofcom’s Narrowband Market Review consultation earlier this year).

22. Our core concerns are as follows:

- Openreach cherry-picks easiest to reach areas or those favourable to BT Group first and coverage is therefore still very patchy. We have responded to a number of large UK multi-site RFP s where the bandwidth requirement is < 10mb and the availability of FTTC for those sites will vary between 35 – 55%.
- Openreach fails to be fully transparent in its costs and deployment plans. Therefore a patchwork of areas still not served (rural and non-rural), and there is insufficient information about plans for those areas still not covered.³ Lack of deployment information in turn stifles local competition as BT’s competitors fear “overbuild” by Openreach and provide no alternative.
- Business Parks on the edges of large towns have often been “missed” by roll-out (BT can charge businesses higher prices for expensive leased lines and has no incentive to roll-out FTTC here).
- There is a large degree of dissatisfaction from SMEs on internet speeds (29% according to Ofcom’s own research⁴).

23. Ultimately we cannot serve our customers with what they want, or give them any certainty on when the outlook will improve. BT has autonomy on how it conducts the roll-out. This not only makes it harder for us to ensure we deliver the best for our customers, but also limits the types of solutions we can offer e.g. VoIP.

Conclusion

24. The demand for WBA services across our existing and future customer base is increasing. As a B2B provider with no commercial incentive to invest in significant network roll-out

³ BT insisted on confidentiality clauses with local government to prevent disclosure of its implementation programme.

⁴ Ofcom, January 2017, The SME experience of communications services: research report, https://www.ofcom.org.uk/_data/assets/pdf_file/0030/96348/Ofcom-SME-consumer-experience-research-2016-Report.pdf



we are primarily an access seeker for WBA across the UK. This is likely to be the case for other providers serving the business sector.

25. We do not see that Ofcom has fully considered the competitive conditions facing such access seekers in the Review. If it did, based on our experience, we would expect it to discover that in fact the choice available is very limited and terms and pricing are likely to be less favourable. We would also expect it to see a need for regulatory remedies based on its analysis for Market A (where choice is similarly limited). We would therefore urge Ofcom to take this into account in considering how to regulate this market.

Verizon Enterprise Services
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