

Issue 5. Delineation of Areas Subject to Competition

Q. Should new entrants be required to provide service to all customers of the designated class(es) in their serving area, or is there some feasible minimum standard (e.g., about facilities, reasonable access to customer's premises, availability of construction charges, access to unbundled loops, etc.)?

A. It is neither necessary nor appropriate to impose minimum requirements. To the contrary, such requirements may impose unnecessary costs on entrants and preclude niche marketing, thereby imposing significant barriers to entry and reducing the likelihood that effective competition will emerge. If a new entrant is required to serve everyone within a particular geographic area, firms that do not have the desire or ability to serve a broad cross-section of customers will tend to be kept out of the market. Smaller firms with narrow niche marketing strategies will be precluded, or discouraged, from entering the Mississippi market.

In general, a carrier will have an incentive to enter a market if it expects to profit from the entry decision. More specifically, if it anticipates generating revenues from this market that will exceed the total costs it will incur as a result of serving the market, it will have an incentive to enter and compete. However, not all markets, or sub-markets, will be equally attractive to all carriers. In some instances, the carrier realizes its costs will be too high, and thus it cannot earn a profit. In other instances, the carrier cannot realistically expect to gain a large enough share of the market to make the entry effort worthwhile. If the carrier does not find it feasible or desirable to serve a particular geographic area, customer category, demographic group, or other market segment, there are two likely effects of a regulatory requirement to serve this segment of the market: either the carrier will refuse to enter the market entirely, rather than be burdened with serving the mandated segment, or it will attempt to barely comply with the regulatory requirement, while hoping to minimize the adverse impact.

Consider, for example, a firm that is focused almost entirely on attracting and serving business customers. If the Commission imposes a requirement that every carrier serve both business and residential customers, this type of firm may refuse to enter the Mississippi local

exchange market at all, rather than be forced to revamp its entire marketing strategy and corporate culture. The other alternative would be to go through the motions of complying with the requirement, but make every effort to minimize the adverse impact of this requirement. Thus, it could continue to target all of its advertising and sales efforts on business customers, and simply “take orders” from those residential customers that take the initiative to contact it. Similarly, it might offer to serve residential customers, but make no effort to tailor its services to meet their needs. Also, it might offer the same rate for both business and residential customers, even if business customers are more costly to serve. The uniform rate might be well below the going market rate for business customers, and well above the going rate for residential customers. In this manner, it can be assured that few, if any, residential customers will sign up for its service, thereby sidestepping the regulatory requirement to serve all types of customers.

In my opinion, it is not desirable to impose mandatory requirements of this sort. Such a requirement will create a significant barrier to entry, regardless of whether all firms are forced to fully comply, or if some are successful in sidestepping it. Such a requirement will tend to reduce the total number of competitors in the market, it will tend to prevent very small carriers from surviving in the market (since it is inconsistent with niche marketing strategies), and it will force every carriers to adopt relatively similar business strategies. A requirement that carriers serve large geographic areas, or that they serve all types of customers within those areas is particularly onerous for smaller firms. Niche entry strategies will be more difficult, if not impossible, and the overall result will be to make it more difficult to achieve a full transition from monopoly or oligopoly conditions to effective competition.

When establishing a presence in the local exchange market, new entrants should be allowed to focus on particular customer groups (e.g., only small businesses, only large financial institutions, only members of a particular club or civic organization), rather than all customers within a particular geographic area. Niche marketing of this type eventually will be likely to lead to widespread competition with multiple providers. All classes of customers eventually will benefit from such competition, because it will be more effective, and less prone to collusion or co-operation than a market that consists of a handful of relatively large carriers, all having relatively similar (broad

based) entry strategies.

Furthermore, carriers that rely upon different technologies should be free to target different types of customers. The most efficient technology for serving low-density residential areas will not necessarily be the most efficient technology for serving high-density commercial areas. Also, different customers have different telecommunications needs. Carriers should have the flexibility to specialize, thereby better serving the needs of specific customers in particular groups or locations. Services designed for one class of customer will not necessarily meet the needs of another class. Carriers that are required to serve everyone may serve no one especially well. If the Commission forces carriers to provide service to all classes and locations, regardless of the technological abilities and marketing strategies of the carrier, the competitive process will not be allowed to operate fully to achieve the maximum level of efficiency and diversity that would otherwise occur.

Clearly, a policy that attempts to force carriers to serve everyone is not the ideal approach. However, this does not mean the Commission cannot take active steps to speed the transition to effective competition in all market segments. To the contrary, I believe the Commission should develop a regulatory policy that strives to reduce barriers to entry, creates incentives for carriers to enter all segments of the market, and encourages a wide variety of different sizes and types of competitors to enter the Mississippi market, while allowing individual carriers the freedom to adopt a wide variety of different philosophies and business plans.

If the Commission allows selective entry into narrow markets, a broad pattern of competition will eventually emerge, with a degree of intensity and complexity that would not be achieved if all carriers are forced to look and act alike. This pattern of competition will be more effective in benefiting the public than if the Commission were to impose restrictions that make small-scale entry and niche marketing difficult. The mere presence of two or three firms in a market does not guarantee that customers will enjoy the benefits of competitive results, particularly if there are significant barriers to entry by additional firms. In fact, with such a small number of competitors, the market is likely to remain an oligopoly, with results that are little better (and sometimes worse) than those produced by an unregulated monopoly.

Accordingly, Commission policy should encourage maximum competitive entry, at least

within the retail side of the business. Moreover, the Commission should retain sufficient involvement to protect universal service and encourage a rapid transition to effective competition. If effective competition fails to emerge, the Commission can reexamine its policies and requirements.

Q. What problems may arise if new entrants do not have the same local calling areas as the incumbent local exchange telephone company?

A. For subscribers, it can be confusing if a call from customer A to customer B is a local call but the analogous return call from customer B to customer A is a toll call. Hence, it would be simpler and less confusing if all new entrants selected local calling areas that are identical to the incumbent LEC's calling scope.

Nevertheless, the potential confusion and other problems associated with different calling areas are not sufficiently important to justify a mandatory requirement that all new entrants use the same calling scope as the incumbent. These disadvantages are outweighed by other considerations. Any requirement that new entrants match the incumbent's calling scope in designing their retail offerings could serve to limit competition and discourage entry, since it would preclude marketing or entry strategies that involve the use of a larger or smaller local calling scope.

The goal of encouraging effective competition would not be advanced by limiting new entrants to the LEC's calling scope. Competitors should be given the freedom to differentiate themselves from the incumbent carrier. This may involve a wider local calling scope at about the same price as the incumbent, or a narrower calling scope at a lower price. If this flexibility is eliminated, new entrants would have fewer options for attempting to gain market share.

While the Commission should allow different calling scopes at the retail level, it is reasonable to impose uniform requirements at the wholesale level concerning reciprocal intercarrier traffic sharing arrangements and access charges. In other words, whether a call is considered a local call or a toll call for intercarrier (wholesale) billing purposes should be based upon uniform rules established by the Commission, not upon the particular calling scope adopted by the carrier for retail purposes. Thus, toll access charges would apply to a call considered by the Commission

to be a long distance call regardless of whether a competitive carrier chooses to treat the call as a local or toll call. That is, if a carrier seeks market share through an expanded local calling area, it should be required to absorb the additional access costs resulting from that strategy.

Furthermore, the Commission should impose a requirement that all carriers adequately disclose to customers the calling scope, rates, and terms and conditions applicable to their services. This is particularly important where differences may exist between the new offering and the customer's existing service. A disclosure requirement of this type will help avoid customer confusion and help ensure that customers are not misled concerning the rates and charges that will apply to a newly offered service different from the one that they are familiar with. Such a disclosure requirement is especially important when customers consider a move away from the incumbent carrier, since customers generally have not had to make decisions concerning the desired calling scope when purchasing local exchange service.