Review of VoIP Market in Spain

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Contents

Purpose of this report

This report reviews VoIP market in Spain. It is dedicated for entrepreneurs, startups and **small** IT-telecommunication companies that are willing to start VoIP activities and need a short guide on this topic.

Please note *that this report was written in August, 2013, thus the information may lose its relevance in the future.*

Main telecom market players

Main telecom providers in Spain are listed in **Table 1** below. However, if you plan to run your own VoIP business, it does not necessarily mean that you will need to work with one of them. In some cases, major telecom vendors can work with minimal monthly voice traffic commitment which can be too big for small players.
Providers tend to choose:

- DIDs from Jazztelor ONO (both are national companies)
- Termination (apart from those two) from Xtra Telecom (national too), IDT and some other smaller national or international companies. Please note that most of the national carriers also apply VAT, except some national operators, which are based in Spanish territories out of mainland and international operators, which sell traffic without VAT. This is a good option for buying in Spain but without paying taxes. In some cases it is better to manage cash flow which is especially important in wholesale VoIP.

Moreover, besides DIDs and voice traffic, the majority of the above companies can offer an integrated reseller portal which is adapted to the Spanish market needs. In this case, there is no monthly commitment and investment consists only of traffic consumption. But at the same time you will lose control on your business as you will be fully dependent on a single provider. In order to make the right decision which way to go, we recommend reviewing possible VoIP business models which are listed in the section Sellers: Wholesale vs. Retail.

Finally, few additional facts which might be relevant:

- ✓ Some time ago, VoIP providers used to make “Grey Routes” - call termination using prepaid SIM cards, but this model is no longer relevant as mobile operators have decreased prices significantly. Now it is cheaper to buy voice traffic directly from a mobile operator than trying to overcome a provider by deploying GSM gateways.
- ✓ Madrid has half a dozen big data-centres for carrier interconnections. Besides this, big telecom operators often offer their space for housing, so small companies can have their equipment there and interconnect with that operator. Most of the companies of the size that we deal with are present in the main data-centres of Madrid. However, due to the cloud phenomenon (and also for avoiding taxes), companies are taking the systems out of Spain and taking servers abroad.

Table 1. *Main telecom market players*[1]

Name	**Comment**
Euskaltel	Has its own cable network, but does not have a licence to use cell-phone antennas. The company has agreements with Vodafone, to use their antennas for their cell-phone service. Previously it had an agreement with Amena to provide their service in the Basque country while Amena operated in the rest of Spain, but it was ended when Amena was absorbed by France Telecom, becoming Orange.
Jazztel	Offering triple play services (telephone, Internet and television). Jazztel's competitive strategy consists of relying on its fibre-optic network combined with the use of Telefonica's copper lines for terminations. Jazztel's growth is mainly due to the sales of ADSL services but the company also resells TV and mobile services.
Movistar-Telefónica	Mobile phone and land line operator covering Spain and many Latin American countries. It is the largest carrier in Spain with more than 22 million customers and 41.58% of market share.

[1] Information is based on Wikipedia

Mundo-R	A Spanish cable company based in Galicia, Spain offering quadruple play services (telephone, mobile phone, Internet and television).
ONO	A Spanish broadband communication and entertainment company, delivering integrated telephone, television and Internet services to its residential customers. In this segment, it has 3.7 million services contracted and over six million users.
Orange	A mobile network operator in Spain. It was previously known as Amena (Spanish tr.: *pleasant in an amusing way*) until 2005, when it was bought by France Télécom. Its competitors are Movistar, Vodafone Spain and Yoigo
Vodafone	Mobile operator.
Yoigo	Mobile operator. Ownership of TeliaSonera (76.6%). Fourth mobile phone operator with a network of its own in Spain.

Legal

The Regulatory Authority for telecommunication in Spain is CMT (Comisión del Mercado de las Telecomunicaciones). Every company that is offering services of electronic communications has to register there. This is applicable even for resellers that do not have their own network. However, in reality, there is a "black" market which contains companies (or even group of people, if there is no registered company behind it) that do not have a legal permission to provide voice services.

Telecom exhibitions and trade shows

There are few major telecom events in Spain. All of them are listed in **Table 2**. Each of them can be a good place to meet partners live in order to develop the business.

Table 2. *Telecom exhibitions and trade shows*[2]

Name	Comment
Wholesale World Congress	The meeting point for the international telecoms wholesale community. WWC is an event for the entire industry with participants from all areas of the wholesale telecom industry including Tier 1, 2 and 3 carriers, mobile / wireless operators, ISPs, VoIP providers and technology partners from the voice, data, satellite, sub-sea and land-line markets.
Mobile World Congress	Combination of the world's largest exhibition for the mobile industry and a conference featuring prominent executives representing mobile operators, device manufacturers, technology providers, vendors and content owners from across the world.
asLAN	Congress and exhibition for Cloud and Network Future. Deals more with network providers in general.
Simo Network	The annual Simo, in Madrid is a main trade fair where manufacturers take the opportunity to launch and show new products in the fields of computers, telephones and home entertainment equipment. There are also days for public access, with visitors from all over Spain and Europe. The fair is divided into the following main sectors: Information Technologies - computers, terminals, peripheral devices, components, consumables, audiovisuals and electronics. Simo Professional - Operating systems and programming languages, professional software, vertical and horizontal applications. CAD/CAM/CAE, Multimedia. Telecommunications - e-Business, Internet. Communications - mobile telephony, local area networks, interconnectivity, services, servers and operators.
VoIP2Day	A major annual event where main players of VoIP show the latest developments and products also providing lecturers to expose some issues that may be in the interest of the visitors.

[2] Information is based on tofairs.com and neventum.com

VoIP Market

Buyers: Target audience

VoIP business models are closely related to the market segments. Usually providers choose a business model according to the segment that they know very well and have been working with it for a long time. For instance, providers that sell internet services for the residential and business market usually offer VoIP as a value added service (they do not change their target group, just expand their service portfolio for them), ethnic resellers are dealing with Call Shops which are visited by ethnic groups (from North Africa, Latin America), etc. However, there are exceptions and companies working only with business clients try to introduce their services to the residential market. But such expansion requires more time, energy and money than dealing with the direct target audience. Even though there are many ways of segmenting target group in VoIP market. Based on our practical research, end users and suppliers can be divided into the following categories:

Table 3. *VoIP market segments*

End users	Suppliers
Residential (ethic)	Call Shop
Residential (local)	Reseller (do not have own softswitch)
Business	Operator (have own softswitch)

Residential (ethnic). Currently ethnic market consists mostly of people from North Africa, Latin America, Eastern Europe and Asia. However, according to demographical data you may find out that there are many immigrants from other countries like Romania and some from Bulgaria. But in VoIP market, it is different. This is due to the local market regulation (e.g. Moroccan telecom providers try to protect their market more by keeping prices up and due to this people prefer to choose small VoIP providers that offer relatively low price) and cultural differences (people from North Africa like to gather in community and visit places like Call Shop where they can meet other people from their country, while others will rather use Skype, Wazzup or other application to communicate with their relatives). Usually ethnic people are using Calling Cards or making calls from phone booths in Call

Shops. But this market is rapidly moving to calling from mobile phone through an access number or special applications (Mobile Dialers) which allow making a call without dialling the access number (either using Wi-Fi/3G connection or by embedding an access number to the application itself).

Residential (local). Local residential segment is usually using VoIP as a value added service to the internet (mostly - home users with LAND line) or in rare cases - VoIP as a stand-alone service.

Business (corporate). They may require a complete solution (PBX to manage internal communication + voice traffic to be able to make outside calls) or just voice traffic/DIDs (those who have their own PBX systems).

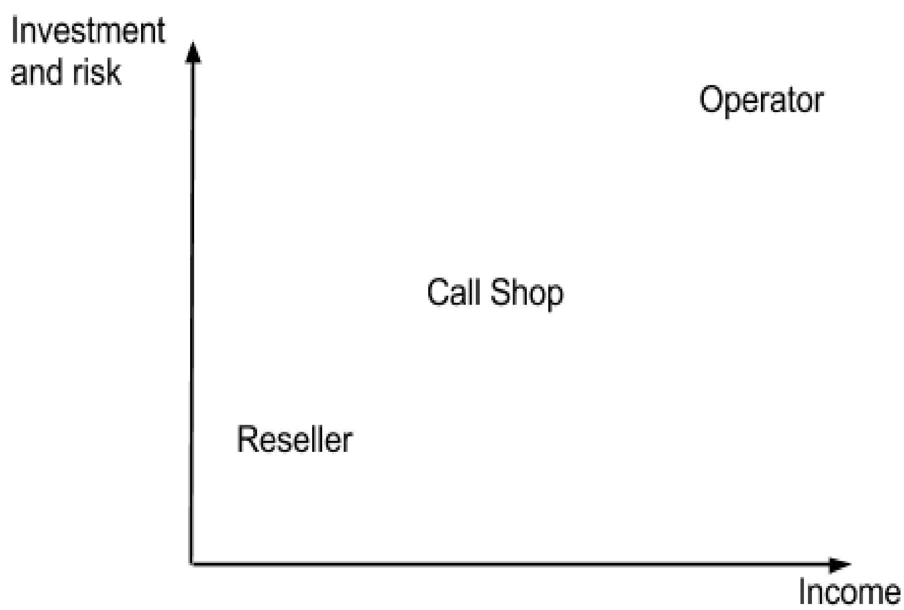
Call Shops (locutorio). A Call Shop is a place where people can make cheap international calls by calling from a phone booth or buying a Calling Card. Call shops usually sell food and drinks from the countries where customers come from, finally it is a place where people meet others from the same ethnic community and make some social life, that is why it is still preferable to go to call shop rather than just call from home or from mobile.
Besides calling services, sometimes it is possible to surf the internet. According to the recent data provided by one Call Shop chain owner, average monthly expenses to owe a Call Shop in Barcelona starts with 2100 EUR/month (600 EUR/month for the rent, 1500 EUR/month to pay the salary, etc.). Call Shops market might be treated as “black” sometimes as some of them do not declare taxes, prefer paying in cash and avoid paying VAT.

Resellers. Resellers are companies or individuals who do not have their own softswitch, buy services for one or few VoIP providers and resell for their clients (corporate clients, call shops, residential users). Usually resellers work on commission basis or in some cases can define their own profit margin. Resellers usually do not have enough investment to buy or rent their own infrastructure as well as technical knowledge to manage it. However, those who want to do this business in the higher level become operators.

Operator. Telecom operator or VoIP provider is the same definition (in this whitepaper). It is a company that has its own softswitch and interconnections with at least one other provider that supplies them with voice traffic. Usually small operators are one-man companies doing all the work and bigger operators have their own technical, sales team, accounting, etc.

The main difference between call shop, reseller and operator is the needed investment, level of risk and potential of income. Resellers usually invest only their time, but do not need to take care of the infrastructure. In the meanwhile, Call Shops need investment to rent a place (in a convenient place for ethnic groups), to buy phone booths, to pay for the internet, voice traffic, etc. Finally, operators are in the highest level in this hierarchy as they need the biggest investment, but at the same time they get the biggest revenue stream. However, this is not the rule and in reality there can be call shops that can earn more than operators and resellers that can earn more than call shops. Below you can see a chart explaining this.

Chart 1. *VoIP market suppliers*



One more important note – the operator can owe the levels below. E.g. Call Shop can belong to the Operator and a Reseller can be a sales manager of an Operator. Also resellers can manage Call Shop chains and make good profit out of this business.

Note: *It is also interesting how the selling margin changes from each one. An Operator might be selling at 2-4%, a reseller at 10-15% and a call shop at 50-100%. So, in the end, the call shop is the one that earns the most from every minute sold.*

Sellers: Wholesale vs. Retail

Depending on the service type and target audience, there are two major business models:

- **Wholesale**
- **Retail**

And of course, there is a third – a mix of both.

Wholesale. The main product here is simply voice traffic. Those who buy traffic from wholesalers have their own PBX/Softswitch which can be authenticated by an IP address. Usually there is a minimal volume to purchase (like 500 EUR or so). The wholesale business is based on volume and margins here are very tight. Wholesalers do not need to deal with the end client (that usually does not have any knowledge of VoIP), so this model is pretty easy to manage and requires less human resources. A main challenge in wholesale is to survive in the price war and get good voice quality. The most important value here is trust as there is a huge cash flow involved. Wholesalers are joking sometimes by saying that in this business you cannot trust even your own uncle. Providers spend a lot of time on testing new carriers; however, results in the end are usually not as good as expected. As Spain is close to North Africa, demand for voice traffic increases during the Muslim holidays:

- Ramadan which migrates throughout the seasons and is expected from 28-06 till 27-07 in 2014 and from 18-06 till 16-06 in 2015.
- Eid Al-Fitr comes to the end of the month of Ramadan
- Eid Al-Adha which begins on the 10th day of the last month of the Islamic calendar.

The dates vary from year to year, drifting approximately 11 days earlier each year.
Other strong moments are Christmas (Catholic and Orthodox) and mothers' day of the LATAM countries.

Retail. In addition to voice traffic, retailers offer phones, DID number of incoming calls, etc. Services can be offered either directly to an end user or through resellers. Volumes are relatively smaller than in wholesale, however, profit margins are much higher. Retail clients require more attention and support comparing to wholesale. The biggest challenge here is to make the service as simple as possible for the end user and add additional value to be different from competitors.

Mix. One of the advantages the Spanish providers have against others outside Spain is that they can meet local target audience. However, as everyone in Spain knows the major players and where to buy good quality traffic, the challenge becomes reaching a client. For this reason wholesalers try to reach Call Shops, but for a small company it is too difficult to serve a great deal of clients, so they start working through Resellers that deal directly with Call Shops. In this case the business becomes not pure wholesale, but retail as well, since it involves other partners without switches. Also some wholesalers like to mix retail traffic in order to increase profit.

Internet providers and VoIP

The majority of companies that sell VoIP services for local residential and business clients are also providing internet as their core service. Internet providers can be divided into two main categories:

- **WISPs** (wireless)
- **ISPs** (connectivity, ADSL, FTTH)

WISPs usually operate in areas which are not reachable[3] by bigger players (e.g. **Telefónica**), so they have a big potential to expand. Internet traffic buying/selling works similar as in VoIP and the provider can be either a reseller of some bigger carrier, or just a wholesaler buying volume capacity. Having an internet channel resources, providers usually start to consider offering VoIP as a service. It can be either a value added service to the internet in order to make the client more loyal (e.g. VoIP is provided at the self-cost and profit is made purely from the internet), or a source of additional income.

Internet providers are usually slightly bigger than pure VoIP providers. In most cases, owners of such companies are tech-savvy and there is a separate group of people (department) responsible for managing the technical infrastructure in the company (CTO, NOCs) as Internet business is quite complicated and requires more attention. Just to compare, in Call Shop business it is totally different. There are many ethnic people selling traffic to Call Shops that are one-two-men companies. A person either knows something about the technical part, or he/she invests money. Moreover, sometimes both areas are in the hands of one person.

[3] With reasonable quality, 99.9% of the territory is reached by Telefonica but ADSL speed is not high enough in rural areas.

Getting back to the internet providers, most of them offer the so-called “triple play”

- Internet
- TV
- Telephony

The target is to sell everything in a bundle ensuring the highest possible profit. You may also find internet providers that offer even more value added services: hosting, domain registration, servers in cloud, hosted PBX, etc. Clients that buy services from them can be divided into the following categories:

- **Residential** (low profit margin, but big quantity which ensures financial stability)
- **Business** (bigger profit margin, but at the same time bigger impact for the business if client is lost)

Residential clients form the biggest part of WISPs because bigger companies might need more internet capacity comparing with wireless capabilities . At the same time, residential clients bring stable income for ISPs even though profit margin is not so big. However, the disadvantage is that during the crisis it was much harder to deal with this group in terms of collecting payments.

Business clients are usually better because of the good profit margin. Sometimes one big corporate client might generate more profit comparing with all residential clients. Nevertheless, the risk of dealing with such client is very high because if he/she decides to choose another supplier, it can have a big impact on the income of the internet provider. Finally, in relation to payments, it is easier to deal with business clients because when you cut telephone/internet line, usually their activity stops. Of course, none of them would enjoy such situation, so the payment reaches the provider fast.

Also some ISPs work with resellers. Especially this is a great business in those areas which are not accessible by the internet.

The last important fact about internet providers is that some bigger companies belong to national/international associations (https://www.ripe.net/). However, small companies stand alone in the business.

Market trends

Main events in Spain which have caused some major changes in VoIP business are:

- Economic crisis
- Mobile operators have decreased prices significantly

Due to the economic crisis, local people (what to say about immigrants) found it difficult to find a decent job. Ethnic groups which are the target audience of Call Shops started to go back to their home countries. This has caused the number of Call Shops to rapidly decrease.

Second, mobile operators have decreased prices significantly. Moreover due to the big demand for mobile services, the interest in establishing mobile virtual network operators (MVNOs) has increased. However, this has made it even harder to survive in the market for smaller VoIP players.

VoIP infrastructure

The largest distributor of VoIP infrastructure on the Spanish market is Avanzada 7. The fact that this company is a Digium partner and reseller shows that VoIP open source systems are widely developed in Spain. Skilled engineers with great knowledge of Asterisk and other open source systems tend to develop in house systems which are used to manage VoIP business. The most popular open source systems are Asterisk, OpenSIPs (Kamailio), Freeswitch, etc. Companies tend to base their business on those platforms. However, there is no single system which would be dominant on the market. Even though VoIP providers usually have the following expectations from the softswitch solutions:

- System should be polished and capable of serving many services/business models
- Interface should be simple, and friendly both for admin and end user
- System should be secure
- Integration with third party systems/applications (website, etc.). This is the biggest challenge for triple play ISPs that have many systems for different services (like TV, internet, etc.).

Business culture in Spain

Meeting and Greeting

When getting introduced with a Spanish partner, a standard European handshake is expected. Kiss is possible only when locals initiate it and it looks more like touching cheeks or even air kissing.

First introduction is formal. It helps using some common phrases in local language such as "Buenos Dias" (good day), "Buenas tardes" (good evening) or "Buenas noches" (good night). When addressing, it is common to use Senor (Mr.), Senora (Mrs.) or Senorita (Miss) plus two surnames and titles sometimes.

Spanish dress code is conservative. A general look needs to be smart and fashionable. They prefer classic brands such as *Loewe, Dior, Channel, Louis Vuitton, Hugo Boss, Armani, E. Zegna less Ferragamo* or *Coach*. Attention is paid to the perfume, quality of accessories. Your shoes must be clean and your hair must be done.

Communication

Spanish people are known for their cheerful, outgoing and warm nature, they are relaxed with initial friendliness. They value face-to-face communication and a good sense of humour. Their English skills are rarely good.

It is recommended not to use sarcasm, banter or rush them while talking. Do not critique food or wine; do not speak about siesta/fiesta/mañana or a lot of holidays. Also avoid mentioning region differences or crisis.

To make a positive conversation you can ask about children/ family, food or wine, origin and history.

Standard working hours in Spain are as follows: shops 9:00-1:30, 4:30-8:00 (M-F), and offices 10:00- 2:00, 4:00-7:00, banks 9:00am-2:00pm, lunch 2:00-4:00, dinner 10:00 pm.

Meetings and Negotiations

Spanish punctuality includes 15-30 minutes lateness (at least) blaming traffic, weather etc. However, it is expected you come on time.

All printed materials would be better available in both English and Spanish languages.

Meeting time should not align with breakfast. Generally it is worth to choose a later time for meetings.

In Spain, food and wine are very important so better do not skip or leave the meeting too early. Bills normally are not split and are paid by those who invited. But the next time you should pay the bills. Tipping is usually 10%. Smoking is prohibited in some places.
Gifts are expected to be opened at once along with the word “gracias”. When you give a gift, make sure it is high quality and finely wrapped.
Initial meeting is based on relationship so expect to be asked about family and background. This helps to check your reliability, whether you are honest and can be trusted. Let them lead during the meetings or negotiations. Agenda normally is just as guideline. Issues are discussed together. To interrupt is not rude. Moreover it shows a great interest. Agreements are firstly reached orally and secondly in writing. Board of the company is responsible for decision making process which takes time and can take several meetings.

Communication style	Direct	☐☐☑☐☐☐☐☐☐☐	Indirect
Working style	Formal	☐☐☐☑☐☐☐☐☐☐	Informal
Discussion style	Fast	☐☐☑☐☐☐☐☐☐☐	Slow and measured
Business approach	Progressive	☐☐☐☐☑☐☐☐☐☐	Traditional
Management style	Horizontal	☐☐☐☐☐☐☐☐☑☐	Vertical
Business relations	Relations	☐☐☑☐☐☐☐☐☐☐	Work
Problem solving approach	Individualistic	☐☑☐☐☐☐☐☐☐☐	Collective
Problem solving drivers	Facts	☐☐☐☐☐☐☑☐☐☐	Instincts
Time approach	Planned	☐☐☐☐☐☐☐☑☐☐	Flexible
Work/Personal life balance	Live to work	☐☐☐☐☐☐☑☐☐☐	Work to live

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