



Mr Kenny Osborne  
Of tel  
50 Ludgate Hill  
London  
EC4M 7JJ

Alan Sherwell  
pp C3004  
BT Westside  
London Road  
Apsley  
Hertfordshire HP3 9YF

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## **BT Response to the Of tel Consultation 'Assessing Potential Consumer Savings', 8 April 2003.**

BT would welcome any comments on its position as laid out in this document which is available electronically at <http://www.btplc.com/responses>

Comments should be addressed to Anthony Foster, Phoenix House, pp306, Station Square, Milton Keynes MK9 1BE, email [anthony.2.foster@bt.com](mailto:anthony.2.foster@bt.com) or by telephone: 01908 297772

### **Summary**

BT agrees that well-informed customers are a vital part of any competitive market but believes that 'perfectly informed' customers can only exist in a 'perfectly competitive market'.

We believe that the communications market is already very competitive and we have demonstrated this in our response to the Retail Markets Reviews.

The fact that some consumers are paying something other than the cheapest price is not evidence of any failing in the market. Price is not the only differentiator or even, for some customers, the most important. Customer desire to have products and services from a single supplier, the technical quality of the product or service and the quality of the customer service surround, to name but a few factors, all play a part.

The analysis in the Consultation Document is, to some degree, undermined because it does not consider the extent to which people choose a supplier for non-price reasons.

We acknowledge and welcome that, throughout the document, Of tel has been open in highlighting many contentious issues and difficulties, admitting that its approach has to involve a number of relatively unproven assumptions.

BT believes that the initial study, though valuable, is too limited to lead to any firm recommendations.

BT is concerned that the consultation is premature, particularly since, in Paragraph 4.48, Oftel state that a full assessment of the effects of these issues will be dealt with in a more detailed survey to be conducted at an unspecified later date.

## General comments

### Switching

BT believes that a key element of the research has to be to ascertain the level of savings a customer would need before switching supplier. The suggested methodology is essentially a 'predictive technique' in that it asks respondents to predict future behaviour. While this is a fairly common research methodology, it can be very unreliable, particularly in a market that, though reasonably mature, is still developing.

BT suggests that it would be better to use an approach that looks at actual past behaviour. This has the advantage of collecting indisputably factual data based on actual experience, rather than relying on people saying what they would do in a situation that they may never have experienced or even seriously considered.

### Recalling Bill Spend and Calling Behaviour

Survey data on calling behaviour and spend levels is, as Oftel admits, open to a degree of inaccuracy. The methodology relies on the collection of reasonably robust data on current spend levels.

Our experience with surveying BT customers is that some may have an approximate idea of their most recent bill size, even those that do will rarely remember the detailed breakdown of this by components or call type. When adding in the complexities of resellers, Internet, broadband, select services etc we believe that collecting actual spend data accurately at interview/questionnaire will prove very difficult.

This is an even greater problem for cable services, where bundling of services is common and even more complex. We have found that cable customers struggle to quote their line rental charge when it is hidden within an overall service charge. Many of them would never even think of it as a separate line rental, just an overall monthly cable charge that incorporated various elements.

Therefore the methodology has an in-built margin of error that is hard to quantify but is also likely to be significant. BT believes that one solution would be to get people to consult their bill during an interview, but accepts that this makes for a fraught process for an interviewer and extends interview time.

### Importance of Cost vs. Other Elements

Oftel acknowledge that, for some people, cost is not the dominant factor. Excluding customers for whom cost is not important may make sense to a limited degree, however this oversimplifies the analysis and is, therefore, potentially misleading.

For most people cost will be an issue but there are probably few for whom it is absolutely the only factor. In that context, understanding how important it is compared to other elements of service is crucial but extremely difficult to quantify and model. BT believes that a methodology that analyses past actual behaviour is likely to achieve the most reliable results.

A further complication is that new and improved tariffs, perhaps with incentives, can be offered specifically to attract new customers. These offers are not always available to existing customers, or may only be offered as a loss leader to win other services from

that customer. Therefore, even when a 'best-tariff' is technically available to other customers, it may not be actively marketed to them.

The analysis will overstate the savings available if it is performed on quarterly bills. Unlike energy bills, which generally observe a predictable annual pattern, telecomms usage fluctuates in ways that even the user can rarely predict. BT believes that results should be assessed over a period of 12 months to minimise the effects of fluctuation. If results are based solely on one quarterly bill for an individual customer then there is a real possibility that customers who are actually on the right tariff may appear to be on the wrong tariff simply because they have had a particular non-recurring event (or have not had a normally occurring one) in one quarter.

#### Alternative Existing Method

BT wonders why Oftel does not apply the methodology it used to compile and compare consumer bills in the Comparable Pricing Indicators study. The method used then was accepted industry practice and had a greater level of depth and, therefore, accuracy than this method. In that case research was undertaken to derive a wide range of calling profiles. These were then used as the basis of the model to calculate customers' bills.

### **Specific comments**

#### Executive Summary

Paragraph S5. The objective of "reducing additional consumer expenditure" should not be the sole one – treating it as such does not reflect actual consumer behaviour. BT believes that 'increasing value' (as perceived by the customer) is equally important and is not given enough prominence.

#### Chapter 1 Introduction and background

Paragraph 1.3 BT accepts that an assessment of consumer detriment is essential however any such assessment must consider the relative importance that customers place on the cost to them of researching the information needed to make any decision on switching suppliers. Some simply will not consider this a valuable use of time. The consequences of this deliberate choice to 'opt-out' of otherwise perceived benefits of the competitive market cannot be considered as consumer detriment since it results from rational consumer choice not ignorance.

Paragraph 1.4 BT wonders what level of importance will be given to this measure (of inadequate information) as against say Market Share or other strands of Oftel research.

Paragraph 1.7 BT believes that Oftel are seeking (incorrectly) to push demand as opposed to encouraging the suppliers to pull it. We feel that the onus should be on the suppliers to make information available (after all, it is in their interest to do so) and ensure that consumers are made aware of the alternatives. We are also unsure how a clear inability to choose appropriate price packages is to be determined. Furthermore, there is always the possibility of consumers providing inaccurate or incomplete information about what they want as part of the buying process.

Paragraph 1.13 Since a high proportion of mobile consumers buy from High Street Retailers who all offer an extensive choice of suppliers and their packages it is difficult to understand the suggestion that some groups of consumers might be less well informed.

Paragraph 1.16 BT's own research suggests that a significant minority of consumers can also be active in terms of fixed line telecommunications purchasing behaviour, and that, in some markets, this minority may itself be significant enough to drive competition.

Paragraph 1.16: However, in the mobile market there is a recognised propensity by consumers to churn in order to benefit from new packages, handsets, or special features e.g. picture messaging. BT feels it is possible to argue that the number of customers who could be considered to be actively choosing in their supplier is at least as likely to be a majority as a minority.

Paragraph 1.20 BT believes that Oftel should be concerned at imperfect information present elsewhere, such as in advertising, doorstep selling and literature. Some companies consistently mislead customers into signing up for their service and their records with the Advertising Standards Authority prove it.

## Chapter 1 Questions

*Do stakeholders agree that an assessment of detriment is an appropriate measure of the adequacy of consumer information? Only if the assessment itself is meaningful to the customer and that price is not considered to be the only relevant factor.*

*Do stakeholders agree that additional expenditure is the most likely form of detriment arising from imperfect information in telecoms markets? No, for instance, a lack of information about services available may be a much more severe detriment for some customers.*

*To what extent do stakeholders believe that there exist other examples of detriment arising from imperfect information, which should be a regulatory concern? If so, stakeholders describe whether and how these other kinds of detriment can be measured? Imperfect information can be present in adverts and literature. It can concern customer service, guarantees, maintenance issues, services provided and a host of other matters. While we fully accept that it is legitimate for the regulator to be concerned by the prospect of customers suffering through ignorance, it is important not to lose sight of the basic principles of regulation. In particular, the regulator should not seek to take action better left to market forces. Companies must have some incentive to promote the benefits of their own services – after all, in a competitive or even a developing market, it is in their interests to tackle ignorance and promote change. It seems very unlikely that a regulator, with a duty to be balanced and proportionate, will be more effective in combating customer ignorance than will companies whose very survival may depend on doing so. The fact that a law of diminishing returns exists cannot be ignored. It is much more difficult (and costly) to get any particular piece of information to the last 5% of the market than top the first 5%.*

## Chapter 2 Determining Consumer Rationality

Paragraph 2.5 The only web site that provides a reasonable level of consumer information is <http://www.u-Switch.com>. This web site is available across the Internet and links to it are present on a vast array of web sites. It is also promoted in many newspapers, often in the personal finance section and is a useful contribution to providing information to customers. However, even web-sites such as this suffer from the difficulty that meaningful comparisons can only be done on the basis of actual usage and future usage. Of course, future usage is not necessarily predicted by historic usage.

Paragraph 2.6 BT believes that the level of detriment should be measured as expenditure over and above the **rational** amount, not the optimal amount. Optimal is, in any event, a

loaded word. It seems that Oftel actually means 'cheapest' but if 'cheapest' does not buy the service that is really required, it is not optimal.

Paragraph 2.7 BT does not believe it is realistic to assess the level of savings by simply comparing actual expenditure with minimum prices. This implies that the consumers' usage is independent of the tariff package that they have chosen, and of marketing efforts by their suppliers.

Paragraph 2.10 Consumers often make a decision to trade off price and quality, BT feels that without a method of re-rating the cost of packages so that they are all standardised, it is not really possible to start to make reasonable comparisons. Price alone is not the sole indicator of consumer detriment.

Paragraph 2.11 BT believes that the costs of switching supplier are negligible when using a reseller on CPS or indirect access. There is neither a change of number nor any connection charge. Only cable companies ask for a connection charge, which is often subject to a promotion or split amongst additional services such as TV and Internet.

Paragraph 2.14 BT believes that it is more likely that many people simply consider that the time that they would spend on making and implementing a decision to change supplier is not equal to the savings that they may make. That is perfectly legitimate 'market oriented' customer behaviour. For this reason individual customers who are on a tariff within a given percentage of the lowest available should be regarded in the analysis as being on "the best tariff", and only those who are paying significantly over the odds should be regarded as suffering detriment.

Paragraph 2.15 Most companies should be able to demonstrate the positive steps they have taken to discourage switching, by providing better value and services. This benefits customers and suppliers alike, and cannot be excluded from the analysis. It is common knowledge in the business world that it costs approximately 7 times more to acquire a new customer than it does to keep an existing one.

## Chapter 2 Questions

*Do stakeholders agree that, in principle, it is important to measure the degree to which consumers base their telecoms purchasing decisions on a range of factors other than price?*  
Yes. There is lots of evidence to support this.

*Do stakeholders support Oftel's approach to the assessment of rationality? Are there any alternatives?* The range of factors determining choice is far wider than simply lowest price. A meaningful assessment therefore looks likely to be hugely complex and perhaps unworkable

### Figure 2.2 Generic approach to assessing available consumer savings

Point (ii) should exclude customers who are on the "rational" tariff and not just those on the cheapest.

Point (iv) should include those who change because they are dissatisfied.

Point (v) BT is uncertain as to what is being defined as "Savings". Customers may switch for a specific call cost savings but suffer a higher price on other calls.

Point (vi) BT believes that customers that remain could also be "inert" and have reasons for not seeking out new suppliers (e.g. they spend low amounts on the phone). They too

should be excluded. Later on, the modelling states that BT's Light User Scheme (LUS) product is used for comparative purposes. Given the nature of LUS, BT is unsure how any LUS customers could be on a cheaper tariff. They too should be excluded.

### Chapter 3 Competitive Context

#### Figure 3.1 Real price changes in fixed and mobile telecoms 1998-2002

The graph Oftel uses does not correspond to our figures, which are as follows: (for line rental, inland calls and IDD exc. fixed to mobile calls) from an index of 100 in August 1984 to 43.96 at Nov 2002.

Paragraph 3.11. BT strongly challenges the assertion that there is a lower level of competition in the fixed market, taken as a whole, than mobile. Although it may be true for physical connections, a huge number of fixed line customers have experienced competition either from Indirect Access, Carrier Pre-selection, the ability to use "bundled" or "cheap" minutes on their mobile even when standing next to a fixed line, "on-net" calls replacing fixed-mobile calls, and of course cable. BT's relatively high market share of fixed access cannot be taken to imply that customers are unaware of competition.

Paragraph 3.16 BT would be interested to have more details as to how Oftel intend to target the information to make consumers aware.

### Chapter 3 Questions

*Do stakeholders agree that prima facie evidence points to a reasonable level of information about tariffs in the consumer fixed and mobile markets? Yes*

*Do stakeholders agree that the relative level of spend on a good or service is a key determinant of consumers propensity to switch? In the fixed line market, no. BT has supporting evidence from profiles of cable customers. Customers that switch from CPS tend to have a higher bill. In the mobile market, yes.*

*Do stakeholders agree that not all consumers need to be fully informed in order for competition to be effective? Yes – Telecommunications is a large market. Even a relatively small proportion of that market changing its supplier will provide an economically viable platform for a competitor and will drive changes in behaviour of other suppliers. Customers who have no wish to change supplier will still get the benefits of cost reductions and service improvements so long as there is sufficient churn in the market to stimulate such cost reductions and service improvements. Current evidence in terms of price change and service quality is that there is. If customers have little or no desire to move because, at their level of spend and service need, they do not feel that it is worth the effort, then they do not need to be fully informed but they will still benefit from the competitive market anyway. However, there are many groups of customers who are well informed about the choices available to them. The most obvious are those who switch regularly. This behaviour demonstrates that they are attempting to find the best deal for themselves.*

### Chapter 4 Results of application to residential mobile and fixed markets

Paragraph 4.34 BT notes that Oftel recognises the difficulties in making a simple assessment of consumer savings.

Paragraph 4.35 (and others) BT believes that it is too early to make any firm recommendations as the initial study is too limited.

Paragraph 4.39 BT recognises that the variety of Indirect Access operators and their prices makes it difficult for Oftel to provide an average price for their services. However, applying a standard discount from BT's standard rate is not satisfactory because many IA operators have complex charging mechanisms that affect the real price of the call. BT is unclear how the differences between packages are captured in this approach.

Paragraph 4.41 BT believes that the methodology used to calculate bills has not been described in enough detail and does not provide enough information to allow respondents the chance to comment on its validity. BT feels that respondents would benefit from a more in depth description of the steps taken to calculate the optimal and actual bills.

Paragraph 4.41 Bullet point 3 BT does not agree with the findings that these households can save £20 per quarter on their bills. They would have to be spending an appropriate amount on telecoms to be able to "create" the savings mentioned.

Paragraph 4.41 Bullet point 3. Whilst BT may accept that a 5% saving is achievable, translating this into £20pq saving is clearly an error. The Table in Annex 1 gives our calculations. If between 50-70% of the 10.8m make savings of £150m per annum then the table shows that the quarterly savings cannot be £20pq.

Paragraph 4.41 Bullet point 3. Furthermore, there seems to be a discrepancy in the figures Oftel use. Oftel state that the average comms spend for average households is £69 on page 50. If £30 is deducted to account for line rental, are Oftel saying that customers can save £20pq on a £39pq call bill? BT is unsure how this could be correct unless the call spend was similar or higher to the advanced fixed telecom household spend. If this was to happen then a fairer comparison would be for Oftel to include unlimited BT tariffs in their comparisons as opposed to considering only tariffs up to BT Together.

**PLEASE NOTE:** There is a formatting error between the web based document and the adobe downloaded document where the paragraph numbering on the adobe has 'skipped' a number, there being no paragraph number 4.42. Our document refers to the numbering on the web-based document.

Paragraph 4.42. BT challenges this assertion which ignores the fact that high spenders are the customers most targeted by all forms of competitors and hence that the price differentials may be lower here - rather than higher as Oftel argue.

Paragraph 4.46 and 4.47 BT notes that Oftel acknowledge that there is some way to go in producing a reliable result. It looks as if such an assessment would cut the savings even more.

Paragraph 4.48 BT is disappointed that Oftel should ask for comment on the basis of a study that they acknowledge does not provide enough detail and is concerned that the consultation is premature.

#### Chapter 4 Questions

*Do stakeholders have any practical suggestions for improving the precision of the optimal spend estimate?* BT recommends that Oftel should build on its work with the Comparable Pricing Indicators and use that model to calculate the optimal bills. We are satisfied that this is producing essentially the right results. We feel that there is far too little

information to approve the method Oftel has employed. In principle the framework is acceptable, but how the results are arrived at remains hidden.

*Is the way Oftel has taken into account switching costs and quality/inertia premium reasonable?* Yes, Oftel has recognised that these will be factors, which diminish the level of savings available. However, we still contend that services such as carrier pre selection (see our comments in point 38) are negligible.

*Are the results of the application of the methodology a) plausible, b) in line with expectations?* BT believes that the results represent significant overestimates of the savings available and the associated consumer detriment.

## Chapter 5 Interpretation and application

Paragraph 5.8 BT's own research suggests that customers in the 'low-income groups' make use of the services provided by the reseller market. Whilst those customers in the higher 'social groups are more likely to use resellers overall, it is certainly not our understanding that they are anything remotely like the sole users.

Paragraph 5.9 BT are unsure as to whether Oftel is suggesting that the purpose of this exercise is to identify groups of people who suffer "detriment" and then apply "information initiatives" to help them and would like clarity on the matter. A degree of ignorance is inevitable and there could be a significant cost implication in trying to 'force feed' information to people who have taken a conscious decision to remain where they are.

Paragraph 5.10 BT is unsure who would be obliged to do this. Our customers choose their tariff options with assistance from BT's advisors, literature or web site. We regularly inform our customers of the options they have available (via the Update magazine with their bills and advertising) and customers should be fully informed in this respect. BT does not believe it is for it to decide what options our customers should be on especially because call patterns change – often quite regularly and often unpredictably. BT would also receive complaints and experience dissatisfaction from those customers who might have been put on what turns out to be the wrong tariff. Furthermore, as un-metered tariffs become more prevalent, the issue of price becomes less important. Customers are inevitably less anxious because the phone bill is, to a significant extent, more nearly fixed by nature. Moving these types of customers back onto the Pay As You Go tariffs would only reintroduce the unwanted anxiety over what the phone bill is likely to be.

Paragraph 5.11 We feel that this provides yet another good reason why operators should not decide which is the cheapest tariff for each mobile customer.

## Chapter 5 Questions

*Do stakeholders agree with Oftel's assessment that the general level of savings available in fixed and mobile markets does not give cause for concern?* Yes.

*Do stakeholders agree that the methodology proposed will be best used in improving the targeting of future information initiatives?* No, the methodology does not consider the extent to which people choose a supplier for non-price reasons.

Are there other markets in which stakeholders believe OfTel should attempt to measure the level of savings available? Do stakeholders foresee any practical difficulties in doing so? BT has no guidance to give on this point.

Can stakeholders provide any suitable benchmarks from other industries which can assist OfTel in determining whether the level of consumer detriment in telecoms markets is sufficiently high to justify regulatory intervention? No.

Do stakeholders believe that the level of additional expenditure in any market can be used as an indicator of effective competition? No. The classic example is the village or corner shop. The cost penalty to using such a facility rather than a supermarket may be quite considerable. Yet such shops are used – for instance for convenience, because they provide more personalised service or out of a desire to support community facilities.

Appendix B Methodology for preliminary assessment of savings in the UK residential fixed telecoms market

Paragraph B3 BT believes that what can be defined as ‘free’ is open to much debate.

Paragraph B4 BT is unsure as to the validity and necessity of this comparison. An ISDN line is a different service to two PSTN lines offering faster connection speeds, the ability to combine the channels to double the speed etc. Similarly the use of DSL or cable modems as a comparator with the PSTN is not like for like.

Table B3: Estimated average call durations (minutes) by call type

BT believes that the method of using an average duration to model all calls is unsound. This is because calls are made across a wide range of different times and to different destinations. These calls are also subject to other charging methods, which distort the actual price, paid from the published pence per minute rate. For example, the use of minimum call fees and call connection fees are common throughout the industry. Similarly Indirect Access operators use minimum call fees. These companies may have lower pence per minute prices than BT, but they also make use minimum call charges of, for example, 5p. So as many local and national calls will attract this fee, they will often be priced at a zero discount to the BT Standard price. These examples also prove that using a discount to BT Standard is not a safe method of determining indirect access provider prices.

Annex 1: Savings Calculations

	<i>If 70% made savings</i>	<i>If 50% made savings</i>
numbers of customers	10,800,000	10,800,000
number of customers making a saving	7,560,000	5,400,000
total spend per annum	£3,100,000,000	£3,100,000,000
estimated savings	£150,000,000	£150,000,000
% savings out of total spend	4.84%	4.84%
savings per person per annum	£19.84	£27.78
savings per person per quarter	£4.96	£6.94