



2 Marylebone Road
London NW1 4DF
t 020 7770 7000
f 020 7770 7600
which.co.uk

Sukh Walia-Chahil
Ofcom
Riverside House
2A Southwark Bridge Road
London SE1 9HA

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Dear Sukh

Response to Ofcom's Call for Inputs – Helping consumers to engage in communications markets

Summary

- **Solution trialling and testing:** Which? welcomes Ofcom's plans to trial and test any new possible solutions in advance to ensure they deliver better outcomes for consumers. Any new intervention should also be monitored and evaluated over time. The review that Professor Amelia Fletcher undertook for us last year shows that a number of demand-side remedies, of various sorts, have had beneficial effects. However, many have not been as effective as intended, and a few may even have had unintended negative consequences. Therefore, Ofcom needs identify clear outcome measures of a successful intervention, so that it can monitor and evaluate how far any new remedy actually meets them and adjust its regulatory approach based on that evidence.
- **Barriers to consumer engagement:** In August 2017 Which? undertook research relating to consumer engagement in the mobile market¹ the key results are outlined below:
 - **Knowing when to look for better offers:** Just 15% of respondents to our research on mobile switching did not know when their contract ends. 26% know the rough time of year it ends, but nothing more concrete than this. Even so, half (50%) of respondents would like their mobile provider to proactively tell them their exact contract end date. Additionally, 68% of respondents said that they changed their contract within a month of their old one ending. However, this picture may be different for other communications markets.
 - **Finding the right offers to meet needs:** Our research suggests that a large proportion of consumers are purchasing more than they need as part of their mobile phone contract. Providing consumers with data on the current services they use could be useful for some consumers. When coming to the end of their contract, 58% of respondents to our survey would like their provider to tell them what the best available tariff (with their current provider) for their usage would be if they were to keep their current phone. There also appears to be scope for

¹ Populus polled a total of 2072 general population respondents on our behalf, via an online omnibus survey. Fieldwork was carried out between the 30th and 31st August 2017.

enabling third parties to help consumers to engage (including digital comparison tools, and rival suppliers). Our research found that just 31% of consumers used price comparison sites to look for deals at the end of their last contract, while 1 in 4 consumers (24%) only contacted their existing provider.

- Ease of leaving current service: Which? welcomes Ofcom's consideration of bundling. While we recognise bundling can benefit consumers (e.g. billing cost savings), it can sometimes result in consumer harm by making comparison between alternatives more difficult or increasing switching costs. Ofcom should investigate the prevalence of bundles with different end dates for different elements of the bundle, exit fee arrangements and the way in which this impacts on consumer engagement in the sector. It would also be useful to investigate how transparent the contractual terms and their implications are when these contracts are signed.
- Other potential barriers: The research we undertook in August 2017 found that 49% of consumers who stayed with their existing provider upgraded early (without paying a fee). This suggests a reasonably high level of appeal of early upgrades, which may prevent some consumers fully engaging in the market.

Background

Which? welcomes the opportunity to respond to Ofcom's Call for Inputs entitled 'Helping consumers to engage in communications markets'. Consumers who engage in markets are often able to access the best deals and benefit from more competitive prices or innovative tariffs than those consumers who choose not to engage. Ensuring consumer engagement can drive good outcomes for all consumers, encouraging competition, leading to lower prices and more innovative offers.

Communications services are an essential part of consumers' lives so it is imperative that the market works effectively for consumers, delivering good consumer outcomes. However, consumers face numerous challenges when navigating the telecoms market, from complex contract structures to poor firm practices that do little to help guide consumers towards the right deal. Which? considers that a well-functioning market in telecoms that works in the interest of consumers should deliver: good quality information to enable effective decision making; good customer services; fair contractual terms; and easy switching.

The design and implementation of effective demand-side remedies to help consumers engage in markets is difficult. Last year we commissioned Professor Amelia Fletcher to carry out a review of the available evidence on the role and effectiveness of demand-side remedies in different sectors.² The review shows that a number of demand-side remedies, of various sorts, have had beneficial effects. However, many have not been as effective as intended, and a few may even have had unintended negative consequences. Remedies may also become less effective as market circumstances change over time. The review has several important lessons for regulators that are highly relevant to this call for inputs, which we summarised in the attached Which? Briefing Paper. One key lesson for regulators is the

² <http://www.staticwhich.co.uk/documents/pdf/the-role-of-demand-side-remedies-in-driving-effective-competition-456067.pdf>



need to identify clear outcome measures of a successful intervention, so that it can monitor and evaluate the success of any new remedy and adjust its regulatory approach based on that evidence.

The rest of this document summarises the evidence that Which? currently has on the barriers to consumer engagement in the mobile sector. Which? is planning additional research on consumer engagement and welcomes a discussion with Ofcom on how we can work together in developing the evidence base in this area.

Potential barrier to engagement 1: Knowing when to look for better offers

In August 2017 Which? undertook research relating to consumer engagement in the mobile market.³ This research found that just 1 in 7 (15%) of consumers on a mobile contract have no idea when their contract comes to an end. A further 26% know the rough time of year it ends, but nothing more concrete than this. For those who know only the rough time of year, 67% claim their contract end date is more than six months away. Meanwhile, over half (57%) of consumers with contracts (both PAYG and PAYM) claim to know the month their contract ends. For those whose contract ends in the next three months, 82% know the month it ends.

Our research also found that 68% of consumers changed their mobile phone contract under a month after the old one finished. However, we note that it is possible that in other communications markets such as broadband or TV, consumers may be less aware of when their contract term ends, and be less likely to change their contract as quickly at the end of the contract term.

These findings suggest that for some consumers there may be limited value in providing them with more information about their contract end date, and the value of the information is likely to depend on when it is provided to the consumer. Our research found that half of respondents (50%) would like their mobile provider to proactively tell them their exact end date.

It is important to note however, that while providing consumers with information may help engagement, there is also the potential for it to provide consumers with too much information which would lead them to disengage. Therefore, any new remedies aimed at providing consumers with greater transparency must be appropriately tested in advance to determine their effectiveness in engaging consumers.

Potential barrier to engagement 2: Finding the right offers to meet needs

Which? agrees with Ofcom that when consumers do choose to shop around and compare products and services on offer, they may not understand their own needs or have difficulty navigating the market. Our August 2017 research found that of those who have a monthly contract phone or SIM only contract, 78% generally go under their minutes allocated and

³ Populus polled a total of 2072 general population respondents on our behalf, via an online omnibus survey. Fieldwork was carried out between the 30th and 31st August 2017.

80% generally go under their texts allocated. 53% generally go under the amount of data they are allocated. This may suggest that many consumers are purchasing more than they need as part of their contract. Consumers may choose to do this as a result of the legacy issue of high punitive charges for out of contract bundle usage; they may also be unaware of what their data allowance will actually enable them to do.

In our research, 43% of consumers agreed with the statement, "There's probably a better value mobile tariff for my current usage than the one I'm on". However, 88% of respondents claimed they are confident that when they decided on their last contract it was the best tariff for their usage. Of this group, 55% said they generally go under their data allowance while 30% use roughly what they have allocated, suggesting that even for some of this confident group there may be more appropriate tariffs for their usage.

Of those who claim to be confident that the last contract they chose was the best for their usage, 41% agreed there's probably a better value tariff for their usage than their existing one. This could be a result of post-rationalising their past decision (hence confidence) but may also be a result of the quick changing nature of available contracts which may be available while you are still within your existing contract.

Providing consumers with data on the current services they use could be useful for some consumers. Our survey found that when coming to the end of their contract, 58% of consumers would like their provider to tell them what the best available tariff (with their current provider) for their usage would be if they were to keep their current phone. However, as pointed out before, we consider that it is essential that Ofcom tests any possible new remedy in advance to evaluate effectiveness before implementing it.

There appears to be scope for enabling third parties to help consumers to engage (including digital comparison tools, and rival suppliers). Our research found that only 31% of consumers used price comparison sites to look for deals at the end of their last contract. Of these, 77% found the experience easy. Furthermore, 24% of consumers with contracts, at the time of their last contract expiry, contacted only their own provider and did not look at deals from other providers/intermediaries. 1 in 10 (12%) consumers claimed they did no research at all. However, 45% of this group took out a new contract with a different provider, suggesting a substantial number of this group did not default to their existing provider, despite doing no research.

Price comparison websites, and other digital comparison tools, have a key role to play in identifying how best to engage consumers. Therefore, Ofcom should ensure that the necessary information is made available to such bodies in a form that can be easily used, and if not look to standardise the way information is provided so that they can help consumers to engage.

Potential barrier to engagement 3: Ease of leaving your current service

Which? welcomes Ofcom's consideration of bundling. While we recognise bundling can deliver benefits for consumers (e.g. billing cost savings), it can sometimes result in consumer



harm by making comparison between alternatives more difficult or increasing switching costs. For example, some consumers may be unaware of their switching options or when their contract ends.

While we do not have specific evidence at this stage of bundling making consumers' decisions more difficult or materially increasing switching costs, Ofcom should investigate the prevalence of bundles with different end dates for different elements of the bundle, exit fee arrangements and the way in which this impacts on consumer engagement in the market. It would also be useful to investigate how transparent the contractual terms and their implications are when these contracts are signed.

Other potential barriers

The research we undertook in August 2017 found that 49% of consumers who stayed with their existing provider upgraded early (without paying a fee). This suggests a reasonably high level of appeal of early upgrades. Including those who paid a fee to upgrade early (this would typically be customers with more than three months left of their contract) the total figure rises to 59%.

70% of those who upgraded before the end of their contract said 'to upgrade my phone' was one of their main aims. This is double compared to 35% of the total of those who have ever changed/renewed a contract. Only 21% of the group who upgraded early said one of their main aims was to save money – this is compared to 35% of the total group. This suggests the motivations of those who upgrade early are compatible with their decision to upgrade. It also suggests that some consumers may choose not to switch or fully engage in the market as they are able to upgrade early and get a new phone if they stay with their current provider.

Our research also found that 44% of respondents agreed that they trust their provider to offer them the best deal for their usage when their contract ends. Of those consumers who phoned their provider to ask about available deals at the end of their last contract, just 18% were told it would be possible to keep their phone and take out a SIM only contract. SIM only contracts often have the potential to save consumers significant sums of money, so consumers could be losing out if they are unaware of this option.

We consider that the staff that deal with customer acquisition and retention should be given proper training and guidance so they can help assist consumers in finding the right package for their needs and correctly answer their queries. Mystery shopping is one way in which this could be assessed. This would help improve the consumer experience when purchasing a new contract, which may encourage engagement and build trust in the sector.

Trialling and testing potential solutions

As highlighted throughout our response to this Call for Inputs, Which? Welcomes Ofcom's plans to trial and test any new possible solutions in advance to ensure they deliver better outcomes for consumers. Ofcom also needs to identify clear outcome measures of any new



intervention and monitor and evaluate the effectiveness of the remedies over time and adjust the intervention based on that evidence.

Kind regards

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