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Notes on price comparison, related to the consultation on Ofcom's consumer policy

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Introduction

The opportunity to save money is one of the main reasons for consumers to switch suppliers. But in telecoms, it has been notoriously difficult to make reliable price comparisons.

Having watched (and sometimes taken part in) the UK telecoms scene for many years, I have long felt that this need not be true. Telecoms usage and packages do differ more than (for example) their energy equivalents, making accurate price comparisons harder. But the real problem is that most of the industry has no interest in helping to make these comparisons easier.

Ofcom's recent consultation on consumer policy provided the trigger to pull together the ideas below on making price comparisons much easier for consumers. I offer these as a contribution to debate, and would welcome comments.

Proposal for a tariff comparison toolkit

The purpose of this proposal is to make valid tariff comparisons for residential consumers much easier and more common. This responds to an interest expressed by a majority of decision-makers in the market research for the Strategic Review of Telecommunications, Phase 2 (TSR2)[1]. It is compatible with any of the four options for price comparison put forward in the consultation on Ofcom's Consumer Policy: it is designed to add to and improve, not to replace, what is already being done in this area. Ofcom's role, to start with, could be simply to make the toolkit available to everyone – service providers, tariff comparison providers and consumers. No requirements need be associated with the toolkit, in which case it would not amount to regulatory intervention. Developments could then be monitored, and the case for intervention assessed.

The main idea is to devise a group of standard typical usage profiles as 'yardsticks', enabling the industry to move towards something more like the financial sector's Annual Equivalent Rates of interest. Such profiles are already familiar in other areas. For example, press coverage of the effect of new taxation often uses illustrations such as *professional couple, single pensioner, family with two school-age children.* Energy price comparisons tend to focus on the size and age of the home, again picking a few typical combinations. For telecoms, the picture is more complex, but it should still be possible to come up with a reasonable set of profiles.

Use of these profiles in advertisements (or by tariff comparison professionals, or journalists) should enable people to see how providers' prices compare over a range of usage patterns. Some people might feel their usage was well represented by a particular profile. Others might feel that their usage was a mixture of the given profiles, but be able to see that a

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[1] Strategic Review of Telecommunications, Phase 2 consumer research annex (M), paragraphs M.141 to M.145.

certain provider is competitively priced across those profiles, so that could be a good choice for them.

Some current problems

Current comparison tools[2] generally require users to enter their own personal usage patterns, and then get results that are specific to them. The process is quite laborious; and the outcome may be unreliable, because if their usage changes (or they make a mistake in entering the pattern), the results may also change. Itemised bills provide accurate records of actual usage, but these are not generally organised in a way that is helpful for these comparison tools. Of course prepaid users don't get bills at all; and using the internet at all for this sort of purpose is a minority pursuit.

The proposed toolkit

The complete toolkit would consist of a number of different components.

- **Several typical usage profiles.** It is key to this proposal that these would be standard across the industry, so that different service providers, comparison websites etc would all price up the same set of profiles. They are discussed in more detail below.

- **Format for service providers' charging logic.** This is a standard format for each provider/brand to specify their charging rules and algorithms – for example, whether phone calls are charged by the second or by the minute, and whether a per-call charge is added. This information tends to change less frequently than prices. The format would start with the existing most common types of charging logic, and allow extra lines to be added for new approaches.

- **Format for actual prices for each package**, again a standard (but expandable) format designed to correspond with the charging logic. These are numbers, such as 5 pence a minute. They can change frequently.

- **Choice and calculation tool(s)**, which would allow someone wanting a comparison to choose usage profiles and providers and/or packages. Using the charging logic and actual prices, the tool would then calculate the bills that those profiles would incur on those packages.

An aim of the toolkit would be to use the simplest, most standard possible software (such as spreadsheets), so as to keep the components accessible to a wide public.

Ofcom's role

Ofcom's minimum role in the first instance would be (through either its own staff, or consultants):

- To define and publish the usage profiles.

- To define and publish the standard formats for charging logic and actual prices, aiming for convenience of:

  o entering information into the formats, and

  o drawing on this information to calculate bills for usage profiles.

This would be mainly a one-off exercise, with relatively low effort for continuing maintenance and update.

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[2] The 'Switch with Which?' tariff comparison website already partly uses a profile approach for mobiles. Users start by picking the category they feel suits them best out of emergency, careful, flexible, spontaneous and dependent. They continue by answering a series of questions on their own usage pattern.

Putting service providers' information in to the standard formats for charging logic and actual prices, and keeping these up to date, would be a much bigger task, though not large if spread across the industry. Much the most efficient approach would be for service providers themselves to enter and update the information. Some might do this of their own accord; others might follow suit, if they saw that otherwise they would get left out.

If results proved disappointing, Ofcom's next step might be to require service providers to publish their tariffs using these standard formats. There is of course already a requirement[3] for all this information to be published, so the additional burden of using a standard format would be minimal and mainly one-off. As well, service providers could be required to publish correct prices for the standard profiles using their applicable packages. For them, this would be a simple matter.

Consequences

Once the usage profiles were published, it would be easy for service providers to price them on their own packages, and those of their main competitors. So we might already start to see advertising claims such as 'usage profile A costs £25.38 a month over the first year – while our competitor X's closest equivalent would cost £27.43'.

Once the standard tariff formats are available, as already mentioned, tariffs might start to appear in them, direct from some service providers or through the efforts of intermediaries; or Ofcom could encourage or require their use. Either way, once information for a certain number of service providers is available in the standard formats, it becomes worthwhile for comparison websites to provide choice and calculation tools. This makes it easy for analysts to produce tables showing how service providers compare across a number of profiles, and journalists to provide coverage angled at their readers' interests (including, one hopes, comments on other relevant factors like service quality and minimum contract duration).

The question of how many suppliers to use will be of increasing importance to consumers (for example, whether to get voice and broadband internet access as a bundled package from one supplier, or separately from two different suppliers). This will be an area where intermediaries like special comparison websites are indispensable – suppliers can only be expected to price bundled offerings.

More on the usage profiles

The idea is to define a series of representative usage profiles for tariff comparison purposes. The number of these is to be decided, but there might be (say) 10 to 20. Design criteria for the profiles could be, for example, to describe (say) 80% of UK households within (say) plus or minus 10% of total bill size; or they could focus on particular population groups, or just be simple and fairly common.

Each would correspond to a 'cluster' of usage patterns typical of a consumer group that could be described fairly simply, so people could quickly identify which they were closest to. For example, the profiles might be based on Ofcom's attitudinal segments from the TSR2 research[4], subdivided by services used (eg whether or not broadband is included), total spend category and key elements of call mix.

Each profile would not itself correspond to a single usage pattern, but would be an average of a large number of similar usage patterns in the same group (varying by time of day when calls are made, call length, destination etc). This 'randomisation' would prevent providers tailoring their offers to particular usage patterns.

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[3] General Condition of Entitlement 10: Transparency and Publication of Information
[4] Leading edge, fully connnected, mainstream internet users, market average, low-spend mobile, low-spend tech, not involved