Consumer Switching in EU Broadband Markets

In 2012, SPC Network's Director Richard Cadman worked with Civic Consulting[i] on a major report on functioning of the market for Internet access and provision in Europe for DG SANCO. A brief summary of Richard's contribution on consumer switching is presented in this edition of Hexagon[ii].

Switching is an important feature of a competitive market: it is both an indication of the perceived competitiveness of a market and a driver of that competitiveness.

Consumers switch primarily because they believe that they can get a better service, better product, or better price from the new supplier. In the context of broadband better service may mean a higher connection speed or a bundle of services that better meets the individual consumer's preferences.

This means that at least some consumers must believe that there are better deals available (i.e. ones that more fully meet their preferences) than they receive from their current provider, allowing for any switching costs. If no such belief exists in the market then consumers will have no motivation to switch. Suppliers must also believe that they can attract new customers by making better offers than their competitors. This leads to an irony, in that if consumers do not believe they can get a better deal and therefore don't switch, suppliers have no incentive to offer a better deal so prices may increase towards the monopoly level[iii]. So, the more homogeneous suppliers' offers are, or are expected to be, the less incentive there is to switch and therefore the less incentive there is for suppliers to offer improved services.

Consumers need to expect some benefit from switching. If all providers are thought of as the same, consumers have less incentive to switch and prices may rise.

Consumers therefore need to be empowered to switch, meaning that they need to have the information to make choices between suppliers and must not face excessive costs for switching. In a behavioural sense, switching costs are the actual or perceived costs incurred by a switching consumer but not incurred by one who stays with their current provider. Xavier and Ysplianti[iv] refer to research conducted by Ofcom in 2006 that points to five important deterrents to switching:

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1. Lengthy and cumbersome procedures;
2. Early exit charges;
3. Confusing products and opaque pricing;
4. Technical incompatibility of equipment; and
5. Long term deals.

The extent of switching varies substantially across countries, age groups and other demographics. Some of the key findings of the survey conducted for the report were:

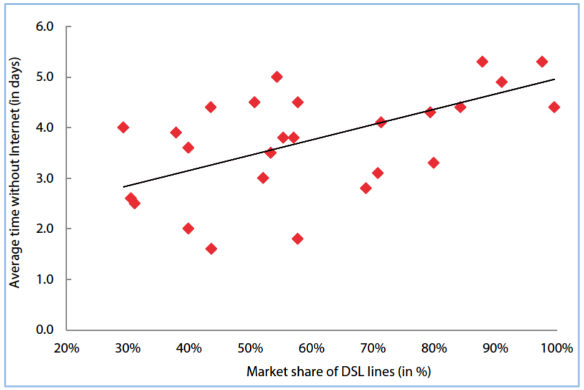
- Switching is highest in Finland, Sweden and Denmark and lowest in Bulgaria and Hungary;
- The 15 – 24 age group is 40% more likely to switch than their parents' age group (over 55);
- Big city dwellers are 19% more likely to switch than those who live in rural areas.

Internal switching, that is changing tariff package with the same supplier, is not only very common – 44% of survey respondents had switched internally – but the threat of switching is also apparently used by consumers to get a better deal from their existing supplier. Nineteen per cent of respondents who had considered switching but had not yet done so were waiting for a better deal from their current ISP.

Consumers tend to gain more from switching when DSL has a high market share. But they also suffer longer service interruption when switching.

Overall, there is a high level of satisfaction with switching: 80% of switchers reported being satisfied with their move. Despite this, switching is not without its problems. Those who were not satisfied found that the grass was not always greener on the other side: either the service from the new ISP was not as good as expected or prices were higher than expected.

One issue for switchers was the length of time they were without broadband access. Here, we found a correlation with the market structure: where DSL has a high market share, service interruption tended to be longer (see figure below).



The big question for most consumers is how much they can save by switching. The most frequently reported savings were between €5-10 per month (21%) and €10 – 15 per month (18%). The average reported saving varied substantially across Europe - from €23.7 in Cyprus to just €6.1 in Bulgaria – and there was a strong correlation between savings and average monthly charges (0.85). We also found a strong correlation between reported savings and the market share of DSL (0.69).

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These correlations indicate that where the market share of DSL is high, which is often linked with the incumbent having a strong market share at the wholesale level, consumers tend to pay more but also gain more by switching.

Conversely, where infrastructure competition has been established, consumers already pay less and do not make such strong savings by switching. Eight of the ten countries where survey respondents reported the lowest savings are EU12 Member States, whereas nine of ten countries with the highest savings are EU15 Member States.

Of course, when interpreting these figures, one also has to take into account that average prices paid by consumers, as reported by respondents to our survey, tend to be lower in the EU12, which obviously affects savings achievable by switching.

Switching is an important element of a competitive market and a number of recommendations are made to make switching easier:

- NRAs should negotiate or set maximum termination fees to prevent them becoming a barrier to switching;
- ISPs' contracts should make clear any termination charges a consumer will face at the end of the contract and any charges if the contract is terminated early. Any attempt by an ISP to levy, or to threaten to levy, charges that are not clearly stated in the contract should be punishable by a fine.
- In our consumer survey, one of the facilitators to switching most frequently indicated by respondents was a shorter contract duration. To facilitate switching, it is therefore recommended that the maximum duration of ISP contracts be as short as possible.
- Automatically renewable contracts may lock consumers into prolonged contracts unless they actively 'opt out'. It could therefore be considered to reset the 'default' so that the contract would lapse unless the customer actively 'opts-in' by registering a decision to renew the contract. Alternatively, contracts could roll over into non-fixed term contracts terminable at any time, after the contract period expires.

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[i] http://www.civic-consulting.de/

[ii] The full report can be found at http://ec.europa.eu/consumers/consumer_research/market_studies/internet_services_provision_study_en.htm

[iii] Waterson, M. (2003) 'The role of consumers in competition and competition policy', International Journal of Industrial Organization 21 (2003), p. 129–150.

[iv] Xavier, P. and Ypsilanti, D. (2008) 'Switching costs and consumer behaviour: implications for telecommunications regulation', Info 10 (4).

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