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**Telecommunications Consumers: A Behavioural
Economic Analysis**

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The digital revolution offers opportunities for communication and entertainment that previous generations would doubtless have envied. Yet telecommunications markets, especially those for broadband internet and mobile, have become the subject of rising customer complaints in recent times. Offerings have become increasingly innovative, complex and difficult to compare. The majority of consumers remain reluctant to shop around and a large proportion fail to choose the best deals. Behavioural economics offers insights into how modern telecoms consumers make these decisions, and what might be done to help them.

Telecoms markets have four properties that, in combination, are unique. First, broadband internet and mobile products are effectively four products bundled into one: hardware, software, network and tariff structure. Consequently, judgements of overall product quality are highly complex. Second, the ultimate value to the consumer depends on the experiences the product offers access to, such as social interaction, instant information and online entertainment, rather than what the company itself provides. Third, the rapid development of new digital technology means that each time the consumer returns to the market, it has changed. Fourth, unlike any other product, mobile devices mean that consumers make purchase decisions numerous times throughout the day. In effect, telecoms consumers now sign up for always-on consumption of a variety of immediate experiences at zero-interest credit.

The upshot of these four properties of the modern telecommunications market is that consumers find it difficult to assess the benefits of different offerings accurately. Such assessment requires consumers to judge complex products, to choose between services and devices with features that are new to them, to predict their own future usage and, then, to stick to that usage. Thus, the decision-making environment faced by modern telecoms consumers is very challenging.

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This analysis may help to explain the low rates of switching found in the market. Reluctance to switch providers in search of better value is often put down to some kind of “irrational” loyalty to the present provider, or merely to hassle or inertia. Yet an alternative possibility is that many consumers do not feel competent to decide on which package, from among the very many alternatives, offers best value. Behavioural economic research shows that when decision-makers do not feel competent in any domain they become particularly risk-averse, reacting to the possibility of making a costly mistake. If so, then the standard advice to consumers to shop around in search of value may not be appropriate, or could even backfire by making mistakes more likely.

Indeed, international evidence suggests that a large proportion of telecoms consumers, even in choices between just three or four offerings, choose the wrong option for their usage pattern. The value lost can be large: estimates suggest that providers make around twice as much profit from those consumers who pick the wrong tariff.

Behavioural research offers insights into why many consumers fail to choose tariffs that match their usage. The likely culprits are lack of self-control and overconfidence. Most of us find it hard to resist immediate temptations for which we pay a price at a later stage. Regarding internet and mobile use, self-control problems are likely to be compounded by services and content that may be partly addictive, such as gambling opportunities, gaming, social networking, shopping or pornography. Behavioural research also shows that people are overconfident in how accurately they can predict future outcomes, underestimating the likelihood of extreme outcomes. Aware of the dangers of building up large bills, some consumers seek pre-commitment strategies to constrain or insure against their own future behaviour, e.g. pre-pay, flat-rates, usage limits, etc.

These behavioural phenomena help to explain the popularity of “three-part tariffs”, where consumers pay a standing charge, a flat rate for a bundle of usage allowances, then penalty rates if they exceed an allowance. These tariffs are attractive both to consumers who are trying to constrain their usage and to those who are confident in their ability to predict and control it. In the event, however, a high proportion of consumers of broadband and mobile phone services choose the wrong three-part tariff, either suffering penalty rates or, more commonly, paying for ongoing levels of service that they do not use. The losses to consumers appear to be substantial.

What might be done to protect telecoms consumers and to help them to make better decisions? One possibility is simply to place regulatory limits on penalty

rates for exceeding allowances. A less interventionist approach is to mandate certain forms of feedback to consumers. Providers could be required to make certain disclosures when consumers choose between tariffs, such as the percentage of consumers who exceed the allowances each month. Since they already trade on a sophisticated range of interactive services, providers could be mandated to give one-click access to easily interpretable data on remaining minutes, texts and megabytes, just as consumers can observe remaining power in a mobile phone battery. Or warning texts to consumers could be required at the point they are about to exceed allowances.

Digital communications technology is providing us with ever more entertainment and helping us to achieve routine tasks more easily. It can also help us to make better decisions about which communications services to use and how much to pay for them.

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