



ESRI Research Bulletin

The price of broadband quality

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This Bulletin summarises the findings from: Lyons, S. and B. Coyne, 2016, The price of broadband quality: tracking the changing valuation of service characteristics, *Economics of Innovation and New Technology*, available online:
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The price of broadband quality¹

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INTRODUCTION

Governments around the world are keen to encourage the universal availability and take-up of high-speed broadband services, and Ireland is no exception. It tends to cost less to provide broadband in densely-populated places, so commercial operators offer advanced services in urban areas first and only upgrade rural areas later, if at all. The business case for installing high speed broadband networks depends not only on the cost but on the revenue that consumers are willing to pay for better quality service. In sparsely populated areas, if commercial operators cannot earn enough revenue to justify upgrading service quality, governments may step in to provide subsidies or other incentives and thus achieve broader coverage. The need for, and scale of, these incentives will thus depend upon how much more operators can earn by upgrading their quality of service. Our research examines how the price premium for higher broadband speeds and other factors affecting broadband pricing have changed over time in Ireland.

RESULTS

The price premium charged to consumers for higher quality broadband services has been falling over time and is now very low. Our research shows that by 2013 higher speed services were only slightly more expensive than plans offering lower speeds. In addition, bundled services that use telephone lines to deliver broadband along with voice calls or TV service attract less of a price premium than they did in earlier years. However, TV service still commands a significant price premium. The falling price premium on download speed suggests that it may be difficult to get consumers in less well served areas (e.g. many rural areas) to contribute much towards the extra cost of installing high speed networks.

The broadband retail market has been changing in other ways too; in particular, the price premium charged by the historical incumbent supplier Eir (previously called Eircom) fell significantly after 2007. This is probably a sign of increasing retail competition. Regulators removed price controls from Europe's (including Ireland's) retail broadband markets when they believed that former incumbents were facing effective competition; our findings provide supporting evidence for that view.

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DATA AND METHODS

Our research is based on data from 2007-2013 in Callcosts.ie, a price comparison website maintained by Ireland's Commission for Communications Regulation (ComReg). Callcosts helps residential consumers compare the cost of mobile, home phone and broadband plans. We use a statistical technique called regression analysis to estimate the contributions made by different aspects of broadband plans to the overall price of each plan, holding other factors equal. This method is useful for picking out the relative contributions of particular factors in circumstances where many things are changing at the same time. The database used contains most broadband and bundled plans offered in Ireland during the period.

OTHER IMPLICATIONS

Several other features of broadband pricing are explored. As expected, the research finds that broadband plans which limit the total amount of data that can be downloaded have lower prices. Some consumers would see such plans as offering less value and are thus not willing to pay as much for them, while imposing data download limits should also make the service less costly to supply. Past research in other countries has suggested that innovative 'fibre to the home' services tend to be offered at a discount for some period after they are introduced. In Ireland, a similar discount has emerged over time and seems to be more prevalent among small operators.

There are some shortcomings in the data available for our research. Data from price comparison websites offers a rich source of evidence on pricing in retail telecoms markets. The biggest missing piece, however, is the number of subscriptions to each plan over time. If these data could be linked to Callcosts information, it would be possible to learn much more about how retail telecoms markets work.