

Annex 10.1

Comments on Market Research

Introduction

1. Annex 10.2 presents the results of third party market research on mobile calling patterns that we commissioned to Jigsaw Research.
2. The research has two main components: a section describing mobile users' demographic profile, behaviour and usage which provides robust descriptive results and a section describing the likely reaction to a number of hypothetical price changes scenarios.

Ofcom comments

3. While the descriptive analysis presents robust and easy to interpret results (discussed in Section 3, Annex 10.2), the price change scenarios (discussed in Section 4, Annex 10.2) have generated some results that are not immediately easy to interpret (and at times at odds with standard economic arguments).¹ The main counterintuitive results are the following.
4. First, we find that respondents are almost never neutral about changes in different components that are designed to make them indifferent, e.g., an increase in the price of the handset that is offset by an *identical* decrease in the price of calls over the course of a year prompts 8% of Prepay respondents to say they would be "likely" to stop having a mobile (Figure 10, Section 4, Annex 10.2).
5. Second, we find that 8% of Prepay respondents say that when faced with a £10 increase in the price of the handset and a decrease in outbound call charges to compensate for it they would make *fewer* calls (Figure 10).
6. Third, in Figure 10 we also find that the likelihood of dropping mobile use was almost identical for the sample of respondents that was offered a £10 price increase in the handset *with* future calls offset (offset sample) and the sample that was offered no future calls offset (no offset sample).
7. We believe there are a number of different factors at play that explain this:
 - (a) a minority of respondents probably found some of the price scenarios confusing so their responses need to be somewhat discounted;²
 - (b) some respondents likely added additional detail to the questions so they in fact ended up addressing slightly different scenarios from other respondents. For instance, when faced with charges for incoming calls a number of Postpay customers suggest they would switch to the use of Prepay. It is not clear from the survey to what extent at least some of these respondents might assume that Prepay contracts would remain as they currently are (i.e. without charges for incoming calls);

¹ This is not unexpected as it is well known that asking complicated price change scenarios to respondents presents different challenges.

² This is why error margins are applied to the findings. These types of hypothetical questions generally come associated with higher error margins not least because only a proportion of consumers react in the way they say they will. However, the data can be used to understand relative differences between the scenarios (which is what it was designed to do).

- (c) a strong aversion to the receiving party pays (RPP) principle means that the negative reaction was very similar for the sample that was offered no financial offset and the sample that was offered a full financial offset in terms of cheaper outbound calls;
 - (d) the results show that Prepay consumers faced with a £10 increase in the cost of the handset are unlikely to react differently regardless of whether they get the additional £10 handset costs back in future cheaper calls or not – indicating that £10 price increase will have little impact on consumer behaviour for the majority of Prepay customers (with the exception of the 8% who appear to oppose this option £10 may not seem like a particularly large sum of money to the vast majority of respondents).
8. Accordingly in the document we place significant weight on the descriptive analysis presented in Section 3, and we rely exclusively (and qualitatively) on some of the key themes emerging from Section 4 (e.g., strong consumer aversion to receiving party pays) rather than on the detailed answers to the price change scenarios (see discussion in Section 4.3).
 9. As noted above the data from the price change scenarios provide a good indication of consumer preferences across the different scenarios they were presented. While the actual percentages are subject to high error margins and should be treated as indicative, error margins would be fairly consistent across scenarios. Therefore, the data is informative of relative differences in consumer behaviour and attitude towards these scenarios.
 10. The two key findings from the research are that:
 - The introduction of RPP is viewed significantly less favourably than a £10 upfront price increase for the handset by Prepay customers;
 - A £2 monthly subscription increase is seen more favourably than the introduction of higher upfront handset costs (£35) or the introduction of RPP by Postpay customers.