

Personalised Pricing: Presentation of Personalised Pricing Findings

August 2020



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1

Introduction

Project Context & Objectives

Ofcom are seeking to understand consumers' perceptions of Personalised Pricing

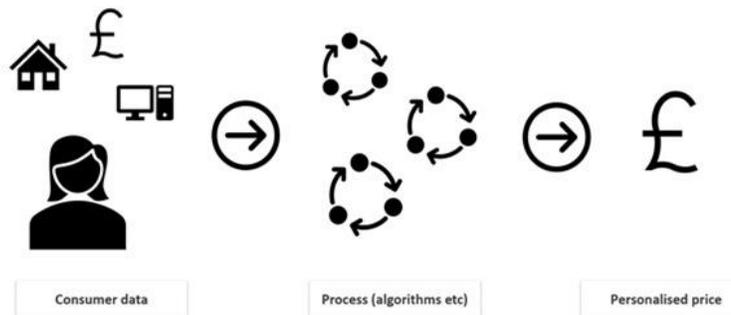
Personalised Pricing means that in the future, companies may automatically generate different prices for different people taking the same service, with prices depending on conclusions drawn from data they hold about people, some of which they may buy from other companies.

Personalised Pricing: Overview

- In the future, companies may automatically generate different prices for different people taking the same service, with prices depending on conclusions drawn from data they hold about us, some of which they may buy from other companies

A possible future example of personalised pricing:

- Your telecoms provider contacts you at the end of your contract and offers you a price personalised to you, based on information they hold about you (such as service use, demographic or financial data).
- Another customer with the same telecoms provider, who is also at the end of their contract, is contacted and offered a different price for the same product.



Research was required to...

Explore awareness, understanding and appeal of Personalised Pricing

- Understand what consumers know about Personalised Pricing
- Explore their attitudes towards potential benefits and risks / concerns
- Identify what might alleviate any potential concerns about Personalised Pricing

Nb. This research formed a small part of a much broader study exploring attitudes towards Open Communications

Methodology

A three stage qualitative research methodology was undertaken to address our objectives:



A 'new deal' diary

- All participants were asked to record how they would **find a new communications service deal** for both dual play / triple play and mobile. Explored in particular:
 - Their routes to researching a new deal
 - Clarity of the information found
 - Sources of information



Focus groups and in-home depth interviews

- 11 face-to-face focus groups, covering 'engaged' and 'unengaged' audiences across a range of ages and demographic profiles (including a separate pilot group)
- 17 face-to-face depth interviews with vulnerable consumers (including 75+, mental / physical health conditions, financially vulnerable, and low literacy)
- 7 face-to-face depth interviews with SME owners
- Research was carried out across London, Bristol, Peterborough, Wrexham, Norwich, Leeds, Belfast, Larne, Edinburgh



Reflective tele-depth interviews

- 14 reflective telephone depth interviews with a selection of focus group and depth interview participants whose views on discussion and key themes changed over the duration of the study
- These included 6 group participants, 3 SMEs, 5 vulnerable consumers

Sample - Face-to-face session samples



11x 2-hour focus groups (6 – 8 participants per session)

AUDIENCE	TOTAL	TRIPLE PLAY + MOBILE	DUAL PLAY + MOBILE
Engaged/Active, Under 40	2	1	1
Apprehensive, Under 40	2	1	1
Engaged/Active, Over 40	2	1	1
Apprehensive, Over 40	2	1	1
Unmotivated, mix of ages	2	1	1
Pilot session, unengaged, aged 30-64 (London)	1	1	-
TOTAL GROUPS	11	6	5

- 8 groups x primarily communications services focused; 3 groups x primarily mobile focused
- All were decision-makers, with access to internet at home, and didn't totally reject switching providers
- Mix of tech confidence / engagement & mix of attitudes to data sharing
- Pilot session – broad mix of ages, focus on unengaged
- Engaged / active groups - at least 2 looking at a new deal in next 2 months. Even mix ½ active; ½ browser / dormant per session
- Mix of broader demographics – gender, lifestyle, household make-up, SEG
- Mix of providers, satisfaction with providers and mix of mobile set-ups to reflect incident rates (contract / PAYG / sim only); for mobile focused sessions - contract customers (handset and sim only)



24x 1-hour in-home sessions

AUDIENCE	TOTAL
75+	4
Financially vulnerable	4
Low literacy	3
Physical difficulties	3
Mental health condition	3
SMEs	7
TOTAL DEPTH INTERVIEWS	24

- 16 depths x primarily communications services focused; 8 depths x primarily mobile focused
- Financially Vulnerable & Other Vulnerable/ 75+ - mix of engaged and unengaged mindsets (and include PAYG/sim only mobile customers), and mix of triple play/dual play
- Financially vulnerable - anyone with an annual income of under £10,500, or earning £10,500-£15,599 annually with 3 or more people in the household, or earning £15,600-£26,000 with 4 or more people in the household
- Low literacy - Don't have any qualifications in English (GCSE or O-Level) and either struggle to read written communication and/or sometimes find forms confusing and difficult to complete
- SMEs - all dual play + mobile, having business contracts for comms, all SME owners (mix of sectors) with no more than 20 employees, all to be decision makers for comms service, mix of switching behaviours

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Executive Summary

Executive Summary (1/2)

Overview of approach

- **A programme of research was conducted to explore awareness, understanding and reactions towards Personalised Pricing.** The research consisted of:
 - 'A 'new deal' diary: all participants completed a diary on how they would find a new communications service deal
 - 11x face-to-face discussion groups: with 'engaged' and 'unengaged' audiences (conducted between 24 February – 12 March)
 - 24x face-to-face depth interviews: with vulnerable audiences and SMEs (conducted between 28 February – 17 March)
 - 14x reflective telephone interviews: conducted with a mix of participants from across the sample (conducted between 23 – 27 March, during the Covid 19 lockdown)

Reaction to Personalised Pricing

- **Personalised Pricing as described in the research was considered 'unfair':**
 - It was felt to **lack transparency** around how their price would be calculated (i.e. how would the algorithm work? What financial and demographic information would be accessed and used?)
 - It also created a **lack of certainty** as to whether they had a good deal (i.e. no anchor in terms of what the 'real' price is or clear point of comparison)
 - The more engaged consumers felt **disempowered** (i.e. no control over price due to use of algorithm)
 - Whereas the unengaged felt there was potentially **no reward for loyal custom**. As such, there were concerns the concept **could lead to trust issues with providers** in the market, never knowing if they had a good deal or whether it was genuinely 'personalised'
- There were also **concerns about data** bought in and how this impacts on price and future data security (i.e. what are they opting in to? How is bought-in data stored? Could the data be passed on?)

Executive Summary (2/2)

Reaction to Personalised Pricing (Cont.)

- Upon seeing the Personalised Pricing example, some acknowledged the potential benefit to lower income households. However, most were still unsure about the concept and still expressed an overriding sense of being penalised rather than rewarded
- Ultimately, the potential benefits of the concept did not overcome their initial concerns with the concept

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Perceptions of Personalised Pricing

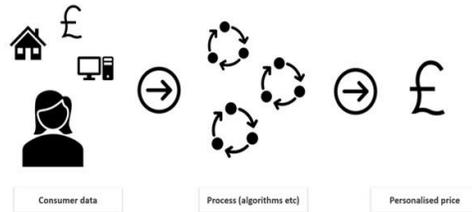
Initial reactions towards the concept were generally negative

Personalised Pricing: Overview

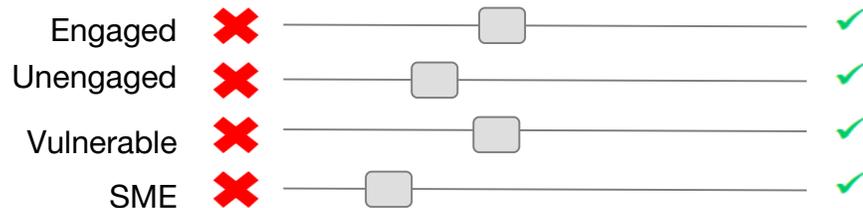
- In the future, companies may automatically generate different prices for different people taking the same service, with prices depending on conclusions drawn from data they hold about us, some of which they may buy from other companies

A possible future example of personalised pricing:

- Your telecoms provider contacts you at the end of your contract and offers you a price personalised to you, based on information they hold about you (such as service use, demographic or financial data).
- Another customer with the same telecoms provider, who is also at the end of their contract, is contacted and offered a different price for the same product.



- No prior awareness of Personalised Pricing** - participants were only able to compare it to haggling for a 'personal' price, although in this scenario it is assumed that any customer could negotiate to get the 'best' price. As an unfamiliar concept personalised pricing raised a lot of questions
- Frequent initial response to the idea is that it felt **'unfair'**:
 - Perceived as **lacking transparency** - how can you judge if it's a 'good' price or not? There's no anchor in terms of what the 'real' price is / clear point of comparison
 - For the more engaged, **feels disempowering** - price is dependent on the data they hold on you, which feels out of their control compared to the current process of haggling with providers.
 - Unengaged felt there was potentially **no 'reward'** for loyal custom, and similarly perceive the need to haggle to get a better deal currently to be unfair
- Concerns about data bought in** and how this impacts on price and future data security. Unclear what they're 'opting in' to here or if they would be penalised for opting out.
- A small minority were less critical:
 - It might benefit more vulnerable groups (with lower and / or unstable income); in principle that is a good thing
 - 'It's how free markets work' - a few engaged customers felt it may well happen already (and result in a similar outcome to haggling)
 - A few wondered if the algorithm would recognise their haggling and adjust the price accordingly



"I think it's great, but purely because I think it would give me a better deal. All these deals are already out there, you just don't have to go searching for them this way"

Female, <40, Engaged, Dual Play, Edinburgh

"What drives their means test? Why should hard workers pay for shirkers?"

Female, >40, Unengaged, Dual Play, Norfolk

A lot of concern about transparency of Personalised Pricing - especially how it would work and how it would be controlled

How does the algorithm actually work? In particular people want to understand what influenced their price and how their price compared with others. Some desire for more in-depth information about the calculations, but recognition that this may be too complex.

What is the financial or demographic data that can be accessed? How does it impact on price (are you judged for your age, ethnicity, earnings, etc.?). Not keen for financial / demographic details to be used to shape their price as it feels 'irrelevant' to the product, but usage information was relevant and therefore felt to be 'acceptable'

How is bought-in data stored and could it be passed on? What guarantees / reassurances are in place?

Lots of questions around how prices are generated - it's seen as lacking transparency

"I'm unsure about all the information they are using. How do they get to these different prices? Different prices per customer - are they just making assumptions about you?"
Female, Unengaged, Triple Play, >40, Edinburgh

"It boils down to that I don't know if that deal's any good. If there's no way of knowing what others have, or a typical price in my area, or whatever metric I could use, I'm left thinking "well, is that any good?"
Male, Unengaged, Triple Play, 30-64, London

"Personally, I have no problems providing the information. I think the more they know about me, they are more likely to offer me something. It's about afterwards. They are not allowed legally to share our data are they? We have data protection out there?"
Female, Unengaged, Triple Play, 30-64, Belfast

Some questions posed by participants about how Ofcom can regulate the concept so that customers aren't being unfairly penalised

- Concern over the rules around what data providers can / cannot buy in and how they can set prices
- Clarity about the benefits of agreeing to data sharing - particularly under GDPR (would this mean they would be better protected?)

But ultimately, the key barrier was how would they know if they had a good deal as there is a lack of transparency around how the prices are generated

Example elicited more nuanced responses but still overriding sense of being penalised rather than rewarded

A few benefits emerged:

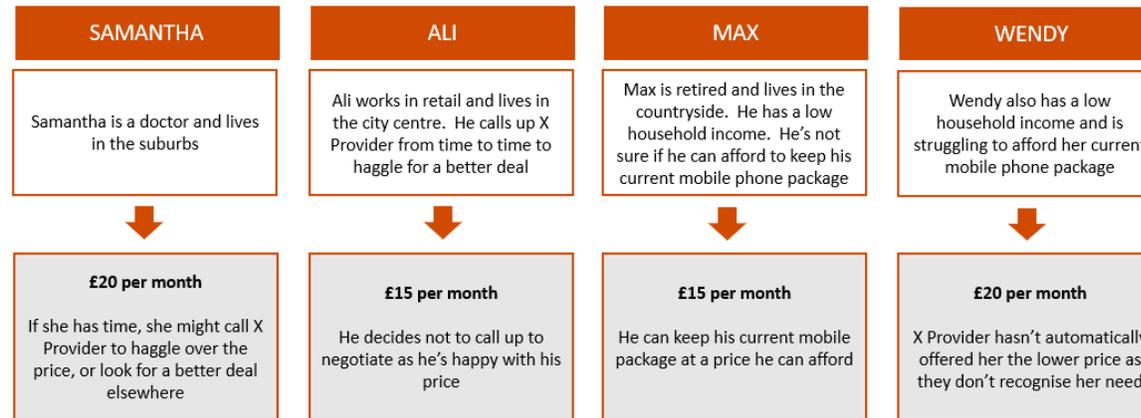
- **'The Max Factor'** - some acknowledged the potential benefit to lower income households, enabling them to maintain their service - but often from a 'societal' standpoint (i.e. unlikely to personally gain)
- Small number of more financially unstable / vulnerable could also see potential to personally benefit

On reflection...

Could see potential benefit of Personalised Pricing if circumstances changed suddenly (i.e. COVID-19), or if the 'deal' was able to flex mid-contract

Example used in consumer sessions

- X Provider contacts all four at the end of their contract and offers them different prices.
- Samantha, Ali and Max have opted into sharing their data. Wendy has opted out of sharing her data.
- For Samantha, Ali and Max the price is automatically generated using information about them and how they use their service. The information includes data X Provider already has, as well as data it has bought from specialist data provision companies.
- All four people are offered the same mobile phone bundle, but at a different price:



"I like the idea but it will make a lot of people unhappy - everybody wants a good deal so they just won't use this. You could see more people wanting to use it at the minute with circumstances always changing because of COVID-19 though."

Female, >40, Engaged, Dual Play, Leeds, Physical Health Condition

However, most still unsure about the idea, and felt 'penalised':

- **'The Samantha Factor'** - sense of injustice, and penalised for 'working hard'
- **'The Wendy Factor'** - penalised for not sharing her data; the more vulnerable, less tech-comfortable customers lose out
- Perceived as **judging** people based on financial data held and their willingness to share data - and it's financial / income data that people were unsure about sharing
- Could lead to **trust issues** with providers - lack of clarity about fairness of their deal and what is used to calculate this

Ultimately, potential benefits did not overcome concerns

- With the exception of lower prices for low income households, possible benefits did not alleviate concerns:
 - **Stronger competition / prices driven down** - lack of faith in Third Party Intermediaries / providers that this would be the case and how they would really be able to prove it
 - **Access to new / varied services** - but little faith that truly personalised / tailored deals would result in a cheaper market; pick 'n' mix approach seen as typically driving up costs

“This seems like you’re being punished for not wanting to share your data?”

Female, <40, Engaged, Dual Play, Edinburgh

“The same provider should not be able to offer the exact same tariff at a different price. It is discrimination of the worst kind.”

Female, >40, Engaged, Triple Play, Wrexham

“I’d be really annoyed if I was paying more than my next door neighbour for the same service. It’d be like I was being penalised for being successful!”

Male, <40, Engaged, Dual Play, London, SME

What would overcome concerns?

- ❌ **Opt out** - ‘The Wendy Factor’ - not a positive outcome; seems to be punished for not ‘playing the game’ and sharing her data; she missed out on getting the cheaper £15 deal that was offered to Ali and Max even though she is in a similar situation
- ❓ **More transparency** - knowing what data was used and how it fed into results was useful - but still unclear how their result compares to ‘market norm / average’ or how they could use price comparison sites in this scenario. If they were able to compare on these sites, it is felt this would be helpful but it also has the potential to raise more questions and cause frustration if they knew that they were paying more than others for the same product
- ❓ **Better explanation of collection / use of personal data** – desire for this explanation upfront as feel it would provide useful reassurance, but doesn’t overcome concerns about the types of data being used (e.g. financial/demographic)
- ✅ Only **banning use of financial data / practice of buying in other data** appeared to help - but then questioned how it could work so would need to provide clarity here (e.g. based on usage).

A benefit for vulnerable customers? Yes... but can see potential issues for providers

Case Study 1: Male, <40, Unengaged, Triple Play, Larne, Financially Vulnerable

Background: Unemployed, with wife acting as his carer. Been out of work (sick) for 18 months, recovering from alcoholism. Used to work as an electrician.

Set up: currently set up with Sky “for the sport” - Triple Play, paying £65 per month, which they admit is tight but is “his sole entertainment”.

Concerns: Already said he didn’t understand why he should be paying the same for Sky as a millionaire, so Personalised Pricing concept appealed. He felt he might be able to get the deal he needed for a better price. But also conscious that he wouldn’t really know if it was a good price - only compared it to what he was paying now.

“I like the idea of people with little money getting a more preferable deal, but I also worry that if I found out a mate had it cheaper all hell would break loose. It’s tricky for the companies”

Case Study 2: Female, >40, Engaged, Triple Play, Edinburgh, Low Literacy

Background: Works as a cleaner at a local school, living at home with husband and 3 kids, one of which has learning difficulties.

Set up: currently set up with Virgin for TV, broadband, landline and her mobile. Only with Virgin for 1 year as it was all that was available in her new build apartment. Has been easier for her having only one provider for everything. If she was to change it would be for another full bundle and feels she could only trust a big brand like Sky or Virgin.

Concerns: While she can see this would benefit someone like her who struggles and needs to save money wherever possible, she felt this concept just isn’t fair and would lead to arguments. People shouldn’t be made to pay more just because you earn more. Can see that this could really bother some people.

“This is going to confuse and annoy a lot of people. People that earn more shouldn’t be made to pay more, you don’t know everyone’s circumstances”

SMEs were slightly more critical of Personalised Pricing than residential sample

- X Provider contacts all four at the end of their contract and offers them different prices.
- High Street Bakery, Reliable Florists and Handy Help Cleaners have opted into sharing their data. Kate's Coffee Shop has opted out of sharing their data.
- For High Street Bakery, Reliable Florists and Handy Help Cleaners the price is automatically generated using information about them and how they use their service. The information includes data X Provider already has, as well as data it has bought from specialist data provision companies.
- All four businesses are offered the same business mobile phone bundle, but at a different price:



“Using the current situation as an example, you have a whole workforce of 30 people but you turn 10 or 20 of them into unpaid leave, but the rest still need to work for a couple of months. If you (as a SME) could speak to your supplier and they could be more flexible in the package looking at the usage of the data, then they (the supplier) could reduce their cost based on that (less actual usage of data) while the SME being more cost effective”

Male, Highly Engaged, Dual Play, Leeds, SME

“I'm looking for a deal determined by the market, not my own usage. It's a flawed system. It's not comparing like for like”

Male, Moderately Engaged, Dual Play, Norwich, SME

NB: only small sample, so very much 'impressions' and 'indicators'

- Most **SMEs** accept the idea of 'haggling' for a better deal and bespoke pricing a more established model in the business world, however still want reassurance that this is from a 'fair and equal' base (i.e. clear market price for deal)
- Loyalty was a 'factor' mentioned a few times that might justifiably reduce base price
- One SME compared Personalised Pricing to how their water rates were calculated:
 - Felt they were paying more compared with shops nearby which they believed were using more water (e.g. hairdresser)
- Most preferred a deal determined by the market 'average' - not by own usage (especially if set-up spread across business and residential deals). Again, lack of comparison key
- Ultimately, do not want to be in the position of 'Kate's Coffee Shop' or 'High Street Bakery'
 - Perceive this would cause resentment if they found out through word of mouth they had a worse deal

On reflection...

One SME (impacted by COVID-19) more interested in Personalised Pricing if the 'deal' could flex mid-contract

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Going forwards

Key takeaways from the research

Personalised Pricing - the lack of transparency and perceived control over their price hard to overcome

- Majority like idea of a market cost - an anchor to understand the value of their deal
- Personalised Pricing takes away sense of control - both over the price, understanding how this is arrived at and how it compares
- Could lead to trust issues with the market (and increase rather than reduce inertia)
- Only the reflective depths, which were conducted as the Covid-19 lockdown began and as concerns about the pandemic were beginning to increase, showed how uncertainty and sudden changes in use may make more sense - but only if deals can flex mid-contract

Thank you

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Appendix

Full sample structure - focus groups

	England	England	England	Northern Ireland	Scotland	Wales		
	London (pilot)	Leeds	Norwich	Belfast	Edinburgh	Wrexham	TOTAL	Primary focus of discussion
Unengaged, Triple Play, 30-64	1						1	Comms
Unengaged (Apprehensive), Dual Play, ≥40			1				1	Comms
Engaged, Triple Play, <40			1				1	Mobile
Unengaged (Apprehensive), Triple Play, ≥40					1		1	Mobile
Engaged, Dual Play, <40					1		1	Comms
Unengaged, Triple Play, Mix of ages				1			1	Comms
Unengaged(Apprehensive), Dual Play, <40				1			1	Mobile
Unengaged, Dual Play, Mix of ages						1	1	Comms
Engaged, Triple Play, ≥40						1	1	Comms
Engaged, Dual Play, ≥40		1					1	Comms
Unengaged(Apprehensive), Triple Play, <40		1					1	Comms
TOTAL PER LOCATION	1	2	2	2	2	2	11	

Full sample structure - face-to-face interviews

	England	England	England	England	England	Northern Ireland	Scotland	Wales		
	London	Leeds	Norwich	Peterborough	Bristol	Larne	Edinburgh	Wrexham	TOTAL	Primary focus of discussion
SME, 2-9 employees	1		1			1	1		4	Comms
SME, 10-20 employees	1	1			1				3	Comms
Financially vulnerable	1			1					2	Mobile
Financially vulnerable		1						1	2	Comms
Physical health condition	1		1						2	Mobile
Physical health condition		1							1	Comms
Mental health condition					1				1	Mobile
Mental health condition			1				1		2	Comms
75+				1	1				2	Mobile
75+						1		1	2	Comms
Low literacy						1			1	Mobile
Low literacy				1			1		2	Comms
TOTAL PER LOCATION	4	3	3	3	3	3	3	2	24	

Glossary

Acronym	Description
PAYG	<ul style="list-style-type: none"><li data-bbox="486 354 733 382">• Pay As You Go
SME	<ul style="list-style-type: none"><li data-bbox="486 435 868 464">• Small / Medium Enterprise
TPI	<ul style="list-style-type: none"><li data-bbox="486 524 835 552">• Third Party Intermediary