Consumer reactions to potential pricing models for the broadband universal service obligation

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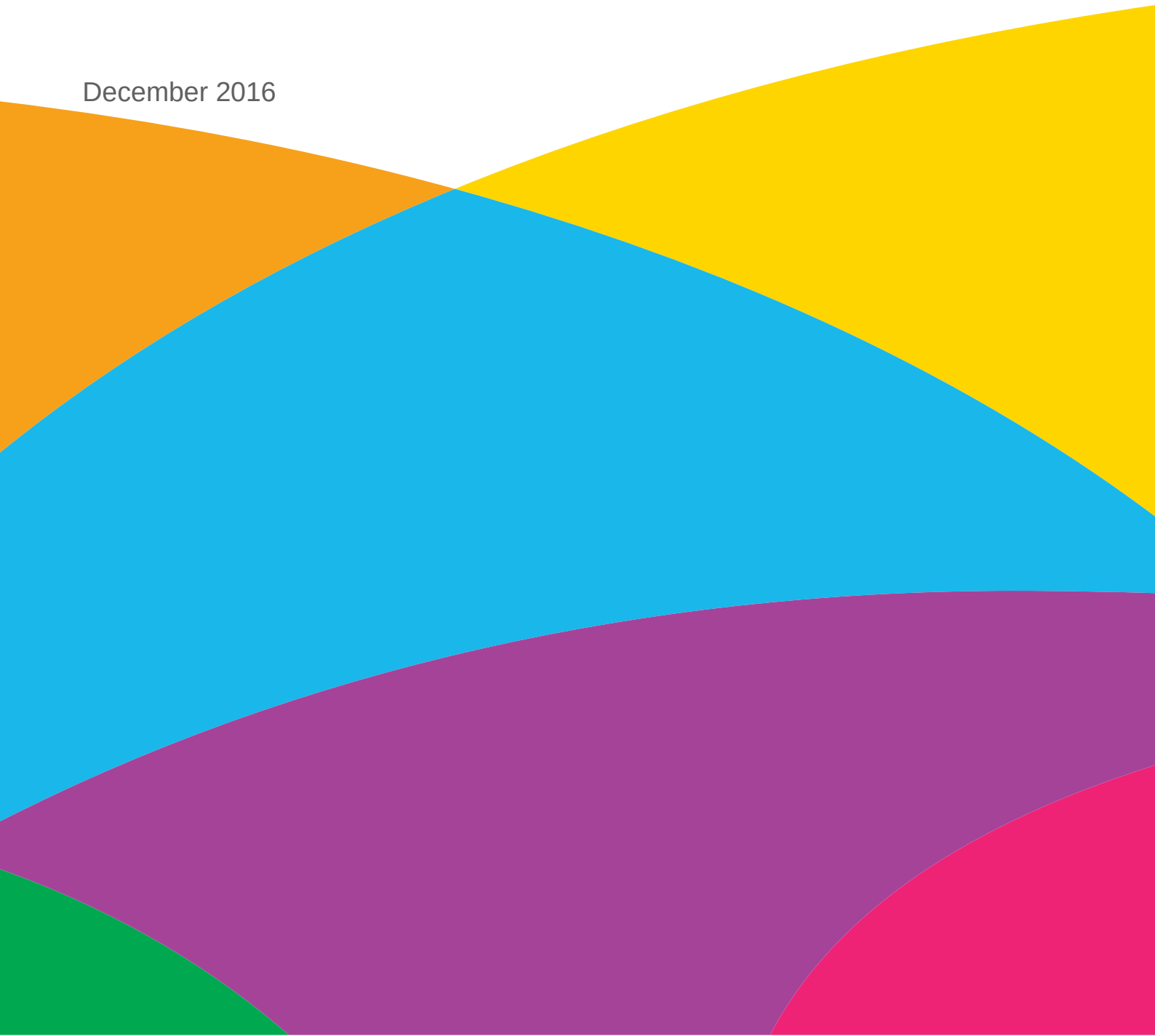

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1. Executive summary

1.1. Objectives and approach

In November 2015, the Government set out its intention to introduce a broadband universal service obligation (USO). This would give everyone a right to a decent broadband connection on request. The Government's ambition is that this would give households and businesses the legal right to request a broadband connection with speeds of 10 Megabits per second (10Mbit/s).

This report provides feedback on qualitative research carried out between August and September 2016 exploring attitudes to different pricing options for a broadband USO among residential broadband participants across all four nations of the UK.

The research consulted with two participant audiences. Audience One[1] were participants living in postcodes that did not have a fixed broadband connection which could deliver a predicted speed of 10Mbit/s i.e. broadband USO Scenario 1. Audience Two[2] were participants living in neighbouring postcodes to Audience One who did have a fixed broadband connection which could deliver a predicted speed of 10Mbit/s or above (i.e. those who already benefit from a service of an equal or higher specification than broadband USO Scenario 1).

The principle objective of the research was to understand participants' attitudes and preferences with regards to two pricing models.

- The first model is **geographically-uniform pricing**, which would mean that USO consumers pay the same as other consumers pay for a similar service and all broadband consumers contribute to the costs of connecting USO premises (for the purpose of the research this was presented as a **uniform price increase** to everyone's monthly bills).

- The second model is **differential pricing**, which would mean only those consumers with a USO connection pay an additional amount compared to the prices paid by everyone else (for the purpose of the research this was presented as a **differential price increase** for such consumers, either a monthly price increase, or an initial one-off charge followed by a monthly price increase).

The research consisted of 25 ninety-minute mini-group discussions, 12 among Audience One and 13 among Audience Two, and 9 thirty-minute telephone depth interviews with Audience One participants who were in particularly hard-to-recruit areas. Across both audiences, there was an even split of groups with participants from urban and rural areas. Each group consisted of between five and seven participants, a mix of men and women, with all being the primary or joint decision-maker for communications services at home.

Although some proposed price ranges were explored under each of the pricing models, the exploration of specific price points was not within the scope of the research. However, several price ranges were shown to participants under each of the models in order to encourage debate and to aid their decision-making as to which approach they preferred. In addition, towards the end

[1] Audience One were recruited from areas where the majority of connections (over 50%) delivered under 10Mbit/s.

[2] Audience Two were recruited from areas where the majority of connections (over 75%) delivered over 10Mbit/s.

of the group discussions and telephone depth interviews, which had focused on a broadband USO which would deliver a predicted speed of 10Mbit/s or above, a brief amount of time was spent exploring high-level reactions to a 'superfast broadband scenario' which would deliver 30Mbit/s or above.

1.2. A note on qualitative analysis

This report is based on the views and experiences of 152 residential broadband participants in the UK. The research was qualitative in nature and findings included in the report are indicative and are not intended to be a comprehensive national picture of consumers' views. References to 'most', 'some', or 'a few', etc. in the report are relative to the size of this sample of participants. Where the views of Audience One and Audience Two differed, we have made this clear. Where we have described 'many participants' or 'some participants' without specifying which audience, the reference is to participants of both types.

1.3. Overview of key findings

Positivity towards the concept of the broadband USO was initially overshadowed by feelings of resentment at consumers having to financially contribute at all.

The vast majority of participants were positive about the concept of the broadband USO because they believed that the world is becoming increasingly digital and, subsequently, everyone has a fundamental 'right' to good broadband connectivity. The USO was welcomed because it would provide a minimum standard that was seen as vital for people to fully engage in a range of key services online. Crucially, the USO was intrinsically seen as fair because it would guarantee the equal rights and treatment of citizens regardless of who they are and where they live.

However, this initial positive reception was based on participants' assumption that the USO would be paid for by the Government and/or Internet Service Providers (ISPs), and this assumption (that Government or ISPs would pay) was fundamental to the initially positive reception to the broadband USO concept. Once the notion of consumers having to pay, and the pricing models, were introduced to them, people often felt resentment because they believed that they should not have to financially contribute at all. Most participants felt ISPs should pay because they believed that they already make significant profits. This was exacerbated by a sense of cynicism towards ISPs because many participants reported having experienced issues with their broadband speed being lower than what they believed was 'promised' on connection or upgrade.

The alternative source of funding identified was the Government; because many felt that the Government is 'forcing' citizens to go online to complete an increasing number of essential transactions and that the economy as a whole would benefit – the Government should therefore fund the USO itself. It should also be noted that the majority of participants did not appreciate that even if ISPs or Government 'paid' for the USO that the costs would be passed on to them in other ways, either as price increases (ISPs) or out of the tax they pay (Government) – this impacted both on their overall reaction to the USO and their expectations with regards to the responsibilities that ISPs or Government had in relation to the cost of the service.

Prior to any indication of pricing ranges, participants were largely divided evenly between preferring uniform pricing and differential pricing.

Participants inevitably evaluated the pricing models based on a combination of individual social conscience, attitudes towards fairness and current (or recent) experiences in relation to broadband and the affordability of such services. This led to split opinions.

Perceived fairness underpinned many peoples' attitudes towards pricing. The majority of Audience One preferred uniform pricing because they believed it was the fairer option; they believed they had overpaid for 'long enough' and that it was only right that they should pay the same as everyone else with everyone contributing to righting this imbalance. However, the majority of Audience Two initially preferred differential pricing because they believed it unfair that they should have to pay for someone else's service to improve when their own would not.

Considerations around affordability also strongly influenced initial preferences for the pricing models, regardless of audience, and were largely based on both one's personal ability to pay an extra charge and/or the strength of social consciousness around other people's ability to pay extra. Notably, most of the research participants were unsure as to whether either of the pricing models would be personally affordable before being shown potential price ranges; a large majority assumed that the extra monthly charge could be between five and ten pounds extra per month, even under uniform pricing. It was therefore quickly apparent that participants needed to understand the actual costs before being able to fully evaluate which pricing model they preferred.

The majority of participants preferred uniform price increases over differential price increases once they are made aware of the potential price ranges involved.

Once potential price ranges were shown, a uniform price increase was the model preferred by the majority of participants. Crucially, the potential price increase ranges for a uniform price increase (10p to £4) were all far lower than the level that was expected, which was largely around the £5-£10 mark. Most participants believed that a monthly price increase was acceptable as long as it was under £1 and ideally 50p or less. This prompted many who initially preferred a differential price increase to switch their stated preference, albeit sometimes begrudgingly, because this extra charge proposed would be a minimal, manageable amount for everyone; those who initially preferred a uniform price increase on principle considered their initial choice confirmed by these pricing levels.

After being shown the ranges of price increases under a differential price increase model (£5-£25 extra per month, or £5 per month increase plus an initial one-off charge of £100-£500), the majority of participants felt it would be prohibitively expensive and would be overly punitive on USO consumers. Nevertheless, a significant minority continued to prefer differential price increases because (they believed) it ultimately gave participants choice; those who could not afford the extra charge could remain with their current service and opt out of having a new connection. In addition, a few participants, particularly within Audience Two, were unable to overcome their resentment around the idea of having to pay anything at all towards the USO and so continued to prefer differential price increases.

There was widespread confusion over how a broadband USO might work in practice.

There was a general level of confusion about who would qualify for a broadband connection under the proposed USO; several did not notice that connections would be provided 'on reasonable request' and once they did notice this they questioned how a request could be classed as

'unreasonable' in the first place. A large minority of participants were uncertain about whether or not a USO connection could apply to them.

Each of the pricing models raised questions and concerns about the practicalities of enacting them. For uniform pricing, considerations tended to be driven by cynicism: for example, how the connections would be prioritised, how consumers would know the USO was being properly promoted and what would happen for consumers who were happy with their current (below USO) speed. For differential pricing, considerations focused more on logistics and the belief that this model would be more difficult to practically enact. Common concerns included whether or not neighbours would be able to benefit from increased speeds if just one person in a street or area paid for a USO connection, or once someone requested a USO connection then whether or not their neighbours would be forced to pay for it too. There were also concerns about being tied into contracts and what would happen if you moved once a USO connection had been provided.

The misconception that only rural areas suffer from poor broadband speeds heavily impacted perceptions of the pricing models.

The majority of participants, regardless of where they lived, automatically assumed that poor broadband connectivity predominantly or exclusively affects rural areas. In particular, those with poor speeds who live in urban areas assumed that their connectivity was still relatively good compared with rural areas. The automatic link made between poor connectivity and rural areas meant that participants were more sympathetic to those who are 'forced' to live in rural areas, for example farmers and elderly residents, rather than those who 'choose' to do so.

Once it was clarified that urban areas also suffer from poor connectivity then many participants accepted that the issue was much more nuanced and part of a so-called 'postcode lottery'. Typically, participants imagined affected urban areas being social housing and inner-city blocks, which evoked more sympathy because it implied that poor connectivity was caused less by personal choice and more by socio-economic exclusion.

The concept of a 'superfast broadband scenario' met with some support, but was only acceptable under differential pricing.

Some participants believed that 10Mbit/s would be too slow for their current and future needs, particularly given that a growing number of people are placing increasing demands on broadband capabilities. Therefore, the idea of a 'superfast broadband scenario', which could deliver predicted speeds of 30Mbit/s, was initially welcomed as it would help ensure that their own needs and the UK's infrastructure would be 'futureproofed'.

However, there was widespread agreement that uniform pricing would not be appropriate for 'superfast' speeds because, in the current market, they are more expensively priced as a luxury and non-essential service. This meant that it felt unfair for consumers to potentially pay for other people to receive faster speeds than they themselves were receiving or for the same standard of connection which they themselves may already pay a premium for.

2. Background, objectives and methodology

2.1. Background to the study

In November 2015, the Government announced its intention to create a broadband USO. This would give people a legal right to receive a broadband connection, upon reasonable request, that delivers download speeds of at least 10Mbit/s. Although there are USOs in other areas of communication, namely in fixed telephony and post, there is no broadband USO. The Department for Culture, Media and Sport (DCMS) has asked Ofcom to provide technical analysis and recommendations to support the design of the broadband USO.

Ofcom commissioned this qualitative research to explore participants' attitudes towards two different pricing options:

- **Geographically-uniform pricing,** which would mean that all broadband consumers contribute to the costs of connecting USO premises (for the purpose of the research this was presented as a uniform price increase to everyone's monthly bills)
- **Differential pricing,** which would mean that only consumers with a USO connection pay an additional amount compared to the prices paid by everyone else (for the purpose of the research this was presented as a differential price increase for such consumers, either a monthly price increase, or an initial one-off charge followed by a monthly price increase).

Specifically, Ofcom wanted to understand the views of both those who lived in postcode areas where broadband connections were more likely to deliver predicted broadband speeds of below 10Mbit/s (Audience One) and those who lived in areas whose connections can receive broadband speeds of 10Mbit/s and above (Audience Two).

2.2. Research objectives

The primary objectives of the research were:

- To understand people's attitudes to different pricing options for a broadband USO; specifically, to explore attitudes and preferences regarding geographically-uniform and differential price increases
- To understand the impact of each pricing approach at a personal level, especially the prospect of paying higher prices for a broadband service
- To gauge the 'citizen perspective' i.e. the perceived effect of each pricing approach on wider society
- To explore attitudes to fairness and potential trade-offs to be made or subsidised
- To particularly understand the experiences and views of Audience One.

2.3. Methodology

The project was qualitative in approach and was carried out across England, Scotland, Wales and Northern Ireland between 4 August and 9 September 2016. The research consisted of 25 mini-group discussions, where each group lasted 90 minutes and typically contained between five and seven participants. Twelve groups were with **'Audience One'** consumers, who live in postcode areas

where they received fixed broadband speeds at home of less than 10Mbit/s. The remaining 13 groups were held with **'Audience Two'** consumers, who lived in neighbouring postcodes to Audience One where they received fixed broadband speeds at home of 10Mbit/sand above. In addition, nine 30-minute telephone depth interviews were held with Audience One consumers who were in particularly hard-to-recruit areas. Participants for Audience One were recruited from areas where the majority of connections (over 50%) delivered under 10Mbit/s; Audience Two were recruited from areas where the majority of connections (75%) delivered over 10Mbit/s. Information from Ofcom's Connected Nations 2015 was used to help identify areas where we were most likely to find suitable candidates.

2.3.1. Overview of participants

The groups were evenly split between urban and rural participants. Participants were drawn from and grouped, where possible, into more affluent ABC1 and less affluent C2DE groups, although logistics of the project meant that groups were inevitably weighted to C1C2D audiences and the sample was not therefore truly nationally representative of the UK. The reason for the 'weighting' towards C1C2D groups was the need to go to locations which were relatively dense in population – to allow us to recruit focus groups. This has been taken into account in our report.

Each group featured a mix of men and women, all of whom were the primary or joint-decision maker for communications services in their household. Where possible, groups were split along different life stages and household compositions: younger, pre-family individuals or those with young children (up to age three), families with older children (between three and 13 years old) and older and post-family consumers.

Groups also included a mix of 'higher' and 'lower' users of the internet at home (defined in terms of the time spent on the internet and the scope of activities) as well as a range of satisfaction levels with their current fixed broadband internet experience.

2.3.2. Approach to the research

In each group, participants were first shown some information about the broadband USO, including the rationale behind it and a real-life example of a USO in practice, the postal USO. They then noted down their private thoughts and reactions to the concept, which were subsequently discussed as a group after they had clarified their own current experiences with fixed home broadband. This educative element ensured that participants fully understood the issues involved before evaluating the pricing models in more detail.

Participants were then shown information about the need for consumers to contribute to funding the USO and an overview of both differential and uniform price increase options. In order to capture their uninfluenced reactions to the two pricing models and any instinctive preferences between them, participants again wrote down their private thoughts before discussing the information as a group. Once initial preferences had been shared, participants were then told if they were considered to belong to Audience One or Audience Two (based on data collected by Ofcom relating to its Connected Nations 2015 report).

Participants were then shown more detailed descriptions of each of the pricing models, including relevant examples from the postal sector, with private thoughts being captured before any group discussion. A selection of ranges of potential price increases was presented in turn for each pricing model.

The stimulus was deliberately presented in an iterative way to avoid overloading participants with information about a topic that the general public do not frequently engage with. Crucially, this also provided insight into how opinions were formed by taking participants through the education process stage by stage.

2.3.3. Presentation of the pricing stimulus material

The order in which the individual pricing models and their ranges of potential price increases were explored in depth were rotated between groups, depending on which audience they were from. Two-thirds of groups were shown the pricing model that would have greater financial impact on them – and therefore have more potential to be less palatable – first. This was to ensure that more extreme, deeply-held views could be aired early on. Therefore, in these groups participants were shown the pricing stimulus as follows:

Group audience	First two-thirds of groups	Last third of groups
Audience One	Shown differential price increase first	Shown uniform price increase first
Audience Two	Shown uniform price increase first	Shown differential price increase first

However, a third of groups were shown the pricing model with lesser financial impact on them first, to make sure that the order of stimulus shown did not bias or influence the resulting feedback. Therefore, in these groups the order of showing the pricing options was the reverse of that shown to the first two-thirds of groups (i.e. the reverse of the order shown above).

The order of showing the ranges of potential price increases within uniform and differential pricing models was also rotated, with half of the groups and telephone depth interviewees being shown the most expensive price range first and the other half being shown the least expensive price range first. Again, this was to ensure that the order did not unduly influence the subsequent feedback given. The range of price increase points for a uniform price increase were between 10-40p, 50p-£1, £1-£2 and £2-£4, while for a differential price increase the range of price increase points were between £5-£9, £10-£14, £15-£19 and £20-£25 (plus some examples with an initial one-off charge followed by monthly price increases). As noted previously the potential price increase points were only shown for illustrative purposes to aid discussion and were not intended as tests of actual price points.

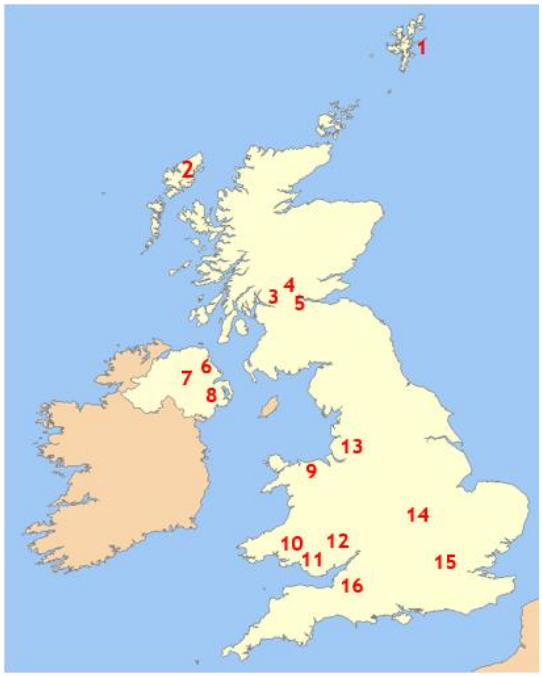
For the telephone depth interviews, participants were sent the stimulus material to look at in advance in order to familiarise themselves with the core topics in hand and collate their instinctive reactions in advance. Potential price ranges were then revealed during the interview itself.

All stimulus material shown to participants can be found in the Appendix (Appendix A.1).

2.3.4. Map of locations and sample structure

The areas detailed on the map were the main locations of the research, typically holding two groups per location with participants from within the same or neighbouring postcodes. Those involving telephone depth interviews are marked with an asterisk.

Fig.1. Map of locations used in the research



1. Shetland*
2. Stornoway*
3. Erskine
4. Falkirk
5. Livingston
6. Larne
7. Cookstown
8. Downpatrick
9. Colwyn Bay
10. Llanelli
11. Bridgend*
12. Pontypool
13. St Helens
14. Northampton
15. London
16. Radstock

The detailed breakdown of the group locations and sample structure is outlined in Table 1, below:

Table.1. Detailed breakdown of the research sample

Methodology	Nation	Postcode area	Rural/ urban	Audience	Predominant Socio-Economic Group (SEG)
Mini group 1	England	London	Urban	Audience One	BC1
Mini group 2	England	London	Urban	Audience Two	C2
Mini group 3	England	Coldford	Semi-rural	Audience One	C1
Mini group 4	England	Radstock	Semi-rural	Audience Two	C2
Mini group 5	England	South Northamptonshire	Suburban	Audience One	BC1C2
Mini group 6	England	Northampton	Urban	Audience Two	BC1C2
Mini group 7	England	St Helens	Urban	Audience One	C2DE
Mini group 8	England	St Helens	Urban	Audience Two	C1C2D
Mini group 9	Scotland	Houston	Semi-rural	Audience One	BC1
Mini group 10	Scotland	Erskine	Semi-rural	Audience Two	C2D
Mini group 11	Scotland	Falkirk	Suburban	Audience One	C1C2D
Mini group 12	Scotland	Falkirk	Suburban	Audience Two	BC1C2
Mini group 13	Scotland	Livingston	Urban	Audience One	BC1
Mini group 14	Scotland	Livingston	Urban	Audience Two	C2D

Mini group 15	Wales	Penryhn Bay	Semi-rural	Audience One	C1
Mini group 16	Wales	Colwyn Bay	Suburban	Audience Two	C1C2
Mini group 17	Wales	Pontypool	Suburban	Audience One	DE
Mini group 18	Wales	Abersychan	Semi-rural	Audience Two	C1
Mini group 19	Wales	Llanelli	Suburban	Audience Two	C1C2
Mini group 20	Northern Ireland	County Tyrone	Accessible rural	Audience One	C1C2D
Mini group 21	Northern Ireland	Cookstown	Suburban	Audience Two	D
Mini group 22	Northern Ireland	Ballygally	Accessible rural	Audience One	C2D
Mini group 23	Northern Ireland	Larne	Suburban	Audience Two	ABC1
Mini group 24	Northern Ireland	Strangford	Accessible rural	Audience One	C1
Mini group 15	Northern Ireland	Ballynahinch	Semi rural	Audience Two	BC1C2
Teledepths 1-4	Scottish Isles	Shetland and Stornoway	Remote rural	Audience One	DE
Teledepths 5-9	Wales	Bridgend	Suburban	Audience One	C1C2DE

The criteria we used to assess rurality was based on the following definitions:

Table.2. Definitions of rurality for locations

Deep rural	Village, hamlet & isolated dwelling, sparse population – more than 30min from a big town
Accessible rural	Village, hamlet & isolated dwelling, sparse population – less than 30min from a big town
Semi-rural	Towns of under 10,000 in a medium population area e.g. North Kent
Suburban/town	Comprising towns & cities with a population of 10,000-100,000 in a fairly concentrated and populous area
Urban	Comprising towns & cities with a population greater than 100,000

3. Overall responses to the broadband USO

3.1. Participant understanding of the broadband USO concept

The vast majority of research participants were positive about the concept of the broadband USO because they believed that the UK is becoming increasingly digital and, subsequently, believed that everyone has a fundamental 'right' to good broadband connectivity. There was widespread agreement that broadband is now a utility and that poor access can lead to a sense of personal and social exclusion.

In particular, the USO was welcomed because it would provide a minimum standard which was seen as essential in order for different people to utilise a number of key online services. Certain types of individual circumstances and needs were recognised as particularly reliant on good internet connectivity. Prominent examples included children completing their homework, jobseekers looking for and applying for work, people of all ages staying connected with loved ones, those who need to manage household utilities and bills online and those who need to occasionally work from home.

> *"It's only fair to put something into law - with the post I expect to get it every day. Considering most people email now, that's how a lot of people communicate. Even me looking for work, it's the internet. You don't go handing CVs around."*
> Male, Pre-family, England, urban, Audience Two

More widely, a minority of participants also believed that the UK's internet connectivity significantly lags behind other countries in terms of broadband speeds and that the broadband USO would help to narrow the perceived gap in capabilities.

Most participants also intrinsically linked the broadband USO to 'fairness'. In particular, it was welcomed as a way of promoting and guaranteeing the equal rights and treatment of UK citizens regardless of who they are and where they live. Both those with good and poor broadband speeds recognised that people who receive poor speeds do not get to pay less for their service and that this, at a basic level, feels unfair.

> *"Brilliant - there's always a loophole about promised vs actual speed. Plus, someone out in the country could be paying exactly the same as us but get nothing so there has to be a balance, they have to provide it"*
> Female, Pre-family, Northern Ireland, rural, Audience Two

Gut reactions to the broadband USO concept were often based on attitudes to ISPs, as some participants believed that it would hold ISPs to account for providing an inferior service that was commonly felt to be below the speeds and standards that they advertised. Crucially, the broadband USO was understood as helping to reduce geographical inequalities across the UK as most participants – even those with poor speeds in urban areas – assumed that it would mainly apply to citizens in rural areas.

> *"Brilliant! Companies aren't doing it voluntarily so I'm glad the Government is forcing the issue. It is as much of a vital service today as the postal service was in the 20th century."*
> Male, Empty nester, Scotland, urban, Audience One

> *"It's good - if companies are under greater scrutiny to meet a certain standard then you won't be overlooked."*
> Male, Young family, England, urban, Audience One

3.2. Perceptions of broadband USO funding responsibilities

Positivity towards the concept of the broadband USO was overshadowed by feelings of resentment at consumers having to financially contribute at all.

Almost all participants assumed, before being informed that they would be expected to contribute to funding, that the broadband USO would be paid for by the ISPs and, if not them, by Government. This assumption was fundamental to the initially positive reception to the broadband USO concept. Therefore, once it was understood that participants would be required to pay and the pricing models were introduced, participants often felt resentment because they believed that they should not have to contribute. For a number of participants at least, this underlying sense of resentment did not subside, even once they had been informed about the different pricing options. It should also be noted that the majority of participants did not realise that even if ISPs or Government 'paid' for the USO that the costs would be passed on to them in other ways, either as price increases (ISPs) or out of the tax they pay (Government) – this impacted both on their overall reaction to the USO and their expectations with regards to the responsibilities that ISPs or Government had in relation to the cost of the service (see below).

Specifically, most participants believed ISPs could afford to pay for the USO as they make significant profits from consumers already or, at the very least, they would get more customers as a result of more (high-quality) connections which would cover the costs involved. This was exacerbated by a widespread, somewhat cynical feeling towards ISPs, because some participants reported having experienced, be it currently or in the past, their actual broadband speed being lower than what was promised on connection.

> *"Why should people have to pay when the companies aren't providing a good network?"*
> Female, Older family, Wales, rural, Audience Two

> *"Why are the internet providers not paying? The main providers make millions in profits!"*
> Male, Older family, Scotland, rural, Audience Two

Consequently, the principle that participants have to explicitly pay felt fundamentally unfair across both audiences: for Audience One, almost all believed they already paid the same as others for getting an inferior service, while for Audience Two, the idea that they should have to pay for someone else's service – particularly if they are unhappy with their own service – was difficult to accept.

> *"It's a complete Catch-22. The people that need to request the extra speed need to pay on top of what they're already paying, or the people who are paying and getting full speed are still paying. Nobody wants either!"*
> Female, Young family, Northern Ireland, urban, Audience One

> *"More money for an inferior service. At the moment, we have an inferior service and we're paying the same as everyone else. This is another way to get more money from the consumer and, I bet you, the service will not dramatically improve."*
> Male, Empty nester, Northern Ireland, rural, Audience One

Some felt strongly that the Government should pay the cost, particularly because they felt that the Government is 'forcing' citizens to go online to complete an increasing number of essential transactions, such as paying council bills and completing Government forms. Although, again, it

should be noted that participants did not make the connection between Government paying for the USO and a potential impact on tax and other services. In addition, some were able to appreciate that the country as a whole benefits from a more 'connected UK'. Participants' limited technical understanding exacerbated their feelings of frustration as they couldn't understand the challenges and expense involved in providing connectivity under the USO. Therefore, many saw the lack of financial contribution by the Government and/or ISPs as more of a lack of willpower on their part to fulfil their intentions and roll out a faster broadband network.

3.3. Issues raised relating to a broadband USO

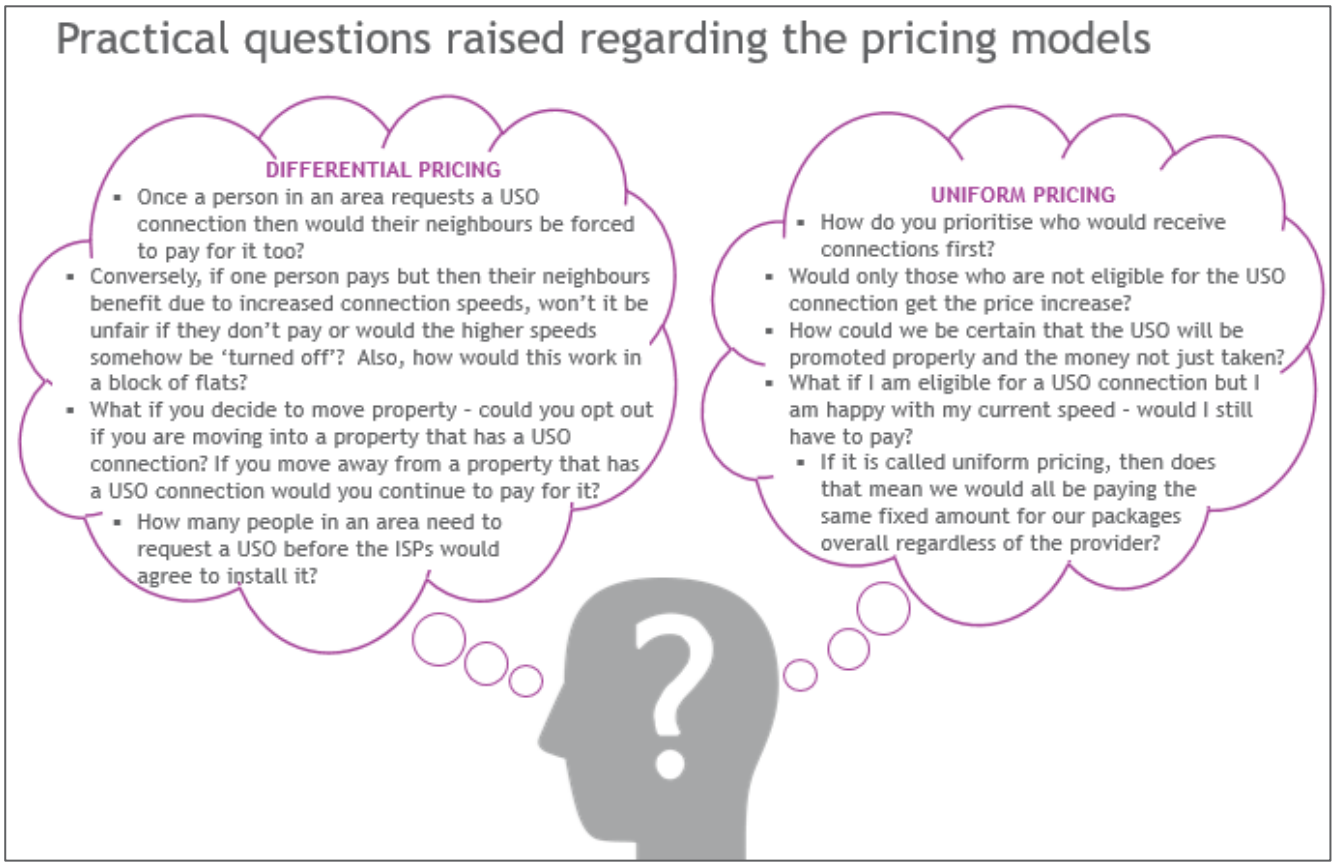
There was widespread confusion over how a broadband USO might work in practice.

Participants raised a number of questions and queries in regards to how the scheme would work in practice. These are detailed below.

Most participants were confused over who would qualify for a broadband USO connection; several did not notice that connections would be provided 'on reasonable request' and assumed that those who qualified would automatically be given a connection. A large minority of participants were uncertain about whether or not a USO connection could apply to them. Those in postcodes that did not have a fixed broadband connection which could deliver predicted speeds of 10Mbit/s did not always realise that they were in an area with poor connectivity, while some in Audience Two believed they may be entitled as they felt their current speeds were poor. This uncertainty and lack of understanding was often accompanied by anxiety over whether or not participants would be told if they qualified and, if not, how they would find out.

Several participants also questioned how a request could be an unreasonable one. A minority were more cynical, suspecting that 'on reasonable request' would be used as a 'get-out clause' in some way. They were also convinced that the estimation that the USO would come into operation 'in 2018 at the earliest' was deliberately vague, because, they believed, there are usually delays with initiatives of this nature. Conversely some felt that the date of '2018 at the earliest' was too slow, and that government should move faster to implement the changes.

Participants raised a number of questions in regards to both price options as shown below. Overall, questions relating to the practicalities of uniform pricing tended to be driven by cynicism, whilst considerations around the practicalities of differential pricing tended to focus on logistics and a belief that this pricing model will be more difficult to enact.



Across both of the pricing models there was also a question around whether they would be tied in to that provider if they requested a faster connection under the USO. This included wondering whether they could then transfer these improved speeds to a new provider.

The use of funds

Most participants were unsure about who would receive the funds raised and how exactly they would be used. Some likened the price increase, particularly a uniform price increase, to being a tax that would be collected by the Government into 'one big pot' which ISPs would then draw from. Feelings of distrust and cynicism towards ISPs meant that participants were also concerned that the funds collected would not be used solely for the USO and they questioned if and how the funds would be ring fenced.

A small minority were aware that Openreach (BT) provided the core infrastructure for broadband in the UK for most ISPs and interpreted the financial dynamic of the USO as money being collected by providers but ultimately all going to Openreach.[3]

Many participants wanted clarification about the length of time the USO was proposed to exist for. There was confusion over whether or not any increase in charges would be indefinite and, if so, then the need for this was questioned. Some participants rationalised that these should stop after a few years (usually between five and ten years) as they assumed that this would be enough time to

[3] Fieldwork for the project began shortly after Ofcom published a report recommending major reform of Openreach: https://www.ofcom.org.uk/about-ofcom/latest/media/media-releases/2016/making-digital-communications-work-openreach-bt

raise sufficient funds for the core infrastructure needed, while a significant minority of participants believed – if not accepted – that they would need to continue permanently in order to maintain and upgrade the network. There was widespread agreement that the planned use of funds needed to be explained in detail, and include reassurances that the amount itself would not increase over time.

Guaranteeing a minimum speed

Many participants believed that they either do not receive the speed levels advertised by their provider (or have had experience of this in the past) or had upgraded their speed but not noticed a significant improvement. Therefore, there was a strong desire for clarification around how a minimum predicted speed of 10Mbit/s would be guaranteed. This is of particular concern to the small number of participants who had chosen to forego fixed broadband at home and rely on mobile data because they did not want to continue paying for a standard that they felt they were not receiving.

In particular, participants often did not trust ISPs in relation to claims that they would fix significant problems or issues with speed. This was again because of experiences of being let down on promises to fix their service issues in the past, specific examples included: being promised an improvement in speed and not receiving an improvement, being promised more choice of supplier in an area and not receiving any, and being told that simply nothing can be done to improve the service they receive.

There was, however, widespread awareness and a reasonable level of acceptance that internet connectivity can often be impacted at times of peak demand, for example in an evening. Therefore, if speeds under the USO actually end up being *close* to 10Mbit/s for *most* of the time then that tended to be deemed acceptable.

4. Reaction to the pricing models

4.1. Initial preferences towards the pricing models

Prior to any indication of pricing ranges, participants were largely divided evenly between preferring uniform pricing and differential pricing.

Prior to showing the potential price ranges, the pricing models were evaluated based on a combination of social conscience, attitudes towards fairness and current (or recent) experiences. Crucially, as noted previously, many participants had felt 'let down' by ISPs because they had experienced lower actual speeds than what they felt they were promised on connection. This meant that initial choices between the pricing models were often made reluctantly because they believed it was ISPs' responsibility to pay for USO connections and they did not trust them to deliver the minimum speed assured under the USO.

On initial evaluation, perspectives of 'fairness' commonly differed between audiences. On the one hand, a commonly-held attitude among Audience One was that they had overpaid for their service for long enough and so uniform pricing was preferable because they did not feel they should pay more because of where they live. On the other hand, many Audience Two participants felt that they should not on principle have to pay for someone else's service to improve when their own would not, and consequently, differential pricing was seen as fairer.

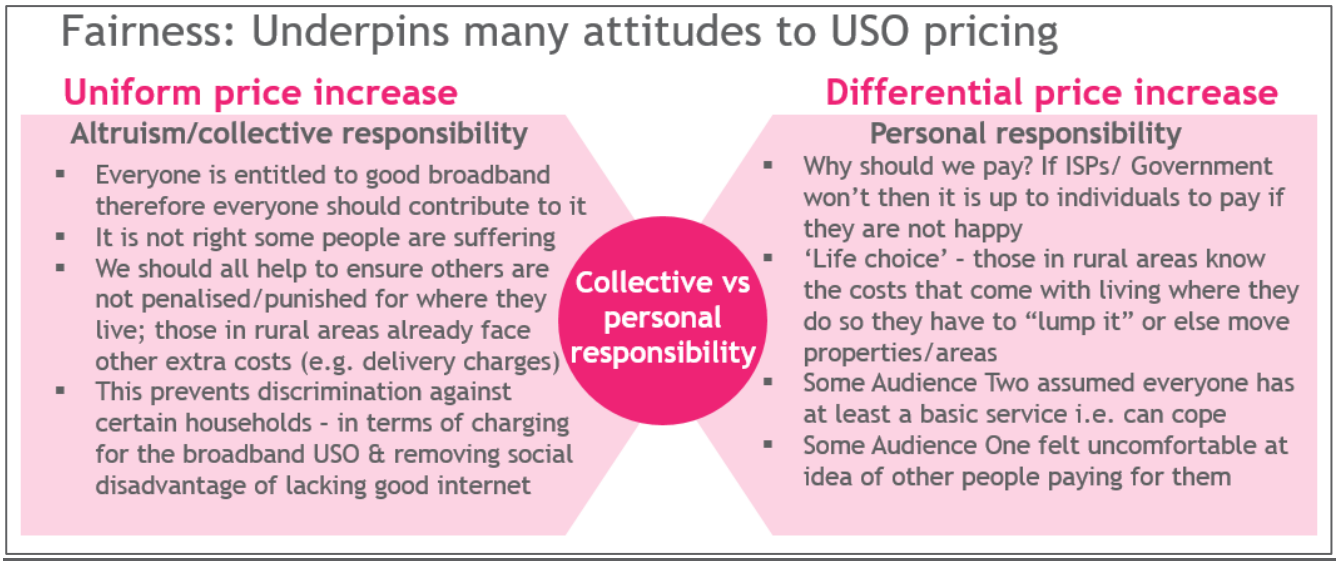
However, the evaluation of a sizeable minority in each audience was based on other principles around perceived fairness: some in Audience One preferred differential pricing because they felt it

unfair – or uncomfortable – that someone else subsidise their service, while some in Audience Two believed it was not right that someone else had to pay more for their service and that a uniform price increase would ensure everyone could afford to pay a little more so that everyone received a better service.

Perspectives around 'affordability' were more widespread across both audiences. Conclusions around which model was the more affordable were based on a combination of assessing one's own individual ability to pay any extra charge and beliefs around whether others should pay extra. However, most of the research participants were unsure which model(s) would be personally affordable to them before being shown potential price ranges; a large majority assumed that the extra monthly charge could be between five and ten pounds extra at a minimum, even under a uniform price increase. Therefore, participants clearly needed to understand the actual costs before being able to fully evaluate which pricing model they preferred.

4.1.1. Considerations around fairness

As noted, perspectives with regards to fairness differed depending on whether respondents preferred differential price increases or uniform price increases. In the section below we illustrate how fairness manifested itself amongst the supporters of each approach.



Uniform price increase

Those who believed in collective responsibility typically preferred a uniform price increase because they felt that everyone was entitled to good broadband and therefore everyone should contribute towards it. This was driven by a sense of unfairness that some people were suffering and the belief that it was only fair that people should help to ensure that others were not penalised for where they live. For them, a uniform price increase would prevent certain households from being discriminated against, both in terms of removing the practical and social disadvantages of having poor internet and being charged disproportionately for the USO.

> *"The uniform concept is humankind."*
> Female, Young family, England, urban, Audience Two

> *"With a uniform price increase then at least everybody is being treated the same."*
> Male, Empty nester, Northern Ireland, rural, Audience One

> *"Uniform pricing doesn't punish people for the variations of their environment and reality of where they live."*
> Female, Older family, England, urban, Audience One

> *"At least if uniform pricing goes ahead then people will be contributing the same. It shouldn't make a difference; you're not making a difference in people."*
> Female, Empty nester, Northern Ireland, urban, Audience Two

Some were able to see the wider benefits of a uniform price increase, even if they lived in a location that did have a fixed broadband connection that could deliver 10Mbit/s. As a result, those participants were happy to accept a uniform price increase because they felt it would create decent speeds across the country. In turn, this would enable people to remain in touch with each other wherever they go in the UK, be it on a permanent basis, such as maintaining contact with loved ones, or on a temporary basis, such as visiting elsewhere in the UK for leisure or work.

> *"Uniform pricing will benefit everybody. If you're going to your mate's in Ballygally or Magheramorne and you want to stream or download something or play a game, then you're always going to be able to do that. You're not going to be restricted, it's not going to be any less than 10Mbit/s, which is enough to do more than one thing on."*
> Male, Young family, Northern Ireland, urban, Audience Two

> *"Just because I live in my postcode now I don't have to pay - if I were to ever move I'd like to know that I'm going to get the same wherever I am, so [uniform] is fair."*
> Male, Pre-family, England, urban, Audience Two

Many participants who initially preferred a uniform price increase did so because they accepted the principle of subsidising others; they believed those with poor broadband connectivity had long been underserved, as they had overpaid to receive poor speeds for years which had, in essence, funded improved service and speeds elsewhere. Therefore, many in Audience One believed it was right that they finally get back what they have invested, while many in Audience Two were supportive of this because they sympathised with those who were annoyed at overpaying for poor speed.

> *"My mum lives in a rural area and already gets hammered financially, for a range of costs, like to travel to get to services. So, uniform pricing seems fairer."*
> Female, Older family, England, urban, Audience Two

> *"I think it's only fair that everyone pays the same. Look at the road tax. We don't have motorways here but we pay the same road tax as the mainland; we don't benefit but we are contributing to a better network for everyone."*
> Male, Empty nester, Scotland, rural, Audience One

Differential price increase

Amongst those who preferred a differential price increase, perceptions of fairness manifested themselves differently.

Those who believed in personal responsibility and personal choice believed that a differential price increase was the fairer option because it was only right that the individuals who were unhappy with their service should pay for it to be improved, i.e. other people shouldn't have to pay for someone else to receive a better service.

> *"I don't think it is fair that people who don't ask for or get any benefit from the service should pay for it. Why should everyone pay for someone with worse speeds?"*
> Female, Older family, Wales, rural, Audience Two

> *"If you want more data on your phone then you pay more for it, so I don't see why it would be any different for this. At least differential gives the choice to get higher speed and therefore have to pay a higher price."*
> Male, Pre-family, Northern Ireland, urban, Audience Two

A significant minority held the attitude that those who currently receive poor speeds do so because of their own 'life choice' and that this is part of the costs that come with living where they have chosen to, so they should either bear these costs or move elsewhere. A few participants also believed that everyone with a working internet connection received at least a basic service and so could cope without others contributing towards a better service. It should also be noted that some in areas that did not have a fixed broadband connection which could deliver 10Mbit/s also felt uncomfortable about other people paying for them, so they preferred a differential price increase.

> *"If you work for Next, you know you have to work at 4am on Boxing Day. If you live in an area with no broadband, then you know you're going to have to pay for it. Suck it up."*
> Female, Young family, England, urban, Audience Two

> *"If you live too far out and don't want to pay the extra then move."*
> Male, Pre-family, Wales, rural, Audience One

> *"Being able to do online banking, to manage your bills, etc, shouldn't require high speeds, it's basic stuff. It's not essential to watch videos or whatever."*
> Male, Young family, England, urban, Audience Two

In addition, a number of participants preferred a more targeted approach to service delivery whereby only those directly impacted by a USO connection would be charged. This approach was likened to pricing models already in existence where you pay more if you want an improved service, for example, paying for extra mobile phone data in addition to your usual tariff allowance or paying for a first class stamp rather than a second class stamp. Crucially, often the participants who initially preferred differential price increases strongly felt that it allowed for personal choice as you only pay an extra charge should you want and can afford the connection.

A minority also believed that this more targeted approach would also prevent unfair behaviour from ISPs as they would have to prioritise the areas that requested the USO first, rather than (still) prioritise the most profitable areas first under a UK-wide, uniform approach.

Crucially, the majority of participants who initially preferred the differential price increase model believed that the very principle of subsidy was wrong. This was partly driven by a lack of understanding about how the subsidy – or uniform price increase – would operate and a lack of awareness that it already existed across various services in the UK. A sizeable minority of those in Audience Two believed that they too had inadequate connections and suffered from not getting the broadband speeds that they paid for, which outweighed any sympathy towards those in Audience One because they felt their own situation was unfair and deserved financial investment first.

> *"You don't expect Mrs Smith down the road to go 'Oh, I'm sorry you haven't got it but here's some money towards it'. Or, if you were in the post office queue and could only afford a second class stamp, you wouldn't go to the others in the queue, 'Would you give me*

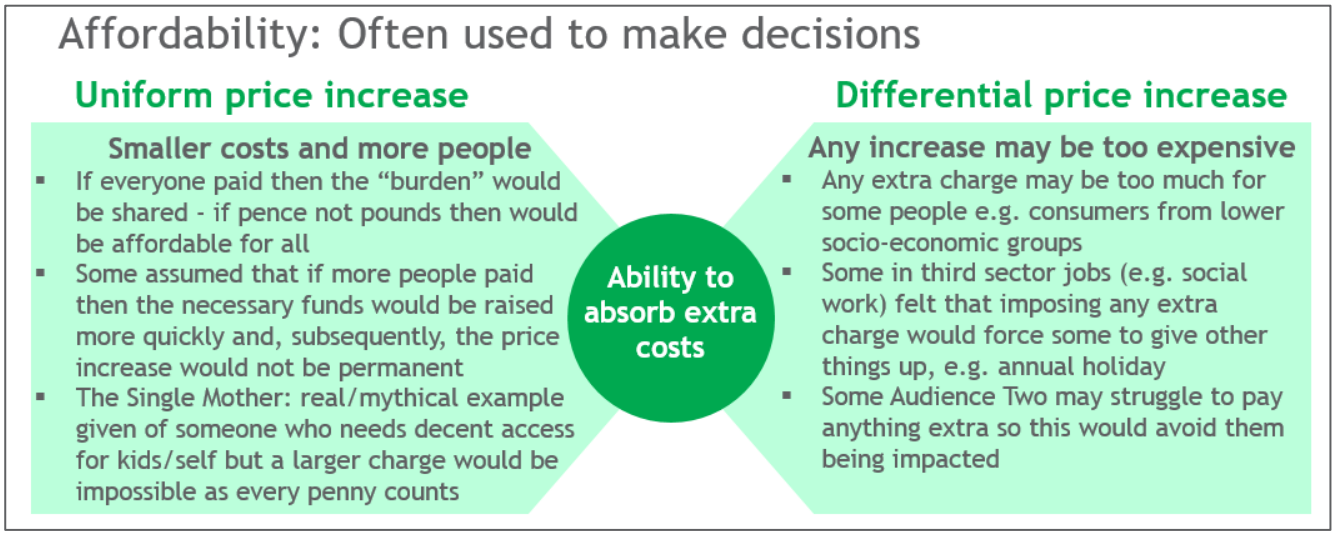
tuppence so I can buy a first class stamp?'."
Female, Empty nester, England, urban, Audience Two

"If you go to a salon and get your hair cut you wouldn't pay for foils you didn't want or get…it's the same principle."
Female, Young family, Wales, rural, Audience One

4.1.2. Considerations around affordability

Considerations around affordability strongly influenced initial preferences for the pricing models. Participants tended to assess the pricing models based on perceived ability to absorb extra costs, meaning that high-level preferences were based on whether or not affordability for oneself was prioritised over affordability for others.

The chart below summarises the key points in regards to affordability:



Many participants spontaneously assumed that a uniform price increase would be a more affordable model because more people would pay the charge which would spread the financial 'burden'; if the additional amount was to be a case of a few pence rather than a few pounds then this was deemed to be affordable for all.

"I've got kids and know every penny counts. An extra £5 is a lot for me - that's an extra pack of nappies or wipes. Whereas if it was going to be spread out amongst more people the cost (for those with a USO connection) would be less"
Male, Young family, Northern Ireland, urban, Audience Two

"I know it's selfish, but uniform would be better for me as it's spread across a larger pool, meaning a lower price for me."
Male, Older family, England, urban, Audience One

Several participants made reference to either a real or hypothetical single mother figure as an example of why a uniform price increase would be more affordable. In this context, the hypothetical sole parent would need decent internet access for herself and her children but a differential price increase might mean she had to pay a much larger charge, which would likely be impossible (or at least overly burdensome) for her as 'every penny counts'.

Some participants also believed that a uniform price increase would mean a fixed time limit on the increased charge, as they assumed that if more people were paying towards the funding then the necessary funds would be raised more quickly than if significantly fewer individuals were (voluntarily) paying under a differential price increase.

However, many participants expressed concerns that any increase in price may be too expensive to bear. In particular, participants from lower socio-economic groups and those who work with people facing economic difficulties argued that imposing an extra charge such as a uniform price increase would force some people to sacrifice other expenditure, for example an annual holiday. Similarly, some in Audience Two felt that they may struggle to pay an additional charge, however small, so differential pricing would be more affordable (personally) because they considered it would avoid them from being impacted at all.

> *"A lot of my job in social work is to do with debt, so for some people even the smallest of amounts is a lot. So, you don't want to impose something they can't afford."*
> Female, Pre-family, Northern Ireland, urban, Audience One

> *"Uniform is a nice idea but I struggle already with the bills – every penny I have is accounted for."*
> Male, Older family, England, rural, Audience Two

> *"I'm always going to prefer the cheapest option for me."*
> Male, Young family, England, urban, Audience Two

4.2. Individual and demographic factors influencing evaluations of the pricing models

A number of demographic factors appeared to have influence on participants' preferences for pricing models, although only the participants of this research can be evaluated given that the sample was not nationally representative. Those who had either more personal connections in general (for example, they tended to know more people over a wider spread of social grades) and/or more geographically dispersed connections (for example, they tended to know more people outside of their local area and hence they were more exposed to variability in service) tended to prefer uniform pricing because they had more sympathy and empathy for those trying to maintain contact with personal or work networks of people and/or having to deal with the variability of service.

Individual socio-political beliefs also had a notable impact on participants' intrinsic evaluation of the pricing models. In general, those who believed in collective responsibility, whereby people who are in need should be helped by all, preferred uniform pricing. In contrast, those who believed in personal responsibility, whereby people in need should help themselves, preferred differential pricing. In turn, an individual's job seemed to correlate to which pricing model was preferred. Participants in third sector jobs that deal with a range of socio-economic circumstances, such as social work or teaching, as well as those who have a stronger need to work away from their main office or location, leant more towards uniform pricing because they considered it takes into account the potential impact of pricing on people with more complex personal needs. It's also possible that those who are more inclined towards collective responsibility and subsidy are more likely to work in third sector jobs.

Other individual and demographic factors had a lesser, but still noteworthy, influence. Participants who were in rural locations tended to opt for uniform pricing initially because they had more sympathy for people who experience an impact on core services because of where they live. Social consciousness was also a stronger influencing factor for those in lower socio-economic groups. In the research, the more economically-squeezed participants often faced a conflict between their empathy for those who struggle financially and may not be able to afford a higher additional charge and their own levels of personal affordability which may mean they would struggle to afford any additional charge. This meant that they were more prone to either identifying uniform pricing as their preferred personal choice or being strongly apologetic when choosing differential pricing.

There were also some differences in evaluation according to age. For instance, some older participants preferred uniform pricing because, on an individual level, they had direct or indirect experience of poor broadband affecting the ability to communicate with others and they supported the concept as the more collective responsibility/subsidy based model. By contrast, some younger participants felt that they, and their generation, had already suffered enough extra charges and subsequently assessed the models based on which would mean the least financial contribution for them in relation to their specific connectivity needs. However, differences by age were inconsistent.

Notably, there were no differences in opinion according to participants' gender or between the different nations of the UK in relation to evaluation of the pricing models noted; rather, the main influencing factor in terms of geography was rurality.

4.3. Socio-economic considerations influencing evaluations of the pricing models

Participants rarely mentioned wider socio-economic considerations spontaneously, although there were a few core areas of social good that were instinctively recognised as influencing factors when evaluating the pricing models. Those with school-age children and grandchildren were more likely to evaluate the pricing models in terms of which would be more beneficial for children's education as they had recent experience of children's increasing need to use the internet for schoolwork. This included Audience One participants whose children may be struggling to do this using their fixed connection or Audience Two participants who either knew or assumed other parents were struggling to fulfil this need.

A minority of participants spontaneously considered areas of socio-economic benefit that relied on being able to easily connect with specific individuals or channels. These included the need for older and more vulnerable people to remain in touch with loved ones in order to prevent their social exclusion, as well as the increasing need for those seeking employment to be able to access web-based job portals, applications and advice. A small minority also evaluated the pricing models in terms of which was the best social leveller, believing that differential pricing would mean that poor internet connectivity would become a negative social marker within a community.

Broader economic needs and benefits were not top-of-mind for participants when evaluating the pricing models. A small minority of participants assessed uniform pricing as being more beneficial for small businesses because more of them would have their connectivity improved which would enable more (effective) advertising and more customers would be able to get in touch. A small minority of participants believed that the UK lags behind other countries in terms of connectivity, and assessed the pricing models in terms of which one would best redress this perceived imbalance.

4.4. A note on rural/urban assumptions regarding broadband connectivity

The misconception that only rural areas suffer from poor broadband speeds heavily impacted perceptions of the pricing models.

The large majority of participants assumed that poor broadband connectivity affects only or predominantly rural areas; participants in urban areas who had poor speeds assumed that their internet connectivity was still better than rural areas, often because they could not comprehend their own speed in relation to others. However, once it was clarified that poor broadband connectivity also affects urban areas, many participants' perspectives shifted into considering connectivity as a more nuanced 'postcode lottery'.

This clarification also prompted more considered opinions about the kinds of individuals and areas who are impacted by poor speeds. The instinctive link between poor connectivity and rural areas means that those who were considered forced to live in rural areas were deemed worthy of more sympathy, for example farmers and elderly residents. However, when urban areas were introduced as also being affected then this commonly evoked images of social housing and inner-city tower blocks which, for some participants at least, created more sympathy because this implied a situation caused less by personal choice and more by economic difficulties and social exclusion. This consideration also prompted the question of whether any price increase, through either differential or uniform pricing, should vary according to individual means and income, i.e. be on some sort of sliding scale.

"You don't think of housing estates as not having good broadband, but people living there are those who can probably afford a price increase the least."
Female, Pre-family, Wales, rural, Audience Two

"I never considered that urban areas also have really slow broadband. I didn't think it was a widespread thing. If you ring up your provider to complain about your slow speed, they imply it's just you - things like the walls of your house or your individual router."
Female, Empty Nester, Northern Ireland, urban, Audience One

5. Reactions to the uniform price increases

Detailed reactions to both models were explored using example ranges of potential price increases as stimulus. Revelation of possible price increases had a major impact on respondent perceptions of the different models.

5.1. Reactions to potential price ranges

Four different ranges of potential price increases for what the additional monthly charge under a uniform price increase could be were shown to participants: 10p-40p extra per month, 50p-£1 extra per month, £1-£2 extra per month and £2-£4 extra per month.

10p – 40p extra per month

The lowest range was naturally preferred as it was the cheapest available and participants obviously wanted to pay as little as possible. Crucially, most participants felt that it was so low that it was not noticeable enough to make an impact on anyone, yet would still ensure a substantial amount would be raised if everyone was paying; some believed that this kind of added charge is

added onto bills regularly so, in that context, it felt 'no big deal'. A large minority of participants went so far as to question the need to communicate this level of charge to participants so widely given it is such a small level and that to do so may cause unnecessary resentment.

50p - £1 extra per month

This range was deemed an acceptable level by the majority of participants as, unlike the lowest range, it did not feel a tokenistic amount yet would still be affordable for people. The lower end of 50p was strongly preferred; although £1 was still an acceptable level for many participants, it was at this level that the charge could start to have a noticeable impact as it is easy to calculate the total annual charge of £12.

£1 - £2 extra per month

Some participants felt that £2 was an acceptable extra charge because it did not feel like 'the end of the world' on top of other increases they may experience anyway in the course of an average year. At this range, a minority felt that they – or others – may need to put money aside specifically for this level of charge. However, this still felt manageable for some as the £2 figure equated to a tangible item that would be easy to forgo, for example one less coffee per month.

£2 - £4 extra per month

The highest range was deemed unacceptable by the large majority of participants as this level would add up to a significant price hike which may be unaffordable; there was fear that this could cause serious resentment, particularly amongst people who may be entitled to a connection under the USO. A handful of participants mentioned that this level of charge – even at the higher end – would be acceptable; the psychological factor of paying in coins rather than in notes meant that this saving still felt somewhat achievable.

However, it is worth noting that most participants in the research assumed (before the example price ranges were revealed) that the extra charge under a uniform price increase would be around £5-£10 per month. Therefore, any relatively positive reactions to the lower price ranges above may have been partly driven by a sense of relief that these ranges were not as high as they had assumed, rather than because of outright acceptance of them.

6. Reactions to the differential price increases

6.1. Reactions to potential price ranges

As with uniform price increases, four different price ranges for what the additional monthly charge under a differential price increase could be for USO consumers were shown to participants: £5-9 extra per month, £10-£14 extra per month, £15-£19 extra per month and £20-£24 extra per month.

£5 - £9 extra per month

All participants preferred this compared with other ranges of price increases presented under a differential price increase as all higher potential prices were seen as prohibitively expensive, even among those who on principle preferred differential pricing. The maximum level was almost unanimously agreed to be £5 per month because it was recognised that, even at the lowest possible amount, this would start to make a noticeable impact on one's spending and saving, especially amongst people in lower socio-economic groups.

£10 - £14 extra per month and £15 - £19 extra per month

Both of these price ranges were rejected as prohibitively expensive as an additional charge for 'ordinary' participants to have to pay. Many felt that consumers would choose not to opt for an improved connection if the extra monthly charge was within these ranges; they would either cope with their existing connection or find other ways to invest a smaller amount of money in order to improve their connection, for example by buying extra mobile data or a dongle for a lower price. Even those who were in Audience Two who were initially in favour of differential pricing started to feel uncomfortable with others having to pay such a large premium in order to obtain an improved connection.

£20 - £24 extra per month

This range was unanimously rejected as a 'ridiculous' amount as it was felt that no 'ordinary' person would be able to afford this extra addition to their monthly finances. Some participants felt that this proposed level was borderline offensive as it essentially equated to doubling the amount paid by many participants for their current broadband (particularly when part of a package deal). A few participants believed that the only people who would pay this amount would be small businesses that are desperate for improvement.

6.2. Reactions to an initial one-off charge

Participants were also shown the option under differential pricing of having an additional, one-off, charge followed by a monthly fee of £5 extra per month. Four different scenarios were shown: an initial charge of £100, £200, £350 and £500, in each case plus an additional £5 per month.

Participants were dismissive of all scenarios as prohibitively expensive because they would make having an improved connection unaffordable to many; many people would find it prohibitively expensive to find even the £100 one-off initial charge. In particular, this approach would definitely rule out the option to those who would find £5 extra per month a struggle to afford. Many participants highlighted the fact that all of these scenarios would be more expensive than the option of just having a monthly increase, which made it an easy decision to rule this approach out. A handful of participants felt that this approach would mean that participants would lose any negotiating power with ISPs; should the promised predicted speed of connection not be guaranteed or met then there would be nothing left to bargain with once this larger one-off amount had been taken.

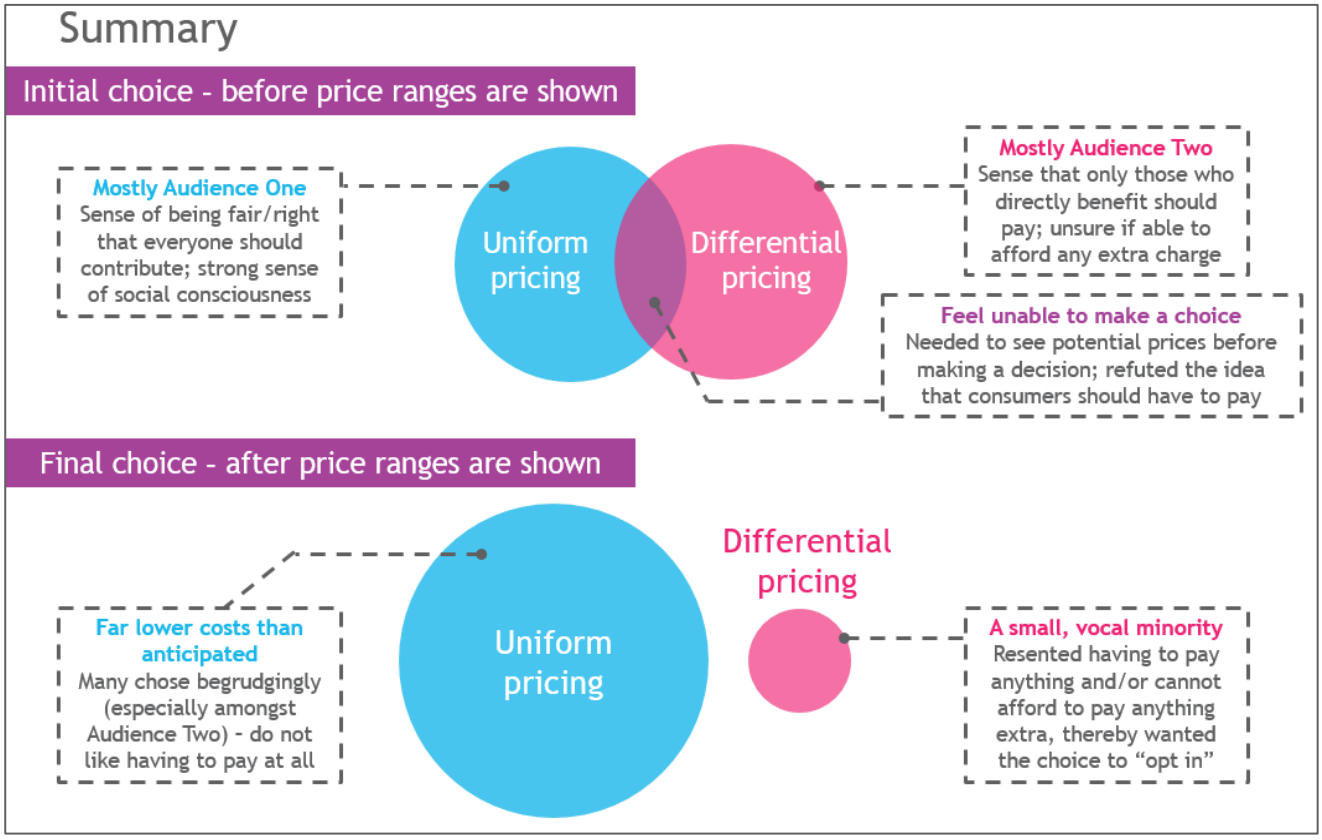
This approach also raised more questions about the practicalities of a differential price increase, particularly in relation to what would happen if you were to move house. For example, there was confusion over whether or not you would get a partial or full refund if you moved out of a property with a USO connection or inherited a partial or full charge if you moved in to a property with a USO connection. It could also exacerbate the perception that you would be tied in to a particular provider once the initial one-off charge had been paid.

7. Overall preferred pricing model for the broadband USO

The majority of participants preferred uniform pricing over differential pricing, once they were made aware of example potential price ranges.

Once potential price increase ranges were shown, a uniform price increase was preferred by the majority of participants provided the increased costs were not higher than £1 per month and ideally were 50 pence or less.

The chart below summarises the key points in relation to the overall preferred pricing model and how the final choices shifted from initial opinions:



Those who initially preferred differential pricing often switched to a uniform pricing, because the ranges of potential price increases were all considerably lower than the level that was expected or feared. Even those who felt it would be unfair for those without a USO connection to have to pay anything begrudgingly accepted a uniform price increase because the extra charge proposed was seen as a minimal, manageable amount for everyone – especially when compared to the costs of a differential price increase.

Those who instinctively preferred uniform pricing on principle maintained their initial preference and the suggested price ranges only served to reinforce their initial view.

The majority of participants felt that the potential price increase scenarios we used for a differential price increase were too expensive, both in their own right and compared with the considerably cheaper costs of the uniform price increase examples we used. There was a sense that

this approach would be overly punitive on those taking out a USO connection, particularly among lower income families. However, a significant minority still preferred a differential price increase because it ultimately gives participants more choice; those who cannot afford the extra charge do not have to pay rather than everyone being forced to pay. In addition, a few participants, particularly within Audience Two, were unable to overcome their sense of resentment at the idea of having to pay anything at all towards the USO and so continued to prefer a differential price increase.

8. Reactions to the idea of a 'superfast broadband scenario'

The concept of a 'superfast broadband scenario' met with some support, but was only acceptable under differential pricing.

Towards the end of the group discussions and telephone interviews, after the pricing models and price ranges had been discussed thoroughly, the idea of a 'superfast broadband scenario' was introduced. This was explained as a scenario that would provide broadband speeds of at least 30Mbit/s, rather than 10Mbit/s as had already been discussed. Earlier in the groups and interviews, participants had been shown stimulus material which outlined the average differences in experience between 2Mbit/s ('Basic'), 10Mbit/s ('Standard') and 30 Mbit/s('Superfast') connections and this stimulus was referred to again to contextualise the concept of a 'superfast broadband scenario'.

8.1. The perceived need for speed

There was some sentiment that the USO should provide download speeds that are faster than the proposed minimum of 10Mbit/s. Some participants believed that 10Mbit/s would be too slow given the increasing demands placed on their broadband connection within the home, particularly as more people are using more data at the same time within the same local area or household and this can often cause their service to noticeably lag or stop. Therefore, when the prospect of a 'superfast broadband scenario' was raised (i.e. one that would deliver minimum speeds of 30Mbit/s) this initially garnered particular support from those who felt that 10Mbit/s would not be enough to cope with future needs.

Some also pointed out that providers may as well 'futureproof' the network by installing higher-quality infrastructure now, so that faster technology could be delivered more easily in the future.

However, other participants believed that 10Mbit/s would be fine for both current and future needs, which meant a 'superfast broadband scenario' would be unnecessary.

8.2. Suggestions for pricing model

However once pricing was brought into the equation, many participants ultimately acknowledged that 'superfast' speeds were a luxury that were not necessary to get an acceptable level of broadband connection. 10Mbit/s was typically felt to be acceptable because it would enable people to do all the 'utility' tasks – but wasn't so good as to be significantly better than what most people get. The fact that superfast connections are currently significantly more expensive, participants likened them to mobile phone deals that include higher amounts of mobile data, supported the general expectation that you pay more for higher-level, non-essential services.

There was therefore general agreement that if a 'superfast broadband scenario' were to be introduced, a differential rather than uniform pricing model would be more appropriate. This is because participants, particularly in Audience Two, felt that it would only be fair that those wanting significantly higher speeds, which are at premium prices in the normal market, should pay for these themselves.

A. Appendix

A.1. Stimulus material

The following stimulus material was shown to participants at key points of the discussion. For telephone depth interviews, the material was sent to participants in advance so they had time to familiarise themselves with the information.

Stimulus 1: Broadband USO

The Government intends to introduce a broadband universal service obligation (USO). This is expected to come into operation in 2018 at the earliest.

The broadband USO would give everyone a right to a decent broadband connection with a download speed of at least 10 Megabits per second (Mbit/s), on reasonable request.

Why is this being introduced?

Poor broadband speeds are experienced by users in both urban and rural areas in the UK. The broadband USO aims to provide a 'safety net' so that households can get the broadband speeds needed to enjoy key economic and social benefits - for example, accessing key services (like Government services, household bill management and online banking), maintaining social contact, shopping and streaming videos.

How do other USOs work in the UK?

Imagine if post was like broadband, and Royal Mail did not deliver to rural or difficult to reach areas. The postal USO currently in place ensures this does not happen. The postal USO sets out a number of obligations that Royal Mail must meet, including at least one delivery of letters per day to every address in the UK Monday to Saturday.

Stimulus 2: Different broadband speeds

	2 Mbit/s (Basic)	**10 Mbit/s (USO)**	**30 Mbit/s (Superfast)**
Time taken to download a 2-hour film in HD quality	Around 2 – 3 hours	Around 25 – 40 minutes	Around 8 – 12 minutes
Experience in an average family of four (2 parents, 2 kids) when using the internet simultaneously	A single video stream with some web browsing at the same time. Unlikely to be able to achieve decent quality video call while video content is streaming.	1 HD stream and 1 SD video stream (or up to 4 SD video streams in parallel) with some web browsing/social media use in parallel (and some video upload/video calling)	Up to 4 or 5 HD video streams in parallel along with web browsing/social media use in parallel (including video upload and video calling)
Basic activities you cannot do at all at this speed level	Stream online video in HD or multiple streams of SD video	Stream 4K quality video content	N/A

SD = *standard visual quality* HD = *high visual quality* 4K = *higher visual quality*

Stimulus 3: Broadband USO - more information

- Consumers will need to contribute to how the broadband USO is paid for in some way.
- There are two ways that broadband providers under the USO could potentially price broadband: one is called differential pricing, the other is called uniform pricing
  - **Differential pricing** would involve a monthly charge in addition to the normal, ongoing monthly bill, which would be paid only by those who get a connection under the USO (living in areas where predicted connection speeds are less than 10 Mbit/s).
  - **Uniform pricing** would involve all UK broadband customers paying a smaller, additional charge each month in addition to their normal, ongoing monthly bill. Therefore, everyone, regardless of who their own provider is, contributes to the costs of supplying broadband to those who do not already have 10 Mbit/s.
- We will discuss each of these pricing models in more detail in a few moments.

Stimulus 4: Differential pricing

- This would mean that only broadband customers that request and get a broadband connection under the Broadband USO would pay an extra amount in addition to their usual bill per month.
- All other broadband customers (i.e. those who do not receive a connection under the USO) would not pay an extra amount.

A current example of differential pricing: Postal sector

- Unlike the Royal Mail, other parcel operators in the UK do not operate under the postal USO. This means they can charge different prices for delivering post depending on the location, in order to cover the costs of getting to places which are more expensive to reach and serve.
- For example, parcels can cost more to be delivered to the Scottish Isles than to a mainland UK city like Edinburgh or Birmingham.

Stimulus 5: Uniform pricing

- This would mean that all UK broadband customers would pay a smaller, additional charge each month in addition to their normal, ongoing monthly bill.
- Therefore, everyone, regardless of who their own provider is, contributes to the costs of supplying broadband to those who do not already have 10 Mbit/s.

A current example of uniform pricing: Postal sector

- The Royal Mail operates under a postal USO. One of its obligations under this is that on Monday to Saturday they must carry out at least one delivery of letters per day to every address in the UK.
- They must provide this service at the same price – so, the cost of a stamp is the same regardless of where you buy it and where you send your letter to within the UK. For example, a letter or parcel costs the same to be delivered to the Scottish Isles as it does to a mainland UK city like Edinburgh or Birmingham.

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