

Politician displays naked (DSL) ambition

July 2016

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The former minister for Culture, Media and Sport, Ed Vaizey, recently called for a change to how UK broadband services are billed, describing the current arrangements as “misleading” and “outdated”. The aim of the Department for Culture, Media and Sport (DCMS) is that customers should only pay for the services they use. At present, customers using BT retail or wholesale broadband services are obliged to buy voice line rental in order to buy broadband, and the local loop unbundling (LLU) ISPs have followed a similar model. Broadband prices can then be advertised as low (especially with initial discounts for 6 or 12 months), but always have “plus line rental” in the small print. This article discusses both why naked DSL may not be the solution to this problem and regulatory thinking about the structure of double play pricing.

Naked DSL offers limited savings

DSL with no voice line rental is called “naked DSL”. It is more expensive than the existing “clothed DSL” services, as it must include the full cost of the copper wire that is the connection between a customer’s property and the local exchange (which was previously included in the voice line rental). The wholesale price of naked DSL will typically be higher than that of “clothed DSL” by (roughly) the full LLU charge. In other words, the actual cost saving on switching to naked DSL will be relatively low. The only difference is that the customer will not pay BT for the electronics in the local exchange that support the voice service. The “problem” in reality is thus much smaller than that perceived by those customers who feel forced to pay for voice line rental which they do not want. Broadband without voice line rental would be almost the same price as current double-play packages that include voice line rental.

ISPs using LLU (such as Sky and TalkTalk) and the cable operator Virgin Media do not have to follow this model of low broadband prices and high telephone line rental prices in double-play bundles, yet they have chosen to do so (although Virgin Media does have a broadband-only offer). It is therefore hard to blame BT or Ofcom in a situation where 59.5%¹ of UK broadband lines in service are not constrained by BT's choices.

Do consumers need protection?

If consumers really were demanding broadband-only services, we would expect Virgin Media’s market share to be much higher (as they offer a broadband-only product). This apparent paradox may

¹ Source: Analysys Mason DataHub at www.analysismason.com/Services/Research/DataHub/

relate to the focus of customers' attention in comparisons of bundle pricing. Operators vigorously advertise low-headline broadband prices in double-play bundles (which attract customers' attention), but the underlying voice line rental prices are not very competitive (because customers apparently do not focus on these). This is not a telecoms-specific phenomenon: breakfast is expensive in hotels, because the price of the room is the focus of competition.

At the same time, the UK Advertising Standards Authority (ASA) (a self- and co-regulatory body) has also been considering this area. It objects to the advertising of offers that are misunderstood by consumers, recently stating that: *"We consider that the current approach typically taken by advertisers – where prices for several elements of the offer (broadband, introductory offer, line rental, contract length) are presented separately – is likely to mislead consumers."*

The ASA recently issued guidance on how these offers should be advertised in the future, concluding (among other things) that broadband advertisements that include price claims should show all-inclusive up-front and monthly costs from October 2016. Policy interventions can also have some effect. New Zealand has already transitioned to a model where the copper line is bundled with the wholesale broadband service for broadband customers, with voice being an optional add-on. Naked DSL was already available in New Zealand before this change, although its take-up remains low.

By comparison, Ofcom has previously chosen not to force BT to offer naked DSL, after a market review. However, even if Ofcom were to decide differently, this would not address the wider problem of the pricing structure for double play offers.

It is unclear whether the change in advertising recommended by the ASA will result in changes to the structure of the charges themselves (which is the politician's target). The need for clearer advertising might instead suggest that an offer modelled on that of the French operator "Free" is required in the UK: a simple fixed monthly price for voice line rental, unlimited calls to fixed-geographic and mobile numbers (including international), broadband Internet and free-to-air TV. However, some consumers would then be paying for even more services they do not use.

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