



## Market Study of Digital Comparison Tools

### BT Group Plc's response to the CMA's request for comments on its Statement of Scope

Non-confidential

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## 1. Executive summary and initial observations

- 1.1. The CMA's decision to launch a market study to consider the supply of web-based, app-based or other digital intermediary services, used by consumers to compare and / or switch between a range of products and services, from a range of businesses, is both welcome and timely, given the importance and use of Digital Comparison Tools (DCTs) to not only consumers and retailers (suppliers), but also to regulators and policy makers in their attempts to increase consumer empowerment and competition.

### *The CMA's Proposed Themes*

- 1.2. In general terms, the four themes the CMA has identified are likely to capture the vast majority of issues with which a study such as that launched should be concerned.
- 1.3. Under Theme 2: Impact of DCTs on competition between suppliers of the services they compare, additionally it would be helpful to explore suppliers' perceptions and, in particular, their experiences and expectations of DCTs.
- 1.4. On page 21 of the Statement of Scope, the CMA poses, in Box 1, a number of questions which it has identified under each of its themes. BT's response to these questions is set out in section 2 to this document.

### *The Scope of the Market Study*

- 1.5. The Scope of the Study is set out in more detail in Section 5. of the CMA's Statement of Scope. Given that the CMA has a relatively short period of time in which to complete its work, and is considering the impact of DCTs over a number of different industries and markets, albeit limited to non-business transactions, BT understands the need to limit the scope of the particular products considered, in each market. In the communications industry, BT agrees that it is reasonable to focus on one particular product, and that broadband presents as an appropriate choice.
- 1.6. However, the way in which DCTs provide information about communications services and products, and the arrangements between DCTs and suppliers, does differ considerably between different sectors, that is for fixed communications, mobile communications, OTT services and pay-TV.
- 1.7. In addition, the level of competition within the communications markets varies considerable between say, broadband, where there is a high level of competition and pay TV, where there is very much less competition and therefore switching of supplier. The way in which DCTs structure themselves may also result in different commercial incentives and behaviours applying in different parts of communications markets. There are also differences in regulation between different communications services and different suppliers of these services and which may impact on behaviours.
- 1.8. The services and products provided in the communications market range from those with a significant level of homogeneity, for example fixed line rental, to those with a significant level of heterogeneity, for example pay TV services.
- 1.9. Given these factors, and whilst there may be common themes which the CMA should consider, in the context of a study of DCTs it is important that:

- the CMA does not consider fixed broadband as a proxy for all communications products; and
- the needs of one industry or market are likely to be very different for each of the industries and markets that the CMA is considering.

That said for fixed line communication services, including broadband, BT considers that DCTs, in particular price comparison websites, generally work well for consumer and competition, albeit improvement in transparency and an increase in focus on overall value would be helpful.

## 2. The CMA's Questions about its Themes

- 2.1. Given, from telecommunications perspective, the CMA's focus is on broadband, in responding to the CMA's questions about its themes, BT has focused on its experience of DCTs as a medium through which to advertise its broadband bundles.

### Theme 1: Consumer's perceptions, use and experience of DCTs

*Question 1: When and why do consumers use DCTs? To what extent do they trust them?*

- 2.2. When consumers are considering purchasing a broadband service (as part of a dual, triple or quad play bundle) or, if they already have a service, when they are considering renewing or altering the properties of the service they current consume or more generally when they are "shopping around" for the best deal, consumers are likely to use DCTs and other web based services, including providers' own websites, to identify what products are available on the market, with what properties, and at what price.
- 2.3. The assessment of consumer trust is very subjective, especially as consumers are unlikely to aware of all the ranking factors, for example, algorithms used to rank products by popularity. And BT holds no data, for example market research, that would directly indicate, on either a qualitative or quantitative basis, the trust in which consumers may hold DCTs. That said, indirect or indicative measures suggest that there is an element of trust and attractiveness to consumers in using DCTs.
- 2.4. These indirect or indicative measures referred to paragraph 2.3 include, for example, the relatively high enquiry to sale conversion rates for those who are channelled through price comparison websites (PCWs) versus the conversion rate for those consumers who land directly on bt.com. This suggests that consumers who use the DCT channel arrive with greater willingness to purchase on the basis of the prior research they have undertaken of the options available in the market and their assessment of the product that best suits their needs and/or is best value.
- 2.5. Accuracy is likely to be an important factor in deriving trust; in addition to schemes such as Ofcom's Accreditation scheme for price calculators, BT monitors PCWs for accuracy and has generally found high standards.

*Question 2: How do consumers choose which and how many DCTs to use?*

- 2.6. BT has carried out no specific research into how consumers choose which DCT to use, or if using multiple DCTs, how many DCTs consumers choose to use. That said, BT considers that factors influencing consumers' choice of DCT or DCTs are likely to be driven by consumers' reaction to individual DCT's marketing and advertising, and factors such as, but not limited to, search engine responses.

*Question 3: What are consumers' expectations of DCTs – for instance in terms of market coverage and the relationships between DCTs and the suppliers they list?*

- 2.7. Consumers' are likely to expect that they can use DCTs to discover offers, and contrast and compare the products of the brands that choose to advertise on those DCTs. In particular, consumers expect rankings to be based on objective criteria that are of benefit to customers, rather than the commercial interests of the DCT, and that paid for advertising or promotional positions on the DCT are clearly differentiated.
- 2.8. Additionally, consumers are likely to expect information on the overall value of the products they are comparing, with information provided that enables consumers to assess factors such as price, product specification, and quality of service type metrics. For example, for BT's broadband products, in addition to price and speed, consumers will expect to see information about expect value add factors, for example, included content services such as BT Sport, the availability of discounted BT Mobile services, the inclusion of a broadband and Wi-Fi router such as BT's Smart Hub, and access to BT Wi-Fi hotspots, and the care / repair level provided, etc..
- 2.9. Further, some consumers may expect DCTs to be transparent as to their funding and the relationships they have with suppliers. It is important that information is provided to consumers explaining that DCTs are platforms, across which suppliers may choose to advertise their services and products to consumers, for a 'click through' or other payment to the DCT.

*Question 4: What are consumers' experiences of using DCTs? Do they benefit from using them and, if so, how? What works well and what could be improved?*

- 2.10. BT considers that generally consumers' experience of DCTs are good, with PCWs contributing to helping customers find a deal. This is supported by the high conversion into sales rates for the traffic that is received via DCTs.
- 2.11. Consumers may also benefit from suppliers which choose to market Broadband services through a DCT or DCTs, from time-to-time offering richer deals or additional incentives to purchase, as a complement to the wider deals and value enhancing features offered by suppliers across their customer base more generally.
- 2.12. DCTs and PCWs in particular provide a convenient place to see and compare deals from alternate providers who have chosen to advertise on those DCTs, making it easy for those consumers to access and assess information about the advertised products. DCTs provide a widely and easily accessible platform or window through which consumers who are actively shopping for a new or alternative product or service can market test the offers in the market, in order to make informed and appropriate product choices.
- 2.13. While there are many virtues to DCTs, transparency in terms of their relationship with suppliers is not always as clear and informative as it perhaps should be, and there is a

tendency to highlight or focus on price, as opposed to the full value of the product of service.

Theme 2: Impact of DCTs on competition between suppliers of the services they compare

*Question 5: What factors influence suppliers' use and choice of DCTs, and why?*

- 2.14. BT will generally engage with a DCT unless there is a good reason not to. Factors that influence BT's decision not to engage with a DCT include concern that a DCT is not or may not reach appropriate quality standards in terms of the accuracy of the information provided and the quality of the way that information is provided (in particular, the likelihood of the information assisting customers in selecting product that best suits their needs), consumer reach, the type of quality of the consumers referred (for example consumers who result in bad debt, etc.), poor conversion rates, or who seek terms that are not commercially viable.
- 2.15. Customer acquisition is a cost to BT's business and therefore, like all other advertising medium, focus is given to those DCTs that produce the most value for the payments made.

*Question 6: To what extent do DCTs make it easier for suppliers to enter the market, attract more consumers and engage more effectively with them?*

- 2.16. DCTs provide a convenient platform for new entrants to raise awareness of their product and attract customers and thereby establish themselves in the market and build their brands in a relatively cost effective way. An example is the move by SSE into the fixed market, which had a strong focus on the use of DCTs.

*Question 7: How have DCTs affected competition between suppliers? What impact has this had on the price, quality and range of products offered by suppliers?*

- 2.17. DCTs have grown in importance as a sales channel, and while DCTs do not have a direct influence on BT's overall pricing, BT must ensure, more generally, that its products and offers are competitive and attractive relative to those of its rivals given the ease with which consumers can access and assess information using DCTs (in particular pricing information).
- 2.18. Consistent with this, DCTs are likely to have played a significant contributory role in delivering the high level of price competition that exists in the UK's broadband market.
- 2.19. The contribution of DCTs to competition through quality and range of products, is less clear given that comparisons tend to focus on price, as opposed to overall value. A greater focus on value elements may help to further drive competition between suppliers relating to product differentiation through quality of service, product specification, and value add services.

*Question 8: What are the barriers, if any to DCTs increasing competition between suppliers; and how can these be overcome?*

- 2.20. There are limited or no barriers to DCTs increasing competition. BT notes that in many cases DCTs are powered by another DCT which collects the pricing and product

information (e.g. Broadband Choices powers other DCT tables like Confused.com and Go Compare). As a result of this the start-up and ongoing costs of maintaining a DCT that is powered by another DCT are relatively low, and so barriers to entry are very low. However, this also means that many DCTs rely heavily on information provided by other DCTs and there may be less differentiation amongst DCTs than the market might suggest. This is something the CMA may wish to look into or take account of in its study.

*Question 9: In what ways, if any, have DCTs changed suppliers' approach to consumers – for instance in terms of whether they treat consumers who use DCTs differently to those who do not?*

- 2.21. DCTs are primarily a marketing channel and as explained in the response to question 7, at paragraph 2.17 above, DCTs have not had a significant impact on BT's approach to consumers, and in particular have not directly influenced BT's overall pricing, except as a further mechanism for bringing to bear the high degree of competitive pressure on BT to ensure that its offers and propositions are attractive to consumers, relative to those available from rivals.

### Theme 3: Competition between DCTs

*Question 10: In what ways do DCTs compete with each other – for instance in terms of coverage, the savings consumers can make, the services they provide, their ease of use, transparency and how they protect consumers data?*

- 2.22. DCTs primarily compete through promoting themselves through marketing and by trying to ensure prominence in response to relevant searches on search engines, such as Google. In some cases DCTs may encourage suppliers to place offers on a particular DCT, which are exclusive to that DCT, so as to create differentiation.

*Question 11: What factors influence how effectively DCTs can compete – for example, whether they can secure the necessary consumer data, supplier information or other data?*

- 2.23. Any DCT, new or established, can apply to become an affiliate via companies such as Affiliate Window, and assuming they meet quality guidelines, would be accepted. This would enable such DCTs to promote supplier offers. However, the ability to compete for traffic depends on building a recognisable and trusted brand and or effective search engine marketing and resulting listing.

*Question 12: If there are barriers to competition between DCTs, how significant are these and how can they be overcome?*

- 2.24. There are very few real barriers to competition between DCTs, other than the willingness to invest in marketing to build a brand to attract traffic.

### Theme 4: The regulatory environment

*Question 13: Are there any areas of regulation or self-regulation applying to DCTs that lack, clarity, certainty, consistency, or enforcement?*

- 2.25. The regulation that applies to DCTs is generally clear and consistent in the context of broadband marketing. Ofcom's accreditation scheme for price calculators encourages greater transparency around pricing; however, more could be done to promote a focus beyond headline price, to consider the wider value of products compared.

*Question 14: Do there appear to be any areas where DCTs need to change and if so, why?*

- 2.26. A greater focus on factors additional to the headline price, may encourage greater competition around non-price factors, resulting in increased product and quality differentiation and innovation.

*Question 15: Do any aspects of regulatory approaches to DCTs need to change and, if so, why?*

- 2.27. Please see the response to questions 13 and 14 and at paragraphs 2.25 and 2.26 above.

*Question 16: Finally and in relation to all the issues above, what likely developments over the next three years should we take into account and why?*

- 2.28. Over the next three years there is potential for consolidation towards a smaller number of more powerful DCTs, as those DCTs reinvest their earnings in developing stronger brands and paying more for traffic, to the exclusion of smaller DCTs or new entrants.