

Consumer Benefit and Detriment from Bundling in Telecommunications

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This is the second installment of the Fair Trading Commission's series on bundling in the telecommunications sector.

We live in a global village where individuals are constantly faced with various challenges associated with communicating with others far removed from their immediate environs; the telecommunications ('telecoms') sector has evolved to resolve this and other challenges spanning recreation, education, commerce, information etc.

Telecoms services are vital to consumers as they encompass communication, entertainment, distance education and online business transactions, among other things. In the third quarter of 2017, there were 278,000 landline subscribers and this increased to 354,000 for the same period in 2018 and further increased to 377,000 in 2019. Concerning mobile subscribers, in the third quarter of 2017, there were 3,123,000 subscribers which increased to 3,184,000 in 2018. There was a decline, however, in the third quarter of 2019 with 2,958,000 subscribers. The subscription rate of the Internet followed a similar pattern to that of mobile subscribers as the number of subscribers increased from 1,567,000 in the third quarter of 2017 to 1,922,000 in 2018 however, subscribers decreased to 1,798,000 in 2019.

Telecoms services may be offered on a stand-alone basis by providers or in bundles. Bundling in telecoms may have associated benefits or detriments for consumers based on several factors including the extent of market power held by the provider, the types of services being offered in the bundle, the structure of the markets for these services and any price discounts that are offered. The issue of bundling is relevant to consumers since the use of telecoms services is typically entwined in daily personal and professional routine activities.

Types of Bundling

Bundling may occur in any of three ways: pure bundling, mixed bundling, and tying. Pure bundling is where telecoms operators offer subscribers only the packaged services and subscribers are unable to purchase the individual products separately. Mixed bundling is where telecoms providers offer a bundle, but consumers may alternatively purchase any individual services included in the package. Tying occurs when a telecoms operator make the supply of one service (the tying good) conditional on subscribers agreeing to also purchase another service (the tied good). Mixed-bundling poses the least concern for subscribers.

Consumer Benefits

In the first article in this three part series, we described the benefits telecoms operators enjoyed by offering bundled services. Some of these benefits may be passed on to consumers. We explained that bundling allows telecoms operators to operate more efficiently and pass on some of these benefits to subscribers in the form of lower subscription fees. Consequently, the bundled services are cheaper

than the sum of the prices of the individual component services such that consumers who purchase the bundle are better off where price is concerned.

Consumers can also benefit from bundling by receiving one bill for the different services that they enjoy. A survey conducted in the United States of America found that 49% of households indicated that they would choose a service package that offered one bill compared to 32% of households that would choose a package that offered only cost savings.

Consumer Detriment

Bundling may be harmful to consumers as it reduces transparency, and this affects the subscriber's ability to compare products and prices offered by providers adequately. Bundling restricts transparency since the total bundle price masks the prices of individual services, and this lack of transparency may be strategic on the part of some telecoms operators. When products are bundled, consumers are unable to decipher the price for each component of the bundle as providers do not present a breakdown of each product by price. Where consumers are unable to adequately compare components in bundles with stand-alone services or other bundles by the same provider or competing providers, this has implications for consumer choice. A subscriber may find it difficult to select the most suitable product and may end up choosing a bundle that does not work well for them in terms of price and product features. Research conducted in the telecoms market in Europe, for example, found that over two-thirds of all subscribers indicated that it was difficult to compare bundle prices properly because the products were different.

Another detriment that consumers experience with bundling is increased switching costs. Switching costs are costs that a subscriber incurs from switching suppliers or products. With the lack of transparency with bundles, consumers are forced to invest more time and effort in seeking out products that meet their needs. Since consumers will have to devote more resources to search for and compare products, then it becomes costly for them to switch providers. As a result, some consumers may remain a customer of a particular bundle, although it may no longer work for them.

Bundling may harm consumers when providers engage in 'drip pricing' within bundles. Drip pricing occurs when a headline price is advertised, and additional fees that may be unavoidable are then incrementally disclosed. Therefore, consumers may end up paying higher prices for service upgrades that may be compulsory but are hidden within the bundle. For example, a provider may advertise a bundle for the price of \$5,000 for broadband Internet with a download speed of 50 Mbps, fixed-line, and 50 channels. However, subscribers upon signing up may discover that 40 of the 50 channels are audio, and they would need to pay an additional \$2,000 for 30 audiovisual channels.

Since bundling involves supplying a standard package to consumers, consumers may be at a disadvantage if one component of the bundle does not meet their needs. This may be detrimental to

the interest of subscribers since, with stand-alone services, subscribers may purchase individual services specific to their needs. For instance, a subscriber may desire a certain Internet speed and a specific lineup of channels. However, the subscriber may find that their desired Internet speed is in one bundle, while the desired channel lineup is in another bundle. In such a case, the subscriber is forced to choose one component at the expense of the other.

As discussed, bundling in telecoms may have advantages as well as disadvantages for consumers who subscribe to bundled packages. Where consumers have access to affordable goods and services and can exercise choice, this suggests that competition is working well in that market. However, where consumers are harmed in a market by the conduct of a provider, combined with harm to competitors, then competition in that market is threatened. What is the impact of bundling in telecoms on competition? How is competition in the telecoms sector impacted by bundling?

Find out the answers to these questions in the third and final installment in this series which explores the effects of bundling on competition.