# Changing the Numbers: UK Directory Enquiries Deregulation and the Failure of Choice

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# Introduction

# Know These Guys?

# Background

In Recent Times Increasing Emphasis on Liberalization and Competition

Electricity, Phone, etc

# Intention

Competition (Where Feasible)

$$\Rightarrow$$

Better quality, more choice, lower costs,

improved efficiency ...

# But Are There Limits?

- Competition may proliferate choice
- If products complex wrt price/quality
  - $\Rightarrow$ consumers not informed and choice confusing
  - $\Rightarrow$ competition may be 'bad'
  - see e.g. Cronquist and Thaler (2004) on Pensions
- Here, one case with good data: DQ market in UK

## Two Questions

Did Liberalization:

1. Lead to the ‘best’ firms winning?

   (those on price-quality frontier)

2. Improve (consumer) welfare?

# Data and Results

# Timeline

- Initially: 192 (+153) run by BT w/ price/quality regulation
- Dec 2002: OFTel (later OfCom) liberalise DQ market
- 24 Aug 2003: 192/153 permanently switched off
- OfTel/OfCom perform assessments (Oct 2003) Mar 2004, Nov 2004, Nov 2005
- In general use data from Nov 2004
- Detailed nature of this work make this analysis possible

# Data

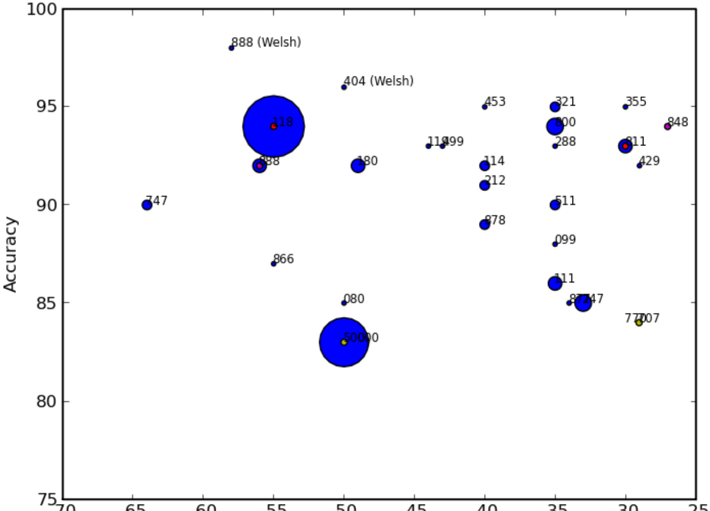
- DQ Numbers/Services available + their operator
- Price + Quality of a given service
  - Quality: accuracy + time to response
- Very high level of entry ($\approx$ 200 numbers in 2005)
- But market rapidly dominated by 2 numbers
  - 118 118: The Number
  - 118 500: BT

# Data

| Number | Operator | Mar 2004 | Nov 2004 | Nov 2005 |
|---|---|---|---|---|
| 118 118 | The Number | 39 | 41 | 42 |
| 118 500 | BT | 18 | 26 | 26 |
| 118 000 | Orange | 3 | 5 | 3 |
| 118 800 | Directory Enquiries UK | 1 | 3 | 4 |
| 118 247 | Yell | 1 | 3 | 6 |
| 118 811 | The Number | 1 | 2 | 2 |
| 118 888 | Conduit | 5 | 2 | 1 |
| 118 111 | Onetel | 1 | 2 | 2 |
| 118 180 | Telewest | 0 | 2 | 2 |
| ... | ... | ... | ... | |
| Other (Unaccounted) | | 31 | 8 | 5 |

Table: Percentage Market Shares of DQ Providers 2004-2005

# Results



888 (Welsh)
404 (Welsh)
453
321
355
118
800
848
288
811
180
114
429
212
747
511
878
099
866
111
080
50000
Accuracy
100
95
90
85
80
75

# Why?

- Numbers are hard to remember + DQ enquiry a small cost
- $\Rightarrow$ low awareness of number existence and attributes
  - Only 2 services with awareness levels above 1-2%
  - Price/accuracy worse: e.g. $<$ 1/2 knew prices varied
  - Not surprising: ‘Calculation of the prices of DQ calls is complex and the information is not always readily available.’
- As a result ...

# Why contd ...

- Choice determined by what a consumer remembers
- This in turn driven primarily by
  - **Advertising** (cited by 25%)
  - Ease-of-recall (cited by 17%)
  - (Compare: cheapness and accuracy cited by 3% and 2%)
- Advertising worth considering in its own right
  - Substantial and correlated with market share
  - e.g. £10m+ a year for The Number (5% of ind. rev.)
  - Did not lead to the ‘good’ outcome
  - Interesting given our std ‘informative’ ad models!

# Welfare

- Consumers: lose (at least) £40m a year
  - Price before 40p, avg after 50p: rise of 20%
  - $\approx$ 400m calls a year
  - No discernible improvements in quality
  - Appears volume decreased (substantially)
    - 700m+ pre liberalization to 400-450m post
  - Price + confusion mentioned but hard to attribute (what about the Internet?)
- Producers: small or negative
  - Profits where we have figures not large
  - Increase in fixed costs (lose economies of scale)
  - Advertising: very substantial and here must be d/w

# Conclusion

# Summing Up

- Clear ‘failure of choice’
- Competition did not deliver ...
  - Consumers paid higher prices (25%)
  - No quality improvements
- Trace this to behavioural issues
  - Small cost per use
  - Numbers (+ attributes) hard to remember and recall
  - Fallback on easy numbers + advertising
    - Clear example of ‘bad’ advertising

Total welfare loss of £40m a year

Substantial: 20% of total industry revenues

Choice is not the same as Informed Choice

$\Rightarrow$ Competition FOR the market

may be BETTER than

Competition IN the market

(E.g. single number auction provision)