Organisation for Economic Co-operation and Development

**DAF/COMP/WD(2022)47**

**Unclassified** **English - Or. English**

**20 May 2022**

**DIRECTORATE FOR FINANCIAL AND ENTERPRISE AFFAIRS**
**COMPETITION COMMITTEE**

# Integrating Consumer Behaviour Insights in Competition Enforcement – Note by Canada

24 June 2022

This document reproduces a written contribution from Canada submitted for Item 9 of the 138th OECD Competition Committee meeting on 22-24 June 2022.

More documents related to this discussion can be found at
https://www.oecd.org/daf/competition/behavioural-insights-in-competition-enforcement.htm

Antonio CAPOBIANCO
Antonio.Capobianco@oecd.org, +(33-1) 45 24 98 08

**JT03495755**

# *Canada*

## 1. Introduction

**1.** The Competition Bureau (Bureau) has used behavioural insights in a few instances.

2. Consumer switching drives competition in markets and consumer behaviour will impact switching. It is important for competition agencies to understand what drives switching and purchasing behaviour. This allows agencies to better understand the competition dynamics in a market or industry.

**3.** This submission will describe two instances when the Bureau used behavioural insights in its assessment of competition. The first is the Bureau's Broadband Market Study. During this study, the Bureau conducted public opinion research and hired a behavioural economist to understand what drives consumer choices for home internet. The second is the Bureau's annual consumer awareness campaign, Switch Week. In developing the campaign, the Bureau integrated insights on consumer switching behaviour to inform the key messaging of the campaign. While the scope of this submission is limited to two advocacy examples, the Bureau also considers behavioural insights in its deceptive marketing and other enforcement cases.

## 2. The Competition Bureau's Broadband Market Study

4. In 2018, the Bureau launched a market study to examine the state of competition for home internet services in Canada (Broadband Market Study). The Bureau aimed to better understand how internet service providers (ISPs) in Canada compete for consumers' business. It also sought to assess the performance of Canada's wholesale access regime.

5. Canada's telecommunications regulator, the Canadian Radio-television and Telecommunications Commission (CRTC) has mandated that facilities-based ISPs must provide wholesale access to their networks. Wholesale-based ISPs can offer internet services to Canadian consumers by paying to first access the wireline networks of facilities-based ISPs. Through this market study, the Bureau sought to understand the impact these wholesale-based ISPs have on competition in Canada.

6. To understand how ISPs compete for consumers' business the Bureau examined what drives consumers' purchasing decisions. Understanding consumer behaviour is important to any competition analysis. To better comprehend this facet of competition, the Bureau commissioned public opinion research. This research aimed to clarify Canadian consumers' perceptions of the broadband industry, as well as their habits in buying broadband internet services. Additionally, the Bureau hired a behavioural scientist to assist it in designing and interpreting the public opinion research and to design an experiment to further understand consumer behaviour.

7. The Broadband Market Study was not an enforcement action.[1] The Bureau used this market study to highlight questions and considerations for future competition analyses conducted in this sector.

[1] For more information on the Bureau's use of market studies, please see the Market studies information bulletin.

## 2.1. Methodology

### *2.1.1. Focus groups and survey*

8. The Bureau commissioned public opinion research to describe Canadian consumers' perceptions of the broadband industry[2]. The public opinion research consisted first of focus groups, and second of an online survey.

9. The experts conducted twelve focus groups across Canada. They conducted half of these groups with participants aged 18 to 35. They held the other half with participants aged 40 or older. They held two sessions for rural households via telephone, and the rest in person. The purpose of the focus groups was to better understand the range of consumer preferences and attitudes about internet services in Canada. Focus groups are a qualitative research tool not designed to quantify the weight of opinions.

10. The survey's aim was to quantitatively measure, where possible, consumer sentiments in the marketplace. 2,005 Canadians completed the online survey. It was not a random probability sample but was conducted with respondents from an online panel. This means that experts could not estimate sampling errors.

### *2.1.2. Randomized control trial*

11. The Bureau also retained a behavioural economist to assist with the design of its public opinion research, and to conduct a behavioural experiment. She designed a Randomized Control Trial (RCT) to help the Bureau better understand how the bundling of internet with other services might impact consumer choices. The RCT was conducted through the online survey.

12. Some ISPs in Canada will bundle internet service in a package with one or more telecommunications service, like television, telephone or mobile wireless. Consumers may choose bundled offers because they come with a real or perceived price discount. They may also choose them for the ease of dealing with fewer providers for their telecommunications needs. Knowing this, marketers can take advantage of heuristics (rules of thumb) that consumers use when making decisions, to steer consumers towards a particular service.

13. The RCT presented a control group of internet consumers with a choice between two packages – one where services are bundled, and another where services are obtained from separate providers. It then offered the same choices to different treatment groups with the addition of specific messages to highlight the potential benefits of a bundle. These included the convenience or cost savings associated with purchasing multiple products together.

14. If only rational cost-benefit analyses and objective product information drive consumer preference, merely highlighting the potential for cost savings or convenience would not influence participants' choice. However, if cognitive and psychological factors do at least partially drive consumer choice, highlighting these benefits would change preferences.

## 2.2. Key findings

15. The following highlights some of the key findings of the public opinion research and RCT. A full summary of findings can be found in the final public opinion research

[2] The public opinion research methodology is described in greater detail in the final report provided to the Bureau provided by the Bureau's public opinion research experts.

report, as well as the Broadband Market Study final report and Broadband Market Study Highlights report.

### *2.2.1. The role of bundling in consumer choice*

16. The RCT described above showed that perceived cost savings and convenience created by a bundle may influence consumer choice. It found that rational cost-benefit analyses or objective product information are not the only factors motivating consumers. Highlighting the potential to save money without providing information about actual dollar savings increased the percentage of participants choosing the bundle by 22 percentage points, compared to a generic bundle that did not explicitly highlight the ostensible benefit. Similarly, highlighting the convenience of the bundle increased preference for the bundle by 15 percentage points.

17. These results imply that consumers find messaging about cost savings and convenience to be persuasive in decision making. This suggests that cognitive and psychological factors are important to consumer bundling preference.

18. Nearly two thirds of survey participants bundle at least one service with their internet services. Four in ten bundle three or more services together. This means consumer ISP choice may be dependent on more than just the internet service and performance of an ISP. Additionally, some demographic groups are more likely to purchase bundles. These include older consumers and residents of the province of Québec.

19. This information can feed into a competition analysis. The Bureau notes that, historically, few wholesale-based ISPs have offered television services. However, several major wholesale-based ISPs launched or expanded their television services during the market study. The addition of television services could make these providers a more attractive alternative for consumers who value bundling. This, in turn, could lead to a competitive response from facilities-based ISPs.

### *2.2.2. The relative importance of price for consumer choice*

20. The survey also included a conjoint analysis, which is a survey-based technique that helps determine how consumers value product characteristics. The survey asked participants to choose one of three internet packages with different attributes. These were prices, upload and download limits, download speeds, types of provider, and aspects of service, including the average time spent waiting for customer service calls and the percentage of time that services are unavailable due to outages. Responses were then used to evaluate the relative importance of these different attributes to consumer choice.

21. Price was the largest factor driving consumer choice, at 36.6%. Interestingly, this means that other factors have a greater combined effect on choice. Monthly upload and download limits (21.0%), download speeds (18.2%) and type of provider (14.7%) were also important. Interestingly though, two thirds of participants who had switched ISPs in the past two years were motivated to do so by cost. Four in ten of those who had switched, either in addition to or instead of concerns about cost, cited issues with their service, such as reliability, speed of services, or customer service issues with their old provider.

22. This information is important to assess the dimensions on which ISPs compete. These extend beyond price, and this research identifies the importance of quality indicators to an assessment of the competitive effectiveness of ISPs.

### *2.2.3. The role of consumer perception*

23. Approximately one third of survey participants were unsure of what a wholesale-based ISP is. This was consistent with focus group findings that there is a lack of knowledge and awareness about the presence and role of wholesale-based ISPs.

24. The survey also asked participants about their perception of the ease of switching (or perceived switching costs). Survey participants who had switched ISP in the previous two years were less likely to believe it involved significant frictions than participants who had considered switching but did not do so. For example, only 24% of those who had switched ISP identified the hassle of returning equipment as a negative factor. In comparison, 34% of those who started the switching process, and 50% of those who thought about switching but did not take any steps toward doing so identified this as a negative factor.

25. These are important considerations for a competition analysis. While there may be several available ISPs, these may not all be known to all consumers. Additionally, consumers may believe switching is more difficult than it may be. This may impact the observed amount of consumer switching in an industry. Observed consumer switching may therefore be less frequent than one might predict in a theoretical analysis that accounts for real switching costs and all ISP alternatives.

### *2.2.4. There are different types of consumers*

26. Competition analysis can be simpler when consumers share similar preferences. However, it gets more complicated when different groups of consumers choose their provider based on different factors. This would imply that not all ISPs will offer services and prices that suit all consumers or that consumers see as viable options.

27. The Bureau's behavioural economist used the survey data to do a cluster analysis. She used this methodology to better classify different types of consumers. Cluster analysis quantitatively identifies survey respondents who had similar responses, to identify the various types of consumers in terms of characteristics and preferences.

28. This analysis identified four main types of internet customers in Canada.

- **Loyal customers** value customer service and network reliability and tend to purchase their internet from facilities-based competitors. They are the least likely to consider switching their internet services. They are also most likely to bundle their internet with other services and tend to live outside of large urban centers.
- **Speed-seekers** are less concerned about brand and customer service, and more concerned with having a download speed and usage limits that support their data needs. Speed-seekers tend to be younger and are most likely to have switched their internet provider in the past two years.
- **Deal-seekers** care much more about price than other qualities like brand and customer service. Deal-seekers tend to live in large urban centers and are more likely to subscribe to their internet services through a wholesale-based competitor than are Loyal Customers and Speed-Seekers.
- **Balanced customers** take a balanced approach to choosing their internet service. They consider download speed and price as well as brand, reliability and customer service. Balanced consumers are most likely to be female and are most likely to purchase their internet service from a wholesale-based competitor.

29. Given these differences, the Bureau found that competition analysis in this industry should consider how the marketplace serves each of the groups identified. This raises the question of whether a competition assessment should consider different providers, or packages offered by providers, as separate relevant product markets. The survey methods used in this study are generally not sufficient, on their own, to make this conclusion. However, the fact that they indicate that there are multiple consumer groups with different demands suggests that this is worth studying.

### 2.3. Conclusion

30. This research highlighted useful insights for competition analysis and identified areas for further research and analysis. The Bureau found that bundling matters to a large percentage of consumers. Further, messaging and presentation can affect consumer choices for bundles. It also found that consumer perceptions may not reflect theoretical switching costs and all ISP choices. The Bureau was able to test the use of conjoint analysis to identify the importance of price to consumer purchase decisions and to identify the importance of other, non-price factors that also affect these decisions. Finally, the Bureau found that consumers may not all share preferences.

31. By collecting consumer and behavioural insights the Bureau learned important information on the competitive dynamics of the broadband internet industry in Canada. The Bureau was able to formulate questions based on this research to inform future competition analysis.

## 3. The Competition Bureau's Switch Week Campaign

32. In 2021, the Competition Bureau launched its consumer awareness campaign, called "Switch Week." The campaign urges consumers to take advantage of competition by switching or renegotiating with their service providers. When consumers can easily switch between providers, the benefits of competition come into play. It makes companies compete for their business, lowering prices and improving the quality of services. For its Switch Week campaign, the Bureau focused on a variety of industries: banking, car and home insurance, telecom, internet, and television services.

33. In developing the campaign, the Bureau investigated the barriers that prevented consumers from switching. These barriers, coined "switching costs," can cause consumers to overpay for lower quality products and services. The Bureau conducted a representative survey through the Government of Canada's Privacy Council Office Tracker, which examined consumer switching behaviour. The data collected from this survey was used heavily in development of the campaign, as it highlighted the savings consumers could benefit from by switching or renegotiating.

34. To understand consumer switching behaviour further, the Bureau also participated in a behavioural insights learning pilot with the Behavioural Insights Team (BIT). The goal of the workshop was to use behavioural insights to inform policy solutions, following nudge theory. Throughout the course of the workshop, the Bureau examined how to help Canadians reap the benefits of competition among internet service providers (ISPs) through consumer switching. The Bureau examined how to address barriers to switching using behavioural insights. The solutions and findings of the workshop were used to inform the key messaging of the final campaign, which was posted on the Bureau's website and social media channels.

## 3.1. Methodology

35. In October 2020, the Bureau participated in a behavioural insights workshop with the BIT. The Bureau explored barriers that prevented consumers from renegotiating or switching their ISPs, with a goal of nudging consumers to switch and/or renegotiate to enjoy the benefits of competition (better quality services, lower prices, innovative products, etc.). The three different types of barriers the Bureau identified were:

- **Capability barriers:** Lack of knowledge on how to start the switching process, difficulty comparing plans/prices and quality of competitive services, and lack of time to shop around, compare and switch services.
- **Opportunity barriers:** No triggers that nudge consumers to switch, long plans and contracts, and rewards or perceived rewards for brand loyalty
- **Motivation barriers:** Uncertainty around the benefits of switching, underestimation of savings associated with switching, and perceived hassles associated with switching.

36. The Bureau used principles from the workshop to design interventions to address these barriers. The Bureau used the findings from the workshop to inform the final campaign.

## 3.2. Key findings

### *3.2.1. Consumers underestimate savings related to switching*

37. The Bureau found that consumers underestimated savings related to switching and/or renegotiating. The Bureau's research found that the majority (66%) of those surveyed who had not switched in the past year, did not know how much they could save by doing so. Those surveyed who estimated potential savings grossly underestimated what they could save compared to the estimated savings of those who had actually switched. To address this barrier, the Bureau developed key messaging on their website and social media that highlighted the savings from switching.

### *3.2.2. The perceived hassle of switching deters consumers from switching*

38. The Bureau found that the process or perceived hassle of switching deterred consumers from starting the process. To combat this perceived hassle, the Bureau developed a checklist tool to simplify the switching process for consumers, through easy steps such as setting reminders on their phone to review their contracts. The Bureau also referred to online tools to help consumers make the switch, including rate comparison tools.

### *3.2.3. Consumers are more motivated by loss aversion than by savings*

39. The Bureau found that consumers were more likely to react to losses than to savings. For example, using language such as "overpaying," rather than "saving," would cause a stronger reaction in consumers, thus nudging them to switch. The slogan of the Bureau's campaign was "Stop Overpaying, Start Switching," to underline the money consumers were losing by not switching.

## 3.3. Conclusion

40. Integrating the principles of behavioural insights into the Switch Week campaign allowed the Bureau to develop key messaging that targeted barriers to consumers

switching. The Bureau's website and social media messaging was developed based on the findings of the workshop and survey data, and designed to nudge consumers to take action by switching and/or renegotiating.

## 4. Resources

Broadband Market Study Portal

- Final Broadband Market Study Report: Delivering Choice: A Study of Competition in Canada's Broadband Industry, 2019.
- Public Opinion Research Report: Competition Bureau Market Study: Consumer Switching in Broadband Providers – Final Report, 2019
- Market Study Highlights: Competition in Canada's Broadband Industry, 2019

Competition Bureau of Canada – Stop Overpaying. Start Switching.

- Video: Want to know how to make competition work for you?

Consumer Switching Behaviour – Privacy Council Office Tracker Survey