

How competitive are **BT Residential Telephone Tariffs?**

**A Review of BT's Latest Comparison of Residential Telecom
Service Provider Bills by Deloitte & Touche – 1 June 2001.**

Summary

In January 2001 Deloitte & Touche published a review of a price comparison that BT had carried out between customer bills priced at their tariffs and those of other telecom service providers. During the past six months most service providers have made a number of changes to their tariffs and this report considers whether the conclusions reached in the last review still stand.

The BT study is based on the calling patterns of approximately 300,000 BT customers over a 3-month period. This data was collected and summarised into five equal customer profiles based on the range of customers' annual call costs, inclusive of VAT, as shown below:

Customer Profile	Annual Call Cost*
1	£0-£49
2	£50-£108
3	£109-£186
4	£187-£327
5	£328+

* excludes line rental and fixed charges.

For each customer profile a whole bill comparison was carried out by calculating and comparing the best BT Together and BT Talk Together package against competing offerings from a selection of major providers. This bill comparison used the tariffs applicable on 1 June 2001 and took into account the cost of each call together with all access charges, rental costs, discounts and free calls.

The graphs displayed on the right set out the comparison of whole bills between the best applicable BT package and other major providers competing tariffs for each customer profile.

The analysis shows that the BT Together and Talk Together packages continue to be very competitive compared to other providers. As was the case in January, customers of ntl, Telewest, One.Tel and British Gas could be better off on either the BT Together or BT Talk Together tariffs. Since January the differences in total bill cost between BT and One.Tel have narrowed while the bills costed using ntl and Telewest tariffs have increased. For example a customer using the ntl cable telephony service could save up to 26% by using BT's best tariff.

Customers' choice of service operator may also be influenced by customer service, internet usage, digital TV options, international call costs and the special deals available in their local area. While this report focuses on telephony prices we consider the impact of these factors in the body of this report.

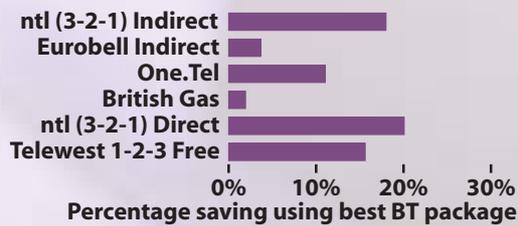
**BT Together vs. Competitor Bill
Profile 1 (call spend £0-£49)**



**BT Together vs. Competitor Bill
Profile 2 (call spend £50-£108)**



**BT Together vs. Competitor Bill
Profile 3 (call spend £109-£186)**



**BT Talk Together vs. Competitor Bill
Profile 4 (call spend £187-£327)**



**BT Talk Together vs. Competitor Bill
Profile 5 (call spend £328+)**



Bill comparison results

The results of the BT comparative analysis are set out in the tables below. The customer profiles are based on the average annual call costs and the cost shown for each provider is the total bill cost for a year, including access charges, rental costs, free calls, VAT and available discount schemes.

The Telewest service offering direct cable access is shown separately as its residential package combines telephone access with cable TV at no extra cost. The ntl cable telephony tariff included in the comparison does not include TV access.

The major reason for the competitive BT bill costs are the lower local call rates on the BT Together and BT Talk Together tariffs together with the discounts available with the BT packages. While other vendors offer lower national and, for some tariffs, lower international rates, the benefits of these rates are offset by factors such as higher call charges, call connection costs and additional monthly subscription fees.

Cable providers

Customers wanting a telephone only service would be better off with BT. Cable TV customers will have the option of using BT or their cable TV provider for telephone services. The study results show that low usage telephony customers may benefit from using the telephony service from their cable provider while higher usage customers (profiles 4 and 5) are most likely to save by using BT for their calls.

Total annual bill cost by customer profile

Customer Profile	Telephony providers							Cable providers
	BT Together	BT Talk Together	ntl (3-2-1) indirect	Eurobell Indirect	One.Tel	British Gas	ntl (3-2-1) Direct*	Telewest 1-2-3 Free**
1	£183	£229	£209	£190	£207	£188	£213	£218
2	£240	£270	£285	£248	£274	£246	£291	£287
3	£336	£341	£411	£348	£377	£342	£419	£401
4	£459	£437	£569	£478	£507	£466	£578	£547
5	£787	£730	£983	£862	£820	£807	£992	£945

* This NTL tariff is for telephony services only.

** In certain areas the Telewest Talk Unlimited tariff is available. This offers free local and national calls at any time of day for an additional access charge of £15.40 per month.

Telewest have recently launched a Telewest Talk Unlimited package in a number of their franchise areas. This offers free local and national calls at any time of day for an additional access charge of £15.40 per month. While we have not included this tariff in the comparison table because of its limited availability, the tariff should prove to be competitive for customers in the higher customer profiles.

Comparative cost – how the BT package differs from the relevant competitor package, a positive value indicates the percentage that BT Together or Talk Together is cheaper***

Customer Profile	Telephony providers							Cable providers
	BT Together	BT Talk Together	ntl (3-2-1) indirect	Eurobell Indirect	One.Tel	British Gas	ntl (3-2-1) Direct*	Telewest 1-2-3 Free**
1	0%	20%	12%	4%	12%	3%	14%	16%
2	0%	11%	16%	3%	12%	2%	18%	16%
3	0%	1%	18%	3%	11%	2%	20%	16%
4	5%	0%	23%	9%	14%	6%	24%	20%
5	7%	0%	26%	15%	11%	10%	26%	23%

*** Percentages are calculated using the best BT Together or BT Talk Together package.

Other findings

Since the January 2001 review there have been a number of changes in prices. Generally the costs of telephony only service providers have fallen while the cable provider costs have increased. This has narrowed the gap between the cost of BT bills and those costed on Eurobell, One.Tel and British Gas tariffs although for the profiles used, the BT tariffs remain the most competitive. With smaller price differences factors such as quality of service will begin to differentiate service providers and what they offer.

Telephony providers

The comparisons show that for all telephone only service providers, lower call usage customers obtain a consistently cheaper annual telephone bill with BT Together, while residential customers with higher call usage can achieve cost savings with BT Talk Together against all competitor tariffs.

The same call data has been used for the January and June studies as more recent source data is not yet available. Market information suggests that calls to mobiles and calls to internet service providers are becoming an increasingly significant part of the overall phone bill. We would expect to see overall increases in all bills once this information becomes available.



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costs have increased.*

The BT review is based on average calling profiles at different spending levels. Some customers will have profiles that differ widely from the average. Those customers may be better off with providers other than BT. The factors that are most likely to affect the choice of provider are level of international calls, level of national calls and whether calls are predominantly made at weekends.

Customers in certain parts of the country may be able to use local providers who have not been considered in this survey. Some of these may offer competitive packages.



1
2 ABC
3 DEF
4 GHI
5 JKL
6 MNO
7 PQRS
8 TUV
9 WXYZ
0

Gathering and analysing the data

BT has based their price comparison on the calling patterns of real BT customers. To collect the information to support this report data was extracted from 300,000 customers over a 3-month period.

To reflect different customer calling patterns the data has been collated and divided into five equal bands based on the average annual call bill (excluding line rental, scheme fees and other charges) to create the five Customer Profile ranges.

Having divided customers into profiles, an analysis of individual calls was then carried out which included investigating the duration, destination and time of day of the calls recorded for each customer sampled.

Destinations include calls to each mobile service provider and international calls split into 16 destination bands. Premium rate calls, non-geographic calls at local rates including calls to Internet Service Providers (ISPs), and provider specific services are excluded from the study.

Once the data was verified the latest BT and competitor price information was assembled. Tariffs used were current as at 1 June 2001. The price calculations take account of maximum and minimum call charges, free calls, call connection charges and discount schemes offered by the different providers.

Where the competitor's pricing schemes have time of day or weekend offers that do not match the BT scheme the most preferential pricing method for that competitor has been adopted.

In selecting major providers to compare the BT package against, BT has chosen service providers who are accessible to a large proportion of BT's existing customers and who are well known to potential customers. In addition, only price packages available to customers in all of the franchise areas of the companies concerned were selected. In the case of indirect service providers, BT have sought to include a representative sample of more competitive offerings.

To collect the information to support this report data was extracted for 300,000 customers over a 3-month period.

Questions and Answers

Is there really an “average” customer?

The basis for the BT comparisons are averages derived from the calling patterns of hundreds of thousands of customers. However, no two customers will have exactly the same calling pattern. To some extent the variation in calling pattern is reflected in the different customer profiles used. The profiles reflect not only different volumes of calls but also a different mix by time of day and type of call. The average customer falling into the higher cost profiles makes a greater proportion of national, fixed to mobile and international calls than those in the lower cost profiles. The five customer profiles therefore already reflect variations in customer calling patterns.

What if my calling pattern is outside of your average customer profiles?

To understand the impact of further variations in chosen calling patterns we carried out a series of investigations. These show that customer calling patterns need to vary quite widely from the average before the results of the analysis change. The investigations included:

- ▶ **Time of day:** increases in the proportion of evening and weekend calls lowered the cost of each competitor's annual bill but had little or no impact on the overall results obtained by the study.
- ▶ **Local vs national calls:** our results show that national calls* would need to increase to 30% of total calls for Eurobell's indirect package to become more competitive, 50% of total calls for British Gas to be more competitive and to over 70% of total calls for the other competitors.
- ▶ **Calls to mobile phones:** to understand the impact of different mobile pricing packages we increased the proportion of calls made to mobile phones. While this affected the overall size of bills there was no noticeable difference in the relative prices of the different operators' call bills.

* Normally between 10-12% of total calls.

- ▶ **International calls:** all of the customer profiles show a relatively small proportion of international calls. We found that we needed more than double the average volume of international calls before the specialist international packages became more competitive than the BT packages.
- ▶ **Use of Internet:** based on a recent OfTel survey (Consumers' use of Internet: OfTel residential survey Q4 February 2001), average household Internet usage of 7 hours per week would contribute between £4-£13 per week to the total telephone bill. High internet usage customers and those requiring peak rate access, should consider paying for unmetered Internet access or switching to a service which bundles unmetered access within the overall access charge.

How representative are BT customer calling patterns?

The basis for the BT comparison is data on BT customer calling patterns. This approach has been used to provide a reference to the average “real” customer rather than the approach adopted in some other comparisons which model price comparisons based on hypothetical calling patterns.

In the absence of comparable data from other operators we cannot conclude on any variation between BT's customers and those of other operators. We can see from the investigations described above that some factors will have a greater effect than others.



High internet usage customers and those requiring peak rate access, should consider paying for unmetered Internet access or switching to a service which bundles unmetered access within the overall access charge.

About

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