Vodafone response to Open Letter: Addressing transparency and inertia issues in the mobile market

30 November 2020

Public Version

Introduction

Thank you for the opportunity to respond to the Open Letter: Addressing Transparency and Inertia issues in the Mobile Market and the Schiff Consulting report: Analysis of Mobile Bills. These papers raise important issues about how mobile telecommunications services are sold to and consumed by New Zealanders.

We take the delivery of services to customers very seriously. We are extraordinarily proud of the fact that the GSMA, the global industry body, has found New Zealand to have one of the top three mobile markets in the world. This ranking covers four key enablers: infrastructure, affordability, consumer readiness, and content and services.

While we support the intent behind the work to encourage further improvement, we are however concerned with the approach taken by the Commerce Commission in its open letter on the mobile market. In particular, the decision to not share a draft of the Schiff Consulting report with the companies that provided the data meant unnecessary factual errors in the analysis were not picked up before publication, which has led to misrepresentations and misunderstandings about the performance of the industry being publicised. We ask that the Commission is mindful of these limitations when considering any intervention, and recognises that working more constructively with the industry can serve to improve future analysis.

Regardless of this concern, we recognise and agree with the principle that it is important for us to continue to provide customers with choice and value in the types of services they decide to consume. We will work constructively with the Commission to resolve any concerns they have about transparency and difficulty of comparing plans.

This response has three parts:

1. The first part provides an update on the telecommunications market since the conclusion of the Commission's mobile market review. We show that outcomes for consumers continue to improve and that by world standards New Zealand consumers get outstanding value and choice, but that the industry faces a substantial and growing investment challenge. To maintain this world-class quality we need the industry to be profitable so we can continue to invest in infrastructure (for example 5G) and service improvements.
2. The second part responds to the Schiff Consulting report. We highlight that the report shows a highly competitive market delivering for customers on most metrics. We also discuss some of the limitations in the analysis of whether any consumers on the wrong plans, and demonstrate that the conclusions are unreliable.
3. The third part responds to the observation from the Commission that some customers find it difficult to compare plans.

We have also included two attachments. The first itemises factual errors we have found in the Schiff Consulting report. The second outlines in more detail the actions Vodafone is taking to respond to the valid concerns raised by the Commission.

Confidentiality

Confidentiality is sought in respect of the information in this submission that is contained within square brackets (Confidential Information). Attachment B is confidential in its entirety.

Confidentiality is sought for the Confidential Information for the purposes of section 9(2)(b) of the Official Information Act 1982 on the following grounds:

(a) the Confidential Information is commercially sensitive and valuable information which is confidential to Vodafone; and

(b) disclosure of the Confidential Information would be likely to prejudice unreasonably the commercial position of Vodafone.

We ask that the Commission notify us if it receives any request under the Official Information Act 1982 for the release of any part of the Confidential Information, and that the Commission seek and consider its views as to whether the Confidential Information remains confidential and commercially sensitive before it responds to such requests.

Part 1: Update on the telecommunications market

Market outcomes for consumers continue to improve

Since the conclusion of the mobile market review the sector has continued to perform very well for consumers, delivering reliable connectivity at fair prices – despite the considerable challenges faced in 2020. Many of the concerns raised in the review are either historical issues or are actively being resolved. These include:

- Usage of mobile data is rapidly increasing. Based on the Vodafone data provided to Commission for 2020 retail data usage increased by more than [ ], quickly approaching OECD averages[1]
- [ ][2]
- There has been a huge boost in the size of higher data bundles, while prices have remained consistent. All our plans now offer endless data with no restrictions on tethering or streaming quality, and since February 2018 our highest data plan has jumped from 22GB up to a whopping 100GB.[3]

The Commission's most recent mobile monitoring report also showed that prices paid by New Zealand consumers remain below OECD averages, despite a challenging geography and low population density that makes this country a difficult and more expensive environment to build infrastructure than those faced by our OECD peers. Intense competition, including increasing competition from over-the-top providers,

[1] Commerce Commission, 'Mobile Market Study – Findings, 26 September 2019, finding 6
[2] [ ]
[3] Commerce Commission, 'Mobile Market Study – Findings, 26 September 2019, finding 19

has delivered reduced prices to consumers but simultaneously challenged the level of return that is necessary to support continuing investment in high quality infrastructure.

Customer service is turning the corner

The sheer complexity and volume of transactions means that customer service is a challenge for telecommunications companies across the world, and New Zealand is no different in this regard. We are under no illusion that service needs to get better.

To help lift our performance Vodafone has been investing many millions into customer service. For example

- In October 2019 we introduced X-Squads, New Zealand based teams of customer service experts able to solve complex technical issues for our customers.[4] These teams have now answered more than 44,000 complex customer cases.
- Award winning use of AI to improve our responsiveness to our customers.[5]
- Just in this November, we deployed Amazon Connect into contact centres to further improve customer experience. This will drastically simplify contact centre operations, and provide customer insights so we can better serve our customers' needs.[6]

As a result, we are starting to see our customer service performance turn the corner. In October, we announced that we have seen a 29 percentage point improvement over the last year in our net promoter scores, alongside a 35% improvement in first time fix.[7]

One of the outcomes of COVID-19 is that it has, without question, dramatically accelerated digital adoption in New Zealand. More and more consumers are becoming comfortable using the digital and automated self-service tools that are now widely available. As this acceleration continues, the future of customer service will increasingly reflect and accommodate these trends.

[4] https://news.vodafone.co.nz/article/vodafones-x-squad-powers-customers
[5] https://news.vodafone.co.nz/aibreakthrough2020
[6] https://news.vodafone.co.nz/news/innovation/aws
[7] https://news.vodafone.co.nz/xsquadanniversary

We will continue to engage with the Commission as we progress our customer service initiatives.

The investment challenge

Vodafone launched its 5G network in December 2019. Our new owners chose to invest millions to provide this new technology to New Zealanders faster than any other provider. They made this decision in expectation of being able to earn a normal return within a stable regulatory regime. These conditions will be necessary to continue to support the millions more we intend to invest in the years to come.

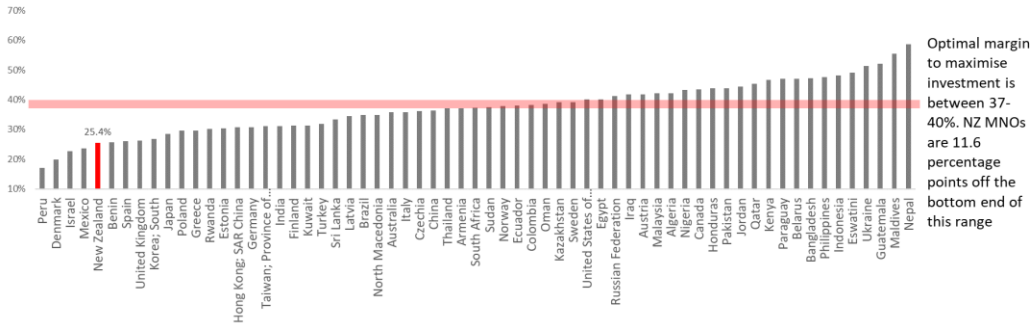
Recent research into telecommunications markets across the globe has shown there is a relationship between competition, operator revenues and investment that resembles an inverted U.[8] That means investment is low where there is little competition and very high returns, consistent with traditional monopoly and oligopoly theory. However, that same research also finds that investment is low when there is very high competition and low returns. This is because there is simply insufficient capital to reinvest.

The sweet spot is between the two extremes where there is enough competition to deliver great short term prices for consumers, but sufficient return to incentivise continued investment. In the mobile telecommunications sector. Research has found that this sweet spot sits at an EBITDA margin of between 37-40%.[9]

Figure 1 below shows that mobile telecommunications providers in New Zealand are well below optimal EBITDA margins. Our aggregated returns are amongst the lowest of any of the countries measured by the GSMA. Despite this, Vodafone and other mobile operators continue to invest millions into some of the most critical infrastructure for New Zealand's economy, and New Zealand is still regarded as one of the top three mobile markets in the world. The sustainability of this level of investment and the long term benefits for New Zealand that it creates may not continue without returns that support this ongoing commitment.

[8] Houngbonon, V., and Jeanjean, F., 2016, "What Level of Competition Intensity Maximises Investment in the Wireless Industry?", Telecommunications Policy, 40 (8), pp774-790.
[9] Ibid, p3.

Figure 1 Average EBITDA margin from 2016 – 2020 by country[10]



Part 2: Response to the Schiff Consulting Report

Proper analysis of mobile bills shows a vibrant, competitive market

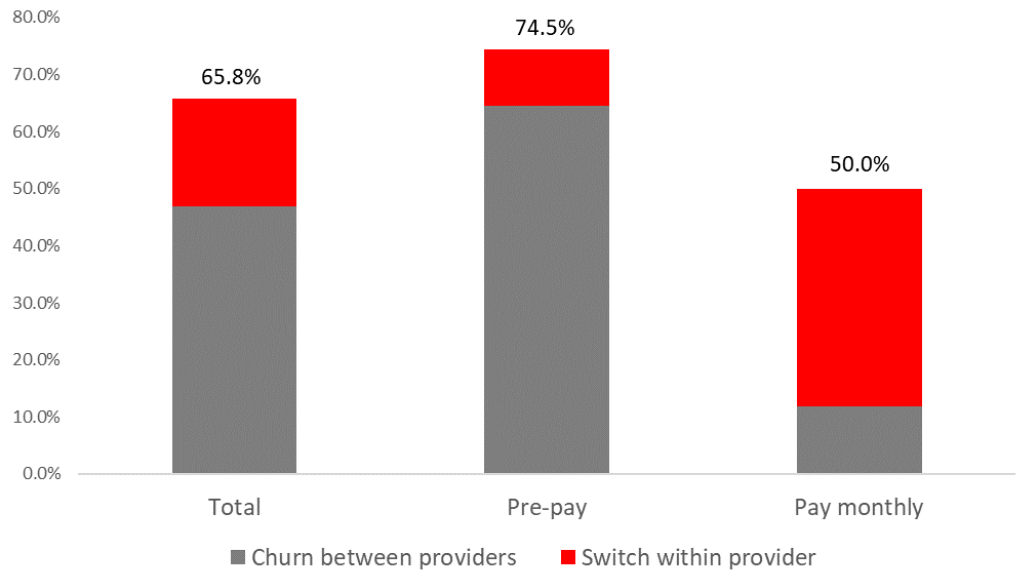
The Schiff Consulting report confirms that the mobile telecommunications market is fiercely competitive and delivers amazing value for our customers.

The number of customers that change plans every year is unparalleled compared to other industries and markets. To properly understand the rates of change we must look at both the number of customers that change plans within the same provider as reported by Schiff Consulting, and the number of customers that churn between providers as reported in the Commission's annual monitoring report.

Figure 2 below looks at total change each year and demonstrates that almost two-thirds of customers change plans. For pre-pay this rate is almost three-quarters, and for pay monthly it is half of all customers.

[10] Data for other jurisdictions sourced from GSMA Intelligence. Data on New Zealand combined from Vodafone, Spark and Trilogy Annual Reports.

Figure 2: Percentage of customers that changed plans in the 2018/19 year



No other industry comes remotely close to the levels of change seen in the mobile telecommunications market. For example:

- churn in the electricity market for 2019 was 20.2%;[11]
- the churn rate in the NZ banking industry is reported at 14%;[12]
- Netflix has reported a churn rate of 18%; and[13]
- Spotify reports a rate of 19.8%.[14]

This is the result of switching becoming incredibly easy for New Zealanders. For example, most plans sold have no contract terms, and the industry has unbundled phone repayments from plans. A number of other measures that Vodafone takes to enable transparency and switching are covered in the confidential Attachment B to this response. Based on this, one might ask - what is the actual problem in the telecommunications sector that the Commission is seeking to address?

[11] https://www.emi.ea.govt.nz/Retail/Dashboards/YRIXPW?RegionType=NZ&_si=db|YRIXPW,s|dmt,v|2
[12] https://www.interest.co.nz/news/44063/survey-shows-surprisingly-high-churn-rate-bank-accounts
[13] https://informitv.com/2018/09/06/online-video-subscriber-churn-rates/#:~:text=For%20Netflix%2C%20with%2056%20million,net%20gain%20of%20over%2011%25.
[14] https://www.statista.com/statistics/241424/dau-and-mau-of-spotifys-facebook-app/#statisticContainer

Along with promoting competition, the amount of change has also resulted in most customers moving on to the best plans for their usage. The Schiff Consulting report finds that "[f]or postpaid customers [...] after switching customers generally have base plan quotas that better match their usage compared to before switching".[15]

Another outcome is that many of the concerns that have driven regulatory interventions in other countries do not appear to be features of the New Zealand market. For example:

- Long tenured customers are well served. The report finds "on average [grandfathered] plans are less expensive than non-grandfathered plans, given their usage".[16] In the UK the concept of a 'loyalty penalty' where long tenure customers paid more than recent acquisitions drove much of the intervention into mobile billing. This rationale for intervention does not exist in New Zealand.
- Vulnerable customers are well served. The report proxies vulnerable customers by looking at low users. It finds that these customers are generally on the right plan for their usage.[17] Concerns about the outcomes for vulnerable customers has driven interventions in the UK to get customers on to the right plans.

The analysis of whether customers are on the right plan is unreliable

The data analysed in the Schiff Consulting report does not support the conclusion that "some customers are significantly overspending on their mobile plans".[18] The report finds that less than 10% of customers are on the wrong plan,[19] however, this finding is greatly exaggerated. A proper analysis would return a significantly lower number if any at all. This is because the analysis contains many errors in the way it treats the data, with the result that no reliance can be placed on it. These errors are explained in Attachment A and include:

- misunderstanding sharing plans;

[15] Schiff Consulting, "Analysis of Mobile Bills", 17 September 2020, p34
[16] Schiff Consulting, "Analysis of Mobile Bills", 17 September 2020, p44
[17] Schiff Consulting, "Analysis of Mobile Bills", 17 September 2020, pp 46-48.
[18] Commerce Commission, Media Release: Mobile operators should improve consumer choice through easier comparisons, 17 September 2020.
[19] When taking account of customers that churn between providers

- mistreating discounts;
- assuming customers could move to plans no longer in market; and
- not accounting for other benefits such as phone discounts.

These errors result from a process that has not allowed the industry to assist and correct misunderstandings ahead of the Commission publicly setting out its conclusions and its corresponding 'call to action'. Despite repeated requests we have not been offered any engagement on how the data has been used, the analytical techniques and assumptions applied, and the assessments made. In fact we have had no engagement since providing the data to the Commission in October 2019, until the open letter was published in September 2020.

This is a highly unusual approach. We are unsure why the Commission altered from the usual good practice of sharing analysis with the parties that provided the data ahead of publication. Had it done so, the errors set out in this response could have been addressed prior to the Commission making erroneous and harmful statements regarding the behaviour of mobile operators. In our view, these statements mislead consumers as to the behaviour of operators - provoking a number of media comments that are plainly false. While we accept that Vodafone and the industry must do more to improve service quality, the issues raised in the Commission's report are not the right priorities for focus when properly considered.

For the small portion of customers that may not fully utilise all value in their plans, we observe that this is a feature in many other sectors where there is likewise no credible case for intervention. For example, 63% of gym memberships go unused[20] and 25% of video streaming users say they have too many subscriptions.[21] How many people subscribed to Disney+ but didn't watch it in the last month, or have a magazine subscription that went un-read? Other subscription services such those provided by Consumer NZ or the Automobile Association may also have a number of users who pay for services but leave them substantially unused.[22]

[20] https://www.milestonedirect.co.nz/articles/gym-memberships-are-waste-money#:~:text=Using%20US%20data%20again%20and,of%20memberships%20go%20completely%20unused
[21] https://www.nexttv.com/news/ott-market-not-saturated-hub-research-says
[22] In general, buyers typically underestimate the amount they pay on subscriptions by up to 50% https://www.thesimpledollar.com/save-money/how-much-are-subscriptions-costing-you-probably-more-and-maybe-a-lot-more-than-you-think/

For mobile telecommunications, the decision to retain some headroom in service caps can be entirely rational. A number of our customers tell us that they are looking for a worry free plan that provides enough headroom to cover whatever they may need. These customers are willing to pay for the simplicity and peace of mind associated with this.

Misleading findings in the report

The Commission's open letter and press release alongside the report have the tendency to mislead. The misleading nature of these statements is compounded when the errors detailed in Attachment A are taken into account. Table 1 below sets out the most concerning statements.

Table 1: Misleading statements made

Statement	Why it is false or misleading
Paragraph 3 of the media release and paragraph 13.1 of the open letter stated: *"The mobile bill review found 64% of consumers did not change plans during the 12-month review period."*	This statement is incorrect. The number reported does not measure all change because it does not represent switching between providers. When taking this group into account the actual number the Commission should have reported was 34.2% of customers did not change plans during the 12 month period.
Further down in paragraph 3 of the media release and paragraph 13.3 of the open letter stated: *"It also found that 7% of all residential consumers spent a relatively high amount on mobile services, given their usage, and that these consumers could potentially save an average of $48.65 a month."*	This statement is incorrect. Again it does not take account of customers who churned. The actual percentage of customers in the high payment group in the Schiff Consulting report is 3.9%. This error is further compounded by the errors in the analysis.
Paragraph 6 of the open letter stated: *Our mobile market study noted that residential mobile consumers do not compare mobile offers, switch plans*	This is misleading. The figures quoted is from a Consumer NZ survey of its customers, not a representative sample of New Zealanders.

Statement	Why it is false or misleading
or change providers very often. Specifically: • *68% of consumers never or only rarely consider their mobile options; and* • *54% of consumers have not switched between service providers in the last five years.*	The Commission has obscured this source by referencing to the mobile market review rather than Consumer NZ. The figures also directly contradict with the Commission's own monitoring report which shows a churn rate of almost 50% each year.
Paragraph 26 of the open letter stated: *"There is currently no mechanism for correcting this inertia factor that can result in significant welfare losses for consumers and corresponding windfall gains for mobile operators."*	At no point have any concerns about our level of profitability been raised. The Commission has not analysed, and has no data that supports, the existence of windfalls gains. Absent any basis for the statement in the report or elsewhere, we query the motivation for inclusion of this statement.

Again, we regret that the Commission made public statements about the findings of the report before verifying that report data was used correctly and ensuring there were no errors. This has resulted in statements being made that are incorrect and harmful. These statements have been embellished by subsequent media statements, which do not reasonably represent the actual position and cause reputational damage for all mobile operators. For example:

> *"Telcos continue to use mobile price confusion to baffle consumers."*[23]
>
> *"It is alarming to see that a quarter of mobile phone users are paying on average $11.60 monthly more than they need to for their mobile phone usage"*[24]

[23] Media report: https://www.scoop.co.nz/stories/HL2011/S00020/commerce-commission-calls-out-mobile-price-confusion.htm
[24] Fincap statement: https://www.scoop.co.nz/stories/BU2009/S00341/fincap-welcomes-commerce-commission-open-letter-to-telecommunications-on-consumer-overpsending.htm

"It isn't surprising that 64 per cent of consumers did not change plans during the review period as it's often incredibly difficult to compare plans and services between providers,"[25]

"New findings suggest you're probably paying too much" "The Comcom and consumer NZ have called telcos out for ripping off consumers" "They're saying they are putting kiwis on plans that we don't need and charging us for more than we use"[26]

We stand ready to work with the Commission on fixing areas where there is a genuine problem and scope for improving consumer experience. However, focussing on areas where real problems do not exist – and utilising flawed analysis to support this – are distracting and diminish scope for collaboration to solve these real problems.

Part 3: Anecdotal evidence that comparing plans is difficult for some customers

The Schiff Consulting report confirms that the overwhelming majority of our customers are on the right plan, and that where customers switch this is invariably to the right plan. It follows that we do not agree with the findings in the Schiff Consulting report that many customers are on the wrong plan.

We accept that a very small number of customers may find choosing the right plan difficult, particularly given the wide range of choices available and the fact that different customers choose plans for different reasons, at different times.

We will continue to work to ensure that we meet the needs of all customers, including this small group. We have provided a confidential attachment to this response which details the actions we currently take, and what more we plan to do to better meet our customer's needs.

[25] Technology Users Association of NZ Statement: https://www.nzherald.co.nz/business/thousands-of-kiwis-are-paying-too-much-for-mobile-regulator/YJXOJEWL3TNBD4WUOP6L44WPCU/
[26] TVNZ, Seven Sharp 17 September 2020

Attachment A: Critique of Analysis Report

We have identified 12 substantial errors in the report from Schiff Consulting as detailed below. These limitations must be taken into consideration when interpreting the results from this study, and in particular when considering any interventions based on its conclusions.

NERA on behalf of Spark have undertaken a more thorough analysis of the data itself and likely identified further issues. In helping NERA to understand the data we have had some limited engagement with them. As part of this NERA shared information on the Vodafone customers that the analysis concluded were on the wrong plans. This has helped us better understand some of the problems in the analysis. We look forward to NERA's report and may provide a further follow-up response to the Commission when we see the results.

1. Plan sharing has not been treated properly

We understand that each mobile operator has presented mobile plan sharing differently in their dataset. We comment below on an error relating to the Vodafone data, but may not apply more broadly.

In the data we provided Schiff Consulting we were asked to: a) include all shared data, minutes and TXTs into the usage of the primary account holder; and b) then exclude the sharers themselves from the dataset. That means some customers would have appeared to have very high data caps and potentially very high usage.

The error arises because not all plans allowed for sharing during the period considered. Sharing was only possible on our $59.99 or higher plans. Our cheapest pay monthly plan at $39.99 did not allow sharing.

This causes a problem for the analysis when the entire sharing group uses less than the 2.5GB allowance on the $39.99 plan. For example consider two people who together consume 2GB of data. There are two alternatives:

1. One person signs up to a $59.99 plan with 10GB of data, unlimited calls and unlimited TXTs. The second person joins as a sharing account for $19.99 for a total cost of $79.98, or $39.99 each.
2. Each person separately signs up to a $39.99 plan with 2.5GB of data, 300 minutes and unlimited TXTs. For the exact same price this option only provides 5GB of data and 600 minutes compared to 10GB of data and unlimited minutes in option 1.

Option 1 is clearly the better choice in this circumstance, it provides additional headroom for no extra cost. However, all the modelling sees is a customer on a $59.99 plan only consuming 2GB of data. It therefore assumes that customers could move to the cheaper $39.99 plan. However that plan does not allow sharing, so this would be the wrong choice for the customer.

The analysis should be amended to take into account the actual features of the comparison plans. Alternatively any customers with sharing should be removed to avoid the false positives.

2. Discounts have been treated incorrectly

Section 7.1 of the Schiff Consulting report builds models to predict price given usage. However the predictions incorporate discounts, both those provided in time limited promotional offers, and those offered below the line for retention or other reasons. Including these discounts has put a downward bias on the models, so that even a customer paying a current headline price would appear to be paying too much.

Approaching the analysis in this way is equivalent to saying that we should offer no discounts so as to ensure all customers are paying the same amount for the same service. This question was thoroughly considered in the UK, where the energy regulator Ofgem proposed to stop electricity retailers from offering any discounts. The prominent economist Stephen Littlechild described this as "one of the most misguided episodes in the modern history of UK regulation",[27] and Professor George Yarrow resigned from the Gas and Electricity Markets Authority in protest.[28]

[27] https://www.eprg.group.cam.ac.uk/wp-content/uploads/2014/09/1415-PDF.pdf
[28] https://www.thetimes.co.uk/article/ofgem-regulator-resigns-over-anti-competitive-pricing-proposals-5x5sgzvf6fh

Dr Littlechild found that discounting is actually a sign of a robust and competitive market, and should not be discouraged. He noted that equalisation of prices would likely have a chilling effect on competition, and not serve vulnerable price-sensitive customers well.[29]

We assume the Commission does not intend that discounting and price discrimination across different customer groups should stop?

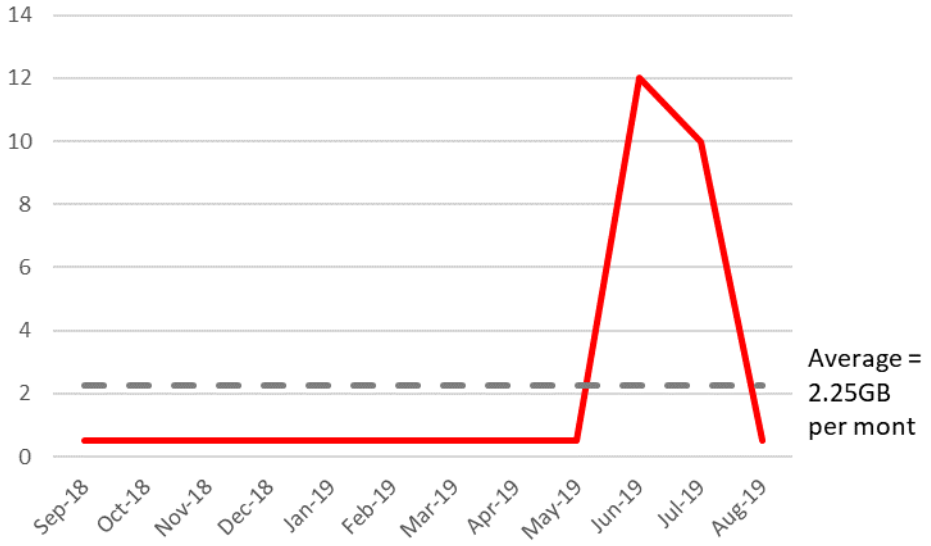
3. The modelling is susceptible to volatility

The modelling in section 7.1 of the report considers the price that could be saved based on average usage over a year. However this does not fit customers with a volatile usage pattern, resulting in a finding of over-spending where in fact none exists.

Figure 3 below is a stylised example of a volatile usage pattern. This hypothetical customer uses 0.5GB of data most months, but for a couple of months in the middle of the year data sky rockets when the customer is on holiday. This may appear to be an extreme example, but it is representative of many Vodafone customers in the dataset.

[29] https://www.eprg.group.cam.ac.uk/wp-content/uploads/2014/09/1415-PDF.pdf

Figure 3: stylised example of the impact of a volatile usage pattern on the modelling



The model assumes this customer uses 2.25GB of data per month, and it assigns an estimated price to this consumption. The model therefore concludes that our $39.99 plan with 2.5GB of data would be sufficient on average. However, if this customer brought the 2.5GB plan every month she would have 9.5GB of overage in June and 7.5GB in July. Overall she would then spend over $60 per month on average, significantly higher than her average usage would suggest. In this case the customer would be better off buying a $59.99 plan to account for the months she spends more. The Commission may consider she could optimise this by being on the $39.99 plan for 10 months and only go to the larger plan when needed. However many customers like the simplicity and peace of mind of keeping the same plan all year around. As mentioned in the main response we hear from many customers that they want worry-free headroom.

4. Much of the modelling is not statistically significant

The models developed for section 7.1 of the analysis are very complex. 42 separate models were estimated, and each contained 27 parameters. We have been advised that this was necessary because the data 'did not show a linear relationship between usage and price'.

This complexity has meant many of the parameter estimates are based on very few observations and it is not clear that they represent a statistical relationship, or is just noise in the data. This has meant that for the models based on Vodafone data, over 60% of the parameters that estimated price for a certain level of consumption do not pass a standard 95th percentile significant test.

5. The models assume customers could switch to plans that were not available in the market at the time

In the right-planning analysis in section 7.2 the model looked at the usage of a customer then found the cheapest plan available in the dataset that would meet their needs. This is an unrealistic approach. Many customers in the dataset were on older plans that were no longer in the market, so do not serve as a realistic counterfactual if another customer chose to change plans.

For example some customers in the dataset were on an old plan with only 500Mbps of data, which we charged $29.99. However, this plan has long since been retired. A customer using less than 500Mbps did not have the option for shifting to this plan, so some false savings were identified in the modelling.

This has a particularly large effect on the right-planning analysis, but it would have also affected the benchmark modelling in section 7.1 too.

6. The right-planning analysis used the wrong plan prices

The analysis in section 7.2 looks at comparator plans a customer could move to and still have enough allowances to meet their consumption needs. However, in the data NERA provided us the comparator plans used prices based on the average paid, which included part month payments and negative charges, such as when customers changed plans. This dramatically affects the results of the analysis. We expect more details in the report from NERA.

7. The modelling assumed customers on fixed term contracts could change plans

While fixed term contracts are rare in the mobile market, some customers still choose these plans. This could be to have certainty and stability in the rate paid, or in some cases it is to gain a particular discount or add-on service.

We found that while customers with fixed terms remaining was a small proportion of the sample we provided to the Commission, this group makes up a large part of the customers considered to be on the wrong plan. This is inconsistent with the Commission's conclusion that there is a problem with 'inertia', as these customers did not have the option of changing plans.

Furthermore, many of the customers on fixed term contracts were not using substantially below their allowances. They were only identified in the analysis as paying too much because subsequent to entering into their fixed term plan, cheaper plans were introduced to the market. We do not consider it appropriate for the Commission to infer that we should break all fixed term contracts part way through their life just because new plans are introduced. This would be akin to banks altering fixed term mortgage rates when the floating rates changed. It is inconsistent with the concept of a fixed term contract, which provides certainty to both parties.

8. The modelling did not account for restrictions on unlimited plans

In the period considered Vodafone began offering its first unlimited mobile plans. At this time we included a number of restrictions as we tested the network impact of unlimited allowances. This included no tethering, and restrictions on the quality of video streaming. These restrictions were reflected in the price. The unlimited plan cost $79.99 per month with a soft cap at 22GB of data, after which speeds were reduced. In comparison our traditional data capped plans cost more per GB because they had no restrictions. For example our 15GB plan cost $79.99 and our 22GB plan cost $99.99

Including the unlimited plans in the modelling is simply not comparing apples with apples. It would have biased the modelling downwards, showing greater savings than were available given a particular customer's usage. For example a customer using

20GB of data, but wanting no restrictions would sensibly choose our $99.99 plan. However the modelling would see that the unlimited plan would have been sufficient to meet their needs, and found a false $20 saving.

9. Handset discounts were not taken into account

The modelling does not take account of discounts on mobile phones. Often these discounts are tied to larger plans to encourage uptake of services. Even if a customer does not fully utilise the full allowance of the larger plan it could be in their interests to take it to gain the reduced phone cost.

An example of such a discount captured from the Vodafone website in November 2018 is included to the right. In this example the customer could get $501 off the cost of a top of the line Samsung Galaxy S9 if they took a plan of 10GB or more.

This discount is more than double the difference in price between a year on our cheaper $39.99 plan with a 2.5GB allowance a year on our the $59.99 plan with a 10GB allowance. In many cases choosing the larger plan is the right choice for the customer even if they do not utilise the full allowances.

10. The analysis doesn't take account of bundled services only available on larger plans

During the period considered Vodafone had an offer that for customers on plans of $79.99 or greater the customer got a year of free Netflix at a value of $119.88.[30] Depending on a customer's usage this may have made choosing a larger plan the right choice despite not reaching the full data allowance. In any event this benefit should have been taken into account in the analysis of the size of any over-payment.

[30] https://news.vodafone.co.nz/article/vodafone-offers-netflix-eligible-mobile-plans

11. There is limited value in the analysis of the savings from switching between pay monthly and pre-pay

The headline figures the Commission has quoted from the report were the savings if a customer switched between pay monthly and pre pay. However, this neglects the other benefits of a pay monthly account. For example our pay monthly plans often included extras like our 'social pass', free Netflix, industry leading $5 a day roaming (now $7 per day), and the ability to set up a sharing account. Our customers choose pay monthly because they value these benefits, and therefore a comparison to pre-pay plans is of limited value.

12. The results weren't adjusted for the large number of customers who switch between providers

The Commission's telecommunications monitoring data shows that almost 50% of mobile customers switch between providers each year. The analysis in the Schiff Consulting report explicitly excluded these customers, so should not infer the results apply to this group.

In fact it is best to assume that the customers who switch providers are not on the wrong plans. The Schiff Consulting report concludes that most customers that switch plans tend to move to the right plan. It therefore follows that customers that switch providers are probably moving to the right plans.

Putting aside any of the other issues we have revealed this alone drastically changes the findings. Without taking account of switching between providers the report appears to say that 20.7% of customers are on the wrong plan. When switching between providers is taken account this number plummets to 9.9%

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