Innovation, Science and Economic Development Canada
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COMPETITION BUREAU MARKET STUDY: CONSUMER SWITCHING IN BROADBAND PROVIDERS – EXECUTIVE SUMMARY

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EXECUTIVE SUMMARY

A. BACKGROUND AND OBJECTIVES

Broadband is the backbone of Canada's digital economy and a critical service for Canadians. Canadians use broadband Internet to find and share information, purchase products and services, and increase their productivity at work.

Most Canadian homes can get broadband Internet by one of two ways: their local telephone company or their local cable company (the physical owners of the network, also referred to as Facility-Based Distributors or FBDs). This limited choice leads to an obvious question about competition: when consumers have only two options for their Internet service provider (ISP), can we be sure that market forces will deliver low prices and high levels of innovation that are characteristic of competitive markets?

The Canadian Radio-television and Telecommunications Commission (CRTC) has historically acted to increase the level of competition in Canadian broadband markets by allowing independent ISPs to lease network access from FBDs to provide Internet services to Canadians. Presently, dozens of companies have been established as competitive alternatives to FBDs. This raises the question of whether independent ISPs are fulfilling their role in placing increased competitive discipline on traditional telephone and cable companies. To address this question, the Competition Bureau ("the Bureau") conducted a market study to better understand the competitive dynamics of Canada's broadband Internet industry.

As part of this market study, Innovation, Science and Economic Development Canada (ISED) commissioned public opinion research to understand Canadian consumers' perceptions of the broadband industry and discover their habits in purchasing broadband Internet services. The research was designed to provide insights into ways to foster more competition in this sector - competition that could lead to more choices and lower prices.

ISED commissioned qualitative and quantitative research to address the following objectives:

1. Better understand what motivates consumer habits in purchasing broadband Internet services from network owners or from resellers.

2. Examine the competitive dynamics of the industry.

3. Identify positive steps that regulators or policymakers could take to further support competition between broadband providers.

B. METHODOLOGY

1. Qualitative phase

Environics Research conducted a series of twelve (12) focus groups with Canadians aged 18 and older between December 12, 2018 and January 24, 2019. Ten sessions were held in focus group facilities, with two in each of the following cities: Toronto, Halifax, Montreal, Edmonton, and Vancouver. Two sessions were conducted via conference call, one with households in rural Ontario and a second with households in rural Alberta and rural British Columbia. In each community, including the session with households in rural Ontario, one session was conducted with younger individuals (18 to 39 years) while the second session, including the session with households in rural Alberta/BC, was conducted with older individuals (40 and up). Ten sessions were conducted in English and two sessions were conducted in French.

Focus group participants were selected according to the Standards for the Conduct of Government of Canada Public Opinion Research – Qualitative Research[1]. More detailed information on the qualitative methodology is provided in Appendix A of the full report, along with a copy of the research instruments (Appendices B and C).

Statement of limitations: Qualitative research provides insight into the range of opinions held within a population, rather than the weights of the opinions held, as would be measured in a quantitative study. The results of this type of research should be viewed as indicative rather than projectable to the population.

2. Quantitative phase

The quantitative phase of this research project involved an online survey with 2,005 people who have a home Internet subscription in Canada, from March 6 to 14, 2019. The sampling method was designed to complete interviews with at least 2,000 Canadians aged 18 and over who have home Internet subscriptions. Quotas were set by age, gender, and region.

Respondents completed the Randomized Controlled Trial (RCT) section of the survey followed by a series of questions about the telecommunication services they have and their switching behaviour. A conjoint analysis was also conducted to measure the level of impact that various factors have on the selection of potential Internet service packages.

A more detailed description of the quantitative methodology is presented in Appendix A, and the questionnaire is included as Appendix D.

Statement of limitations: The quantitative research was conducted with respondents from an online panel. Since the samples used in online panel surveys are based on self-selection and are not a random probability sample, no formal estimates of sampling error can be calculated. Although opt-in panels are not random probability samples, online surveys with the general population resemble a random sample closely if they are well designed and employ a large, well-maintained panel.

C. CONTRACT VALUE

The contract value for this research was $194,515.49 (HST included).

D. REPORT

This report begins with an executive summary outlining key findings and conclusions, followed by a detailed analysis of the focus groups and of the survey data. Provided under separate cover is a detailed set of "banner tables" presenting the results for all quantitative survey questions by population segments as defined by region, age, gender and other subgroups. The report findings can be cross-referenced with these banner tables using the survey question number listed in the detailed analysis section.

[1] Standards for the Conduct of Government of Canada Public Opinion Research – Qualitative Research. https://www.tpsgc-pwgsc.gc.ca/rop-por/documents/rechqual-qualres-eng.pdf

E. USE OF FINDINGS OF THE RESEARCH

The findings of this research will be used to help regulators and policy makers better understand the dynamics of the broadband industry and the potential impact of regulations on competition.

The findings of this study will also help increase compliance with the *Competition Act* by suggesting potential solutions to competition issues. This is essential for Canadian consumers, as competition fosters innovation and can lead to lower prices and increased choices.

F. KEY FINDINGS

The following are the key findings of the quantitative and qualitative research:

- **The current profile of Canadian Internet subscribers reveals a sophisticated population in terms of Internet use**. A high-speed wired connection is almost universal, except in rural areas. Internet is widely used for communications (e.g., email, text, social media) as well as bandwidth-heavy activities such as streaming and gaming. This reflects the view expressed in the qualitative research that Internet service at home is intensely used, highly relied upon, and in many cases, vital.

- By and large, Canadian households get their Internet service from FBDs (e.g., Bell, Rogers or Telus; 91%); only eight percent currently use an independent ISP such as TekSavvy or VMedia. The reasons for this are multiple and complex:

    - **Bundling services together is the norm for Canadian Internet subscribers**: two-thirds have at least one service bundled with their Internet. However, this is only the case for three in ten (30%) customers of independent ISPs. While breaking a bundle is not among the top perceived barriers to switching, it is cited among the considerations especially by those who thought about switching their ISP in the past two years but ultimately did not.

    - **There is a high level of satisfaction with their current Internet provider** (90% are very or somewhat satisfied). At the same time, strong satisfaction is more widespread among the small group of independent ISP customers.

    - **Switching activity is limited**. Fewer than one in five (17%) Internet subscribers have switched ISPs in the past two years, even though over half (58%) have considered switching. Among switchers, independent ISPs have been the net beneficiaries (a gain of five percentage points), but the majority (68%) of switches are still between FBDs.

    - **Independent providers have not yet successfully communicated any advantage beyond price**. One in three believe independent ISPs provide better value for money; otherwise, most say they provide the same level of service as FBDs or don't know enough to say. Very few hold outright negative perceptions of independent ISPs in relation to FBDs, although perceptions about consumer brand awareness, repair services and Internet reliability all favour FBDs slightly. This latter finding echoes concerns raised in the focus groups about service quality and reliability.

    - Advanced analysis (choice-based conjoint) reveals that **price is the largest single factor influencing the selection of a home Internet plan**. This clearly favours independent ISPs given the perceptions described above, and is consistent with the fact that price is by far the main reason stated for switching, particularly by those who moved from an FBD to an independent ISP. **However, the results also indicate that almost two-thirds of the time, the purchase decision is influenced by some other feature**, particularly download/upload limits and download speed.[2] Thus, price alone may be insufficient to motivate switching.

- **The results suggest choice in ISPs exists, at least in major urban centres, if less so in other communities (particularly rural/remote areas)**. Three-quarters are satisfied with the selection of ISPs available to them and as discussed above, the survey confirmed a certain level of switching between ISPs. Moreover, the qualitative research found evidence that new delivery models (for example, cellular-based Internet service) may be challenging the traditional platforms.
    - **The findings also suggest that while choice may technically exist, it is nonetheless perceived to be *limited***: A majority of Internet subscribers who thought about switching their ISP (but did not) were considering another FBD rather than an independent ISP. This validates the views heard in the focus groups that they have two choices at most (between their two local FBDs), and often believe there is not much difference between the two.
- **One factor operating in favour of increased choice is demographic change**. Younger subscribers are more likely to place higher demands on their Internet bandwidth for streaming and gaming (thus higher cost implications), to have embraced switching, and to have more positive opinions of independent ISPs, especially in terms of price. Consequently, like other consumer product categories such as cell phones, this trend towards demand for increased choice and switching between ISPs could accelerate with time.

G. POLITICAL NEUTRALITY STATEMENT AND CONTACT INFORMATION

I hereby certify as a Vice President of Environics Research Group that the deliverables fully comply with the Government of Canada non-partisan requirements outlined in the Policy on Communications and Federal Identity of the Government of Canada and Procedures for Planning and Contracting Public Opinion Research. Specifically, the deliverables do not contain any reference to electoral voting intentions, political party preferences, standings with the electorate, or ratings of the performance of a political party or its leader.

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[2] Notably, trust (which was tested in the survey as preference for a large versus a small brand) and Internet reliability (downtime) appear to play a much smaller role than was expressed in the focus groups. This is likely a function of the difference in methodology: the survey quantifies which information respondents used to decide between Internet plans, while the qualitative research allowed participants to express any concerns they may have (regardless of how large or small).