

Results of the Autumn 2004 Directory Enquiry market research

Note from the Ofcom Consumer Panel

1. We have taken a close interest in the way that the newly liberalised Directory Enquiry (DQ) market has been developing. In previous advice notes to Ofcom, in June and October of 2004, we made a number of observations on both the way the market has been performing and on the lessons that the current regulator should take from the liberalisation exercise.
2. We have looked at the results of the most recent DQ market research and must report that, as we suppose that the Ofcom board does, we find them disappointing. A decrease in spontaneous awareness of numbers, a decrease in self-reported use, a lack of price awareness and minimal growth in use of new services are all depressing statistics and in stark contrast to the anticipated benefits put forward by Ofcom in support of liberalisation. We note that the results may reflect some changes in how consumers seek for information in this market place, e.g. through the internet. But when the current performance of the market shows that there *still* remains little correlation between the cost of calls and the accuracy of the dialled service there appears to be very little for consumers to thank the regulator for.
3. We do not believe that there is much to be gained from dilating in this note on a detailed analysis of the results. The headline trends are decreased consumer use and increased consumer confusion. We are more concerned with what happens next.
4. We make two recommendations to Ofcom. Firstly, it is essential that Ofcom proposes measures to remedy the information gap that has developed in the DQ market. Consumers need to be aware that there are a range of services available with varying costs and varying degrees of accuracy, and to have up to date, reliable information about who charges what for what level of service. A more proactive stance from the regulator in naming and shaming those services which charge higher than average prices for lower than average accuracy would help. Or more positively, name and praise for comparatively cheaper services which offer high levels of accuracy. Informed consumers make markets work and we think that Ofcom could do more to reduce the search costs in this market.
5. Secondly, the time is now right for Ofcom to reflect on the lessons it can learn from this liberalisation exercise and to consider whether it needs to pay greater attention to the needs of consumers when developing regulatory policy. In our original submission to the Ofcom Board in June 2004, we offered a number of observations on the lessons that could be learnt from the DQ liberalisation exercise. These were:
 - a. That it is important to be able to benchmark the “pre-change” position so as to be able to draw conclusions about the effectiveness or otherwise of regulatory intervention;
 - b. That regulatory decisions should only be taken when there is a clear view about what effectiveness means – not just for industry but for consumers too. This would include having a clear view about the likely impact of competition – an influx of new entrants of itself may not necessarily be sufficient to deliver increased consumer benefits;
 - c. That it would be sensible to consider the consumer information implications of how consumers were informed about the change to DQ

- services. Such considerations will be relevant to Ofcom's forthcoming regulatory actions in the telecoms market – and more generally for the development of Ofcom's consumer information strategy;
- d. Finally, that it should be an integral part of every regulatory intervention that a clear process is in place to audit the actual impact of the regulatory intervention against that which was anticipated.
6. In light of this latest round of DQ results we think these suggestions remain valid and underpin both of the specific recommendations that we make above. But we also believe that the experience of DQ, when reviewed alongside a broader reflection on Ofcom's regulatory approach, leads to a more general observation. That is, **when considering regulatory intervention how penetrating is Ofcom's analysis of the potential benefits for consumers and what weight is attached to the need to empower consumers to take advantage of the benefits offered by competition?**
7. In respect of DQ for example we would ask:
- a. How rigorous was the analysis of the likely price dynamics of the newly liberalised market?
 - b. How great was the understanding the non-price characteristics of the market e.g. accuracy, quality of service, consumer information?
 - c. Was there a clear statement of expectations and a route-map to achievement should liberalisation not deliver without intervention?
 - d. How robust was the process for understanding consumer concerns and, in respect of any concerns raised, were satisfactory reasons given for their rejection?
 - e. What measures were put in place to both inform consumers of the impending change and to facilitate rational decision-making?
8. These are the sort of questions that should be posed at the start of every regulatory journey. In this case we think that there are inadequate answers.