

## ECONOMIST UNVEILS THE HIDDEN COSTS OF TWO YEAR TELCO CONTRACTS AS AUSSIES WARNED NOT TO BE SWEEPED UP IN IPHONE 7 EXCITEMENT

- Aussies underestimating the true cost of handcuffing themselves to a two-year plan
- False economy of handset subsidies sees contract customers paying more for new phones than they realise
- 65 per cent of savvy smartphone switchers now opting for BYO plans to significantly up their data inclusions

In the lead up to the iPhone 7 going on sale this Friday, a leading Australian telecommunications economist has cautioned Aussies against being hoodwinked by the seeming simplicity of getting their hands on a shiny new smartphone.

Economist, John de Ridder was commissioned by Australia's fourth largest mobile service provider amaysim to explore the true value equation of two year contracts.

Highlighting the steep hidden costs associated with purchasing the handset on a mobile contract, de Ridder has warned that Aussies are not factoring in the true 'opportunity cost' of committing to a two-year mobile contract.

"The opportunity cost – or the value of what you're actually giving up by signing up to a two-year contract – is just too high," he said.

"Because you're committing to a set plan, you have to be sure that your usage over the term of the contract will more or less stay the same, and that's a tough call given the huge growth in data usage that's expected in the future."

De Ridder says that, while mobile contract inclusions may seem reasonable when customers sign on the dotted line, a lot can happen in the following two years that diminishes the value of those inclusions well before the contract ends.

"The reality is that a lot will change over the next two years, and what Aussies need from their mobile plan in 6, 12 or 18 months is likely to be very different to what they are using today," de Ridder said.

"If you can adapt your plan monthly – as you can with SIM-only plans – then that's a major benefit that Aussies shouldn't take lightly when they're evaluating their mobile plan options," he said.

### The myth of handset subsidies

The other enticement used to lure Aussies into a two-year contract, says de Ridder, is the so-called 'subsidy' of the handset itself.

"Don't be fooled by handset subsidies. Two-year contracts which include premium handsets are constructed to look like the carrier is heavily subsidising your new smartphone, but it's often smoke and mirrors."

"By comparing the data allowance of a contract plan with its nearest comparable BYO SIM-only plan, it's clear that the remaining handset costs are simply being offset in the monthly plan fee.

### Changes since the iPhone 6 launched in 2014

- Unlimited calls and texts became standard for mobile plans
- Excess usage fees have been standardised to \$10 per gigabyte across most Aussie telcos
- Mobile data allowances have skyrocketed
- The big three telcos opened up 4G access to wholesale partners, resulting in more competitive pricing and options
- Popular new platforms and content such as Snapchat and 360-degree videos have increased the daily demands on mobile data

“One carrier’s entry-level \$40 iPhone 7 plan is \$18 more expensive than the equivalent SIM-only plan from the same carrier. While the \$45 per month handset repayments make it look like you’re only paying \$1080 for the iPhone 7 128GB (RRP \$1229) over two years, that price difference adds another \$432 to the contract term – so you’re actually paying \$1512 in total to get the iPhone,” said de Ridder.

### Mobile contract FOMO

Ged Mansour, Communications Director at amaysim, said the hidden costs and restrictions of purchasing smartphones on a mobile contract made buying the new iPhone 7 outright and pairing it with a SIM only plan is often the better option.

#### The future of mobile

Over the next five years, video traffic in particular is expected to surge, with Ovum estimating that mobile video traffic will increase ten-fold and account for 75 per cent of total 4G traffic by 2020 due to innovations such as VR/AR applications, mobile video, social media video, and 4K UHD video.<sup>iv</sup>

“These secret costs are compounded by the not-so-secret costs that you’re slugged with if you try to get out of your contract early. It’s way too complicated and makes life difficult when all you’re trying to do is make the most of your shiny new smartphone.

“Recent research from Telsyte has revealed that streaming video on demand now makes up 30 per cent of a customer’s mobile data allowance<sup>i</sup>, while another study found that 65 per cent of savvy smartphone-using Aussies are now avoiding the FOMO altogether when they switch providers by choosing no

lock-in contract plans from providers like amaysim<sup>ii</sup>.”

“SIM-only plans simplify the experience by not only offering value for money and data inclusions that are often significantly better than the equivalent contract plans that come with a high-end smartphone, but also by giving you the freedom to move at any time so you don’t miss out on better deals when they hit the market,” Mansour said.

To coincide with this media release, amaysim has created an animated video that illustrates the hidden costs of signing up to a two-year contract. To watch the video, visit [www.amaysim.com.au/blog](http://www.amaysim.com.au/blog) on Wednesday 14 September May at 9am.

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For further information or to arrange an interview with John de Ridder or Ged Mansour, please contact:

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#### About John de Ridder

John de Ridder is an internationally recognised telecommunications economist with pricing expertise and over 30 years of practical experience dealing with competition and regulation. He was the former chief economist at Telstra, and has worked for the last 12 years as an independent consultant.

#### About amaysim

amaysim is a leading Australian mobile service provider with a business model built on innovative technology. Powered by the Optus 4G Plus network. amaysim offers simplicity and choice courtesy of SIM-only mobile plans. amaysim's DIY account management is backed by award-winning, online-driven customer support featuring Live Chat, email and social media customer service. amaysim’s SIM packs are available online at [www.amaysim.com.au](http://www.amaysim.com.au) and from over 12,000 retail outlets.

<sup>i</sup> Telsyte Australian SVOD/OTT Video Market Study 2016

<sup>ii</sup> Telsyte Australian Mobile Services Market Study 2016

<sup>iv</sup> The Evolution of Big Video – Examining telco transformation video opportunities, joint whitepaper from Huawei and OVUM <http://www-file.huawei.com/~media/CORPORATE/PDF/News/Big%20Video%20White%20Paper.pdf?la=en>