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The Effect of Shortening Lock-In Periods in Telecommunication Services

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Abstract

We study the welfare implications of shortening the length of the lock-in period associated with triple play contracts using household level data, from a large telecommunications provider, for a period of 6 months. Using a multinomial logit model to explain consumer behavior we show that, in our setting, shortening the length of the lock-in period decreases the aggregated profit of the firms in the market more than it increases consumer surplus. This result arises because shortening the length of the lock-in period increases churn, and the costs to set up service for the consumers that churn and join a new carrier supersede the increase in the consumers' willingness to pay for service when the length of the lock-in period shortens.

Keywords: Lock-in periods, switching costs, telecommunications, multinomial logit