

Steering Incentives and Bundling Practices in the Telecommunications Industry*

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Abstract

We model mixed-bundle pricing by internet service providers (ISPs) to study their incentive to steer consumers across different subscription options and influence usage decisions. Using unique panel data from an ISP, we test predictions from the model. We find that the ISP's introduction of internet usage allowances and overage charges steered internet-only consumers into bundled TV and internet subscriptions; this effect was greatest for heavy users of streaming services most similar to conventional TV. Internet usage growth - especially in streaming video services - was curtailed for consumers who added TV subscriptions, and it also fell for consumers who did not upgrade their internet usage allowances. We discuss the implications of these findings for antitrust and regulatory issues in the telecommunications industry.

Keywords: Steering, Bundling, Nonlinear Pricing, Telecommunications Industry, Cord Cutting, Broadband

JEL Codes: L11, L13, L96.

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