Economic impacts of an extension of the Do Not Call Register

22 January 2010

Report by Access Economics Pty Limited for

Australian Direct Marketing Association (ADMA)

Commercial-in-Confidence

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Glossary

ACMA	Australian Communications and Media Authority
ADMA	Australian Direct Marketing Association
B2B	Business-to-business (also includes business-to-government)
B2R	Business-to-residential
DNCR	Do Not Call Register

Executive Summary

The Do Not Call Register (DNCR) was introduced in 2007, allowing Australian individuals to 'opt out' of receiving certain telemarketing calls by registering their private or domestic telephone numbers (landline and mobile) with the Australian Communications and Media Authority.

The Do Not Call Register Legislation Amendment Bill, which was introduced into Federal Parliament on 26 November 2009, would see the extension of the application of the DNCR from domestic phone numbers to all telephone and fax numbers, including those used by businesses, government agencies and emergency services.

This report examines the likely economic impacts of such an extension of the DNCR to cover businesses and government organisations.

The aim of the proposed legislation is to reduce the cost to businesses of unwanted calls. However, the potential costs to businesses that employ telemarketing activities – either directly or indirectly through its impact on competition and the flow of information – also need to be carefully weighed against any benefits. In particular, extension of the DNCR is likely to reduce the flow of information and add to search costs, to the detriment of the efficient functioning of a market economy.

The telemarketing industry is extremely diverse in nature, particularly in the business-to-business (B2B) sector. For example, a company's telemarketing operations could entail one part-time employee using publicly available information to contact potential clients, or an out-sourced call centre using purchased contact lists. Indeed, many small businesses do not recognise their marketing activities as "telemarketing", even though they would be so defined under the Act. Furthermore, the nature of the product being sold and its target market will affect the success rate and cost structure of a firm's telemarketing activities, making industry-wide benchmarks impossible to define. The telemarketing industry is therefore yet to be precisely measured.

In addition, it is clear that telemarketing forms an integral part of a broader marketing strategy for many firms. Indeed, for some businesses, more than 95% of revenues are derived from telemarketing activities alone.

This report focuses on B2B activities, and takes the definition of telemarketing from the DNCR Act; that is:

> *calls made from one business to another for the purpose of offering to supply, provide, advertise or promote goods, services, land or a business or investment opportunity or to solicit donations.*

Importantly, the definition also includes calls made to arrange meetings to discuss the supply of goods or services.

Nevertheless, it is clear that an extension of the DNCR would have a number of adverse effects on operators within the telemarketing industry (regardless of their size or structure) and firms that employ telemarketing to gain new business, as well as the broader economy as a whole.

This report assesses these impacts, based on publicly available data, survey results and industry consultations. In particular, the costs to business in terms of higher compliance and marketing costs, reduced information flows and loss of competition and lost revenues (for both telemarketers and their end-users) are weighed against the reduction in productivity losses due to receiving unwanted calls.

It is important to note here that for many small businesses, telemarketing (as defined under the Act) is often undertaken on an ad hoc basis by the owner of the business, rather than a dedicated employee. While these small businesses found it difficult to quantify the costs associated with an extension of the DNCR they consistently reported that it would be "a major impost" and "a restriction of trade" that would inhibit their ability to acquire new business.

A summary of the findings is presented in Table i below.

Table i: Summary of costs and benefits of expansion of the DNCR to B2B calls

Impacts		Costs/Benefits	
Low	Call washing costs	***Cost***	\$1.4 - \$2.2 million per annum
Moderate	Compliance – increased costs to business of complying with legislation (in addition to washing)	***Cost***	Establishment costs: \$23.7 million Ongoing costs: \$46 - \$82 million per annum
	Reduced employment	***Cost***	Two thirds of survey respondents reported that they would reduce employees as a direct result of the DNCR expansion.
	Productivity gains due to reduction in number of unwanted calls	***Benefit***	\$34 - \$47 million per annum
High	Decline in market efficiency due to reduction in competition, information and innovation	***Cost***	Unable to be quantified.
	Loss of revenues via flow-on effects to end-users of products sold through telemarketing	***Cost***	Unable to be quantified.

The net impact of the legislation will be affected by the precise design adopted and the resulting take-up rates. If the legislation encourages a large number of businesses to register on the DNCR and then requires deliberate decisions to allow specific types of calls to be made, the impacts can be expected to be very costly. In any event, it is evident that the resulting costs will outweigh any benefits in large measure, including a loss in market efficiency. The overwhelming concern of industry players regarding an extension of the DNCR is therefore well founded.

Access Economics

1 Introduction

The Do Not Call Register (DNCR) came into operation in 2007 and provides Australian individuals with the opportunity to 'opt out' of receiving certain telemarketing calls. Only telephone numbers that are used exclusively or primarily for private or domestic purposes can currently be placed on the register.

In the 2009-10 Budget, the Federal Government announced plans to extend the DNCR to include all telephone and fax numbers, including those used by businesses, government agencies and emergency services (although certain organisations such as charities would remain exempt from the DNCR). The Do Not Call Register Legislation Amendment Bill was subsequently introduced into Federal Parliament on 26 November 2009 and referred to the Senate Standing Committee on Environment, Communications and the Arts for inquiry, with a reporting date of 24 February 2010.

In the case of government agencies, tendering procedures would preclude the success of the majority of, if not all, telemarketing calls. For emergency service organisations, the ability to opt out of receiving unwanted telemarketing calls is especially significant in ensuring that responses to genuine emergency calls are not delayed.

More generally, however, the proposed extension of the DNCR aims to address concerns raised by some businesses that the receipt of unsolicited telemarketing calls leads to a loss in productivity.

However, these productivity concerns must be weighed against the wide-reaching impacts that are likely to flow from the inclusion of business and government numbers on the DNCR. It is important to note here that, in addition to traditional 'telemarketing' organisations, many businesses that do not recognise their current selling or promotion activities as 'telemarketing' would also be affected by the new legislation. These impacts include the following:

- The flow-on economic impacts on competition and innovation will be significant, for example new entrants may find it more difficult to gain a sustainable market share, in turn reducing competitive pricing and innovative products and services.
- Telemarketing is an efficient means of providing businesses with information and leads to improved efficiencies.
- For some organisations, telemarketing is the only effective means of promoting their goods and services and losing a substantial portion of this ability to market themselves will result in a loss of competitiveness and revenue.
- For other organisations, complementary marketing channels are less effective without the addition of telemarketing, resulting in a rise in the average cost of new account acquisitions. These higher costs could be expected to result in reduced revenues and/or to be passed on to consumers.
- While some organisations report the effective use of alternative marketing channels, typically these have lower conversion rates and higher costs associated with acquiring new accounts.

- Organisations that call other businesses in order to sell or promote their goods or services will be adversely impacted through increased compliance costs, largely due to internal process changes.

The number of businesses and government agencies that would take up the opportunity to register on the DNCR is uncertain, and so the degree of adverse impacts requires some assumptions to be made. This issue is discussed in more detail in Section 4.

Access Economics completed a preliminary report for the Australian Direct Marketing Association (ADMA) in August 2009 which outlined key issues raised by the proposed DNCR extension. Building on the framework developed in that preliminary report, ADMA commissioned Access Economics to explore the economic impacts of the proposed extension of the DNCR. Some of the material contained in the preliminary report is not repeated in this report and it is recommended that the two reports be read in conjunction.

Due to a lack of comprehensive data on telemarketing activity within Australia, Access Economics conducted a survey of relevant stakeholders. The purpose of the survey was to understand the implications, for a broad cross-section of telemarketers, of extending the DNCR to businesses. Businesses surveyed by Access Economics ranged in size, by revenue, from less than $1 million to more than $100 million, and covered a variety of sectors such as recruitment, IT, accommodation and entertainment. Survey questions are provided in Appendix A.

Access Economics also held consultations with several stakeholders to garner further information on their telemarketing activity and the likely impact on their business of an extension of the DNCR to include all telephone numbers.

This report focuses on outbound business-to-business (B2B) telemarketing, as opposed to business-to-residential (B2R) telemarketing or fax marketing. B2R telemarketing is already regulated by the *Do Not Call Register Act 2006* (DNCR Act), while an analysis of the impact on the fax marketing industry (which would also be affected by extension of the DNCR) is outside the scope of this report.

In line with the DNCR Act, outbound B2B telemarketing is defined to include calls made from one business to another offering to supply, provide, advertise or promote goods, services, land or a business or investment opportunity or to solicit donations. This definition also includes calls to arrange meetings to discuss the supply of goods or services. Telemarketers range from individuals within a corporation whose main business is not telemarketing, to call centres that provide telemarketing services for one or more businesses.

The report is structured as follows:

- the current DNCR and proposed changes under the Amendment Bill are discussed in Section 2;
- Section 3 describes the B2B telemarketing industry in Australia; and
- the impacts of an extension of the DNCR to outbound B2B calls are detailed in Section 4.

2 The Do Not Call Register

This section outlines the Do Not Call Register (DNCR) as it currently operates and describes the proposed changes contained in the Do Not Call Register Legislation Amendment Bill.

2.1 The current Do Not Call Register

Under the *Do Not Call Register Act 2006* (DNCR Act), organisations are prohibited from making a telemarketing call to a number that is listed on the DNCR. Any Australian telephone number (either fixed line or mobile) that is used exclusively or primarily for private or domestic purposes can be placed on the register. Business numbers are currently ineligible for registration, so only business-to-residential (B2R) telemarketing is subject to the provisions of the Act[1].

Telemarketing is broadly defined in the DNCR Act as

> *a call offering to supply, provide, advertise or promote goods, services, land or a business or investment opportunity, and the soliciting of donations, having regard to the content and presentational aspects of the call in addition to the content that can be obtained by using the phone numbers, URLs or contact information mentioned in the call and the content that can be obtained by calling the phone number from which the call is made.*

The legislation also gives a broad definition to a telemarketing call, which is taken to include a voice call (including a recorded or synthetic voice message) and a telemarketer leaving a voice message on an answering service[2].

A number that is listed on the register can still be contacted in the following circumstances:

- Express consent exists i.e. a person has clearly indicated they are happy to receive telemarketing calls, for example by ticking a box on a form. An organisation or individual should keep a record of the express consent to satisfy the evidential burden provisions of the legislation.
- Inferred consent exists i.e. there is an existing business relationship between the telemarketer and the person called.
- The organisation making the telemarketing call is exempt from the provisions of the Act.

Exempt organisations are allowed to make specific types of telemarketing calls to numbers on the DNCR. Under the Act, exempt organisations include charities or charitable institutions,

[1] Nevertheless, where a business number has been placed on the register, telemarketing calls must not be made to that number (due to the wording within the DNCR Act i.e. 'A person must not make a telemarketing call to a number if it is registered on the DNCR'). However, ACMA will investigate complaints that ineligible numbers have been placed on the register and remove these numbers where complaints have been substantiated.

[2] The DNCR Act does not prohibit calls that have no commercial marketing element such as market research calls (to conduct opinion polling or a standard questionnaire-based research). These calls are covered by a separate standard, called the Telecommunications (Do Not Call Register) (Telemarketing and Research Calls) Industry Standard 2007.

educational institutions, religious organisations, government bodies, registered political parties, independent members of parliament and political candidates.

The Australian Communications and Media Authority (ACMA) has operational oversight of the DNCR and responsibility for monitoring compliance with the DNCR Act. The central compliance mechanism under the DNCR Act is the so-called 'washing' of calling lists: businesses are able to submit their calling lists to the ACMA register operator for washing, to protect against the possibility of calling a registered number. A washed list identifies which numbers are registered (and cannot be called) and is valid for a 30-day period. To ensure ongoing compliance, calling lists must be re-washed on a periodic basis, at a maximum every 30 days.

In order to submit calling lists to the register operator, a business must set up an administration account and select a subscription type (for which an annual subscription fee is payable). Details for each subscription type, including fees, are outlined in Table 2.1 below.

Table 2.1: Subscription fees for list washing under the Do Not Call Register

Subscription type	Maximum number of telephone numbers able to be submitted for checking during a subscription period	Annual subscription fee
A	500	$ 0
B	20,000	$ 78
C	100,000	$360
D	1,000,000	$3,100
E	10,000,000	$26,400
F	20,000,000	$44,000
G	50,000,000	$66,000
H	100,000,000	$88,000

Source: www.donotcall.gov.au/dncrtelem/sub_oview.cfm

Further details on the operation of the DNCR, including compliance requirements and penalties, can be found in Access Economics (2009).

2.2 Do Not Call Register Legislation Amendment Bill

The Do Not Call Register Legislation Amendment Bill 2009 (the Bill) enables all Australian telephone and fax numbers to be placed on the DNCR. As a result, business and government numbers will be eligible for registration such that B2B (including B2G) telemarketing, in addition to B2R telemarketing, will be regulated by the DNCR Act.

The new arrangements will come into effect six months after the Bill receives Royal Assent (anticipated by the Federal Government to be the second half of 2010) or on an early date set by Proclamation.

The express and inferred consent provisions will continue to apply: businesses that have given express consent to receive telemarketing calls can be contacted even though their number is listed on the register; and businesses that have an existing relationship with another business may also make telemarketing calls to that business.

2.2.1 Registered consent mechanism

The Bill contains an additional consent mechanism that allows businesses and government organisations to list their number on the register while electing to continue to receive telemarketing calls relating to specific industry classifications. This consent mechanism effectively involves two stages:

- A business can 'opt out' of receiving unsolicited telemarketing calls by registering their number.
- The business can then register their consent (or 'opt in') to receive unsolicited telemarketing calls about products or services that fall within a particular industry classification (e.g. advertising agencies, accountants etc).

The Bill empowers the ACMA to determine industry classifications and the types of activities that are covered by particular industry classifications.

The registered consent ('opt in') mechanism requires businesses to actively nominate which industries they would like to receive telemarketing calls from. This is counter-intuitive because businesses may not know what sort of products or services they may be offered that would be beneficial to their business operations. Businesses have incomplete information about the potential opportunities to, for example, reduce costs or improve systems that they may be foregoing by choosing to receive telemarketing calls from some industries and not from others.

In addition, businesses that make the decision to place their number on the DNCR are likely to have strong reservations about receiving *any* telemarketing calls i.e. they are unlikely to actively nominate to receive telemarketing calls from certain industries. Several survey respondents expressed concern that SMEs in particular were not well-enough informed about the potential disadvantages of opting out from all telemarketing calls.

Case study: Business opportunity through telemarketing

One company, which uses telemarketing to set up meetings with potential clients, noted that they approached a particular firm in the entertainment industry that was in difficulty and showed them how their product could improve cash flows by effectively "re-engineering the business". After successfully selling the product, the client's business improved dramatically. However the client in question would not have thought to purchase the product had they not been approached directly.

Alternative expansion options to the current expansion model proposed include:

1. 'Opting out' from selected industries only (as opposed to opting out from all calls and then opting in for selected industries).
2. 'Opting out' from all calls but inferred consent exists where the call relates to the operation of the business, unless the business has withdrawn consent to be called on a per organisation basis.

3. ‘Opting out’ from all calls but inferred consent exists where the call significantly relates to the core operation of the business, unless the business has withdrawn consent to be called on a per organisation basis.

Clearly, there is some tension here between the simplest option, from an administrative perspective, and the risk to legitimate B2B calling. The majority of businesses surveyed (73%) indicated that the second expansion option above most closely meets the definition of ‘legitimate B2B’ calls. Some businesses that conduct B2B telemarketing also reported that this expansion option would be ‘least risk’ in terms of the impact on legitimate B2B telemarketing activity.

It should also be noted there is a degree of administrative uncertainty relating to the expansion. For example, it is unclear as to who will have the authority to place a business or government number on the register. This uncertainty could further (unintentionally) restrict B2B telemarketing e.g. a receptionist may list the main number on the register, precluding all calls to the company – even though others within the company may still wish to receive information about products/services or business opportunities.

3 Telemarketing in Australia

Telemarketing is used by a variety of organisations to sell goods and services, to solicit donations and to conduct market research. It can either be inbound – where calls are received by the organisation – or outbound – where the organisation makes the call. Telemarketing can also be targeted towards residential numbers or business numbers, depending on the nature of the telemarketing call.

Telemarketing calls can be made or received by contact centres, in-house telemarketing agents or small business owners or employees where telemarketing is only one aspect of their job role. The telemarketing industry is therefore difficult to define and there is no detailed data on its size.

This report focuses on **outbound business-to-business (B2B) telemarketing** i.e. the sector of the telemarketing industry that will be affected by the proposed extension of the DNCR. In line with the DNCR Act, outbound B2B telemarketing is defined to include calls made from one business to another offering to supply, provide, advertise or promote goods, services, land or a business or investment opportunity or to solicit donations. This definition also includes calls to arrange meetings to discuss the supply of goods or services.

The scope of calls covered by the above definition is wide and many organisations that do not recognise their current selling or promotion activities as 'telemarketing' would also be affected by the extension of the DNCR.

For example, an owner of a small catering business who wishes to call another business within the local area to offer its services will be required to comply with the provisions of the DNCR Act by submitting the number to the ACMA register operator for washing. Should the small business owner fail to do so, and the business number they call has been placed on the DNCR, they will be in breach of the DNCR Act. The business could then be subject to complaints and regulatory scrutiny.

Penalties that can be imposed by the ACMA for breaches of the Act range from formal warnings to enforceable undertakings, infringement notices and court action. Under an infringement notice, the maximum penalty that can be imposed is $110,000 for each day on which contraventions occurred. The maximum penalty that can be imposed by the Federal Court is $1.1 million for each day on which contraventions occurred.

3.1 Outbound B2B telemarketing

Industry structure

The outbound B2B telemarketing industry is comprised of a wide range of entities that make it difficult to define and measure precisely. Such entities include:

- Businesses (ranging from small businesses to large companies)
- Contact centres
- Data suppliers and list brokers

- Peak bodies e.g. ADMA

These players interact in various ways. For example, a business may purchase a contact list (developed by a data supplier) through a list broker, but use a contact centre to undertake its outbound telemarketing. Alternatively, a business may use an internal calling list that was originally developed by a data supplier to conduct in-house outbound telemarketing.

For small businesses, outbound B2B telemarketing is often undertaken on an ad hoc basis and they are generally not recognised as part of the 'telemarketing industry'. As indicated by small business owners, business numbers of potential clients are usually obtained from either the phone book or the internet (in contrast to larger organisations that conduct their telemarketing in a systematic and measurable way, often using purchased lists). The extent of this activity is extremely difficult to quantify yet the broad definition of telemarketing under the DNCR Act means that any such calls fall within the scope of the outbound B2B telemarketing industry.

A further complicating factor in defining the outbound B2B telemarketing industry relates to the types of activities undertaken by contact centres. A 2009 report on the contact centre industry estimated that approximately 1,840 organisations operate 3,860 contact centres in Australia (callcentres.net, 2009). Outbound telemarketing is only one activity undertaken by contact centres. Indeed, customer service accounts for 59% of the primary activity undertaken by contact centres whereas outbound telemarketing accounts for only 8%. Other activities undertaken by contact centres include inbound sales, technical support and collections. Most contact centres, approximately 73%, are 'blended' i.e. handle both inbound and outbound calls.

Industry data that does exist therefore encompasses a range of activity that cannot easily be disaggregated into its various components e.g. outbound B2B telemarketing.

Volume of outbound B2B telemarketing calls

The number of telemarketing calls has been based on assumptions relating to the number of telemarketing calls businesses receive each year and the number of private businesses and government organisations operating in Australia.

ABS data (Cat. No. 8165.0) was used to determine the number of employing businesses at end 2007. This has been adjusted to December 2009 using the average growth rate to June 2007. The number of government organisations as a proportion of private businesses was also estimated, factoring up the number of actively trading businesses by 20%.

Total outbound B2B telemarketing calls were then estimated using assumptions for the average number of calls made per week to a business and to a government organisation. In total, around **356 million B2B telemarketing calls** are estimated to be made during a year.

It should be noted that this estimate is approximate in nature, due to the broad underlying assumptions (particularly relating to the average number of telemarketing calls made per week to businesses and government organisations).

4 Economic impacts of extending the Do Not Call Register

The diverse nature of the telemarketing industry raises a number of difficulties when trying to distil the impacts of an extension of the DNCR into a single economic value. Where possible, Access Economics has adopted quantitative approach and, where quantification is not feasible, a qualitative assessment has been made. This approach allows a reasonable evaluation of the offsetting costs and benefits to be made.

4.1 Approach

Access Economics has relied on publicly available data sources, such as the Australian Bureau of Statistics (ABS) and the Australian Communications and Media Authority (ACMA), as well as information from respondents who participated in the Access Economics' industry survey and consultations.

Discussions with industry highlighted several complicating issues, such as the broad scope of the definition of the telemarketing industry and the expected rate of take-up by businesses, including how the registered consent mechanism might be used. These issues have been canvassed in some detail in Section 2.

4.2 Costs and benefits

Table 4.1 below summarises the key costs and benefits associated with an extension of the DNCR. Each of these is then discussed in more detail.

Table 4.1: Extension of DNCR to B2B: costs and benefits

Impacts		Costs/Benefits	
Low	Call washing costs	***Cost***	$1.4 - $2.2 million per annum
Moderate	Compliance – increased costs to business of complying with legislation (in addition to washing)	***Cost***	Establishment costs: $23.7 million Ongoing costs: $46 - $82 million per annum
	Reduced employment	***Cost***	Two thirds of survey respondents reported that they would reduce employees as a direct result of the DNCR expansion.
	Productivity gains due to reduction in number of unwanted calls	***Benefit***	$34 - $47 million per annum
High	Decline in market efficiency due to reduction in competition, information and innovation	***Cost***	Unable to be quantified.

Impacts		Costs/Benefits	
	Loss of revenues via flow-on effects to end-users of products sold through telemarketing	***Cost***	Unable to be quantified.

4.2.1 Benefits

Unwanted calls

The estimated cost of unwanted calls to business and government organisations is estimated at between \$34.4 million and \$47.1 million, based on a total call volume of 356 million B2B calls (as discussed in Section 3).

The cost estimate is based on assumptions relating to the number of calls businesses receive each year (7 per week for private and 3 per week for government organisations) and the business profile in Australia. The number of *employing* businesses (ABS Cat. No. 8165.0), adjusted to December 2009, was used to determine the number of possible business numbers that a telemarketer could call. An estimate for the number of government organisations factored up the number of actively trading businesses by 20%.

The cost to business of unwanted calls is estimated as:

> *(Number of calls to business each year) x (proportion considered unwanted calls) x (average length of unsuccessful call) x (average wage of person answering the phone).*

The Australia Institute report into telemarketing states that 'Respondents reported receiving an average of 8.5 telemarketing calls per month. Those on the DNCR received an average of seven calls per month, while those not on the register received ten calls. By this measure, the DNCR "appears to have reduced the volume of unsolicited telemarketing calls by around 30 per cent"' (The Australia Institute, 2008).

Assuming that 30% of telemarketing calls are considered an unwanted call, and an average length of an unsuccessful call of 1.54 minutes (survey responses), the total cost of unwanted calls is estimated at \$34.4 million. Details of assumptions used in the calculations are provided in Appendix B. However, it should be noted that this estimate of a 30% reduction in calls is a best approximation as it relies on unknown assumptions regarding the number and type of firms who would elect to go on the DNCR and the mix of B2B respondents compared with B2R respondents in the Australia Institute survey.

It is worth noting that several small businesses with whom Access Economics consulted observed that they both made and received unsolicited calls, and that any inconvenience from an unwanted call was exceeded many times over by the benefits of being able to contact potential clients through their own telemarketing activities.

4.2.2 Costs

Increased marketing costs

Survey responses and industry consultation confirmed that, for many businesses, telemarketing is the most cost effective means of direct marketing. A number of factors were cited as contributing to its efficacy:

- a high volume of potential customers can be reached;
- personal interaction allows for a more targeted approach to sales which in turn increases the conversion rate;
- telemarketing is proactive i.e. a business does not have to rely on a potential customer to take the initiative to respond, unlike other forms of marketing such as mail or television;
- telemarketing creates awareness of new and innovative products that might not otherwise exist; and
- telemarketing provides qualified leads, as opposed to other forms of marketing such as direct mail, which uses a scattergun approach, or television advertising, which is typically more useful for generating broad interest for a product/service.

A company's 'cost per acquisition' through telemarketing can vary widely, and will typically increase with the complexity of the product or service on offer (reflecting again the diversity of the telemarketing industry).

Moreover, for many small businesses telemarketing (as defined under the Act) is often undertaken on an ad hoc basis by the owner of the business or another employee with other primary responsibilities, rather than a dedicated sales and marketing employee. Their telemarketing activities may vary on a week-to-week basis from as little as five calls up to one hundred calls, and for some the size of accounts won also ranges widely. As such, these small businesses found it difficult to quantify average costs associated with telemarketing or with an extension of the DNCR. They consistently reported that it would be "a major impost" and "a restriction of trade" that would inhibit their ability to acquire new business.

In this context, it is therefore not helpful to examine industry averages.

In order to calculate the *effectiveness* of telemarketing, the response and conversion rates for this marketing channel must also be taken into account.

Survey responses indicated telemarketing had the highest response rate (45%) followed by email (20%). It should be noted that the survey results for email campaign response rates are likely to be higher than industry-wide averages as respondents using this channel (for example a higher education institution) have closely targeted lists.

Telemarketing also had the highest conversion rate (24%) followed by direct mail (16%). The conversion rate for telemarketing corresponds with the findings of an Australian contact centre report, which noted a 24% conversion rate for outbound calls (callcentres.net, 2009).

The effectiveness of telemarketing for a company providing complex and high value products in the IT sector is detailed in the following case study.

Case study: High value solutions in the IT sector

A company that operates in the high end of the IT sector has a *$500 cost per acquisition for telemarketing*. This appears to be a significant cost; however, the average sale is estimated to be $250,000 (with a sales range of $50,000 - $2,000,000).

In comparison, this company has a *$50 cost per acquisition for email* and a *$25 cost per acquisition for internet*. The company stated that an entire email campaign may cost only $500, and they are often highly targeted. Similarly, the cost per acquisition for internet is low because it only involves setting up a landing page, which consumers then find for themselves.

Although the costs for email and internet are substantially lower than for telemarketing, once the response and conversion rates are factored in, the effectiveness of telemarketing is revealed. *Telemarketing has a response rate of 25% and a conversion rate of 5%*. In contrast, email has a response rate of only 5% and a conversion rate of 1%; internet has a response rate of only 1% and a conversion rate of 1%.

Significantly, 90% of the company's revenue is attributable to telemarketing. For this company, telemarketing is clearly the most effective means of marketing.

Telemarketing is also an effective means of marketing for companies that offer low cost generic products, as described in the case study below.

Case study: Membership scheme

A company that sells subscriptions to a membership scheme has a *$70 cost per acquisition for telemarketing*. Telemarketing has a *response rate of 20%* and a *conversion rate of 5%*. Telemarketing is conducted in-house and accounts for 99% of operating revenue.

Telemarketing is the only form of marketing used by this company: a key indication of its effectiveness.

Most companies use blended campaigns, where several marketing channels are used to 'make the sale'. For example, a consumer may be sent a direct marketing piece via mail prior to being contacted via phone. Numerous companies have stated that the telemarketing call is considered essential to the success of the campaign. This also provides a further indication of the effectiveness of telemarketing. Often, there is no direct alternative to telemarketing: other marketing channels are considered to be complementary only.

Case study: Telemarketing and email

One company stated that email is a cheaper marketing channel than either telemarketing or direct mail, but is conditional on a positive response from intitial contact through a telemarketing call.

This is an example of a blended campaign where email is *complementary* to telemarketing rather than a direct alternative.

A decrease in the effectiveness of telemarketing will lead to an increase in the cost of telemarketing e.g. through a rise in the average cost of new account acquisitions.

Loss of revenues and/or market share

For some companies, telemarketing may be the only viable marketing option. For example, a company whose product or service is complex and/or requires a significant capital outlay typically requires several discussions with potential customers to explain fully the benefits the client may receive. These companies may not have the option to target clients via email or direct mail, and conversion rates for different marketing channels may be significantly less.

Companies may also have used other forms of marketing in the past with very low to negligible success rates. For these companies, experience has shown that telemarketing is the only viable method for selling their product or service.

Case study: Telemarketing as the only viable marketing option

For one company that sells subscriptions to a loyalty scheme, telemarketing is the only effective marketing channel. Other marketing channels such as direct mail, print advertisements and television advertising have been unsuccessful.

In fact, a television advertisement that ran for two weeks made no difference to the number of sales made. This company also cited the example of an overseas subsidiary that ran advertisements to promote the loyalty scheme: this form of marketing led to a *decrease* in the number of sales made through telemarketing because some potential customers were already aware of the scheme and were less likely to listen to telemarketing agent's pitch.

An increase in the cost of telemarketing, caused by a decrease in its effectiveness, could lead to loss of revenue or market share for these companies. One survey respondent noted their concern about the potential effect on the viability of their business and stated:

> *We would have to consider ignoring the DNCR expansion and risk prosecution/enforcement, though I think the number of businesses continuing traditional B2B telephone activity would make the legislation almost unenforceable.*

Washing calls

From survey responses, the distribution of call volumes into the various subscription levels is detailed below.

Table 4.2: Share of market for DNCR subscription fees

Subscription type	Maximum number of telephone numbers able to be submitted for checking during a subscription period	Annual subscription fee	Share of market by call volume (Survey)
A	500	$ 0	0%
B	20,000	$ 78	1%
C	100,000	$360	3%
D	1,000,000	$3,100	14%
E	10,000,000	$26,400	82%
F	20,000,000	$44,000	0%
G	50,000,000	$66,000	0%
H	100,000,000	$88,000	0%

Based on the above license fees and survey responses, total B2B subscription fees are estimated at approximately $2.2 million per annum.

However, these results are likely to be skewed somewhat by the higher number of survey responses from larger companies. ACMA sets its fees on a cost-recovery basis (i.e. there is no profit margin) and has estimated the direct costs of operating the residential DNCR to be $9.2 million over the three-year period from 2008-09 (ACMA, 2008). The ratio of business to household phone numbers is approximately 2.2:1. This would give an estimated total washing cost, for a recovery-only basis, of around $1.4 million per annum.

Compliance costs

Estimates of compliance costs for the establishment, expansion and ongoing compliance requirements have been developed on a *cost per 1,000 calls* basis from the survey responses that have been received. Estimates of compliance costs should be treated with caution as they have been based on limited data. Small businesses in particular find it difficult to quantify compliance costs as their telemarketing (as defined under the Act) activities vary significantly on a weekly basis. Indeed, many small businesses that only make B2B calls did not have any formal compliance systems and were unaware of how an extension of the DNCR would operate (one business owner consulted thought he would have to look numbers up on a web site).

Establishment

The survey responses indicate that establishment costs for current compliance requirements are around $62 per 1,000 calls, while the expansion in compliance to include B2B telemarketing calls would be around $70 per 1,000 calls (establishment costs exclude DNCR license fees).

Ongoing

Ongoing compliance is estimated to average $163 per 1,000 calls for the expanded compliance requirements. Those that responded to both the ongoing costs of the current and new compliance system indicated cost increases of between 5% and 26%.

The ongoing compliance costs vary considerably for responses from large and small companies. Large companies indicated an ongoing cost of $124 per 1,000 calls, while small companies estimated an average of $1,409. The lack of detailed responses to this survey segment therefore gives a high degree of variability around these estimates.

In addition, the distribution of companies by size has a significant effect on cost estimates. Using the unadjusted distribution of companies from the survey results, additional compliance costs are estimated at $105.7 million. However, this estimate is likely to be conservative, due to a significantly higher proportion of survey responses from large companies. On the other hand, the high degree of variability around the estimates of small company costs likely overstates their true average cost and so the cost of ongoing compliance for small companies has been adjusted down at *two times* the cost to large companies for comparative purposes.

Based on around 356 million telemarketing calls made per year and the distribution of calls by volume in Table 4.2 above, compliance costs have been estimated as follows:

Table 4.3: Compliance costs of DNCR, excluding licenses ($m)

	Establishment	On-going	Total
Survey results (actual)	$23.7	$81.9	$105.7
Survey results (adjusted: small cost = 2 x large)	$23.7	$45.7	$69.4

It should also be noted that ongoing compliance costs will continue in subsequent years.

Impact on competition and innovation

Extension of the DNCR will have important ramifications for competition and innovation. In particular, there is likely to be a disproportionate impact on those businesses that cannot rely on ‘existing business relationships’, especially small businesses and those that are unlikely to generate repeat business from customers.

In addition, market entry for new players will be hindered through lack of access.

Ironically, telemarketing calls from non-Australian entities could still be made to Australian businesses even if their number is on the register, providing them with an unfair advantage over domestic businesses that are not allowed to make these calls.

Reduced flow of information

Businesses and government organisations that place their number on the DNCR do so with incomplete information about the potential opportunities they are foregoing.

It would be difficult for business to be aware of all the possible opportunities that telemarketers may offer now and in the future and they may not be able to find these opportunities on their own without telemarketing e.g. products aimed at businesses are not always available through online or physical stores. This is especially the case for new innovative products that do not exist at the time a business decides to place its number on the register. In any event, finding such products will come at an increased cost e.g. through resources required to search for information.

These costs cannot be quantified but maximising information available to businesses is nevertheless critical to the functioning of a market economy.

As an example, the Reserve Bank of Australia (RBA) has recently expressed concern that lack of information available to bank customers about account switching costs is reducing banking sector competitiveness.

Flow-on impacts

An expansion of the DNCR would also have flow-on impacts for the wider economy. To the extent that B2B telemarketing is restricted, there will be a direct loss of revenues to telemarketing call centres as well as to the providers of goods and services that employ telemarketing as part of their overall marketing strategy. Given the uncertainties surrounding both a definition of the industry itself and the rate of take-up under the proposed legislation, it is not possible to quantify the loss of revenues. It could, however, be expected to exceed any benefits gained through increased productivity by a very significant margin.

Case study: Impact on regional Australia

A business that sells entertainment services, primarily to customers in regional and remote areas of Australia, revealed that in some cases the purchase of their services by a regional business had increased the viability of the business; importantly, this also had a wider positive impact on the country town.

This business relies heavily on B2B telemarketing calls to arrange appointments with potential customers. Should an extension of the DNCR restrict the sales activity of this business, there may be significant implications for not only the business, but also the regional and remote areas where the majority of the sales activity occurs.

Employment

An extension of the DNCR will also have negative consequences for employment. Two-thirds of survey responses indicated they would expect to lay off staff if the DNCR were expanded to include B2B telemarketing.

Anecdotally, industry has also expressed concern about how the proposed DNCR extension will affect employment, as noted in the following case study.

Case study: Closure of call centres

One business that operates a number of small call centres in both metropolitan and regional areas stated that a significant take-up rate by business following an expansion of the DNCR would probably lead to staff redundancies. Furthermore, the business would be more likely to close whole centres, which at a minimum could result in the loss of about 20 jobs in one regional centre.

It is not possible to quantify the impact on employment due to uncertainty about the number of businesses and government organisations that will decide to list their numbers on the DNCR.

Conclusions

The Do Not Call Register Legislation Amendment Bill aims to reduce lost productivity that is due to answering unwanted calls from telemarketers. Access Economics has estimated that such calls cost business and government between $34 million and $47 million.

Businesses that would need to comply with the Act cover all sectors of the economy, and range in size from small firms with just one or two employees to Australia's largest corporations.

Measuring precisely the full extent of all the impacts that would result from an extension of the DNCR to include B2B calls is difficult for a number of reasons, including:

- there is no single, clear definition of the telemarketing industry as telemarketing is done in a wide variety of ways;
  - For some businesses, telemarketing is the only effective means of winning new business. For others, a call is required to establish a meeting. Even when businesses use more than one marketing channel, telemarketing is identified most often as the most cost effective form of gaining new business.
- available industry data is extremely limited; and
- the costs associated with telemarketing vary depending on the complexity and value of the product or service on offer.

Nevertheless, Access Economics has been able to clearly identify a number of adverse consequences that would result from this legislation. While only some of these costs to businesses and the economy can be quantified with confidence, they clearly exceed any benefits. For example, total compliance costs are estimated to be $71 – $108 million in the first year of operation, and then $47 – $84 million in each subsequent year. Costs such as the reductions in revenues, employment, competition, innovation and market efficiency are all likely to be significantly higher than those that have been identified.

Access Economics

References

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The Australia Institute 2008, *Go Away, Please: The social and economic impact of intrusive marketing*, Discussion Paper Number 104.

Appendix A: Telemarketing economic survey 2009

General

What is the ownership status of your business/agency?

Please provide a brief description of your business model, including whether your outbound telemarketing is done in-house or outsourced?

Employment (at at 30 June 2009)

Is your telemarketing done in-house, outsourced or both?

How many telemarketing employees do you have (FTE)?

How many of your employees, that are engaged in telemarketing activities, wouldn't be classified as telemarketing agents (e.g. business development managers and sales people)?

What is your total number of employees (FTE)?

Revenue

What was your annual operating revenue during your most recent financial year?

What percentage of this revenue is attributable to telemarketing and other marketing channel operations?

Marketing channel	% of operating revenue
Telemarketing	
Other sales by phone	
Direct mail	
Other advertising mail e.g. catalogues	
Email	
Personal (door-to-door)	
Fax	
Television	
Radio	
Internet	
Other	

Telemarketing

How do you obtain numbers to be called (including calling lists)?

- Developed internally
- Purchased from list broker
- Purchased from data supplier

- Developed internally and purchased
- Other

Do you maintain separate B2B and B2R calling lists?

How much of your calling to the B2B market does not involve calling lists?

What do you estimate the impact on cost per call would be for your company to obtain a written or recorded record of express consent to make a call to a company (where there is no existing business relationship)?

How many telemarketing calls does your business make per month (including business development and sales calls)?

	Total	% of total
B2B		
B2R		
Total		

What is your telemarketing response rate and conversion rate?

	Response rate	Conversion rate
B2B		
B2R		

How many calls are made to numbers where there is an ‘existing business relationship’ and ‘no existing business relationship’?

	Volume per month		% telemarketing calls per month	
	Existing relationship	No existing relationship	Existing relationship	No existing relationship
B2B				
B2R				
Total				

For each new account, what is your average telemarketing cost by cost components?

	$ unit cost	% contribution
Labour		
Administration		
Other		

What is the average length (in minutes) of an unsuccessful call?

What is the average length (in minutes) of a successful call?

Marketing channels

Which other marketing channels do you currently use?

Marketing channel	Used	Response rate	Conversion rate	% of all marketing activity	Average cost per acquisition
Telemarketing					
Other sales by phone					
Direct mail					
Other advertising mail e.g. catalogues					
Email					
Personal (door-to-door)					
Fax					
Television					
Radio					
Internet					
Other					

For each alternative channel that you have identified using, do you consider this channel to be a direct alternative to telemarketing or a complementary activity?

Marketing channel	Direct alternative	Complementary
Telemarketing		
Other sales by phone		
Direct mail		
Other advertising mail e.g. catalogues		
Email		
Personal (door-to-door)		
Fax		
Television		
Radio		
Internet		
Other		

DNCR compliance

How many numbers does your business submit to the ACMA register operator for washing per month?

What is your current subscription type (A-H)?

Do you conduct internal screening of calling lists i.e. to ensure the removal of opt-outs received directly by your company?

Please provide a brief description of your existing compliance system for B2R telemarketing activity.

What was the cost to your business to establish this compliance system? (Please provide a breakdown of these costs by type and percentage of total.)

	$ cost	**% contribution**
Internal IT system alignment		
Staff training		
Other		

What are ongoing compliance costs per month (over and above washing)? (Please provide a breakdown of these costs by type and percentage of total.)

	$ cost	**% contribution**
Administrative labour costs		
List preparation labour costs		
Other		

What do you estimate will be the cost to your business of expanding your compliance system to cover B2B telemarketing? (Please provide a breakdown of these costs by type and percentage of total.)

	Establishment cost ($)	**% contribution**	**Ongoing compliance cost ($/month)**	**% contribution**
IT systems				
Labour costs				
Staff training				
Other				

Do you believe your business will need to hire additional staff if the DNCR is extended to cover B2B telemarketing?

If yes:

- Please provide an estimate of how many additional staff (FTE) will be required.
- Where would these additional staff be located? (Please provide Australian postcode or international country.)

If no:

- Do you believe your business will need to lay off staff if the DNCR is extended to cover B2B telemarketing?

  If yes:

  - Please provide an estimate of how many staff (FTE) will be laid off.
  - Where would these staff have been located? (Please provide Australian postcode or international country.)

DNCR expansion

There are currently a number of potential options for extending the DNCR to cover B2B telemarketing. For each of the following five options, what do you believe will be the impact on your customer base?

Option			No change	Increase (%)	Decrease (%)
1	Opt out from all calls	Numbers on the register cannot be called unless consent exists.			
2	Opt out from all calls, opt-in for selected industries	Numbers on the register cannot be called unless consent exists or number has opted-in to caller's industry. For example, a plumber nominates to opt in to calls from accountants.			
3	Opt out from selected industries only	Numbers on the register cannot be called unless consent exists or number has not opted out of caller's industry. For example, a plumber nominates to opt out of calls from accountants.			
4	Calls allowed to numbers on DNCR if call related to operation of business (but organisations can withdraw consent to be called on a per organisation basis)	For example, an accountant may ring a plumber to offer bookkeeping or accounting services.			
5	Calls allowed to numbers on DNCR if call significantly related to core operation of the business (but organisations can withdraw consent to be called on a per organisation basis)	For example, a plumbing supplier may call plumber to offer goods and services, but an accountant may not.			

Which of the above options, in your opinion, most closely meets the description 'legitimate business to business calls'?

Do you have any additional comments?

Appendix B: Cost of unwanted calls: assumptions

The following table summarises data used to estimate the cost of unwanted calls.

Table B.1: Data and sources

Data	Estimate	Source
Number of businesses	1,105,020 businesses, of which 884,016 Private and 221,004 Government	ABS cat no 8615 (number of employing businesses)
Number of calls made	Total Calls of 356 million per year based on calls per week, of which Private = 7 Government = 3	AE assumption
Length of call	Minimum 1.54 minutes Maximum 2.1 minutes	AE survey responses
Nuisance calls	30%	The Australia Institute (2008)
Average wage (receptionist)	$40,000	seek.com