

Ofcom analyst briefing

International Communications Market Report 2011

15 December 2011

Agenda

Welcome and overview

James Thickett, Director of Research and Market Intelligence

Trends in telecoms

Ian Macrae, Head of Telecoms Market Intelligence

Trends in Internet and web-based consumption

Jonathan Fenn, Senior Media Analyst, Market Intelligence

Trends in the audio-visual industries

Steve Gettings, Head of Media Market Intelligence

Trends in consumer pricing

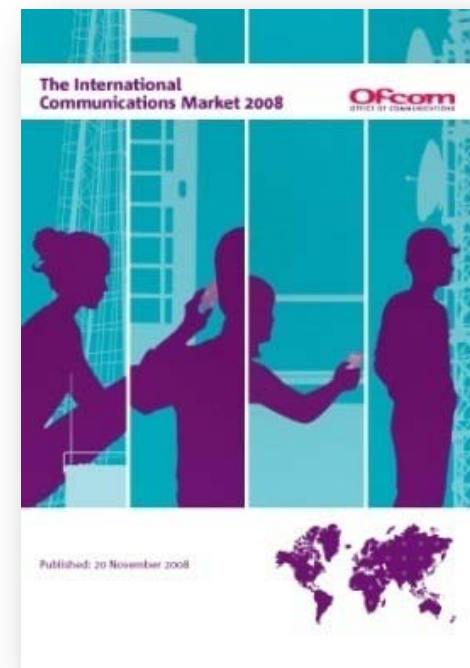
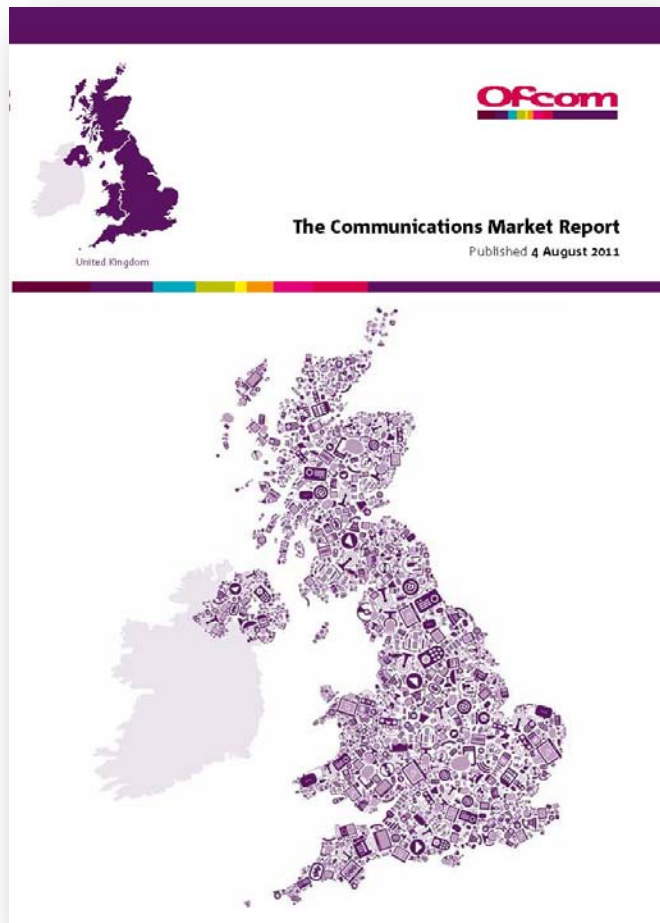
Ian Macrae, Head of Telecoms Market Intelligence

Welcome and overview of key trends

James Thickett, Director of Research
and Market Intelligence

International Communications Market Report 2011,
Analyst briefing, 15 December 2011

One of three Communications Markets Reports

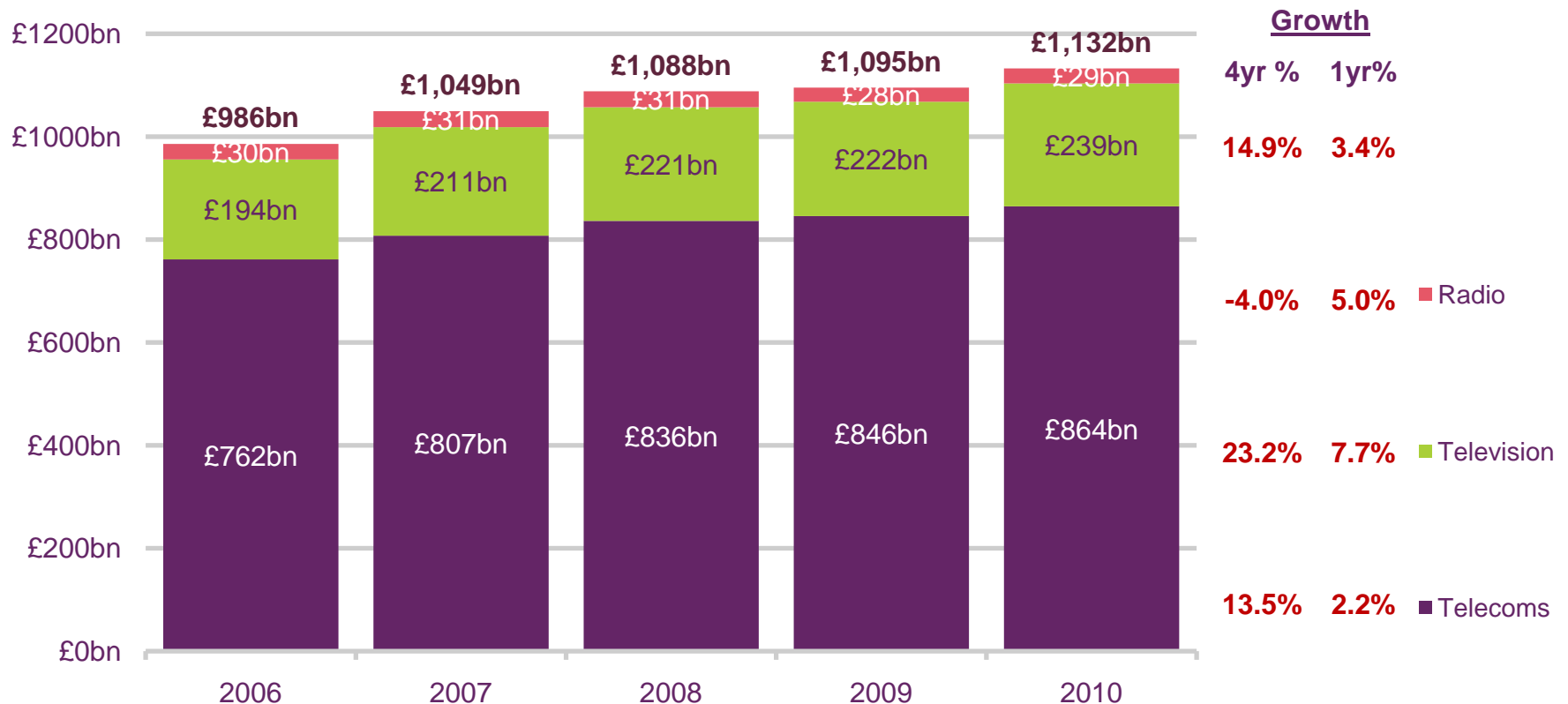


Methodology

- Combination of desk and bespoke research
 - IDATE
 - Teligem
 - PricewaterhouseCoopers
 - The European Commission
 - WARC
 - Mediametrie
 - Analysis Mason
 - Nielsen
- Online consumer research for supplementary take-up and usage data across six countries
- We have used the latest data where possible and figures are nominal unless otherwise stated

Global communications revenues increased by 3.4% in 2010

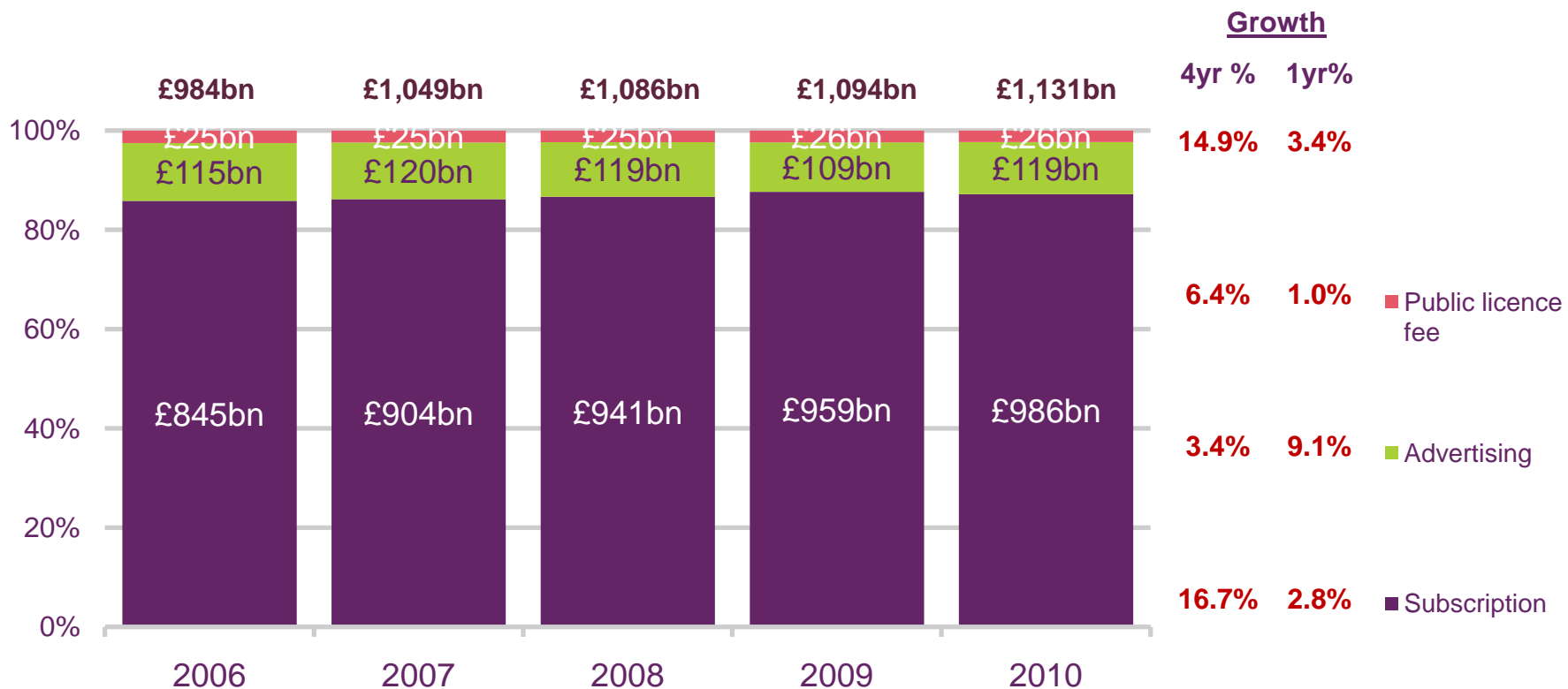
Global communications revenues



Source: Ofcom analysis based on data taken from PricewaterhouseCoopers Global Entertainment and Media Outlook 2011-2015

Advertising revenues returned to 2008 levels

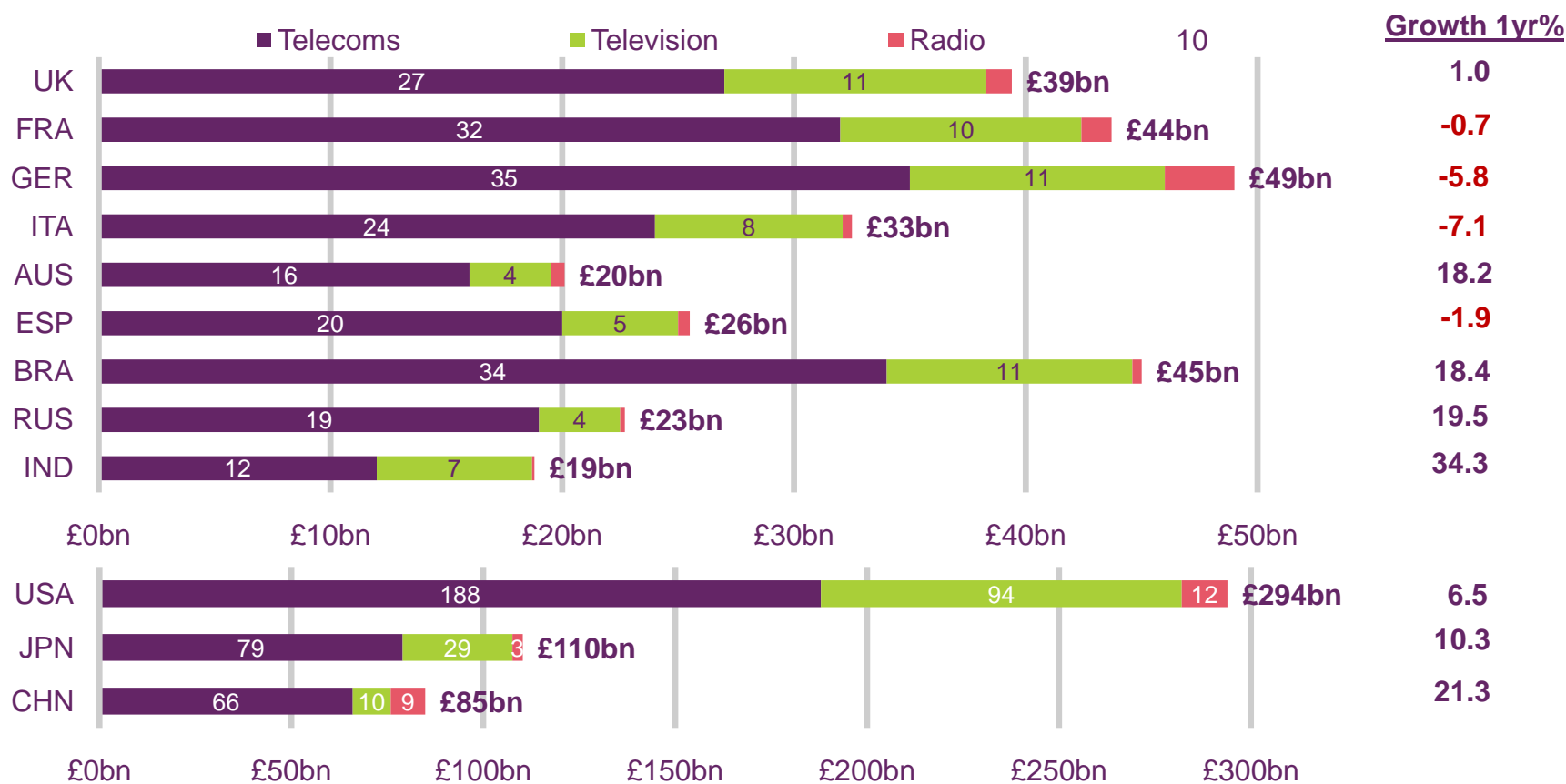
Source of global revenues for telecoms, radio and TV services



Source: Ofcom analysis based on data taken from PricewaterhouseCoopers Global Entertainment and Media Outlook 2011-2015

Growth in global revenues driven by BRIC countries...

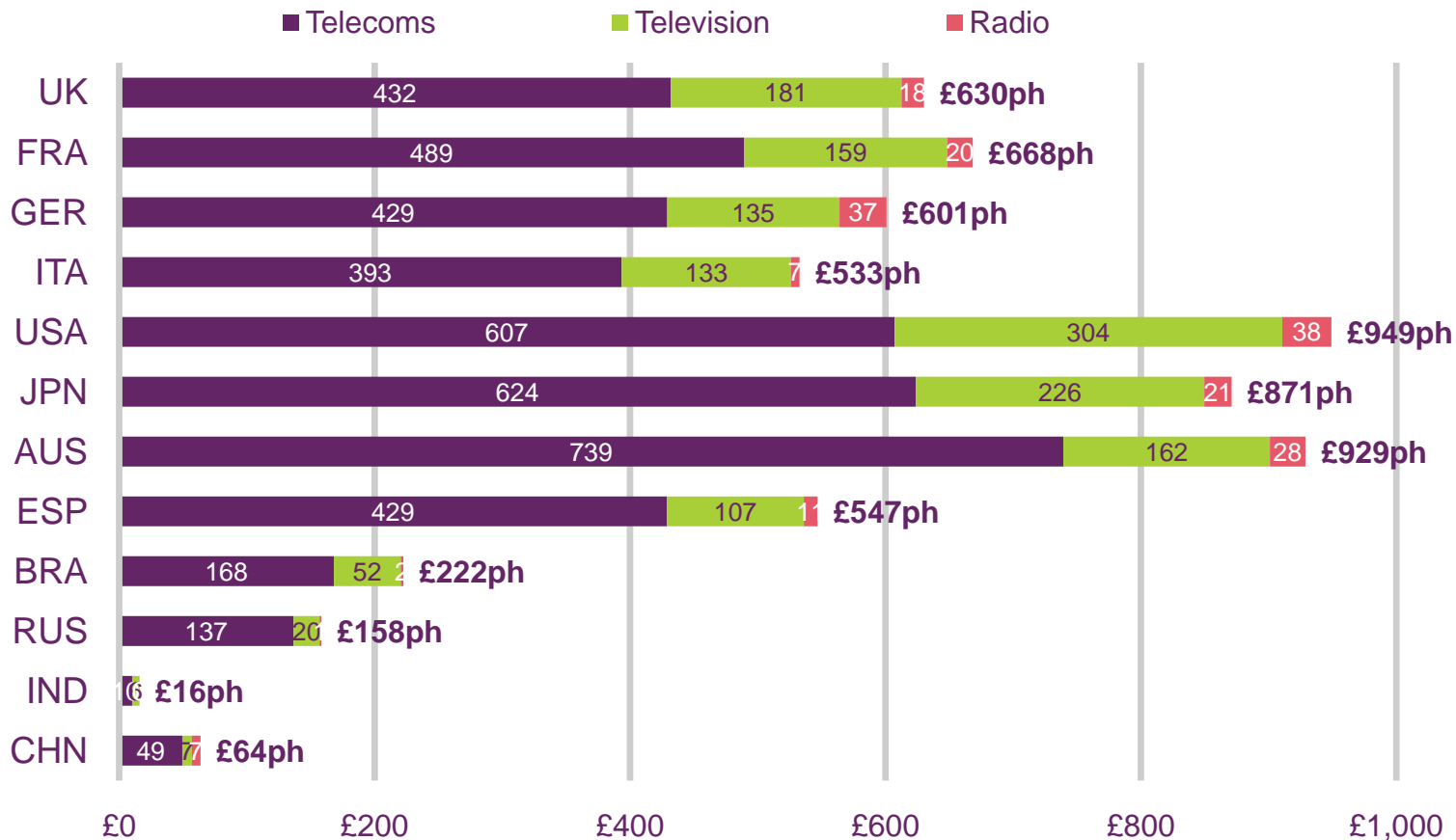
Communications sector revenues in 2010 (£bn)



Source: Ofcom analysis based on Ofcom / IDATE data for telecommunications/TV and Ofcom analysis based on data taken from PricewaterhouseCoopers

...although revenue per capita remains below other countries

Communications sector revenue, per head: 2010 (£)



Source: Ofcom analysis based on Ofcom / IDATE data for telecommunications/TV and Ofcom analysis based on data taken from PriceWaterhouseCoopers

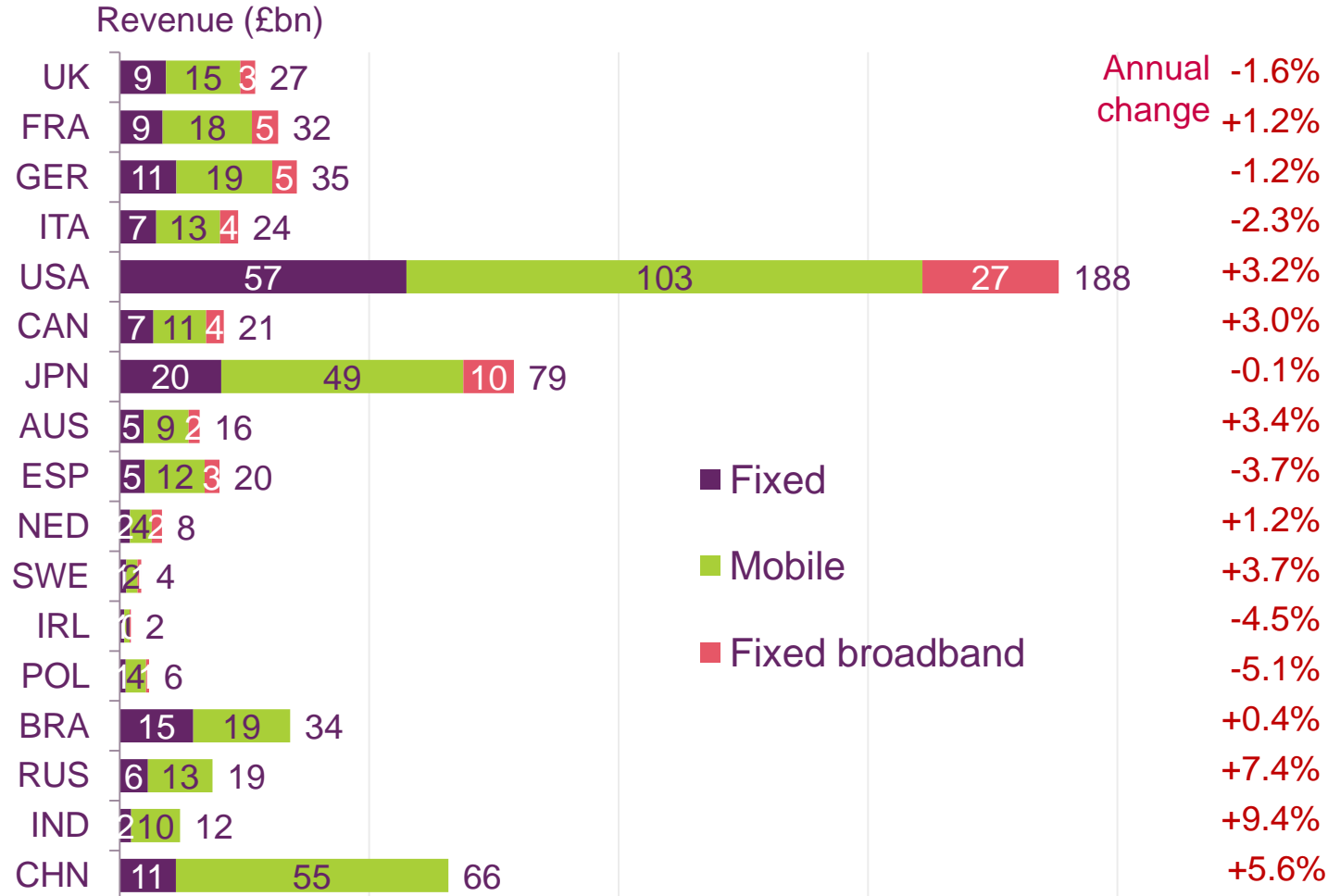
Key trends in telecoms

Ian Macrae, Head of Telecoms
Market Intelligence

International Communications Market Report 2011,
Analyst briefing, 15 December 2011

Revenues in most European countries fell in 2010

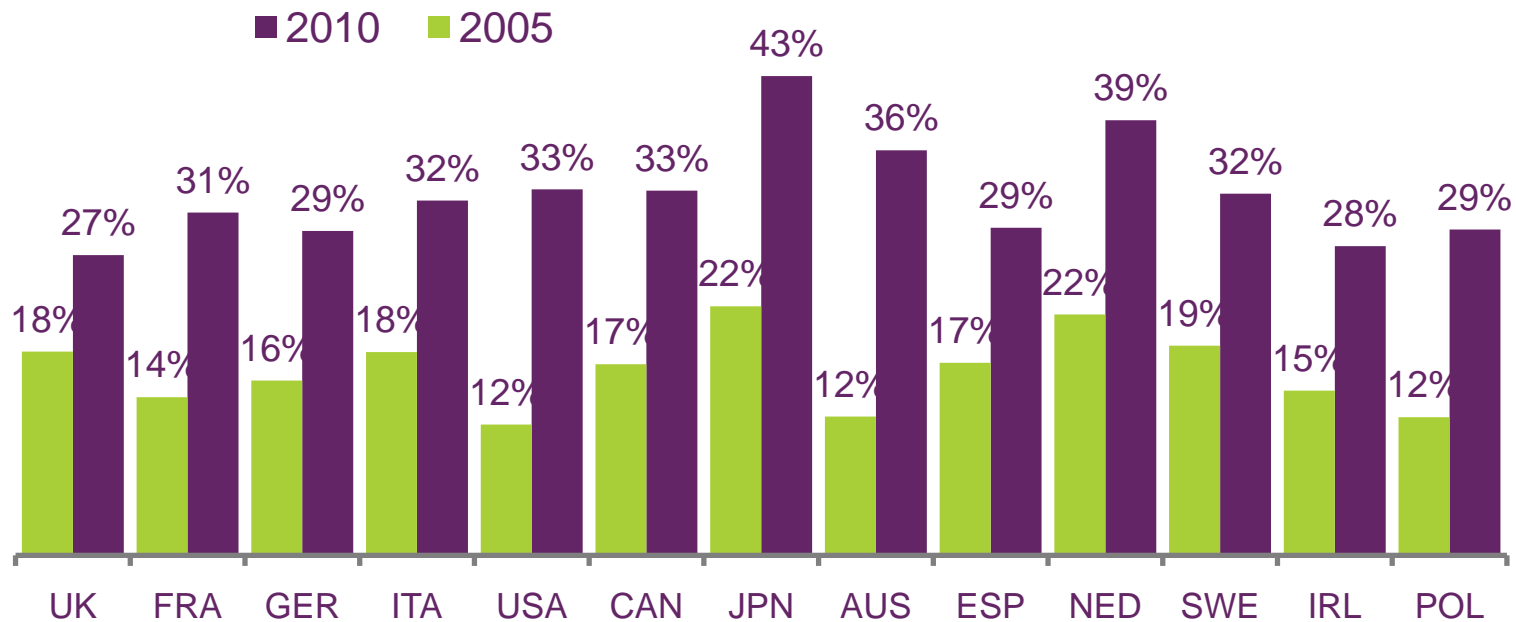
Telecoms service retail revenue, 2010



Source: IDATE / industry data / Ofcom

Data accounts for a third of telecoms revenues in many countries

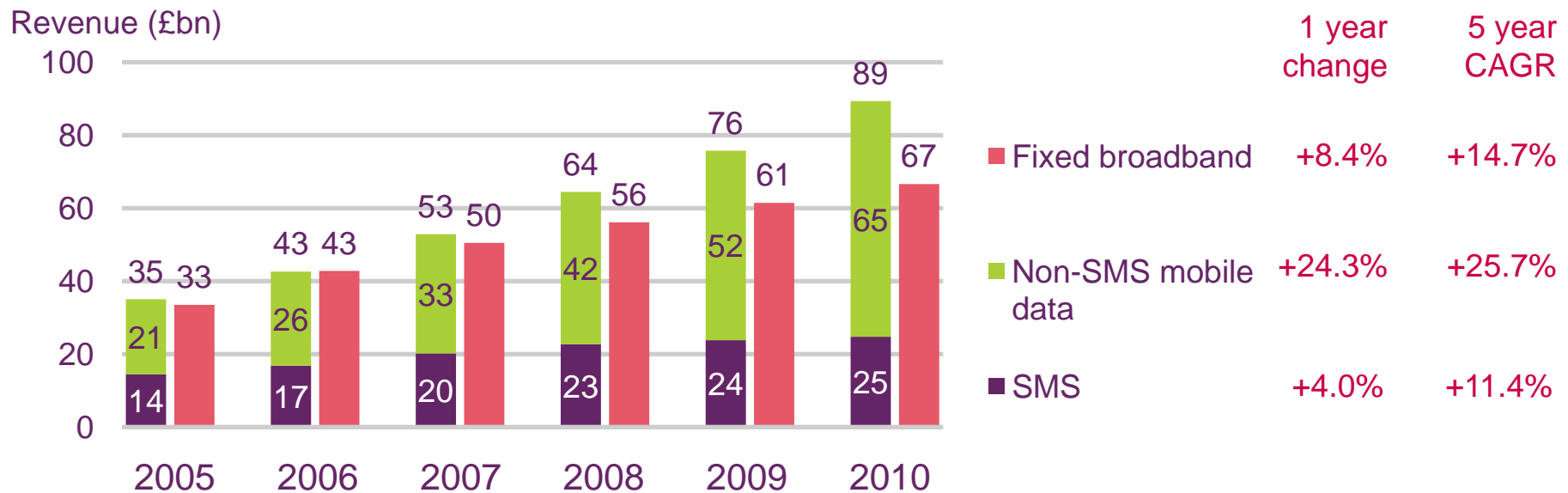
Data revenue as a proportion of total telecoms revenues, 2005 and 2010



Source: IDATE / industry data / Ofcom

Non-SMS mobile data now delivers almost as much revenue as fixed broadband

Fixed broadband and mobile data revenues in 12 comparator countries

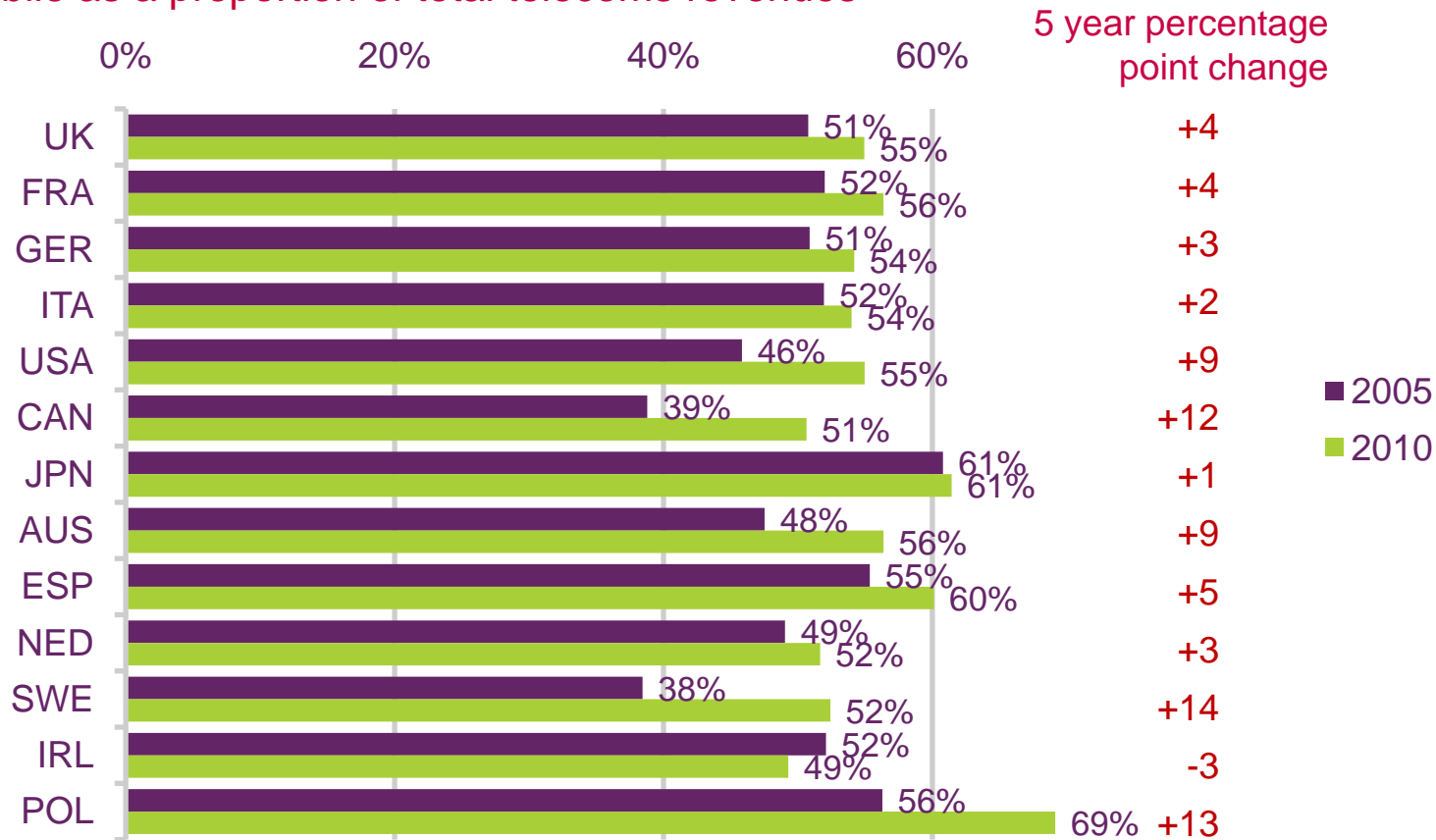


Source: IDATE / industry data / Ofcom

Note: Revenues in the following countries: UK, France, Germany, Italy, USA, Canada, Japan, Australia, Spain, Netherlands, Sweden, Ireland Poland

Mobile now accounts for more than 50% of revenues in all comparator countries except Ireland

Mobile as a proportion of total telecoms revenues

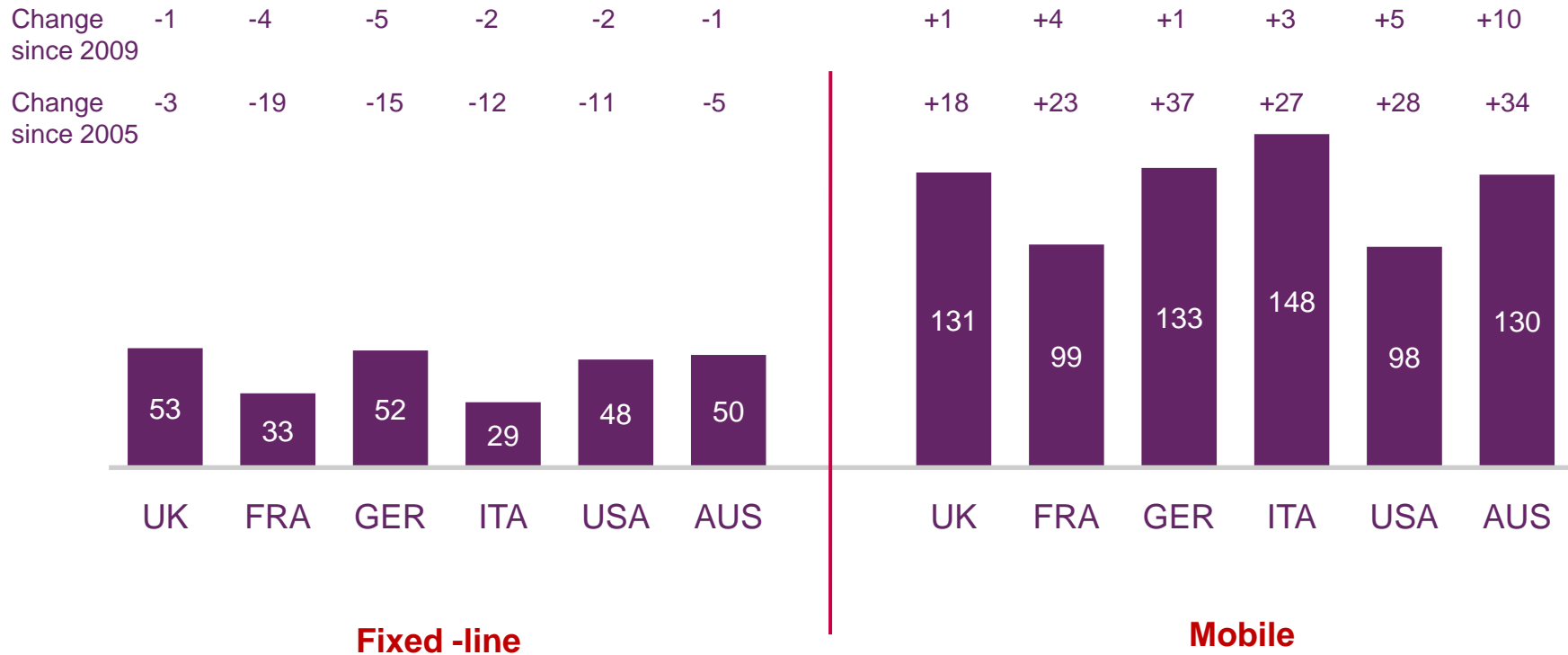


Source: IDATE / industry data / Ofcom

Note: Analysis excludes the BRIC countries

Decline in UK fixed connections lower than in other countries

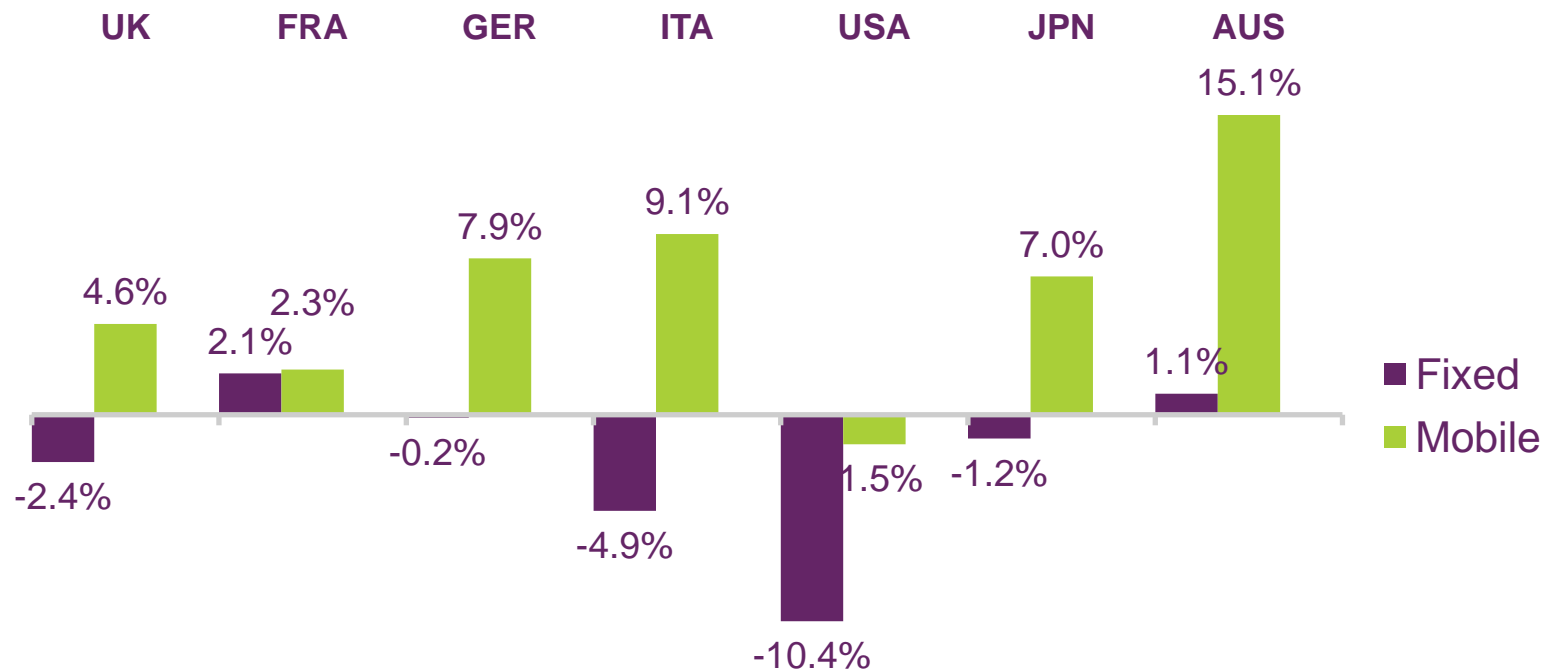
Fixed-line (PSTN) voice and mobile connections per 100 population, 2010



Source: IDATE / industry data / Ofcom

Levels of fixed-mobile call substitution vary between countries

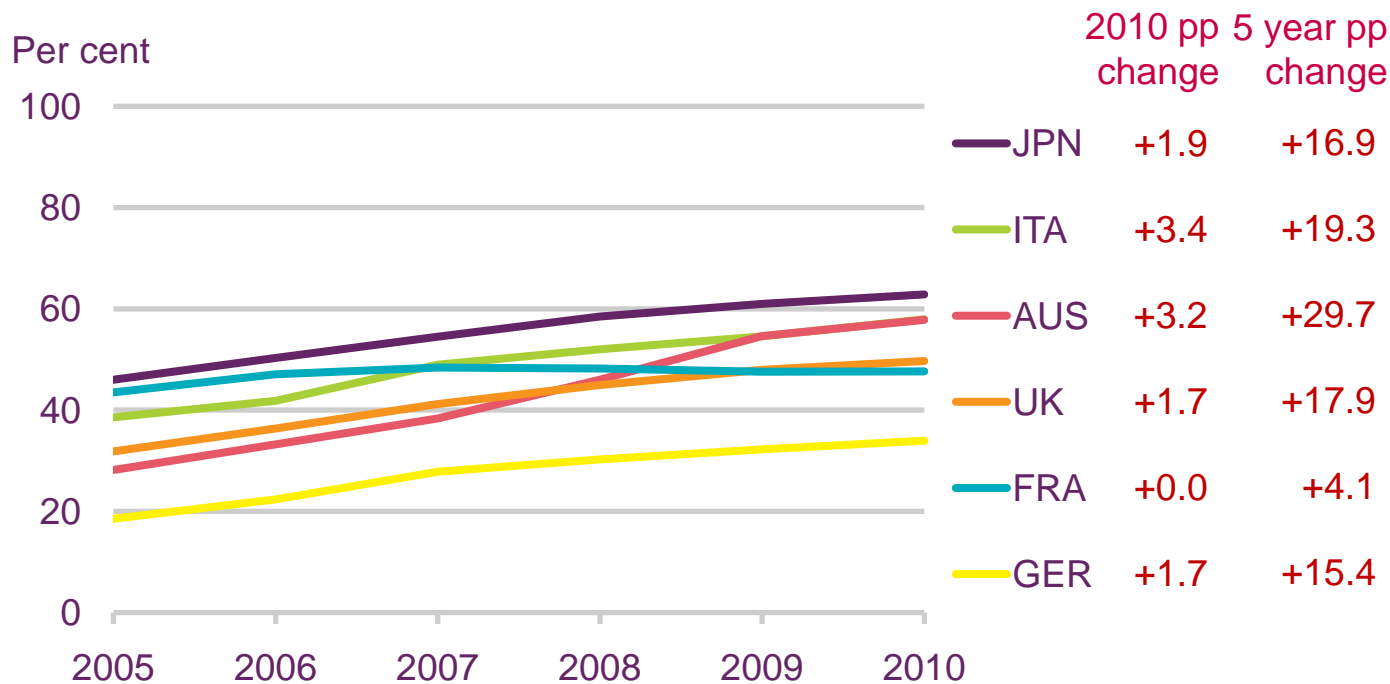
Change in fixed and mobile voice call volumes, 2010



Source: IDATE / industry data / Ofcom

Wide variations in mobile's share of call volumes... and little sign of convergence between countries

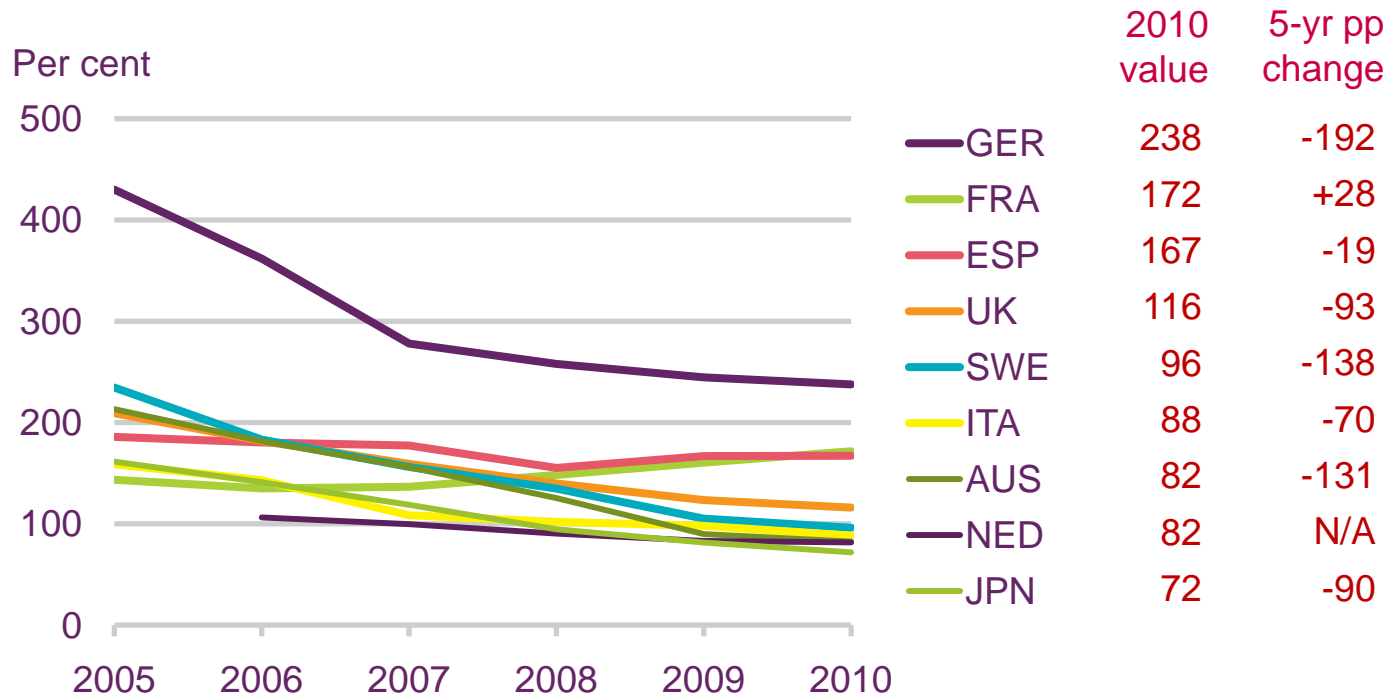
Proportion of voice calls originating on mobile networks, 2005 to 2010



Source: IDATE / industry data / Ofcom

In Germany fixed voice minutes are over twice the cost of mobile minutes

Average cost of a mobile voice minute as a proportion of the cost of a fixed voice minute, 2005 to 2010

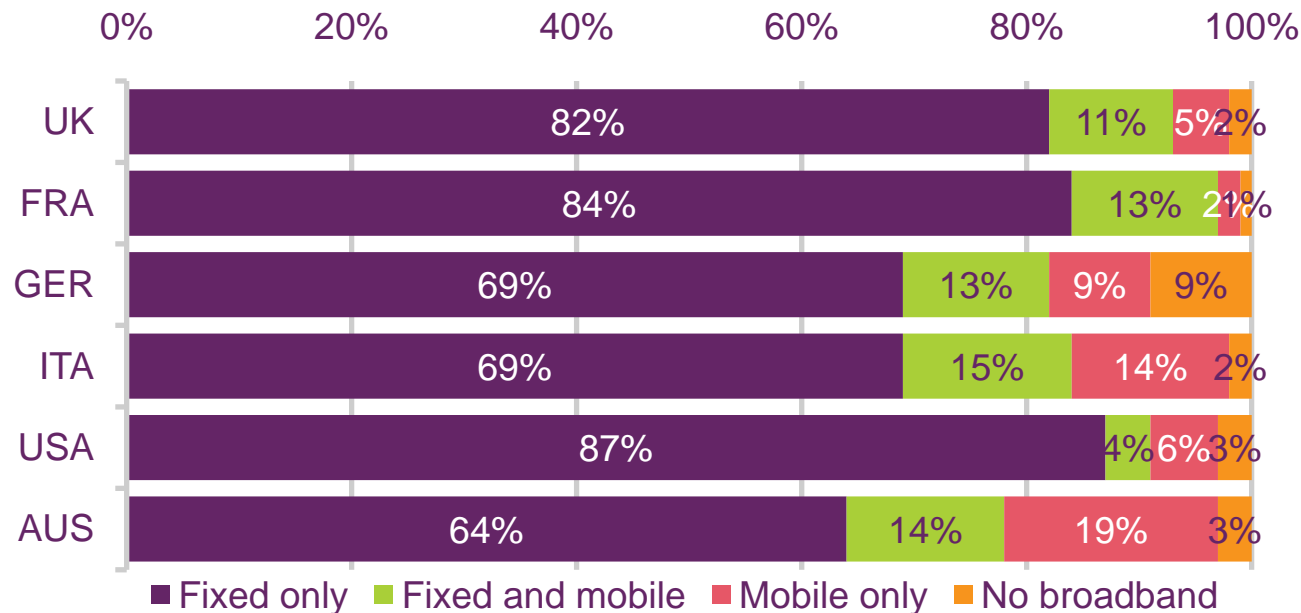


Source: IDATE / industry data / Ofcom

Different drivers for fixed-mobile substitution of broadband services

Household penetration of fixed and mobile broadband, 2011

Proportion of respondents (per cent)



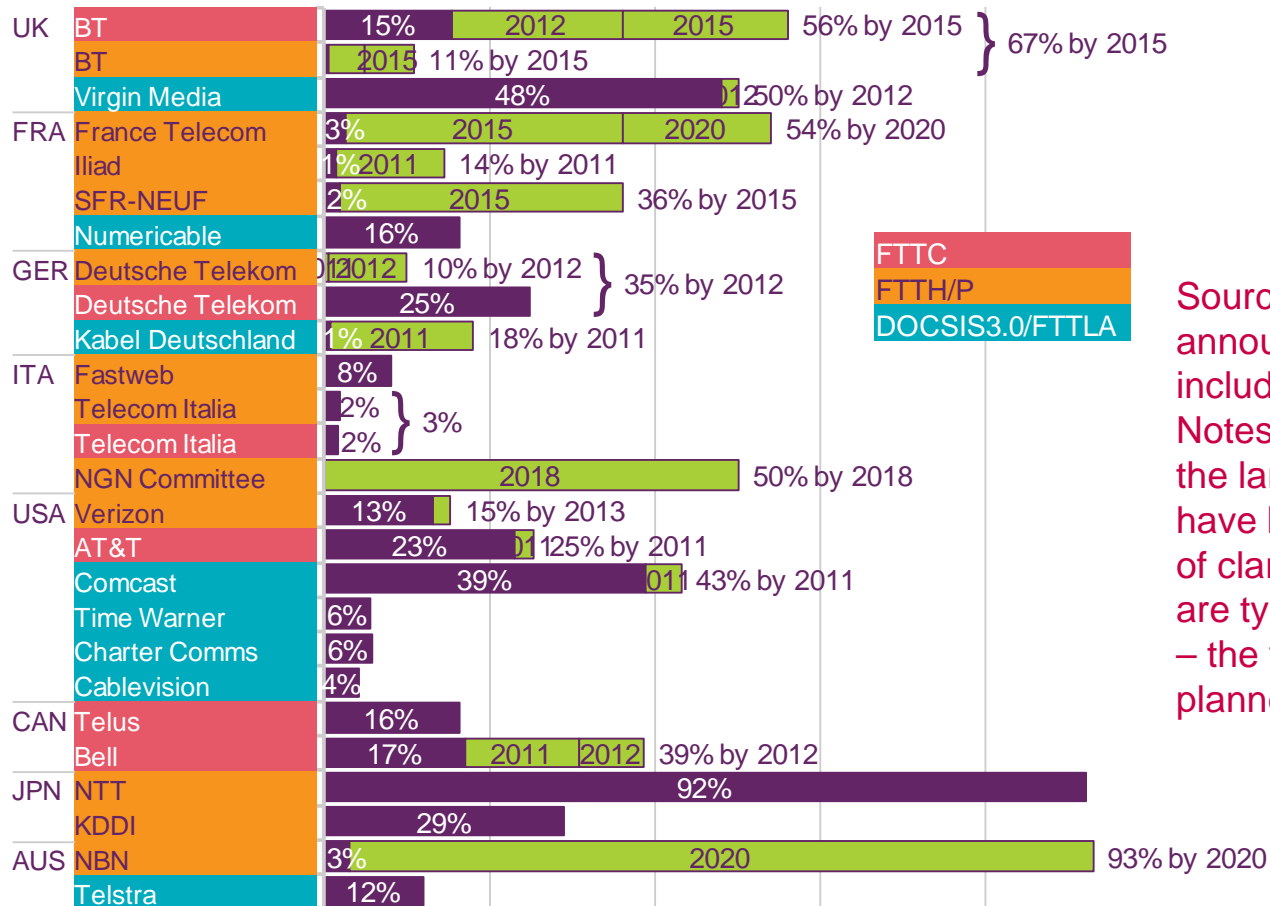
Source: Ofcom consumer research, October 2011

Base sizes: UK=1015, France=1014, Germany=1014, Italy=1045, USA=1002, Japan=1015, Australia=1012.

After a slow start, super-fast availability in UK compares well with that in other European countries



Proportion of households with NGA deployment, and planned NGA deployment, end 2010



FTTC
FTTH/P
DOCSIS3.0/FTTLA

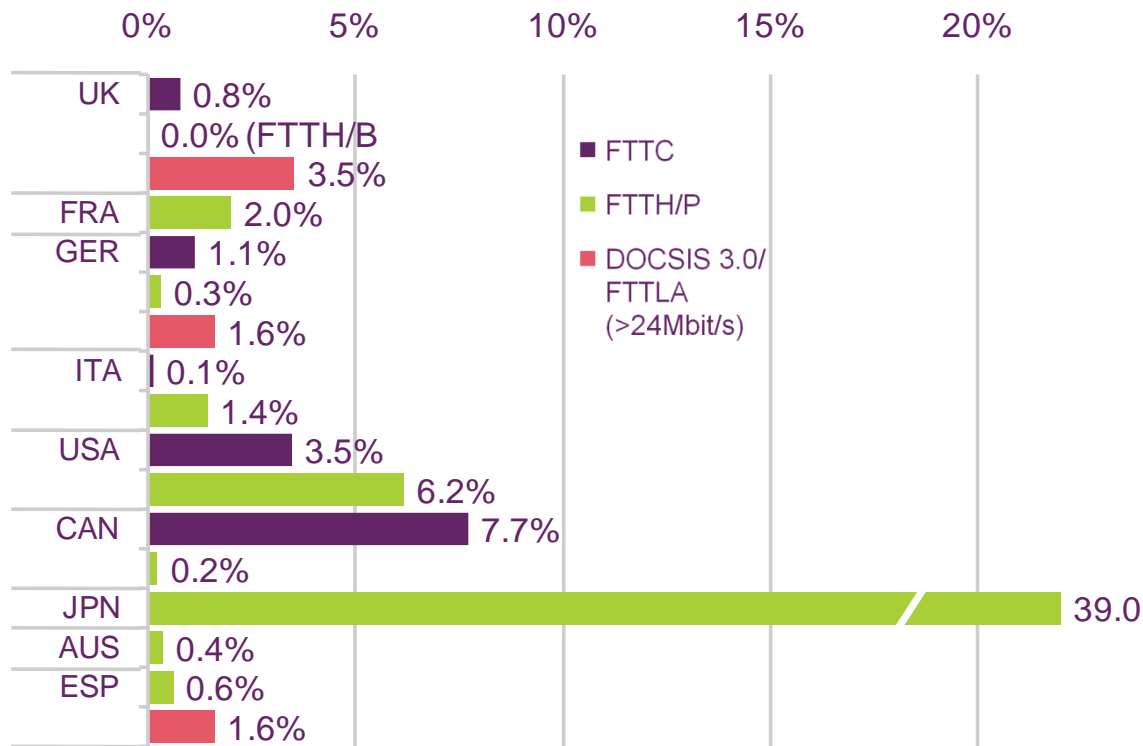
Source: Ofcom, based on operator announcements and third-party data including IDATE

Notes: Includes announcements from the largest operators only; estimates have been used where there is lack of clarity on timelines; deployments are typically gradual and incremental – the year given marks the end of a planned deployment phase

Take-up of super-fast broadband less than 4% in large European countries

Household take-up of superfast broadband, June 2011

Proportion of households (%)

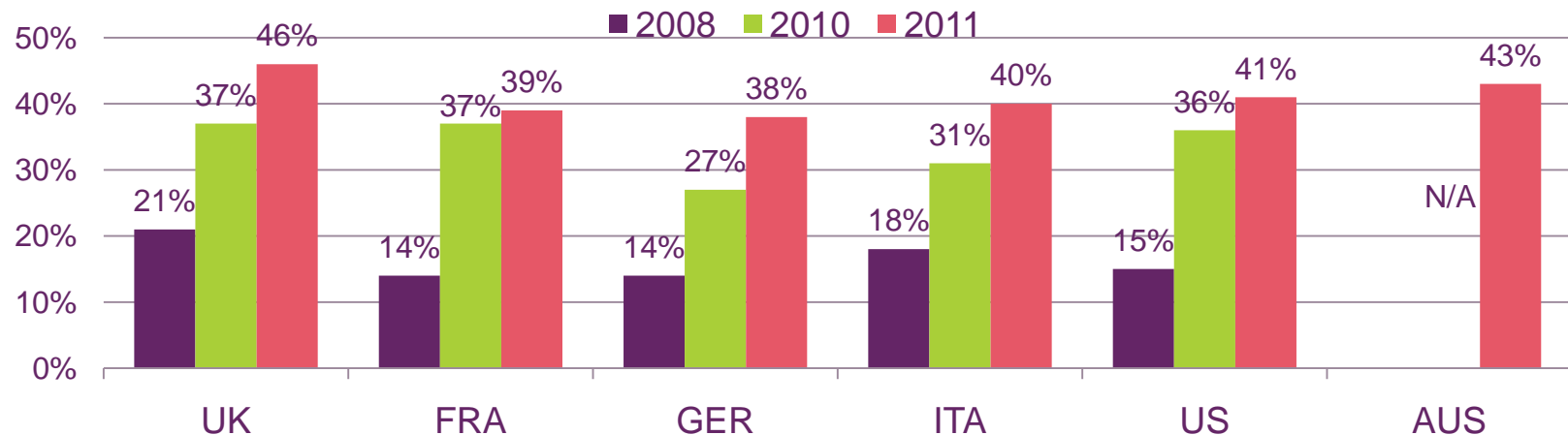


Source: Ofcom, based on operator announcements and third-party data including Cullen International and IDATE

Use of mobile phones to access the internet more than doubled between 2008 and 2011

Use of mobile phone to access the internet among fixed-line internet users

Mobile subscribers (%)



Source: Ofcom research, October 2008, 2010 and 2011.

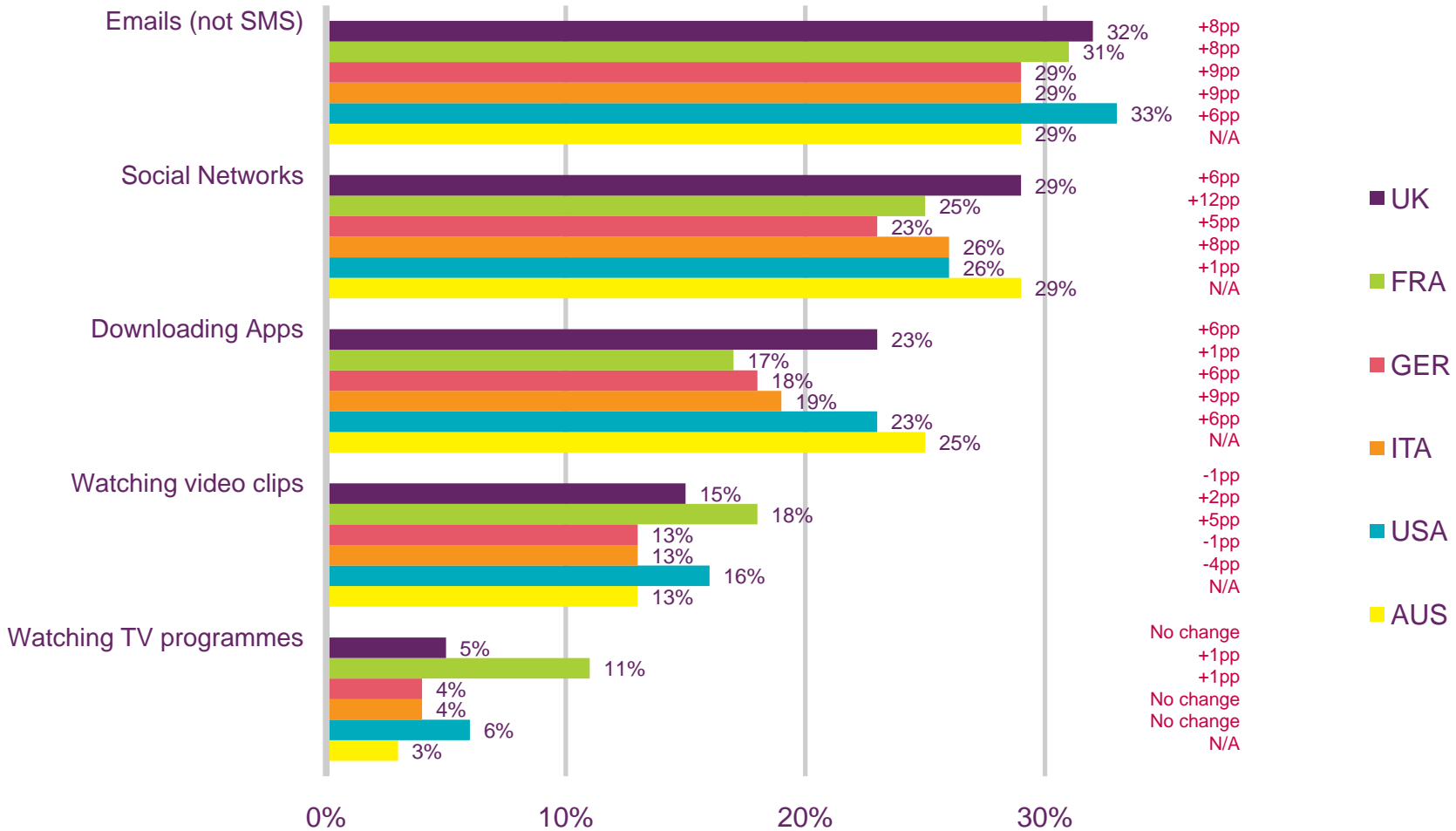
Base: All adults aged 18+ who use the internet (UK=929, France=914, Germany=945, Italy=989, USA=902, Australia=957).

Which, if any, of the following activities do you use your smartphone / mobile phone for?

Growth in use of mobile internet primarily for 'low bandwidth' services



Use of selected internet/data services on mobile phones

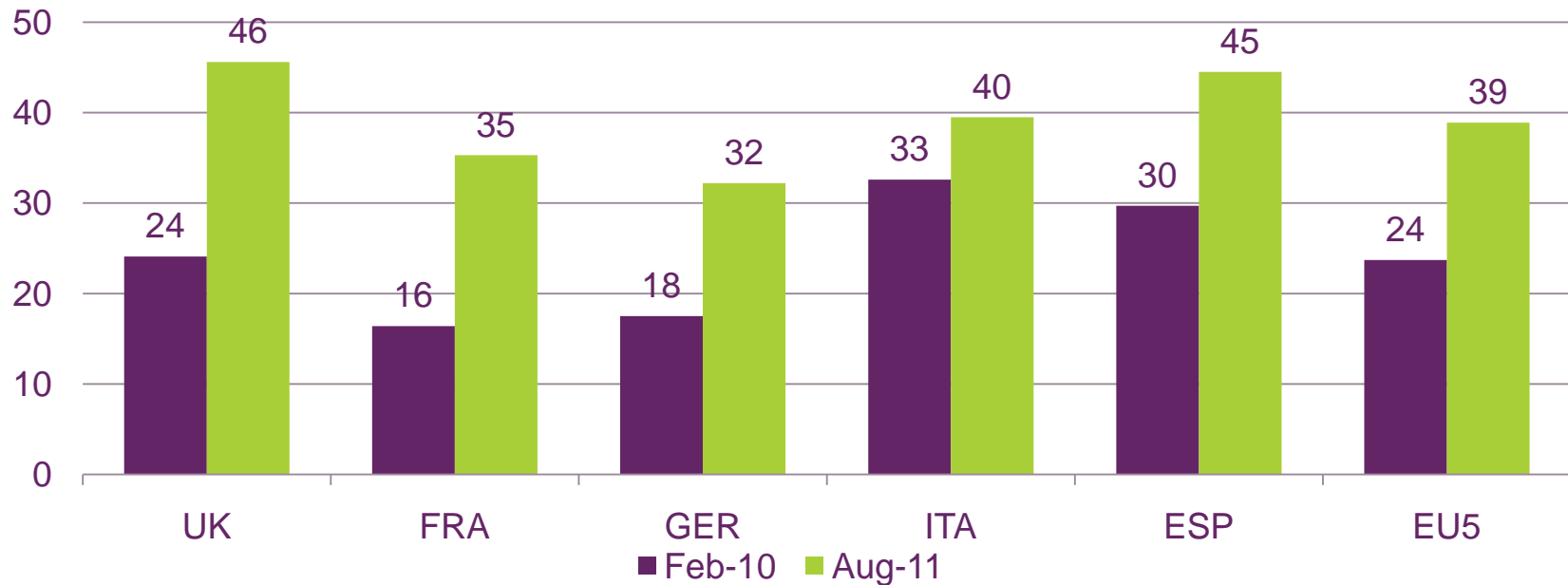


Source: Ofcom research, October 2011; Base: All adults aged 18+ who use the internet.

Growth in internet on mobile driven by smartphone take-up

Proportion of mobile subscribers with smartphones

Mobile subscribers (%)

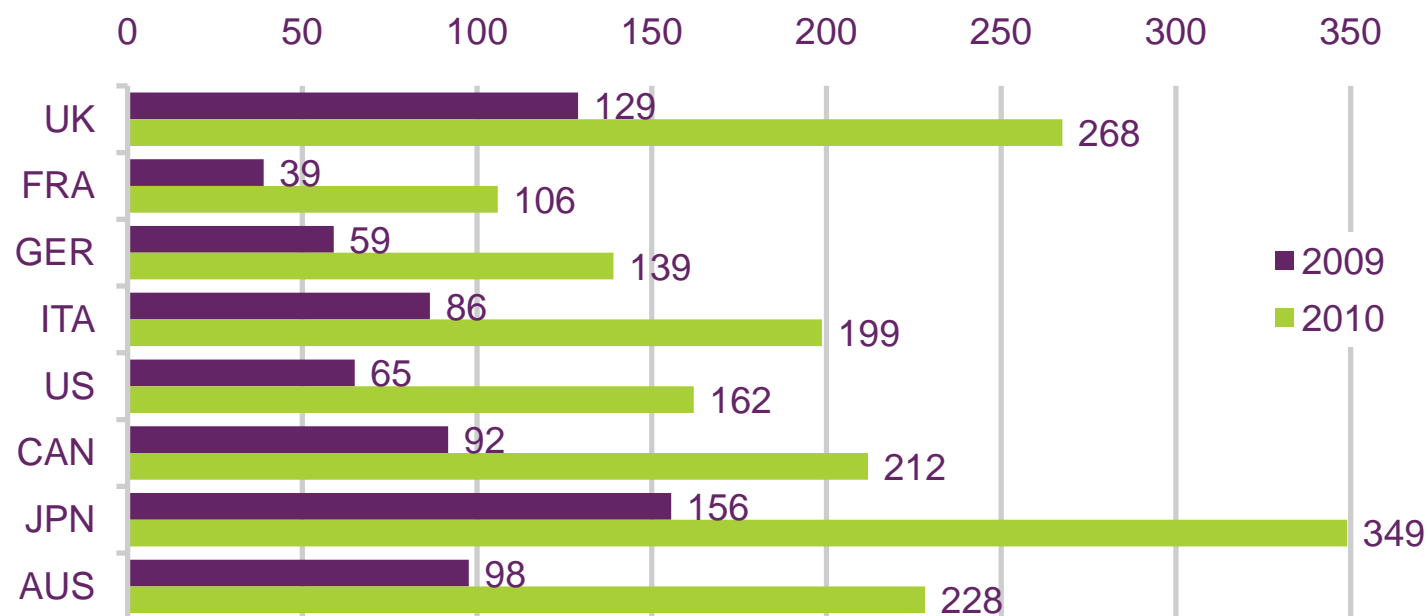


Source: comScore MobiLens , 3 month averages ending February 2010 and August 2011, mobile subscribers ages 13+.

Mobile data traffic more than doubled in many countries in 2010

Mobile data traffic per mobile connection: 2009, 2010 and 2015

MB per mobile connection per month



Source: Cisco Systems' Visual Networking Index

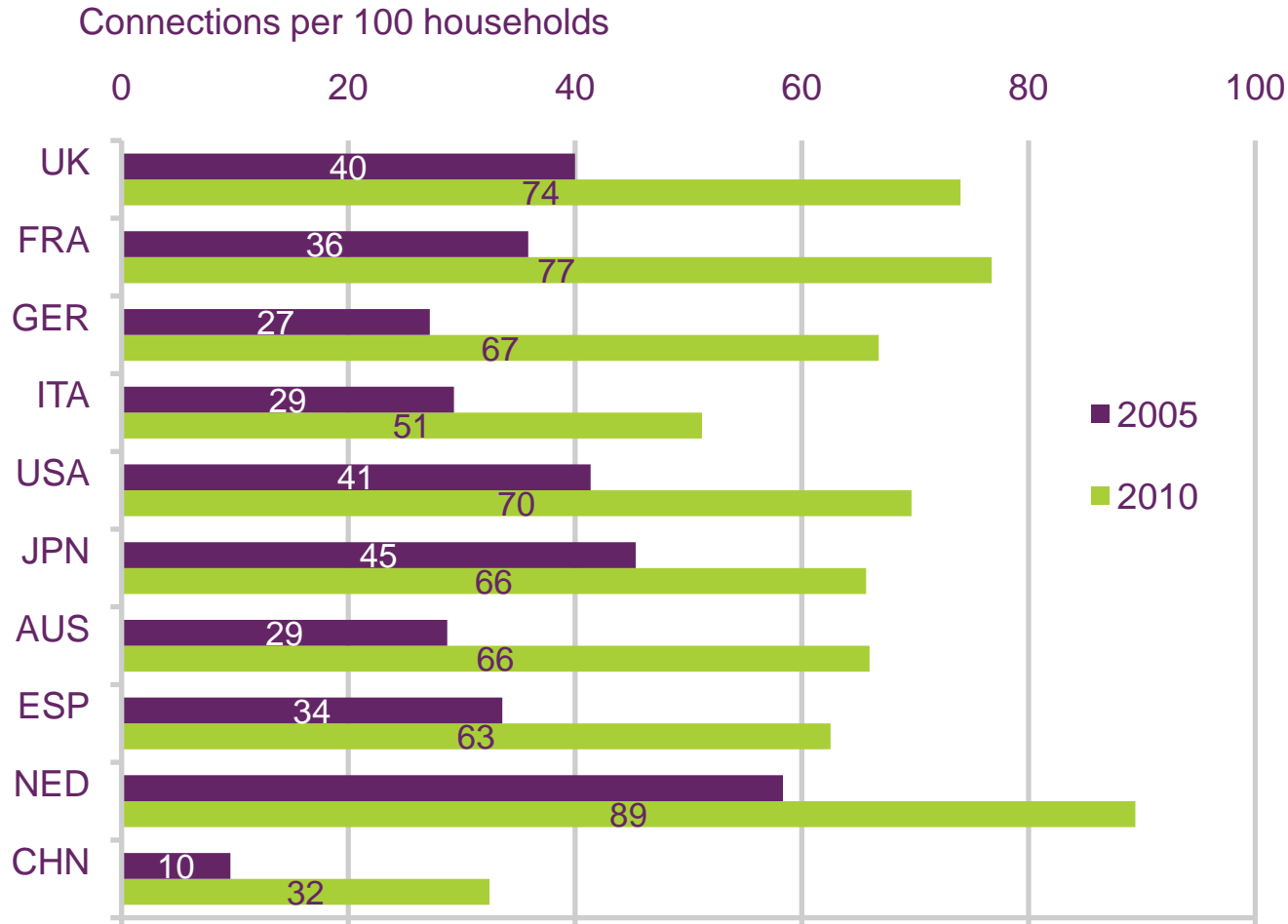
Figures given are for December in each year stated. Precise figures are not available: the 2009 and 2010 figures are Cisco estimated actuals, and the 2015 figure is a Cisco forecast.

Key trends in Internet and web-based consumption

Jonathan Fenn, Senior Media Analyst,
Market Intelligence

International Communications Market Report 2011,
Analyst briefing, 15 December 2011

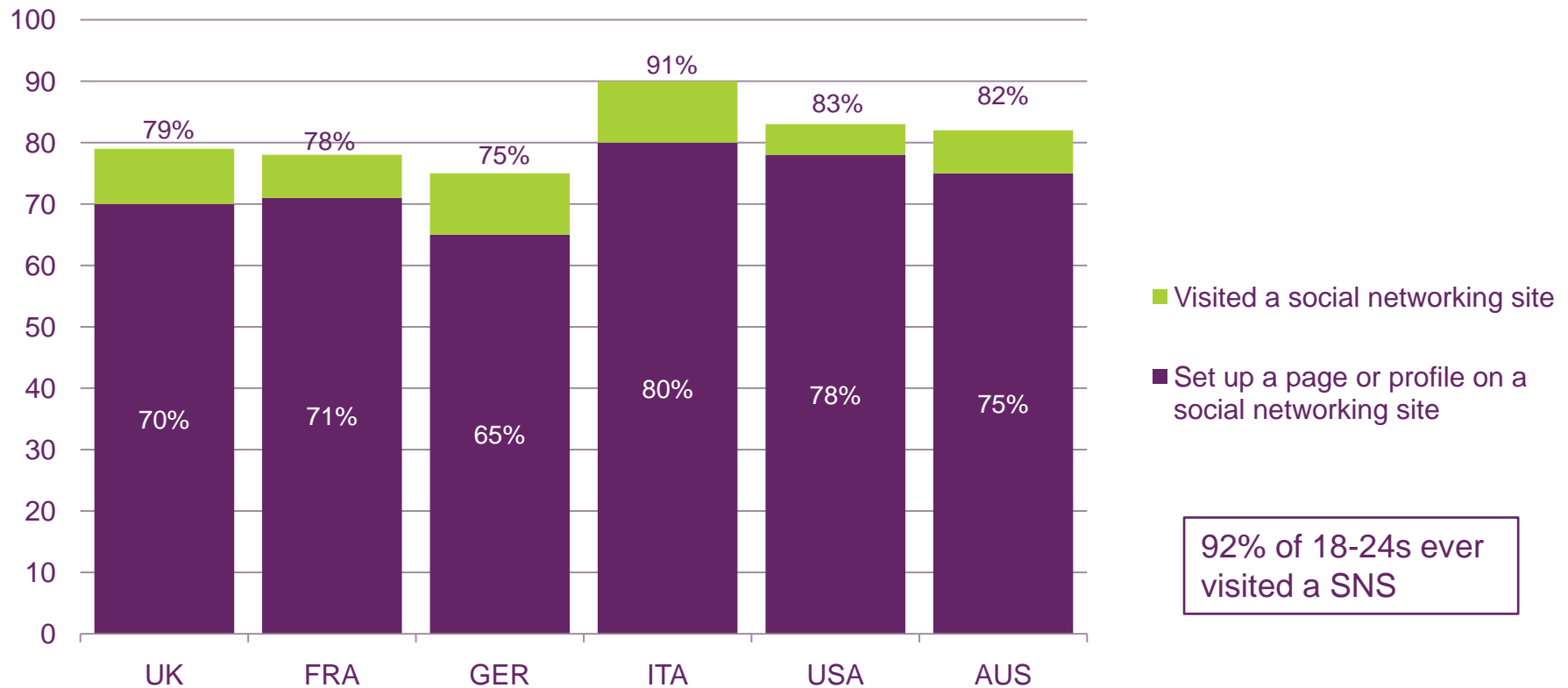
Broadband penetration reaches three quarters of UK households



Source: IDATE / Industry Data / Ofcom

The majority of internet users have a profile on a Social Networking Site

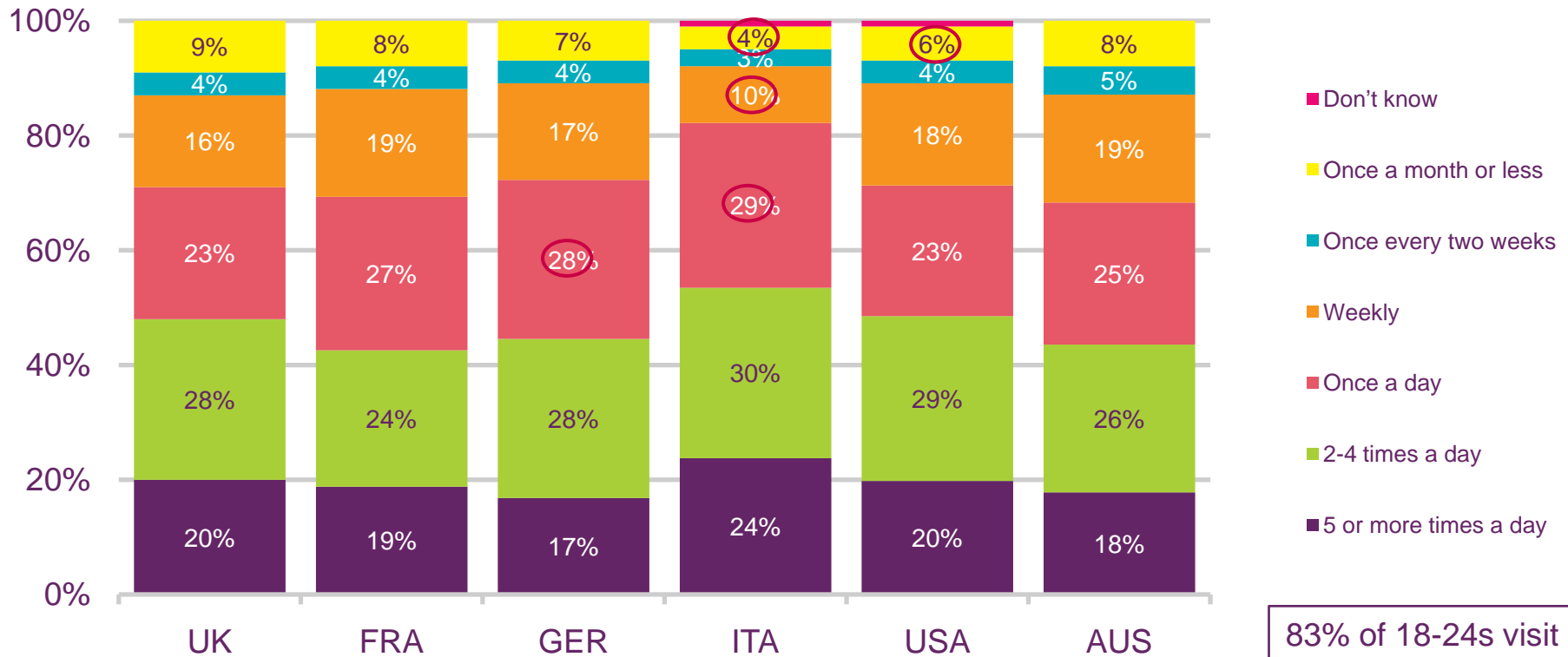
Frequency of visiting SNS / Set-up SNS profile page (%)



Source: Ofcom Consumer Research October 2011.

With almost three quarters (71%) visiting it on a daily basis

Frequency of visiting social networking sites (%)

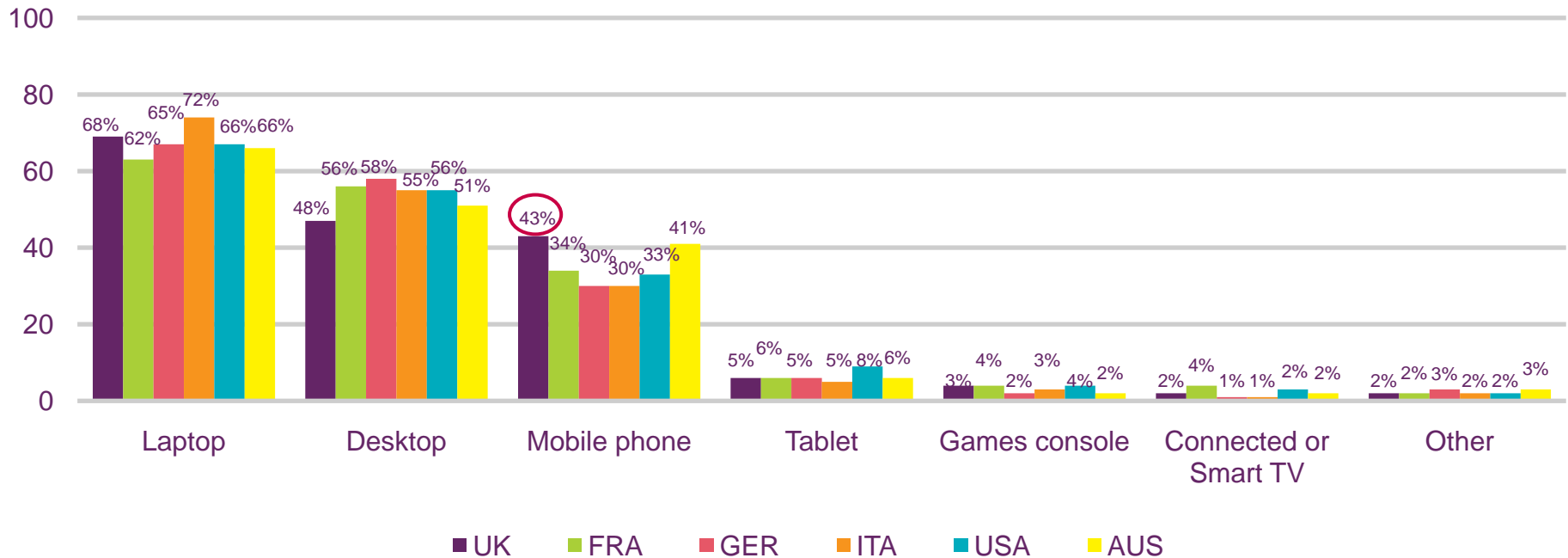


83% of 18-24s visit on a daily basis

Source: Ofcom Consumer Research October 2011.
 Base: All those who have ever visited a social networking site.

UK consumers more likely to access Social Networking Sites via their mobile

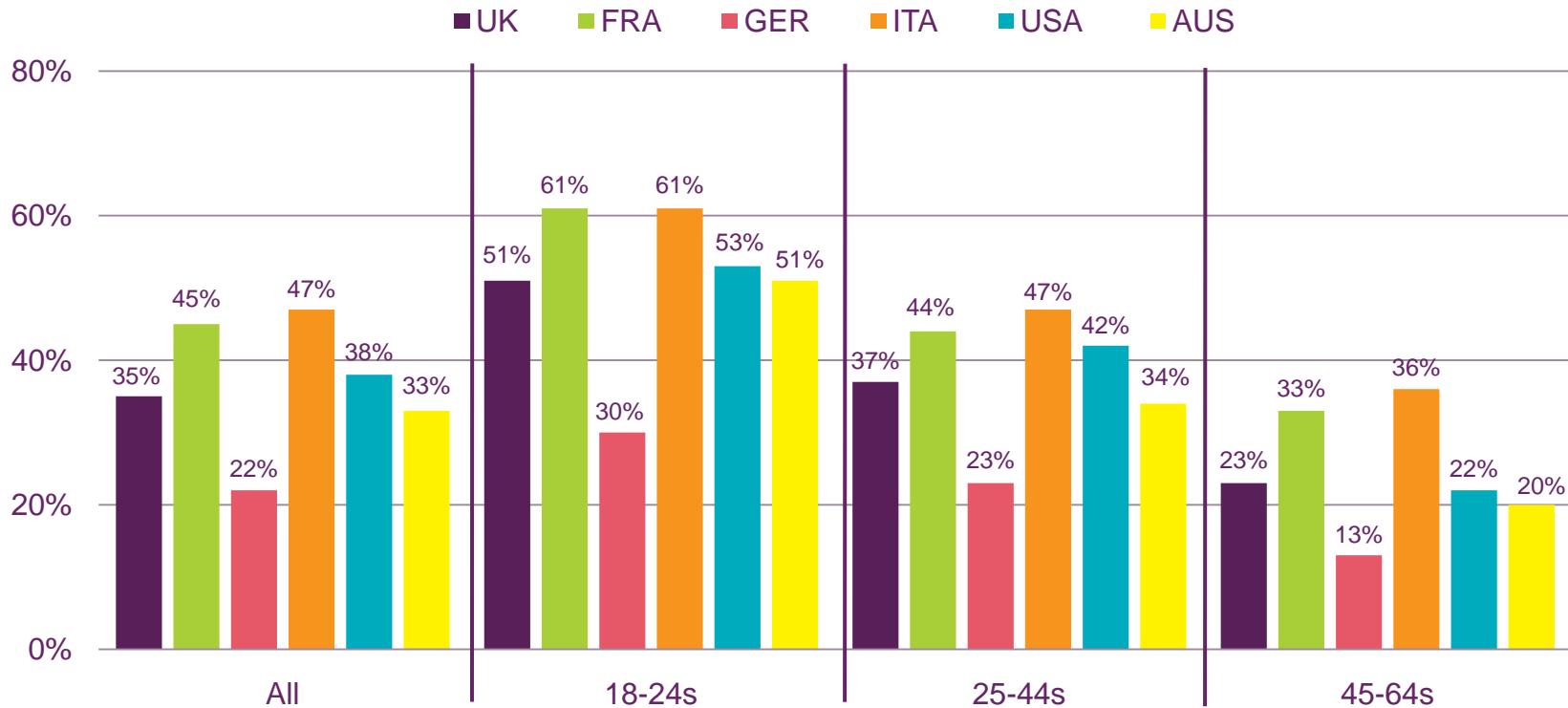
Devices used to access social networking profile (%)



Source: Ofcom Consumer Research October 2011.

Consumers using Social Networking Sites for breaking news stories...

All those who agreed with statement (scoring 4 or 5 from a scale of 1-5)

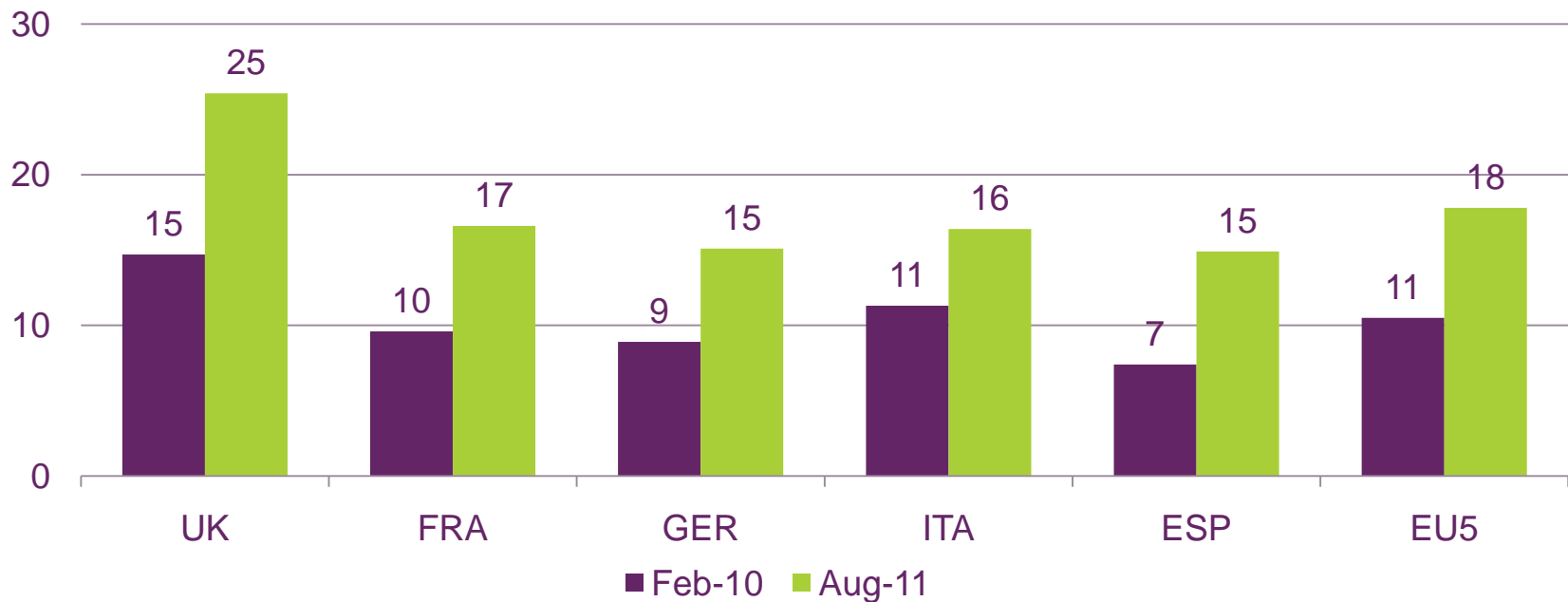


Source: Ofcom Consumer Research October 2011.

Statement: I often find out about new breaking stories first via social networking sites".

...and increasingly on their mobile phones

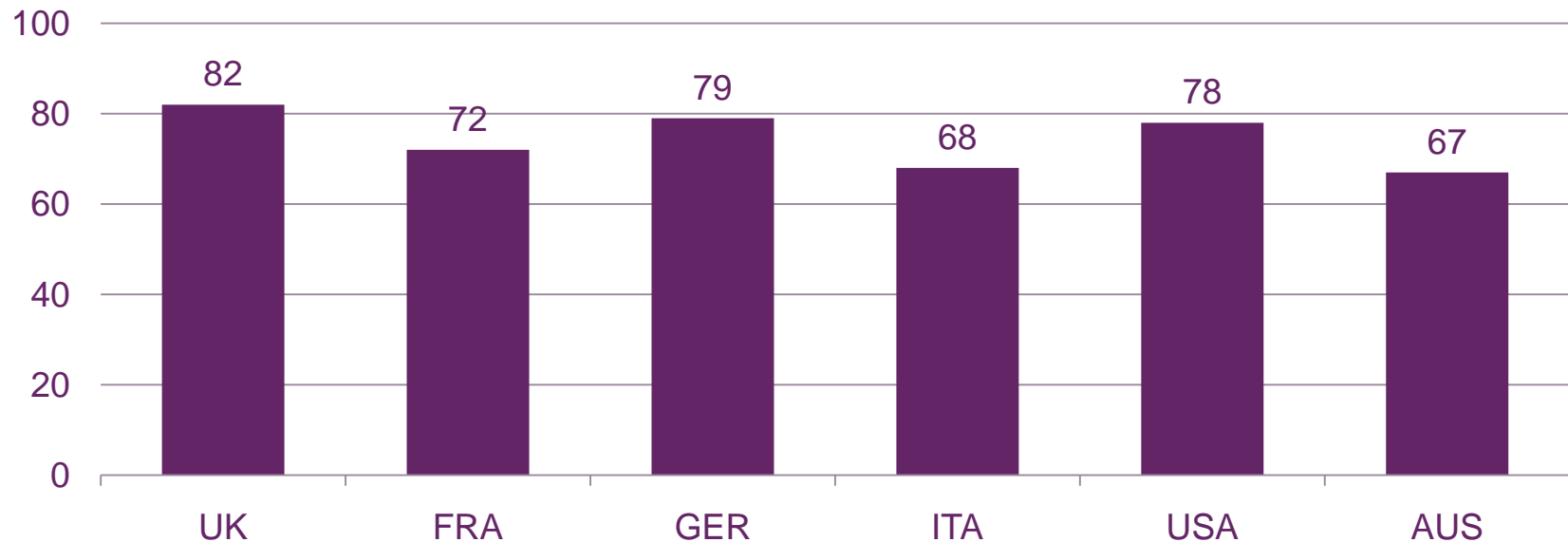
Proportion of Mobile subscribers that have accessed news on their mobile (%)



Source: comScore MobiLens , 3 month averages ending February 2010 and August 2011, mobile subscribers ages 13+

More UK consumers use their home internet connection for shopping

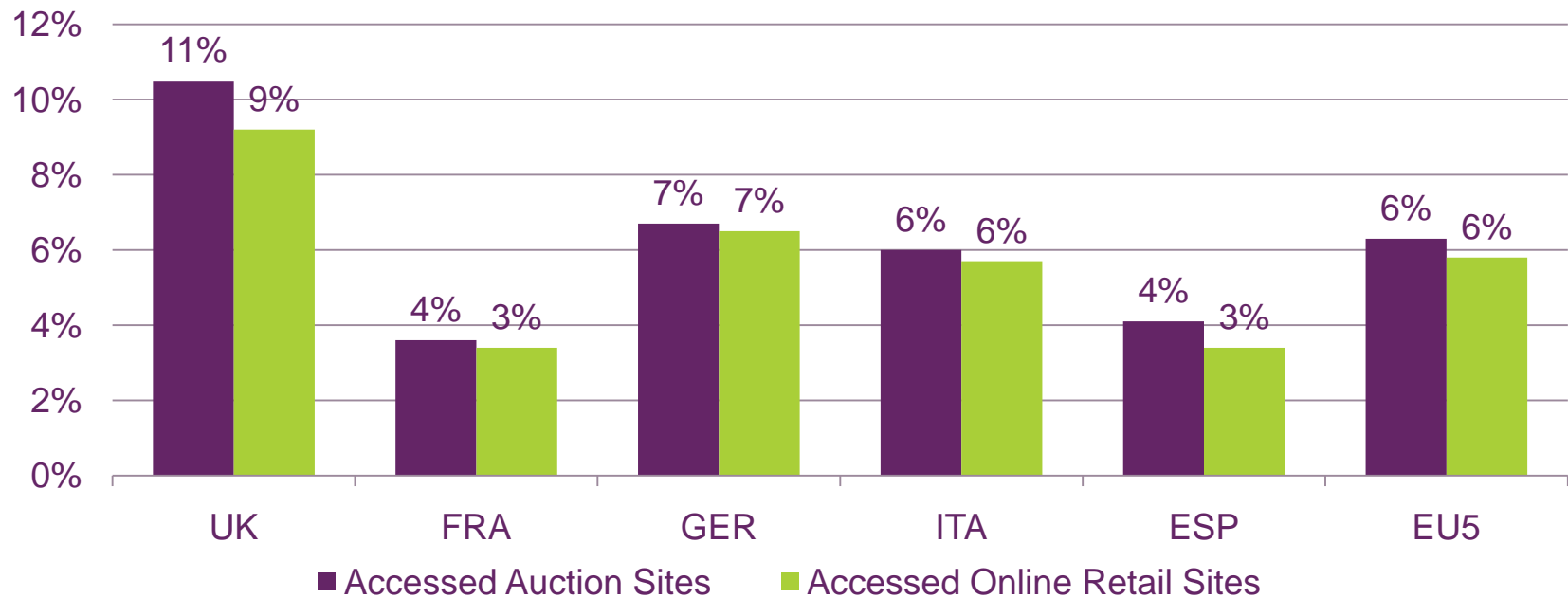
Proportion using home internet connection for shopping (%)



Source: Ofcom Consumer Research

UK consumers also more likely to shop online via their mobile phones

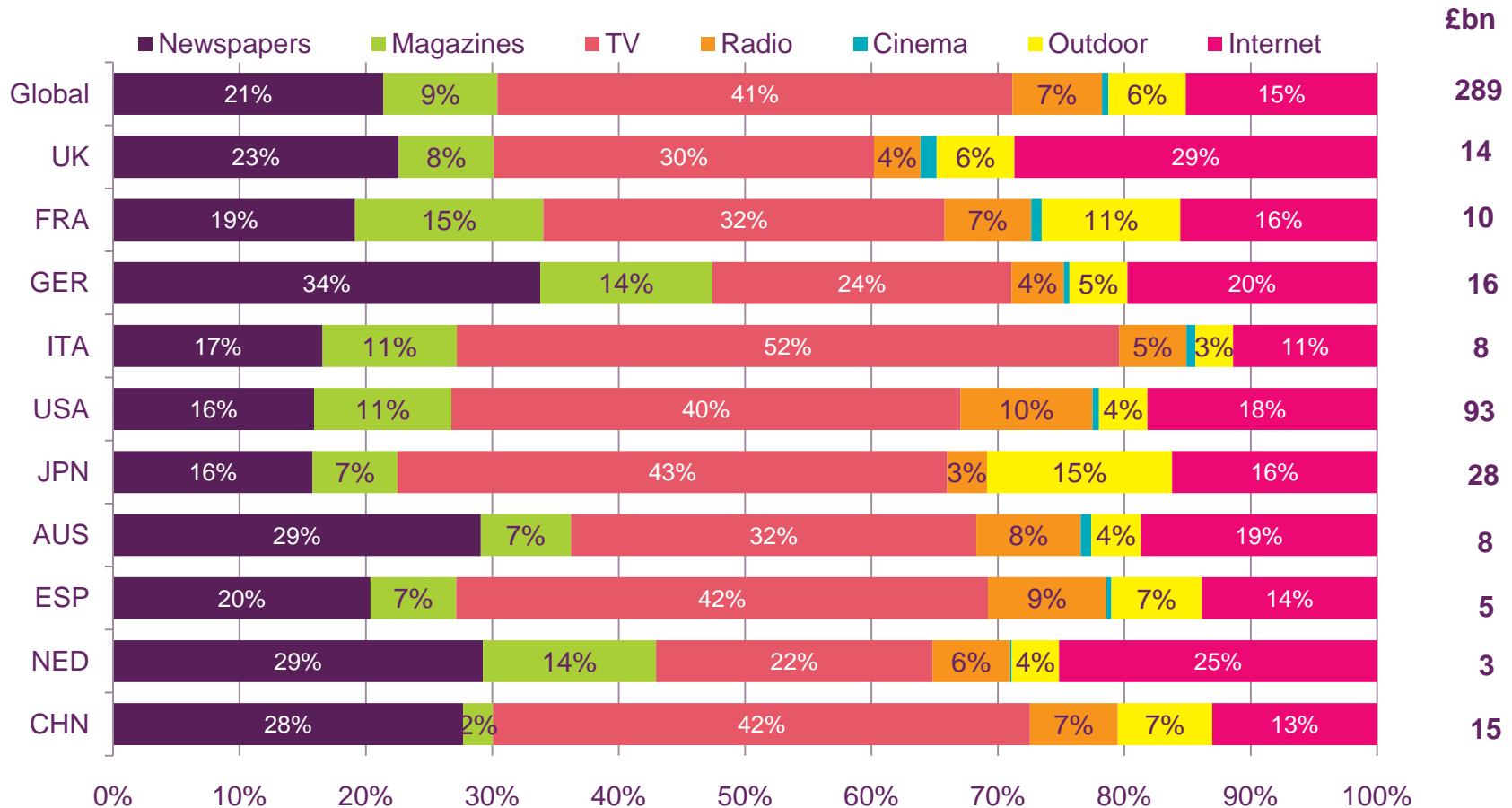
Mobile retail activity among total mobile subscribers, May 2011 (%)



Source: comScore MobiLens , 3 month average ending May 2011, mobile subscribers ages 13+

UK internet advertising twice that of global figure and at parity with TV advertising

Proportion of total advertising expenditure



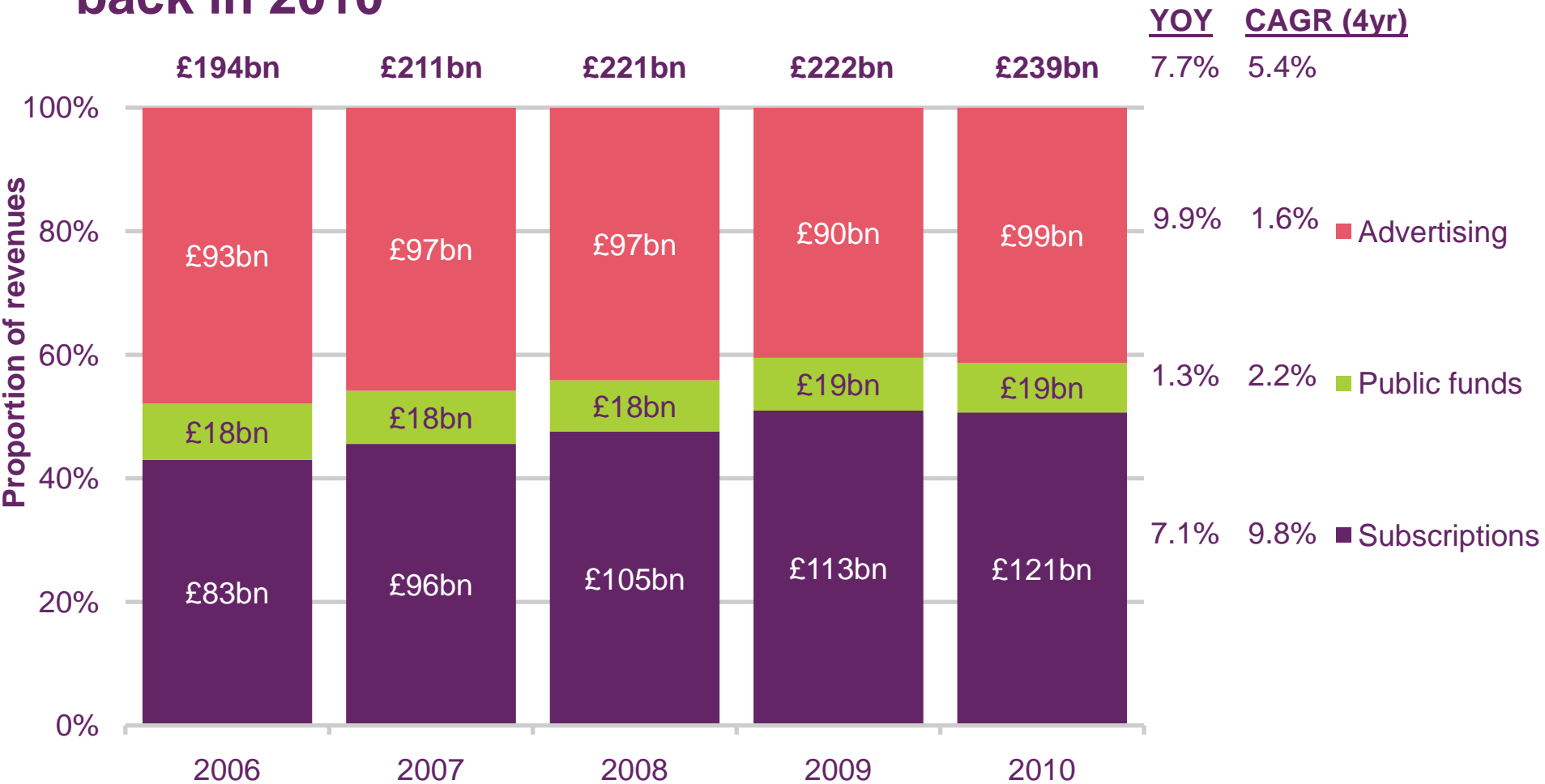
Source: Warc Data

Key trends in the audio-visual industries

Steve Gettings, Head of Media
Market Intelligence

International Communications Market Report 2011,
Analyst briefing, 15 December 2011

Global TV industry revenues bounced back in 2010



Broad-based recovery among comparator countries

Total revenues (£bn)

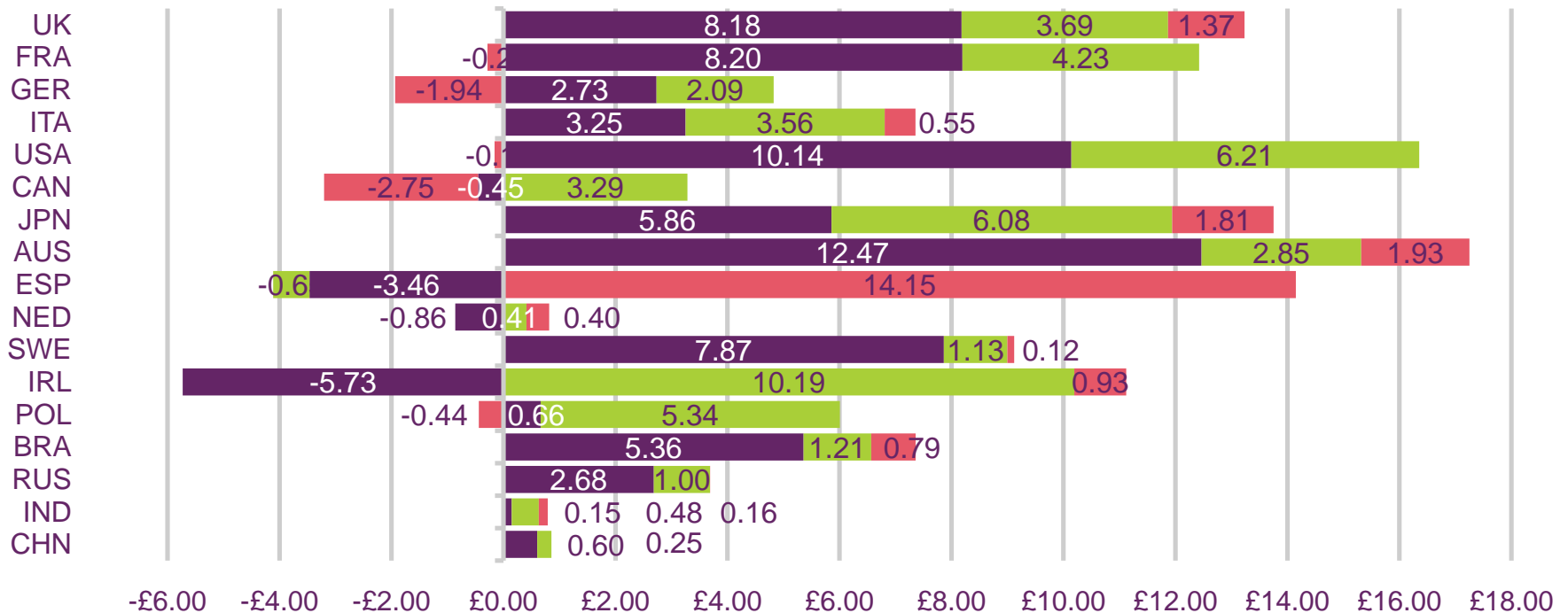


For many, all three funding sources rose year on year...

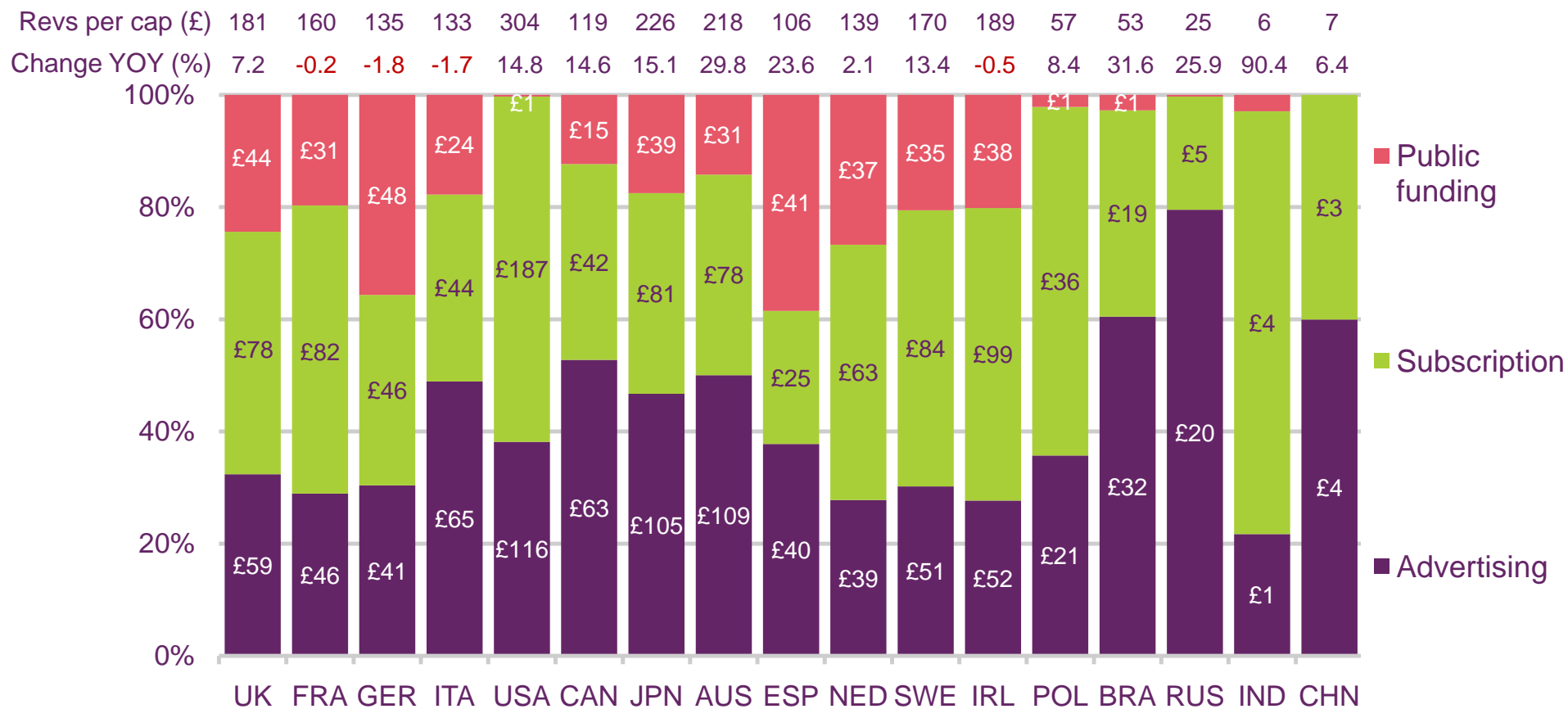
Changes in components of TV revenues per head: 2009 to 2010

Change (£)

■ Advertising ■ Subscription ■ Public funding



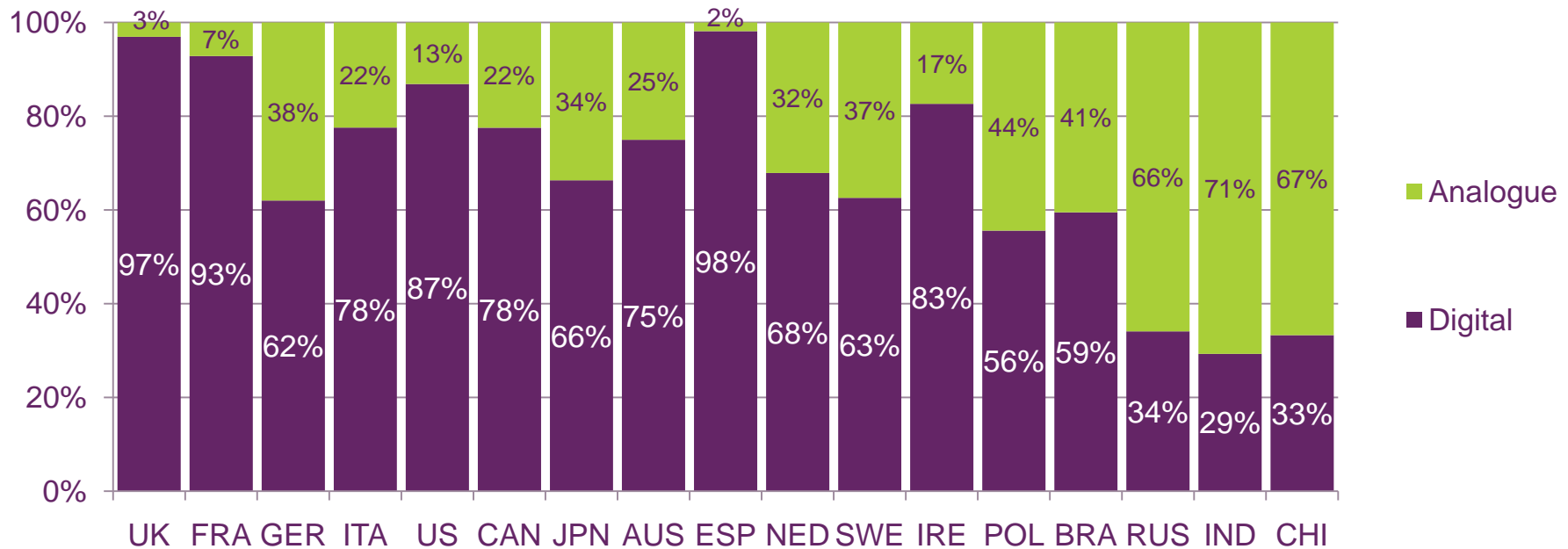
...with revenue mix varying substantially by country



Digital television take-up rising across the board

Take-up of digital and analogue television, 2010

Proportion of TV homes (%)

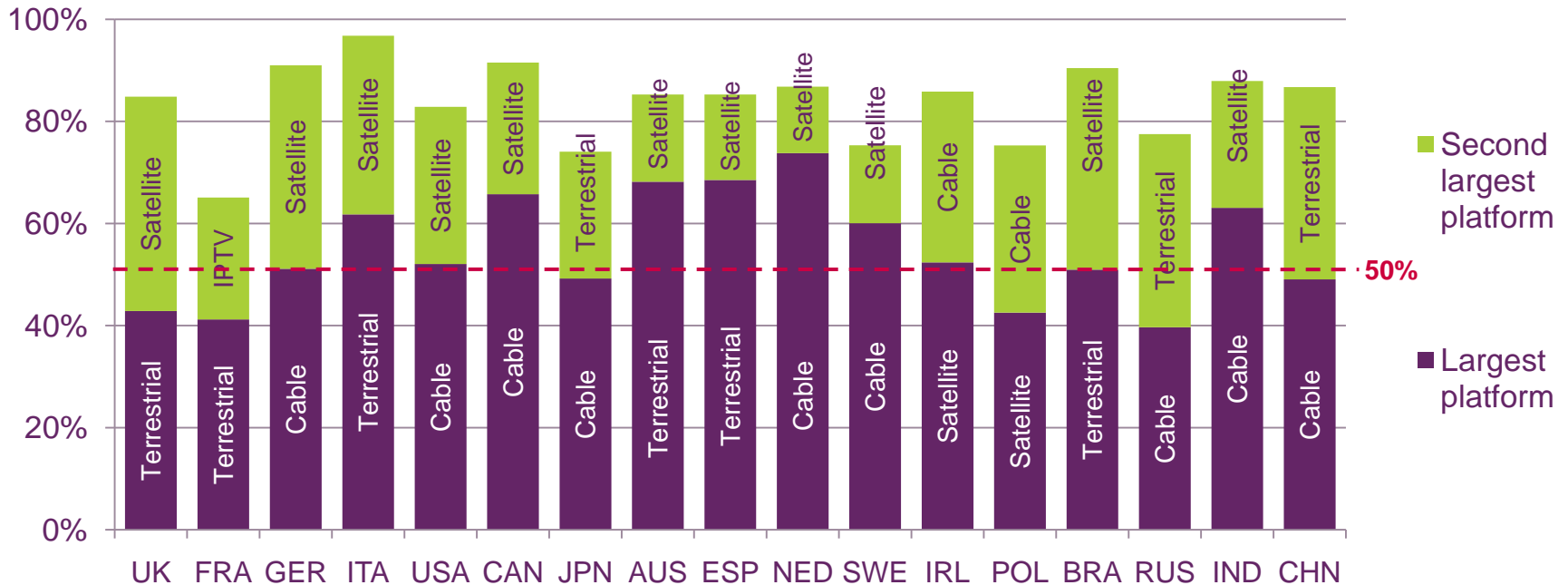


Year-on-year change (pp) **+3** **+13** **+12** **+7** **+4** **+9** **+2** **+14** **+14** **+10** **+6** **+18** **+8** **+20** **+9** **+6** **+8**

For many, two platforms account for over 80% of homes...

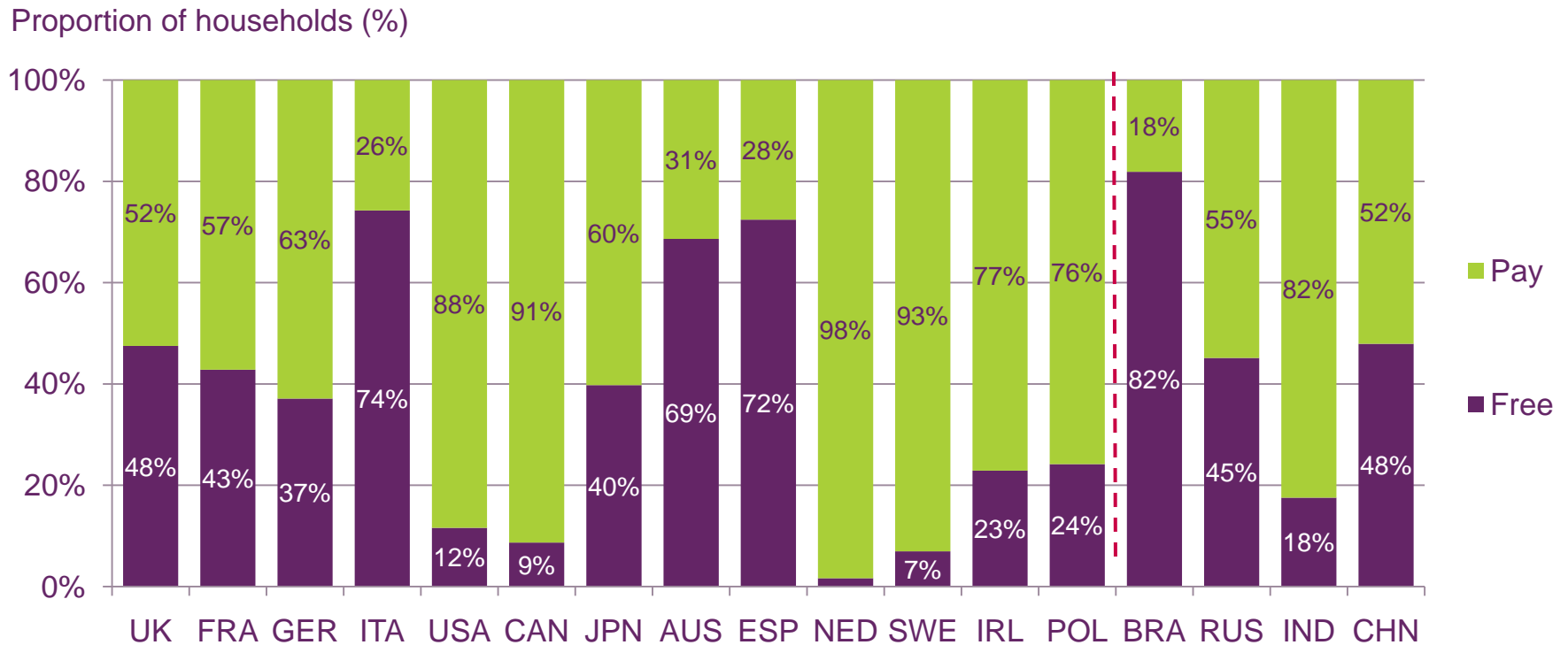
The two most popular DTV platforms, by country, 2010

Proportion of TV households (%)



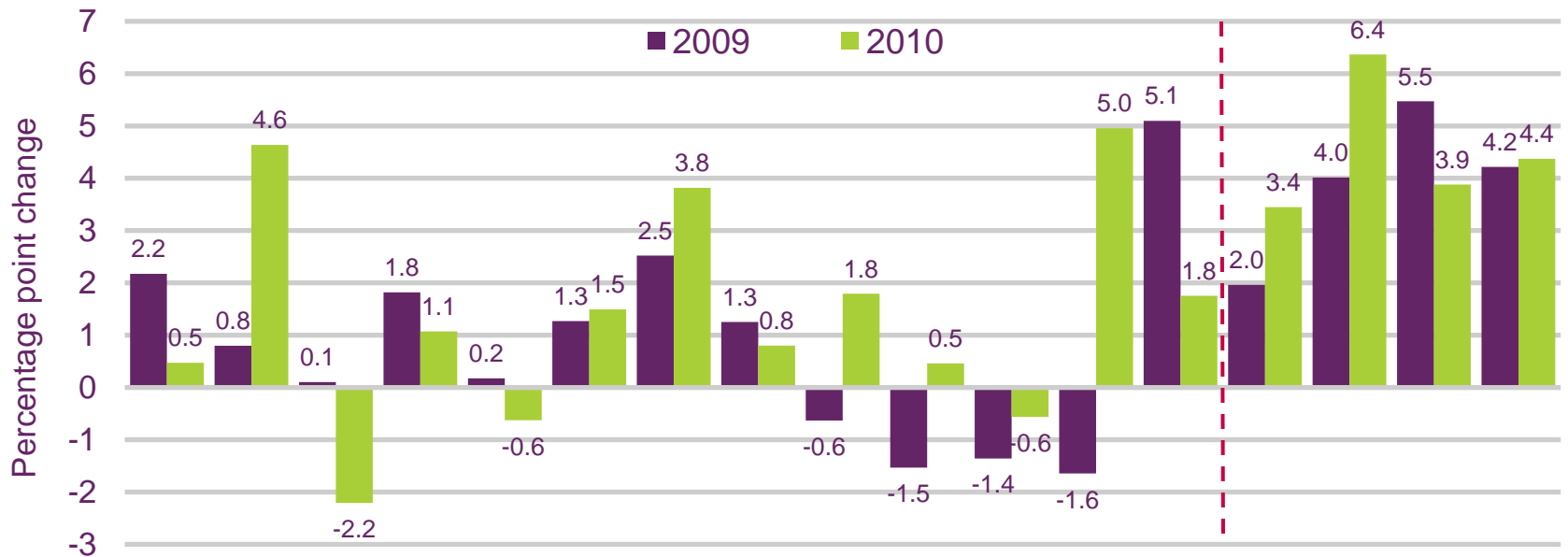
..though the appetite for pay television varies substantially...

Take-up of pay and free-to-air television, end 2010



...but across many countries, take up is rising

Percentage point increases in pay television take-up, 2009 - 2010



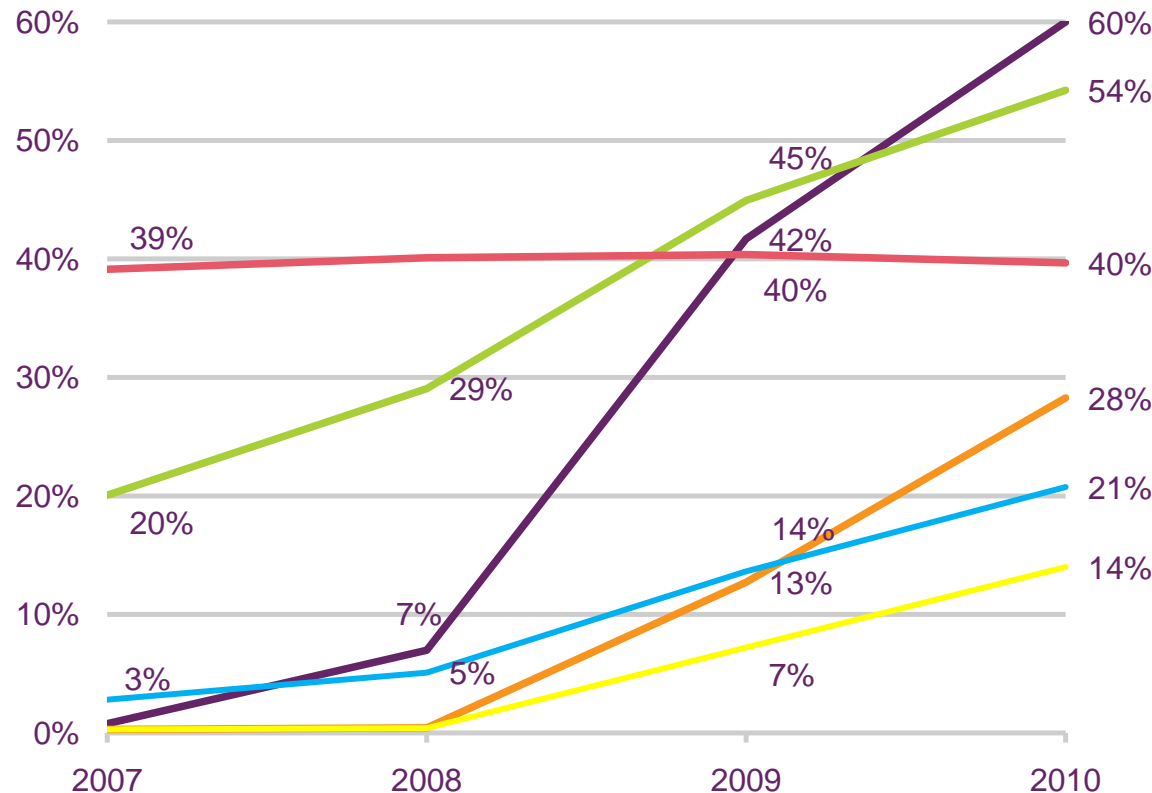
2 year change

Country	2 year change
UK	2.6
FRA	5.4
GER	-2.1
ITA	2.9
USA	-0.4
CAN	2.8
JPN	6.3
AUS	2.1
ESP	1.2
NED	-1.1
SWE	-1.9
IRL	3.3
POL	6.9
BRA	5.4
RUS	10.4
IND	9.4
CHN	8.6

Among value-added services, HD take-up is rising....

Growth in the number of HD television homes

Take-up (% of TV homes)



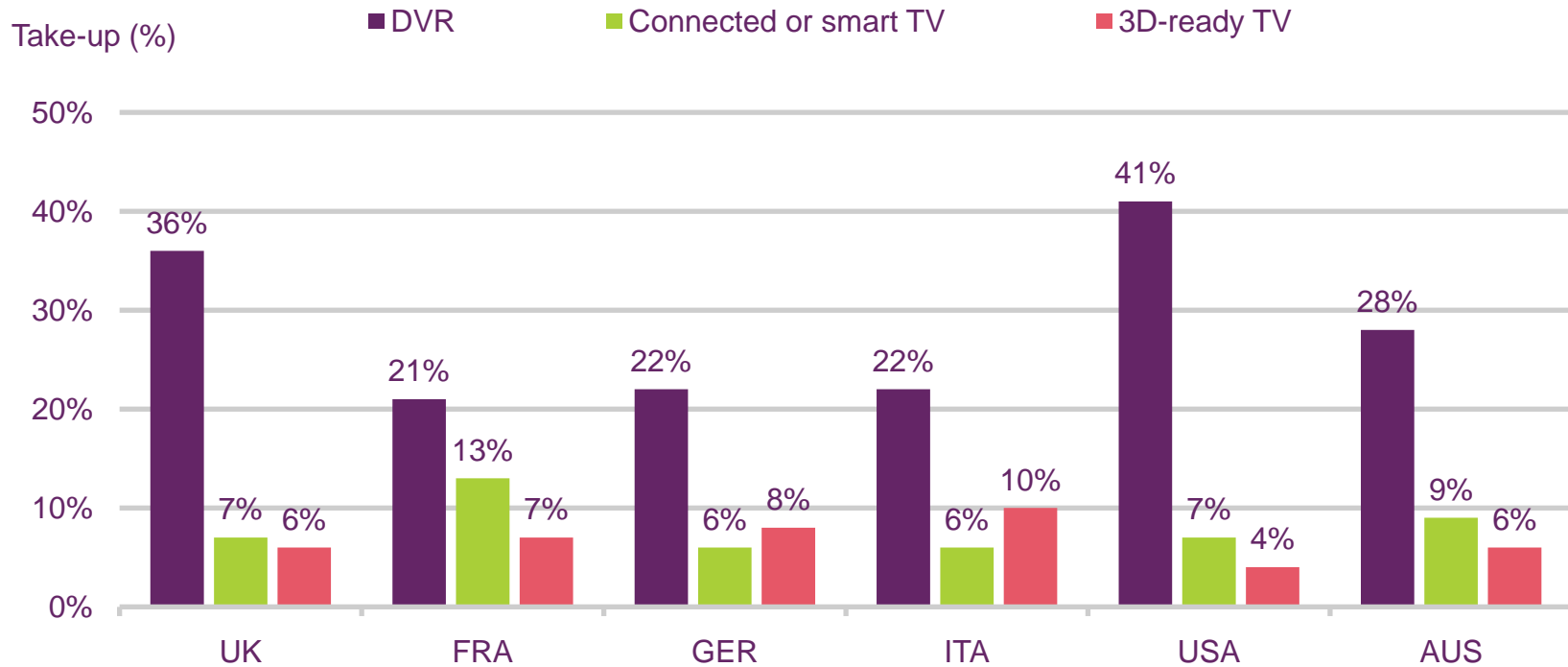
Growth

1 yr 3 CAGR

44%	326%	FRA
21%	39%	US
-2%	0%	JPN
122%	358%	ITA
52%	95%	UK
94%	264%	GER

...while DVRs are available in a significant proportion of homes

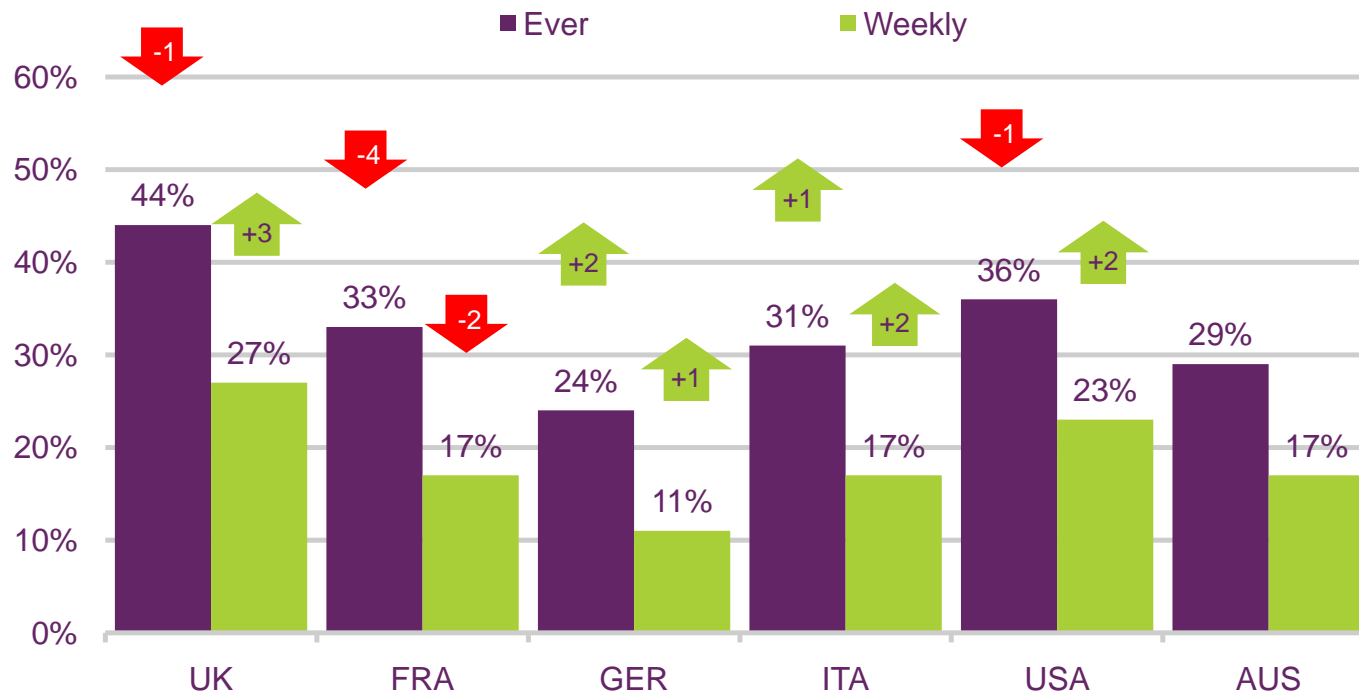
Take-up of digital video recorders, connected TVs and 3D-ready TVs



Widening broadband access is influencing how AV content is viewed...

Accessing TV content over the internet

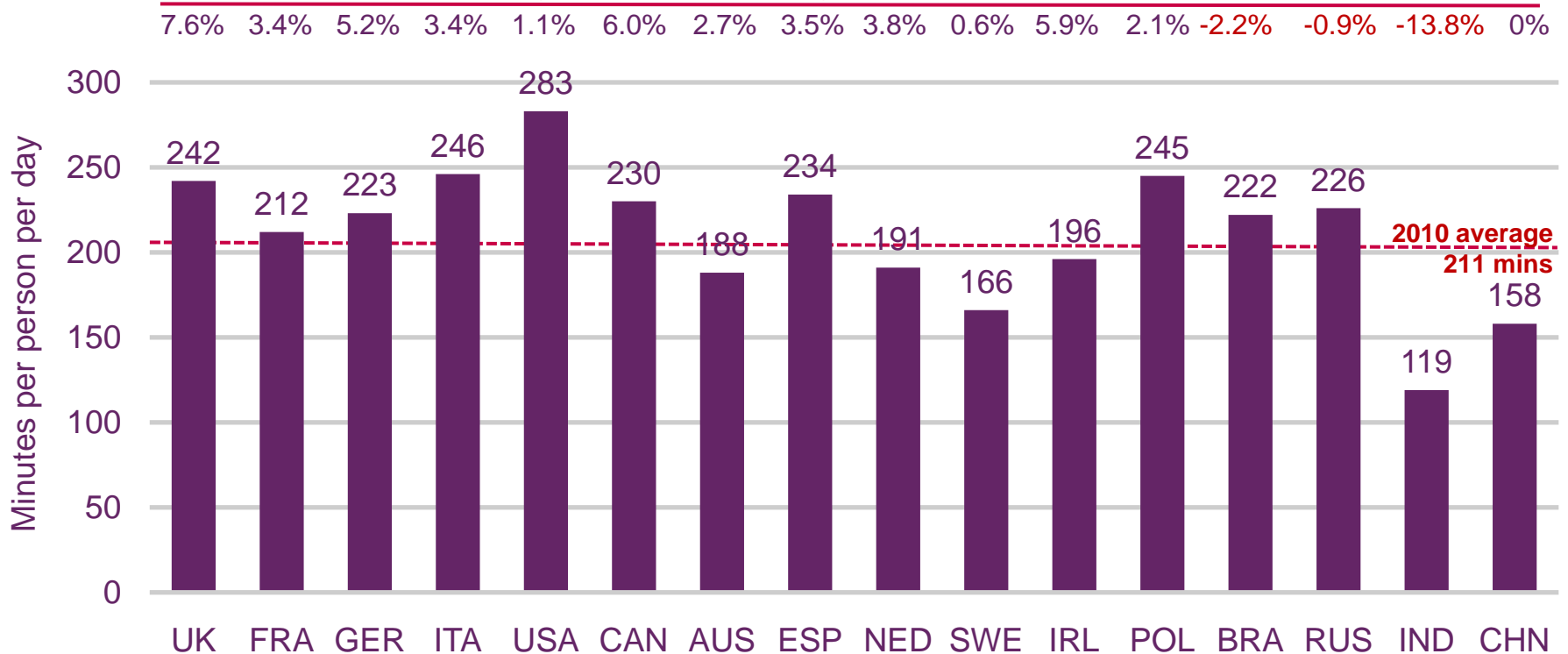
Proportion of respondents that access online TV (%)



...but linear TV viewing remains robust

Daily TV viewing per head, 2009 - 2010

Change in minutes of viewing per person per day, 2009 - 2010



Trends in consumer pricing

Ian Macrae, Head of Telecoms
Market Intelligence

International Communications Market Report 2011,
Analyst briefing, 15 December 2011

Our international report focuses on comparative pricing and we have also recently published analysis of UK prices

Consumer Experience Report

- Trends in UK pricing in fixed, mobile and television
- Wide range of sources including Teligen pricing model, tariff analysis and revenues and take-up data provided by Ofcom,

Published 7 December 2011

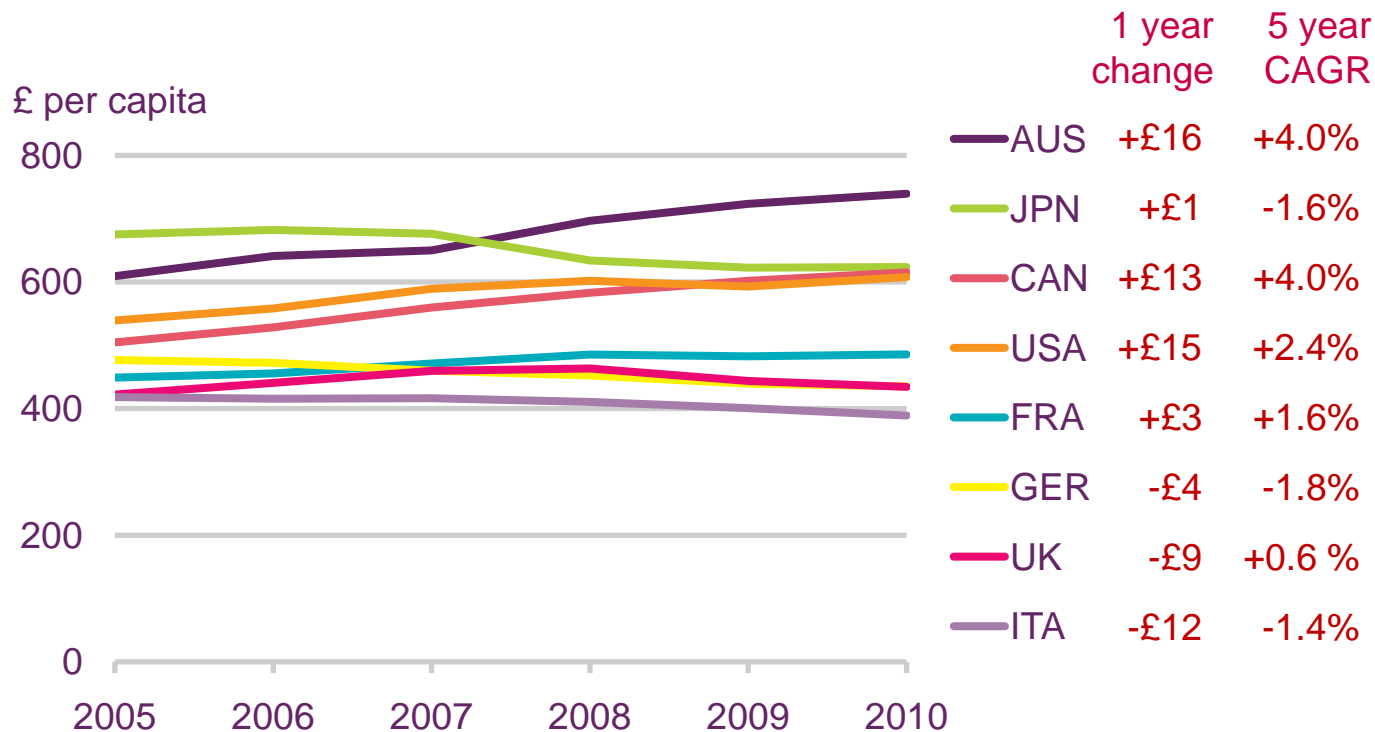
<http://stakeholders.ofcom.org.uk/binaries/research/consumer-experience/tce-11/ce-research-2011.pdf>

International Communications Market Report

- Comparison of prices of communications services in UK, France, Germany, Italy, Spain and the USA
- Based on a pricing model provided by Teligen and data collected in July 2011

Despite increase in take-up and quality of telecoms services, average spend has been broadly stable...

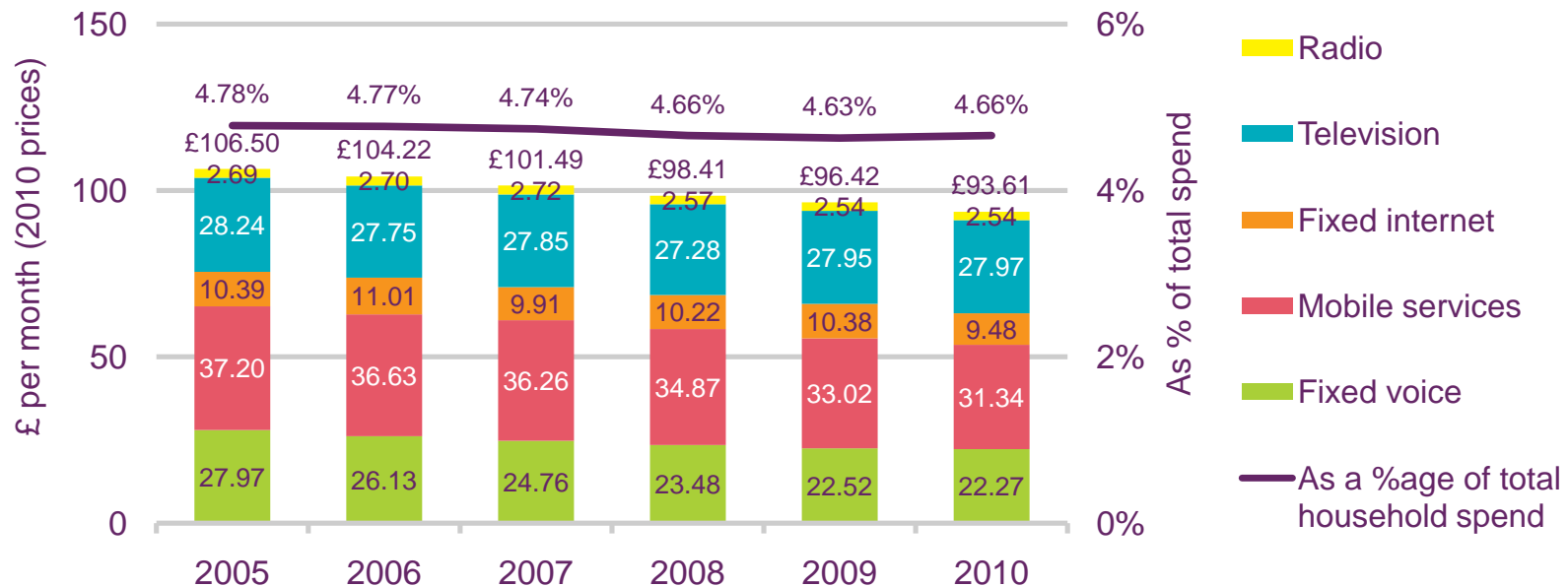
Total telecoms service retail revenue per capita, 2005 to 2010



Source: IDATE / industry data / Ofcom

... and in the UK average spend on communications services has fallen in real terms year-on-year

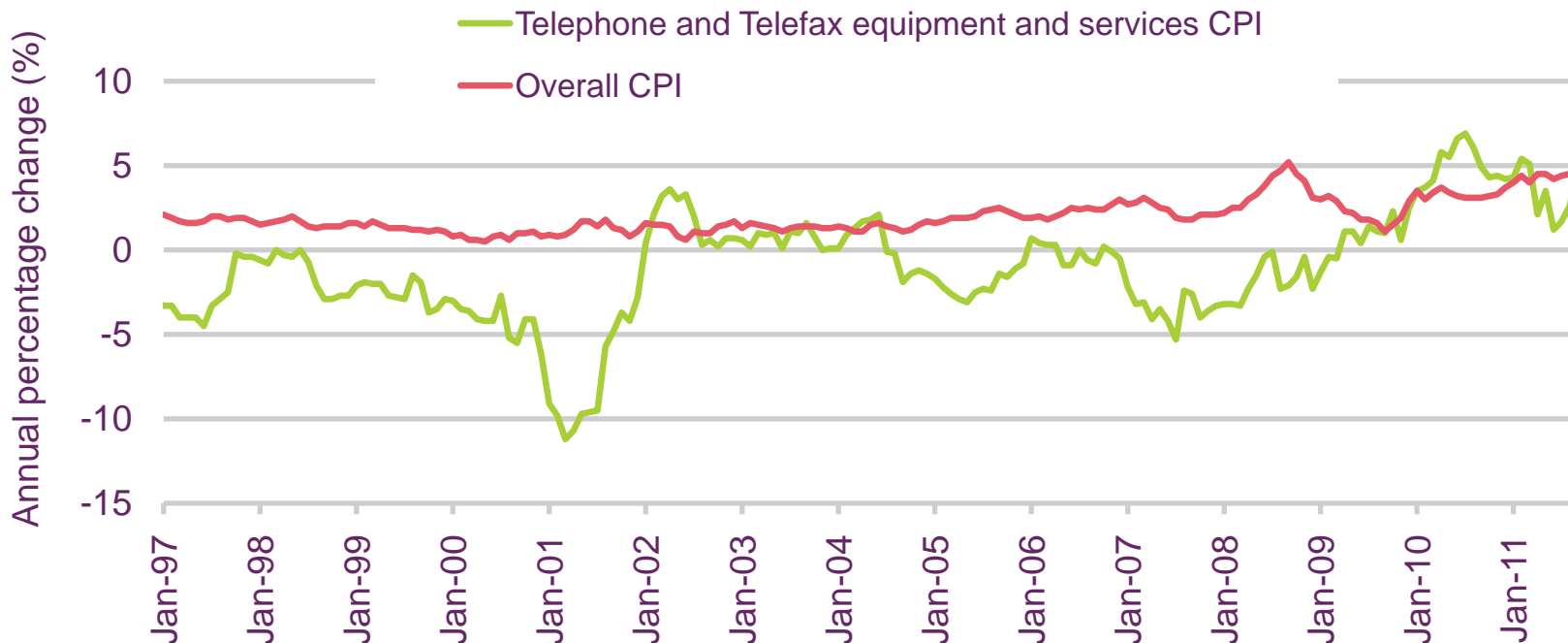
Average household spend on communications services



Source: Ofcom / operators
 Note: RPI adjusted

But after more than a decade of deflation, some signs that telecoms prices are increasing

Year-on-year changes in CPI



Source: ONS

Cost per minute for mobile has fallen rapidly – fixed has been steady despite falling call volumes

Comparison of average residential fixed and mobile voice call charges



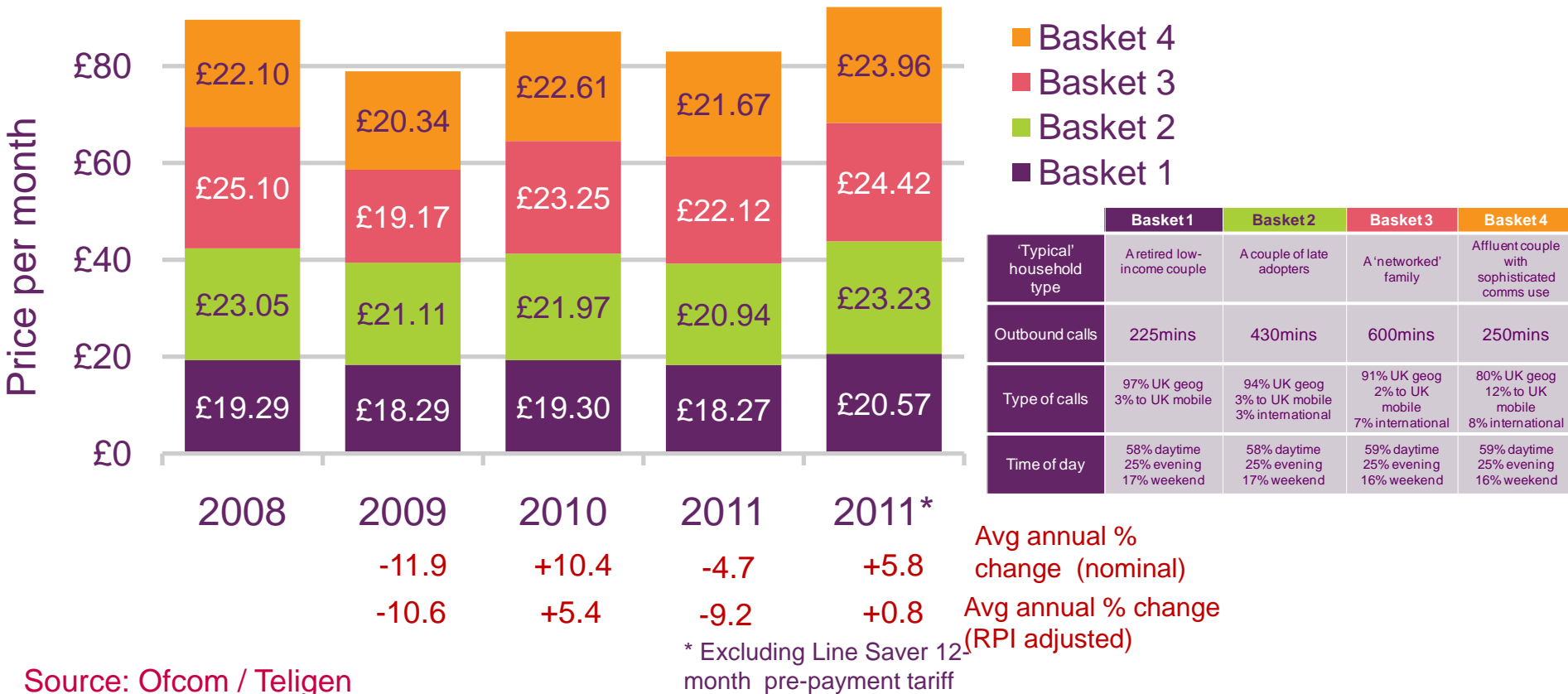
Source: Ofcom / operators

Note: Includes estimates where Ofcom does not receive data from operators; fixed calculation excludes non-geographic voice calls; mobile calculation includes business calls; adjusted for RPI

Fixed voice tariffs have risen – although lower prices are available for payment of line rental in advance



Comparison of average residential fixed and mobile voice call charges - 'Weighted average' of best prices available from three largest operators



Source: Ofcom / Teligen

Note: Tariff data collected in July each year; nominal prices; full details of methodology, basket composition and in-depth analysis will be provided in Ofcom's International Communications Market Report (14 December 2011)

Broadband tariffs fairly steady – both for standalone broadband and in a bundle with voice...



Best price available for a basket of voice calls and a basic broadband service



Best price available for a basic voice and broadband bundle from the UK's three largest providers

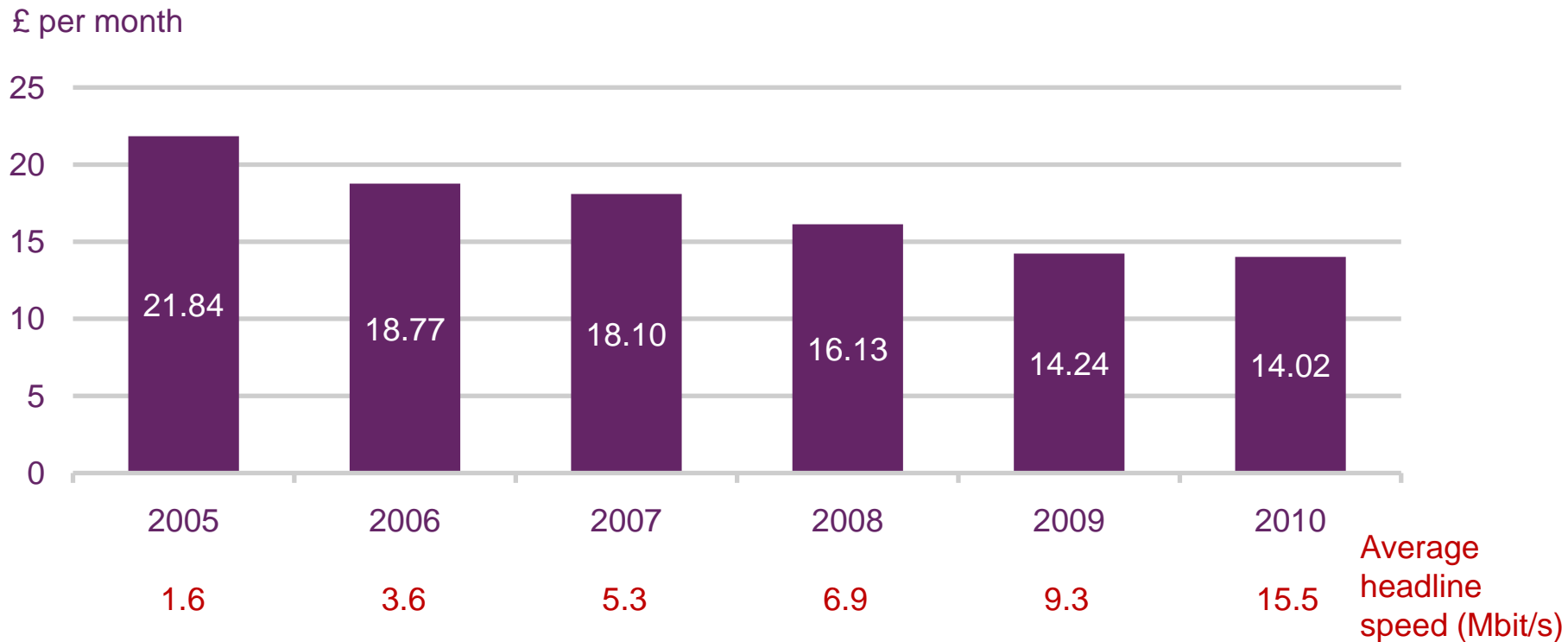
	Broadband only	Broadband plus line rental
BT		
2008	£15.99	£27.74
2009	£15.65	£28.15
2010	£15.99	£27.28
2011	£16.40	£25.60
Virgin Media		
2008	£18.00	£21.00
2009	£21.25	£26.25
2010	£21.25	£25.74
2011	£21.00	£27.40
TalkTalk		
2008	£14.99	£17.00
2009	£14.99	£18.99
2010	£14.99	£21.24
2011	£15.31	£19.10

Source: Ofcom / Teligen

Notes: Based on tariffs available in July of each year. Basket includes 430 voice minutes (95% UK geog, 3% to UK mobile, 3% international), 58% of calls in daytime, 25% in evening, 16% at weekend. Basket of services includes special offers available such as discounted line rental for an introductory period; Tariff prices from BT, Virgin Media, TalkTalk do not include any special offers.

... However the average cost of broadband has fallen as consumers take LLU and bundled services

Average monthly cost of a residential broadband connection (excluding line rental)

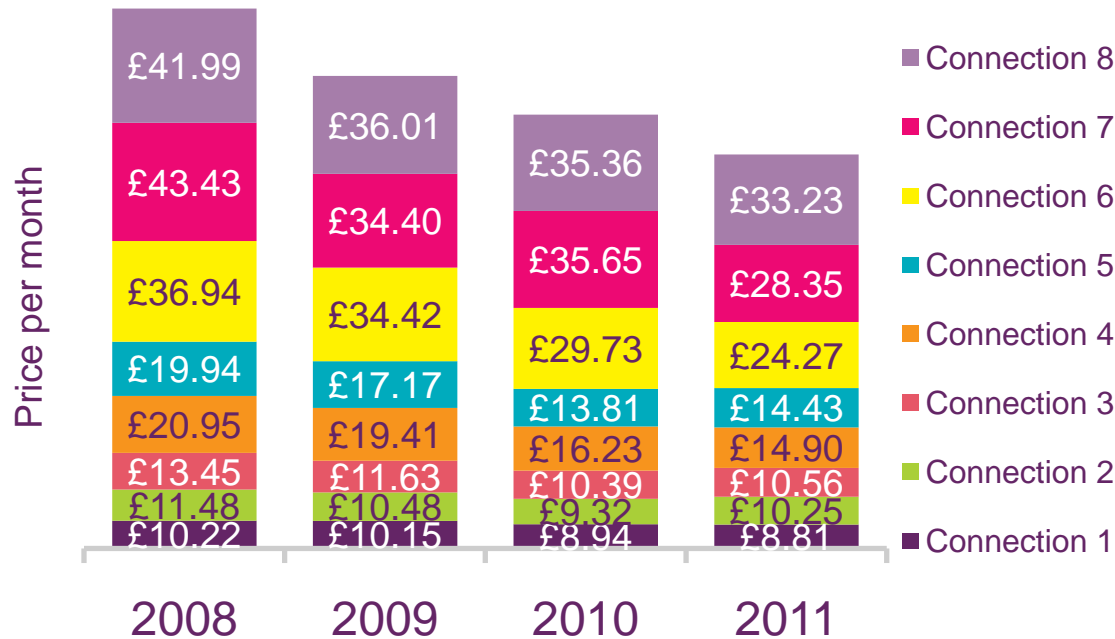


Source: Ofcom / operators

Notes: Nominal prices; Includes VAT; Includes estimates where Ofcom does not receive data from operators

Mobile prices have fallen significantly – but some low use (pre-pay) tariffs have increased since 2010

Prices for typical baskets of mobile phone services, 2008-2011
 Weighted average' of best prices available from three largest operators



	Handset type	Outbound voice minutes per month	Outbound SMS per month	Outbound MMS per month	Data use per month
Ctn 1	Basic	60	-	-	-
Ctn 2	Basic	60	65	2	-
Ctn 3	Basic	60	70	2	-
Ctn 4	Mid-tier	180	160	4	-
Ctn 5	Mid-tier	200	20	-	-
Ctn 6	Advanced	300	30	-	30MB
Ctn 7	Advanced	400	80	-	30MB
Ctn 8	Advanced	550	150	10	100MB

-12.5 -8.2 -9.2 Avg annual % change (nominal)
 -11.2 -12.4 -13.5 Avg annual % change (RPI adjusted)

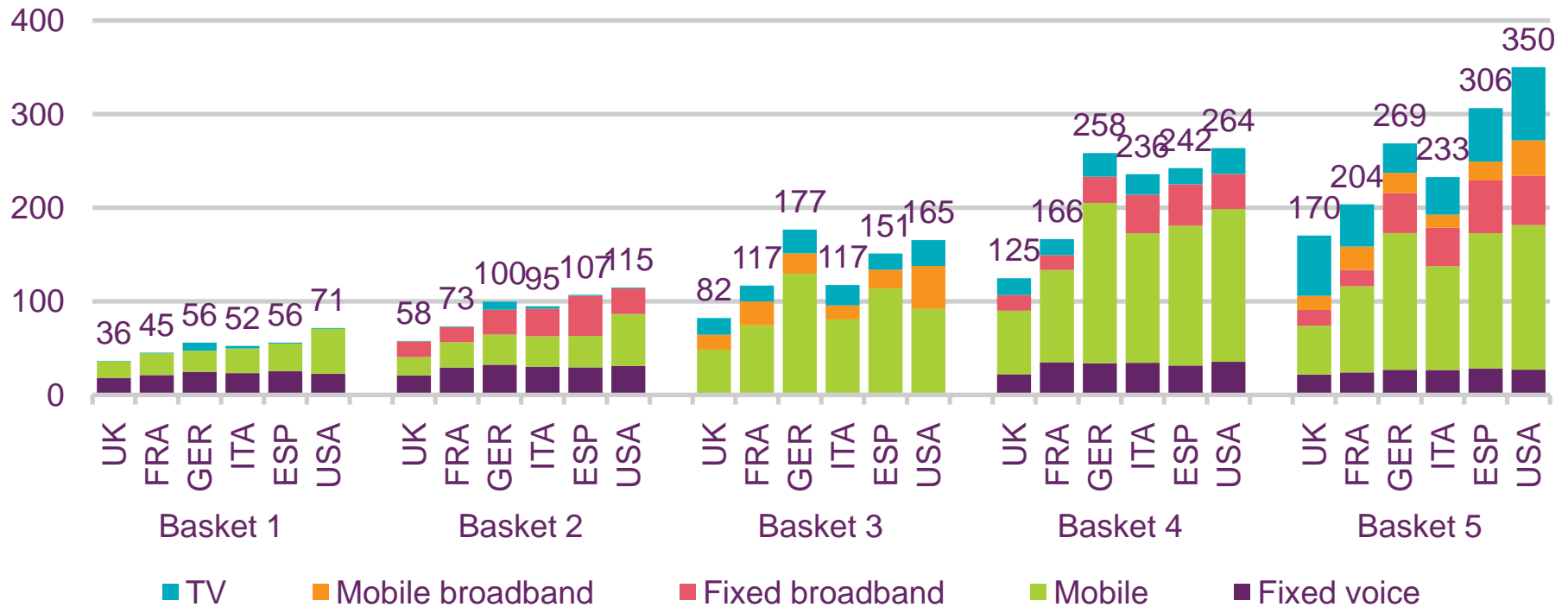
Source: Ofcom / Teligen

Note: Calculated from lowest tariff available from each of the three largest mobile operators by retail market share in July of each year; nominal prices; full details of methodology, basket composition and in-depth analysis will be provided in Ofcom's International Communications Market Report (scheduled for publication on 14 December 2011)

Prices in UK compare favourably to other countries for single services...

Comparative 'weighted average' pricing of 'single services' for baskets of communications services typical of five household types

Monthly cost (£)



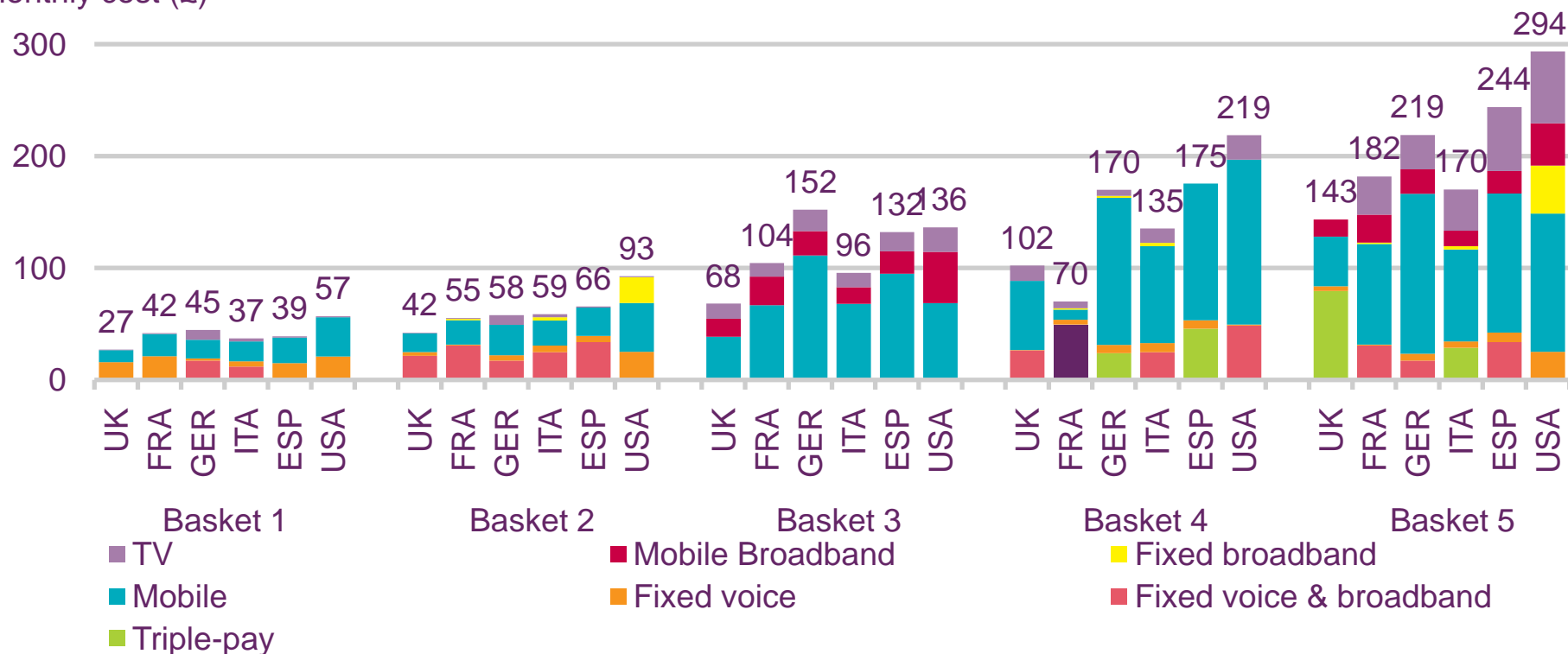
Source: Ofcom / Teligen

Note: Based on tariffs available from the three largest operators for each service in each country in July 2011; PPP adjusted; TV excludes license fee, but includes price of set-top box/decoder and installation

... and also compare favourably when including bundled services

Comparative 'weighted average' pricing of 'single services' for baskets of communications services typical of five household types

Monthly cost (£)



Source: Ofcom / Teligen

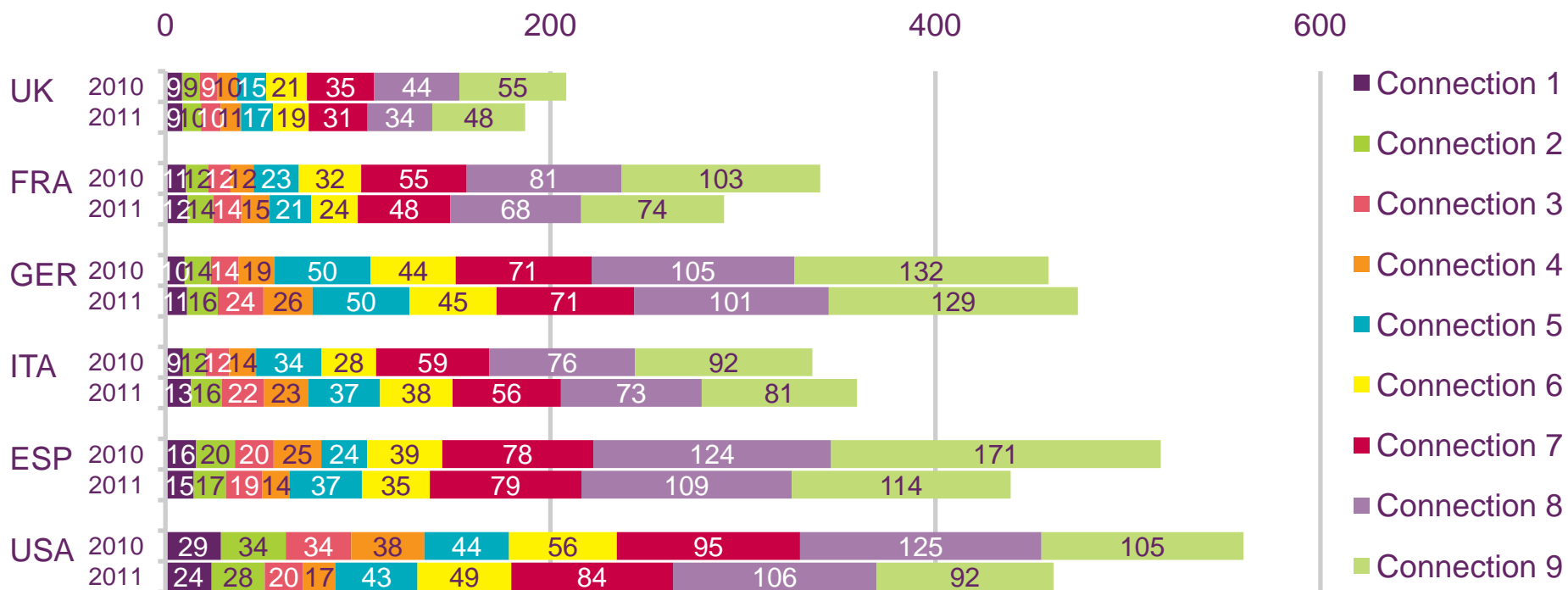
Note: Based on tariffs available from the three largest operators for each service in each country in July 2011; PPP adjusted; TV excludes license fee, but includes price of set-top box/decoder and installation.

Lower comparative costs in the UK are primarily driven by lower mobile prices



Comparative single service 'weighted average' mobile pricing

Monthly cost (£)



Source: Ofcom, using data supplied by Teligen

Note: Weighted average of best-value tariff from each of the three largest operators by market share in each country; July 2010 and July 2011; PPP adjusted

Questions?

