Ofcom analyst briefing

The Communications Market Report 2013

1 August 2013
Agenda

Market Overview
James Thickett, Director of Research

Key consumer trends
Lisa Etwell, Senior Research Manager, Market Research

The audio-visual industries
Jane Rumble, Head of Media Research and Market Intelligence

Internet and web-based content
Chris Adams, Head of Market Intelligence for Telecoms and Networks

The telecoms industries
Chris Adams, Head of Market Intelligence for Telecoms and Networks

Post
Steven Cape, Senior Analyst, Market Intelligence
Market overview

James Thickett, Director of Research
Average household spend has increased year-on-year following years of decline

£ per month (2012 prices)

Source: Ofcom / operators/ ONS
Notes: Adjusted for RPI

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Figure 1.12
Take-up of key services and devices

Year on year percentage point change:

Source: Ofcom research, Q1 2013. DAB take-up from RAJAR Q1 2013.
On average, each UK household owns 3 different types of internet-enabled devices

Source: Ofcom research, Q1 2013
Take up of connected devices grows

Source: Ofcom research
Average mobile data use has tripled since 2010

Median monthly data use (MB)

Source: BillMonitor

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Figure 5.10
Fixed call volumes continued to decline and mobile call volumes down for a second year in a row

Minutes (billions)

Annual Change

-9.2%  -3.9%  -9.8%  -7.2%  +5.2%  +3.3%  -0.8%  -1.6%

Source: Ofcom/operators
The growth in text message volumes has slowed

Outgoing SMS message volumes

Source: Ofcom / operators
Fixed voice and broadband remain most popular bundle of services

Source: Ofcom research
Key consumer trends

Lisa Etwell, Senior Research Manager
The reinvention of the 1950s living room
1951
1.5M TV HOUSEHOLDS RISING TO 9M IN 1959

1953
20M WATCHED THE CORONATION LIVE

1955
ITV LAUNCHED

1957
40% OF EACH EVENING SPENT WATCHING TV
Returning to the living room…

95% TUNE INTO TV WEEKLY

91% TUNE INTO MAIN TV SET WEEKLY
Returning to the living room…

95% TUNE INTO TV WEEKLY

91% TUNE INTO MAIN TV SET WEEKLY

41% HAVE ONLY ONE TV - 6% RISE IN TEN YEARS
Returning to the living room…

- 95% tune into TV weekly
- 91% tune into main TV set weekly
- 41% have only one TV - 6% rise in ten years
- 52% TV in children bedroom - 17% fall in six years
Returning to the living room…

- 95% TUNE INTO TV WEEKLY
- 91% TUNE INTO MAIN TV SET WEEKLY
- 4 HOURS A DAY WATCHING TV
- 41% HAVE ONLY ONE TV - 6% RISE IN TEN YEARS
- 52% TV IN CHILDREN BEDROOM - 17% FALL IN SIX YEARS
Returning to the living room…

- 95% tune into TV weekly
- 91% tune into main TV set weekly
- 41% have only one TV - 6% rise in ten years
- 69% of sales for 26"+ TV sets
- 4 hours a day watching TV
- 52% TV in children bedroom - 17% fall in six years
...but bringing devices with us

51% OWN A SMART PHONE
...but bringing devices with us

24% OWN A TABLET

51% OWN A SMART PHONE
...but bringing devices with us
...but bringing devices with us
...but bringing devices with us

- 25% Media mesh weekly
- 22% In same room watching different screens most of the time
- 51% Own a smartphone
- 24% Own a tablet
- 53% Multi-task weekly
We now talk about TV live, while watching Wimbledon Men’s Final....

• 1.1 million people tweeted worldwide
• 2.6 million tweets
• 80% tweets from mobile devices

Source: Ofcom research, 2013, All with TV
The audio-visual industries

Jane Rumble,
Head of Media Research and Market Intelligence
TV industry revenues grew by 0.8% in 2012

Source: Ofcom/broadcasters
NAR falls for the first time since 2009

Net advertising revenue (£m)

<table>
<thead>
<tr>
<th>Year</th>
<th>1 year</th>
<th>5yr CAGR</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
<td>£3,576m</td>
<td>-2%</td>
</tr>
<tr>
<td>2008</td>
<td>£3,471m</td>
<td>-0.2%</td>
</tr>
<tr>
<td>2009</td>
<td>£3,136m</td>
<td>1%</td>
</tr>
<tr>
<td>2010</td>
<td>£3,486m</td>
<td>2%</td>
</tr>
<tr>
<td>2011</td>
<td>£3,619m</td>
<td>1%</td>
</tr>
<tr>
<td>2012</td>
<td>£3,547m</td>
<td>2%</td>
</tr>
</tbody>
</table>

Source: Ofcom/Broadcasters
TV viewing remains resilient

Average TV hours per viewer, per day

Source: BARB
Time-shifted viewing climbs but slower than DVR ownership...

Source: BARB, all individuals
...and time-shifted viewing varies by genre

Proportion of time-shifted viewing, by programme genre: 2012

Source: BARB, DVR Individuals 4+. Total minutes of viewing to each programme genre
The public service broadcasters maintain the greatest share of viewing

Source: BARB
Seven percent now own a smart TV

Top reasons people buy a smart TV

- I needed a new TV and decided to buy one with the latest technology: 51%
- I liked the look and design of the TV: 33%
- I wanted the best screen: 29%
- I like to keep up with the latest technology: 25%
- It was the best TV I could get for my budget: 25%
- I like the range of internet connected services available: 18%
- I wanted to stream TV programmes/films/video clips straight to my TV: 18%

Source: Ofcom research, Q1 2013
Revenues from online delivery models increase by 38%

Source: Screen Digest.
Forty percent watch catch up TV services regularly

Source: Ofcom research, Feb 2013.
BBC iPlayer remains the most popular TV catch up service

Unique audience

Source: comScore MMX
Unique visitors to selected online film/TV sites

Total unique visitors (thousands)

- **NETFLIX.COM**
  - Apr-12: 1,205
  - Sep-12: 1,636
  - Apr-13: 1,205

- **LOVEFILM Sites**
  - Apr-12: 2,326
  - Sep-12: 1,807
  - Apr-13: 2,467

- **NOWTV.COM**
  - Apr-12: 1,807
  - Sep-12: 1,594
  - Apr-13: 370

Source: comScore MMX
Internet and web-based content

Chris Adams,
Head of Market Intelligence for Telecoms and Networks
Digital advertising was worth £5.4bn

Digital advertising expenditure, by type: 2008 - 2012

Source: IAB / PwC Digital Adspend 2008 – 2012
Digital advertising accounted for £623m across TV and press advertising channels

Digital advertising expenditure, by channel: 2012

Expenditure (£ millions)

- Internet: 4,793 Non-Digital, 623 Digital, 5,416 Total
- TV: 4,376 Non-Digital, 4,480 Total
- Press brands: 3,517 Non-Digital, 519 Digital, 4,036 Total
- Direct Mail: 2,127 Non-Digital, 519 Digital, 4,036 Total
- Out of home: 970 Non-Digital, 553 Digital, 1,523 Total
- Radio: 553 Non-Digital, 213 Digital, 766 Total
- Cinema: 213 Non-Digital, 623 Digital, 1,836 Total

Mobile advertising expenditure more than doubled in 2012

Mobile advertising expenditure, and mobile internet take-up

Expenditure (£ millions) \ UK adult take-up (%)


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Figure 4.10
Mobile internet audiences are growing faster than those on laptops and desktops

Source: comScore MMX, UK, home and work panel, April 2011 to April 2013; comScore MMX Multi-Platform, UK, home and work panel, January 2013 to April 2013; comScore GSMA MMM, UK, April 2011 to April 2013.
Smartphones and tablets now make up more than 30% of webpage traffic.

Proportion of page views (% of all page views served)

- March 2012: 89% Desktop/Laptop, 4% Tablets, 8% Mobiles
- February 2013: 69% Desktop/Laptop, 8% Tablets, 23% Mobiles

Source: comScore Device Essentials, March 2012 and February 2013, UK. Tablet figures are from BETA data.
Despite growth of smartphones and tablets, laptops and desktops are still important

Most important device for internet access

Internet users (%)

- Smartphone: 15%
- Tablet: 8%
- Desktop: 28%
- Laptop: 46%

Source: Ofcom research, Q1 2013
96% of internet users visit Google at least once a month

Top 10 most popular internet properties among the digital audience

<table>
<thead>
<tr>
<th>Property</th>
<th>Active reach (%)</th>
<th>Unique Audience (millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Google Sites</td>
<td>96</td>
<td>43.6</td>
</tr>
<tr>
<td>Microsoft Sites</td>
<td>75</td>
<td>34.1</td>
</tr>
<tr>
<td>Amazon Sites</td>
<td>71</td>
<td>32.5</td>
</tr>
<tr>
<td>Facebook</td>
<td>71</td>
<td>32.4</td>
</tr>
<tr>
<td>BBC Sites</td>
<td>58</td>
<td>26.4</td>
</tr>
<tr>
<td>Yahoo! Sites</td>
<td>57</td>
<td>26.2</td>
</tr>
<tr>
<td>Wikimedia Foundation Sites</td>
<td>52</td>
<td>23.6</td>
</tr>
<tr>
<td>eBay</td>
<td>51</td>
<td>23.4</td>
</tr>
<tr>
<td>Apple Inc.</td>
<td>50</td>
<td>22.7</td>
</tr>
<tr>
<td>Glam Media</td>
<td>49</td>
<td>22.5</td>
</tr>
</tbody>
</table>

Source: comScore MMX Multi-Platform, UK, April 2013
Users spend on average 8 hours a month on Facebook

Top 10 sites by time spent among the top 100 internet properties

Minutes per visitor per month

- Facebook: 486
- Google Sites: 458
- Yahoo! Sites: 166
- eBay: 150
- Microsoft Sites: 105
- TUMBLR.COM*: 90
- Trader Media Group: 84
- DAILYMOTION.COM: 78
- Perform Sports: 66
- BBC Sites: 61

Source: comScore MMX Multi-Platform, UK, April 2013
Average weekly internet sales peaked at £850m during Christmas 2012

http://www.ons.gov.uk/ons/rel/rssi/retail-sales/may-2013/rft-rssi-tables-may-2013.xls
Half of all internet users visit Amazon and eBay

Active reach of selected online retailers on laptop, desktop and mobile

Active reach (%)

<table>
<thead>
<tr>
<th>Retailer</th>
<th>Active Reach</th>
</tr>
</thead>
<tbody>
<tr>
<td>Amazon</td>
<td>52</td>
</tr>
<tr>
<td>eBay</td>
<td>51</td>
</tr>
<tr>
<td>Argos</td>
<td>21</td>
</tr>
<tr>
<td>Tesco</td>
<td>18</td>
</tr>
<tr>
<td>Asda</td>
<td>14</td>
</tr>
<tr>
<td>Next</td>
<td>10</td>
</tr>
<tr>
<td>Marks and Spencer</td>
<td>9</td>
</tr>
<tr>
<td>ASOS</td>
<td>9</td>
</tr>
<tr>
<td>John Lewis</td>
<td>8</td>
</tr>
<tr>
<td>Debenhams</td>
<td>8</td>
</tr>
</tbody>
</table>

Source: comScore MMX Multi-Platform, UK, April 2013
A fifth of mobile internet users have made purchases from their handset

Mobile retail activities conducted by mobile internet users

Mobile internet users (%)

- Found store location
- Purchased goods or services
- Compared product prices
- Researched product features
- Checked product availability
- Found coupons or deals

Source: comScore MobiLens, UK, 3 month averages ending April 2013 and April 2012
The telecoms industry

Chris Adams,
Head of Market Intelligence for Telecoms and Networks
Summary

- Total telecoms revenue ↓ Retail revenues ↑
- Total fixed lines ↓ but ↑ in residential lines
- Call volumes ↓ while the basket price of residential fixed services ↑
- Active mobile subscribers ↑ and average mobile data consumption ↑
- Over a million additional fixed broadband connections ↑
- Superfast broadband take-up has doubled since June 2012 ↑
Total telecoms revenue fell by 1.8% in 2012...

Source: Ofcom / operators / IDC

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Figure 5.22
... however, retail revenues increased by 0.9% during the year

![Chart showing revenue by category from 2007 to 2012.]

Source: Ofcom / operators

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Figure 5.23
Average household telecoms spend increased after a period of decline

Source: Ofcom / operators / ONS
Total call volumes continued to decline in 2012, falling by 4.2% during the year.

![Bar chart showing billions of minutes for different years and categories: Pre-pay mobile, Post-pay mobile, Fixed. Source: Ofcom / operators.]

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Figure 5.24
The average cost of a mobile-originated call minute is 5% lower than for fixed calls.

Source: Ofcom / operators
Fixed voice
The total number of fixed lines fell in 2012, but residential lines increased by 2.1%
Fixed voice volumes fell by 7.7% in 2012

Minutes (billions)

<table>
<thead>
<tr>
<th>Year</th>
<th>Others</th>
<th>International calls</th>
<th>Calls to mobiles</th>
<th>UK geographic calls</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
<td>31.0</td>
<td>6.9</td>
<td>14.6</td>
<td>97.0</td>
</tr>
<tr>
<td>2008</td>
<td>28.2</td>
<td>7.1</td>
<td>13.5</td>
<td>91.9</td>
</tr>
<tr>
<td>2009</td>
<td>23.7</td>
<td>6.7</td>
<td>12.3</td>
<td>85.1</td>
</tr>
<tr>
<td>2010</td>
<td>21.7</td>
<td>6.7</td>
<td>11.8</td>
<td>82.8</td>
</tr>
<tr>
<td>2011</td>
<td>19.7</td>
<td>6.5</td>
<td>10.3</td>
<td>74.6</td>
</tr>
<tr>
<td>2012</td>
<td>18.4</td>
<td>5.8</td>
<td>9.4</td>
<td>68.9</td>
</tr>
</tbody>
</table>

Source: Ofcom / operators

Page 336 Figure 5.29
Use of alternatives to traditional voice calls are increasing

Source: Ofcom research, data as at Q1 of each year
The price of a basket of residential fixed voice services increased in 2012

£ per month (2012 prices)

2007: 22.44, -1.2%
2008: 22.18, -1.1%
2009: 21.72, -2.1%
2010: 21.69, -0.1%
2011: 21.17, -2.4%
2012: 21.27, +0.5%

Source: Ofcom / operators
Mobile telecoms
Smartphone take-up is driving shifts in the mobile market

Number of active mobile subscribers, by pre-pay and post-pay

Source: Ofcom / operators
Most new contracts have a 24-month minimum term

Proportion of sales (%)

Source: GfK Retail and Technology UK Ltd
ARPU increased slightly as subscribers shifted to post-paid tariffs in 2012

Source: Ofcom / operators
Over 25% of mobile users download apps or use instant messaging

Source: Ofcom research, data as at Q1 of each year
Fixed broadband services
Proportion of homes using mobile broadband fell in the year to Q1 2013

Household penetration of fixed and mobile broadband

Source: Ofcom research
There were over a million additional fixed broadband connections in 2012

Source: Ofcom / operators
Take-up of superfast broadband services has doubled since June 2012

Connections (millions)

<table>
<thead>
<tr>
<th>Quarter</th>
<th>2010 Q1</th>
<th>2011 Q1</th>
<th>2011 Q2</th>
<th>2011 Q3</th>
<th>2011 Q4</th>
<th>2012 Q1</th>
<th>2012 Q2</th>
<th>2012 Q3</th>
<th>2012 Q4</th>
<th>2013 Q1</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>0.3</td>
<td>0.9</td>
<td>2.9</td>
<td>4.2</td>
<td>5.3</td>
<td>6.5</td>
<td>8.9</td>
<td>11.0</td>
<td>15.0</td>
<td>17.5</td>
</tr>
</tbody>
</table>

Source: Ofcom / operators. Superfast is defined as a package having a headline speed greater than 30Mb/s
Superfast broadband driving home-working

Change in use, compared to previous broadband connection

- Streaming HD TV programmes or films: 36% (Much increased use), 28% (Slightly increased use), 26% (Use about the same), 34% (Slightly decreased use), 27% (Much decreased use)
- Streaming TV programmes or films: 35% (Much increased use), 34% (Slightly increased use), 28% (Use about the same), 35% (Slightly decreased use), 27% (Much decreased use)
- Uploading to cloud services: 30% (Much increased use), 34% (Slightly increased use), 45% (Use about the same), 22% (Slightly decreased use), 3% (Much decreased use)
- Uploading video content: 22% (Much increased use), 24% (Slightly increased use), 46% (Use about the same), 30% (Slightly decreased use), 3% (Much decreased use)
- Working from home: 3% (Much increased use), 27% (Slightly increased use), 46% (Use about the same), 24% (Slightly decreased use), 3% (Much decreased use)

Source: Ofcom research, 2013
Average price of a fixed broadband connection increased in real terms in 2012

<table>
<thead>
<tr>
<th>Year</th>
<th>Average Price £ per month</th>
<th>Annual Change %</th>
<th>Average Actual Speed (November)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
<td>£21.17</td>
<td>-13.3%</td>
<td>n/a</td>
</tr>
<tr>
<td>2008</td>
<td>£18.73</td>
<td>-11.5%</td>
<td>3.6Mbit/s</td>
</tr>
<tr>
<td>2009</td>
<td>£17.77</td>
<td>-5.1%</td>
<td>4.1Mbit/s (April)</td>
</tr>
<tr>
<td>2010</td>
<td>£16.20</td>
<td>-8.9%</td>
<td>6.2Mbit/s (November)</td>
</tr>
<tr>
<td>2011</td>
<td>£16.17</td>
<td>-0.1%</td>
<td>7.6Mbit/s (November)</td>
</tr>
<tr>
<td>2012</td>
<td>£16.35</td>
<td>+1.1%</td>
<td>12.0Mbit/s (November)</td>
</tr>
</tbody>
</table>

Source: Ofcom / operators
4G
30% of smartphone users intend to upgrade to 4G after their contract expires

Source: Ofcom research, April 2013
Post

Steven Cape,
Senior Analyst,
Market Intelligence
Mail volumes have declined by 5.9%

Volume (million items)

Source: Ofcom / operators
But total revenues have risen by 7.2%
Despite increases, the volume of mail delivered by other operators still accounts for less than 0.2% of total volumes.

Source: Ofcom / operators
The growth in access volumes continues to slow while its contribution to total mail volumes grows.

Year on year growth rate of access volumes:
- 71.8%
- 39.1%
- 20.3%
- 14.8%
- 2.2%
- 0.9%

Proportion of access in total mail volume:
- 17%
- 25%
- 33%
- 40%
- 43%
- 46%

Source: Ofcom / operators
But despite the continued growth in access, the majority of business senders use only Royal Mail.

Proportion of respondents (%)

<table>
<thead>
<tr>
<th>Role of post in the organisation</th>
<th>All businesses</th>
<th>Administrative only</th>
<th>Critical for communications</th>
<th>Core to business operations</th>
</tr>
</thead>
<tbody>
<tr>
<td>Other provider only</td>
<td>2%</td>
<td>2%</td>
<td>2%</td>
<td>1%</td>
</tr>
<tr>
<td>Royal Mail + other provider</td>
<td>24%</td>
<td>19%</td>
<td>28%</td>
<td>31%</td>
</tr>
<tr>
<td>Royal Mail only</td>
<td>73%</td>
<td>78%</td>
<td>69%</td>
<td>68%</td>
</tr>
</tbody>
</table>

Source: Ofcom research, Q3 2012-Q2 2013
And the majority of mail received by consumers is sent by businesses

Source: Ofcom research, Q3 2012-Q2 2013
Questions?