Ofcom analyst briefing

The Communications Market Report 2014

7 August 2014
Agenda

Market Overview
Jane Rumble, Head of Media Research and Market Intelligence

The audio-visual industries
Jonathan Fenn, Senior Media Analyst

Internet and web-based content
Andrew Jackson, Senior Convergence Analyst

The telecoms industries
Nick Collins, Senior Telecoms Analyst

Post
Steven Cape, Senior Analyst, Market Intelligence
Market overview

Jane Rumble, Head of Media Research and Market Intelligence
TV reported the largest rise in revenues

Communications industry revenue: telecoms, TV, radio, post

<table>
<thead>
<tr>
<th>Year</th>
<th>Telecoms</th>
<th>TV</th>
<th>Radio</th>
<th>Post</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008</td>
<td>41.6</td>
<td>7.0</td>
<td>1.1</td>
<td>11.2</td>
<td>60.9</td>
</tr>
<tr>
<td>2009</td>
<td>41.1</td>
<td>6.8</td>
<td>1.1</td>
<td>11.1</td>
<td>60.1</td>
</tr>
<tr>
<td>2010</td>
<td>40.5</td>
<td>6.7</td>
<td>1.1</td>
<td>11.8</td>
<td>60.1</td>
</tr>
<tr>
<td>2011</td>
<td>39.4</td>
<td>6.9</td>
<td>1.2</td>
<td>12.4</td>
<td>59.8</td>
</tr>
<tr>
<td>2012</td>
<td>39.3</td>
<td>7.3</td>
<td>1.2</td>
<td>12.5</td>
<td>60.2</td>
</tr>
<tr>
<td>2013</td>
<td>38.6</td>
<td>7.5</td>
<td>1.2</td>
<td>12.9</td>
<td>60.2</td>
</tr>
</tbody>
</table>

Annual change:
- Telecoms: -1.7%
- TV: 3.4%
- Radio: -2.1%
- Post: 2.9%

5 year CAGR:
- Telecoms: -1.5%
- TV: 2.8%
- Radio: 0.9%
- Post: 1.6%

Source: Ofcom/ operators
Note: Includes licence fee allocation for radio and TV. Figures are in nominal terms.
Falling household spend on communications

£ per month (2013 prices)

Source: Ofcom / operators/ ONS
Notes: Adjusted for CPI; includes VAT.
Take-up of connected devices grows

Source: Ofcom research
Nearly six in ten consumers now report accessing the internet on their mobile

Source: Ofcom research, data as at Q1 of each year

Figure 1.4
Young people spend as much time on text comms as watching TV or films

Proportion of media and communications time, by age

<table>
<thead>
<tr>
<th>Age Group</th>
<th>TV or films on a TV set</th>
<th>TV or films on another device</th>
<th>Short video clips</th>
<th>Text comms</th>
<th>Radio on radio set</th>
<th>Voice comms</th>
<th>Games</th>
<th>Other audio</th>
<th>Other internet media</th>
<th>Other non-internet media</th>
</tr>
</thead>
<tbody>
<tr>
<td>65+</td>
<td>49%</td>
<td>15%</td>
<td>12%</td>
<td>6%</td>
<td>4%</td>
<td>7%</td>
<td>2%</td>
<td>10%</td>
<td>6%</td>
<td>3%</td>
</tr>
<tr>
<td>55-64</td>
<td>45%</td>
<td>13%</td>
<td>8%</td>
<td>6%</td>
<td>10%</td>
<td>3%</td>
<td>10%</td>
<td>5%</td>
<td>6%</td>
<td>5%</td>
</tr>
<tr>
<td>45-54</td>
<td>39%</td>
<td>13%</td>
<td>6%</td>
<td>5%</td>
<td>14%</td>
<td>3%</td>
<td>10%</td>
<td>6%</td>
<td>5%</td>
<td>5%</td>
</tr>
<tr>
<td>35-44</td>
<td>34%</td>
<td>12%</td>
<td>5%</td>
<td>6%</td>
<td>18%</td>
<td>4%</td>
<td>10%</td>
<td>5%</td>
<td>5%</td>
<td>5%</td>
</tr>
<tr>
<td>25-34</td>
<td>31%</td>
<td>8%</td>
<td>5%</td>
<td>6%</td>
<td>20%</td>
<td>7%</td>
<td>12%</td>
<td>5%</td>
<td>5%</td>
<td>5%</td>
</tr>
<tr>
<td>16-24</td>
<td>24%</td>
<td>9%</td>
<td>1%</td>
<td>5%</td>
<td>23%</td>
<td>9%</td>
<td>11%</td>
<td>7%</td>
<td>5%</td>
<td>5%</td>
</tr>
<tr>
<td>All adults 16+</td>
<td>37%</td>
<td>10%</td>
<td>5%</td>
<td>5%</td>
<td>16%</td>
<td>5%</td>
<td>11%</td>
<td>5%</td>
<td>5%</td>
<td>5%</td>
</tr>
</tbody>
</table>


Source: Ofcom
The audio-visual industries

Jonathan Fenn,
Senior Media Analyst,
Market Intelligence
Overall TV revenues were up by 3.4%

Total TV industry revenue, by source

<table>
<thead>
<tr>
<th>Year</th>
<th>Subscription revenue</th>
<th>Net advertising revenue</th>
<th>BBC income allocated to TV</th>
<th>Other revenue</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008</td>
<td>£2,554</td>
<td>£793</td>
<td>£11,220</td>
<td>£0</td>
</tr>
<tr>
<td>2009</td>
<td>£2,555</td>
<td>£736</td>
<td>£11,088</td>
<td>£0</td>
</tr>
<tr>
<td>2010</td>
<td>£2,563</td>
<td>£715</td>
<td>£11,801</td>
<td>£0</td>
</tr>
<tr>
<td>2011</td>
<td>£2,585</td>
<td>£723</td>
<td>£12,366</td>
<td>£0</td>
</tr>
<tr>
<td>2012</td>
<td>£2,671</td>
<td>£750</td>
<td>£12,485</td>
<td>£0</td>
</tr>
<tr>
<td>2013</td>
<td>£2,600</td>
<td>£736</td>
<td>£12,911</td>
<td>£0</td>
</tr>
</tbody>
</table>

Growth to 2013

<table>
<thead>
<tr>
<th>Source</th>
<th>1 year</th>
<th>5yr CAGR</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>£m</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>3.4%</td>
<td>2.8%</td>
<td>6.7%</td>
</tr>
</tbody>
</table>

Source: Ofcom/broadcasters. Note: Figures expressed in nominal terms.
TV advertising revenues up 4%

TV net advertising revenues, by source: 2008 - 2013

Source: Ofcom/broadcasters. Note: Figures expressed in nominal terms.
Online TV revenues grew 41% YoY

Source: IHS
Increase in programme spend driven by sports channels

Spend on network TV programmes: 2012 - 2013

<table>
<thead>
<tr>
<th>Channel</th>
<th>2012</th>
<th>2013</th>
<th>1 yr change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Channel 5</td>
<td>£1,772m</td>
<td>£1,797m</td>
<td>+3.7%</td>
</tr>
<tr>
<td>Other PSB portfolio channels</td>
<td>£2,093m</td>
<td>£2,118m</td>
<td>+3.7%</td>
</tr>
<tr>
<td>BBC digital channels</td>
<td>£1,797m</td>
<td>£1,822m</td>
<td>+3.7%</td>
</tr>
<tr>
<td>BBC Two</td>
<td>£2,118m</td>
<td>£2,143m</td>
<td>+3.7%</td>
</tr>
<tr>
<td>Channel 4</td>
<td>£1,703m</td>
<td>£1,728m</td>
<td>+3.7%</td>
</tr>
<tr>
<td>Other digital channels</td>
<td>£2,015m</td>
<td>£2,040m</td>
<td>+3.7%</td>
</tr>
<tr>
<td>ITV1/ITV Breakfast</td>
<td>£1,728m</td>
<td>£1,753m</td>
<td>+3.7%</td>
</tr>
<tr>
<td>BBC One</td>
<td>£2,040m</td>
<td>£2,065m</td>
<td>+3.7%</td>
</tr>
<tr>
<td>Film/Sport channels</td>
<td>£1,753m</td>
<td>£1,778m</td>
<td>+3.7%</td>
</tr>
</tbody>
</table>

Source: Ofcom/broadcasters. Note: Figures expressed in nominal prices
TV viewing fell below 4 hours in 2013

Average minutes of viewing per day by activity

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Timeshift</td>
<td>17.2</td>
<td>22.2</td>
<td>24.2</td>
<td>26.2</td>
</tr>
<tr>
<td>Live</td>
<td>224.9</td>
<td>219.2</td>
<td>216.4</td>
<td>205.6</td>
</tr>
</tbody>
</table>

Source: BARB
The decline was seen across all ages

Average minutes of television viewing per day, by age, all homes

Source: BARB, Network
16-24s spend less time watching live TV

Proportion of watching activities, by age group

- **16-24s**
  - Live TV: 82%
  - Recorded TV: 16%
  - DVD / Blu-ray: 13%
  - Catch-up TV or films (free): 6%
  - Streamed TV or films (paid-for): 7%
  - Short video clips: 6%

- **All adults**
  - Live TV: 69%
  - Recorded TV: 16%
  - DVD / Blu-ray: 13%
  - Catch-up TV or films (free): 7%
  - Streamed TV or films (paid-for): 6%
  - Short video clips: 5%

- **65+**
  - Live TV: 82%
  - Recorded TV: 12%
  - DVD / Blu-ray: 12%
  - Catch-up TV or films (free): 16%
  - Streamed TV or films (paid-for): 7%
  - Short video clips: 5%

Source: Ofcom
BBC iPlayer remains most popular online VOD service

Claimed use of selected online VOD services

Source: Decipher mediabug
We are increasingly turning to TV sets and tablets to access on demand content

Estimated share of the UK long-form ‘pull’ VOD market, by device (programmes/films only)

Source: 3Reasons LLP. ‘TV total’ includes VOD via set-top box, internet-enabled sets and TVs connected by games consoles.
Smart TV take-up is growing and more people are connecting them

Take-up of smart TVs among UK TV households

% of UK homes with a smart TV

2013: 7%
2014: 12%

Consumers’ use of internet connection on smart TVs

2013:
- Yes: 77%
- No: 23%

2014:
- Yes: 82%
- No: 18%

Source: Ofcom technology tracker. Data from Q1 of each year.

Source: Ofcom research, Q Have you ever used the internet connection on your smart TV set?
Internet and web-based content

Andrew Jackson,
Senior Convergence Analyst,
Market Intelligence
Mobile internet audiences grow while laptop and desktop audiences remain flat

Active audience on laptop, desktop, and mobile devices

Unique audience (000)

Source: comScore MMX, MMX-MP, and GSMA MMM, UK
Tablets are preferred over laptops, desktops and smartphones

Most important device for internet access by device ownership
Adults who own a desktop, laptop, smartphone and a tablet (%)

Source: Ofcom research, Q1 2014
We spend 22 billion minutes a month on Google websites

Top ten internet properties among the digital audience, by time spent

Total Minutes (billions)

<table>
<thead>
<tr>
<th>Property</th>
<th>Minutes (Billions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Google Sites</td>
<td>22.07</td>
</tr>
<tr>
<td>Facebook</td>
<td>14.77</td>
</tr>
<tr>
<td>Yahoo Sites</td>
<td>4.06</td>
</tr>
<tr>
<td>BBC Sites</td>
<td>3.65</td>
</tr>
<tr>
<td>Microsoft Sites</td>
<td>3.09</td>
</tr>
<tr>
<td>eBay</td>
<td>2.51</td>
</tr>
<tr>
<td>AccuWeather Sites</td>
<td>1.99</td>
</tr>
<tr>
<td>Amazon Sites</td>
<td>1.20</td>
</tr>
<tr>
<td>Glam Media</td>
<td>1.00</td>
</tr>
<tr>
<td>Sky Sites</td>
<td>0.91</td>
</tr>
</tbody>
</table>

Source: comScore MMX Multi-Platform, UK, March 2014
Digital advertising was worth £6.3bn across internet, TV and press brands

UK advertising expenditure: 2013

Expenditure (£ millions)

- Internet: 6,300
- TV: 4,516
- Press brands: 3,219
  - Non-Digital: 575
  - Digital: 3,794
- Direct Mail: 1,882
- Out of home: 990
- Radio: 537
- Cinema: 184

Source: AA/Warc Expenditure Report, July 2014
Digital display advertising grew by more than 22% in 2013

Digital advertising expenditure, by type: 2008 - 2013

£ millions

Source: IAB / PwC Digital Adspend 2008 – 2013
Mobile advertising spend doubled to more than £1bn in 2013

Mobile advertising expenditure, and mobile internet take-up

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

Source: IAB / PwC Digital Adspend 2008-2013; Ofcom consumer research.
Take-up of DVDs and Blu-Ray discs holds steady between 2005 and 2014…

Take-up of physical media

Adults (%)

Source: Ofcom Media Literacy Research 2005, Kantar Media Omnibus 2014
* Includes Blu-Ray discs in 2014
...but average DVD and Blu-Ray disc collection size increases

Size of physical media collection
Adults with collection (%)

Source: Ofcom Media Literacy Research 2005, Kantar Media Omnibus 2014
* Includes Blu-Ray discs in 2014
There are generational differences in music consumption…

Take up of physical music, digital music and music streaming, by age

Adults (%)

Source: Kantar Media Omnibus 2014
...but digital video streaming has leapfrogged digital video ownership for all ages

Take up of digital video services, by age
Adults (%)

Source: Kantar Media Omnibus 2014
The telecoms industries

Nick Collins, Senior Telecoms Analyst
Summary

- Total telecoms revenue ↓ but fixed broadband revenue ↑
- Total fixed lines ↑ but retail fixed voice revenues ↓
- Fixed call volumes ↓ while non-traditional communication ↑
- Retail mobile revenue ↓ as SMS use ↓
- Mobile data connections ↑ and use of mobile data services ↑
- ADSL broadband connections ↓ while superfast broadband take-up ↑
Total telecoms revenues fell by 1.7% in 2013

Source: Ofcom / operators / IDC
Average household telecoms spend fell by 2.9% in 2013

Source: Ofcom / operators / ONS
Total outgoing UK fixed and mobile voice call minutes fell by 3.9% in 2013

Source: Ofcom / operators
Fixed voice
Retail fixed voice revenues declined by 1.7%

Source: Ofcom / operators
The real price of a basket of residential fixed voice services increased in 2013

<table>
<thead>
<tr>
<th>Year</th>
<th>Calls to mobiles</th>
<th>International calls</th>
<th>Fixed access &amp; UK geographic calls</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008</td>
<td>2.15</td>
<td>1.22</td>
<td>18.37</td>
</tr>
<tr>
<td>2009</td>
<td>2.14</td>
<td>1.00</td>
<td>17.56</td>
</tr>
<tr>
<td>2010</td>
<td>2.21</td>
<td>0.92</td>
<td>17.98</td>
</tr>
<tr>
<td>2011</td>
<td>2.15</td>
<td>0.76</td>
<td>18.01</td>
</tr>
<tr>
<td>2012</td>
<td>2.01</td>
<td>0.69</td>
<td>18.39</td>
</tr>
<tr>
<td>2013</td>
<td>1.97</td>
<td>0.63</td>
<td>18.71</td>
</tr>
</tbody>
</table>

£ per month (2013 prices)

-4.8% 2.0% -0.9% 0.8% 1.1% Annual change -0.7%

Source: Ofcom / operators
The decline in fixed voice call volumes accelerated in 2013

Source: Ofcom / operators
Use of non-traditional communication services is increasing

Source: Ofcom research, data as at Q1 of each year
The ability to video call and lower prices are the main advantages of using VoIP

% of all adults in the UK who use VoIP

- I can see people through video calling: 61%
- Costs less than using my mobile phone: 57%
- Costs less than using my landline: 55%
- I can use video communication: 44%
- I can receive and make calls from wherever I am: 38%
- I can send/receive message or data files while talking: 28%
- I can use three-way calling: 17%
- Call quality is better if the connection is fast enough: 15%
- I can see whether others are online: 9%
- Other: 2%

Source: YouGov online survey
The total number of fixed lines increased by 2.4%, although business lines fell in 2013.

Source: Ofcom / operators
Fixed broadband services
Almost four in five UK premises are able to receive superfast broadband services

Source: Ofcom / operators, June 2014 data
The number of ADSL broadband connections fell for the first time in 2013

Source: Ofcom / operator data
Over a quarter of the fixed broadband connections were superfast in Q1 2014

Source: Ofcom / operator data
Superfast is defined as a package having a headline speed greater than 30Mb/s
Average price of a fixed broadband connection increased in real terms in 2013

<table>
<thead>
<tr>
<th>Year</th>
<th>£ per month</th>
<th>Annual change</th>
<th>Average actual speed</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008</td>
<td>£19.29</td>
<td>-11.2%</td>
<td>3.6Mbit/s (November)</td>
</tr>
<tr>
<td>2009</td>
<td>£17.81</td>
<td>-7.7%</td>
<td>4.1Mbit/s (April)</td>
</tr>
<tr>
<td>2010</td>
<td>£16.44</td>
<td>-7.7%</td>
<td>6.2Mbit/s (November)</td>
</tr>
<tr>
<td>2011</td>
<td>£16.55</td>
<td>+0.7%</td>
<td>7.6Mbit/s (November)</td>
</tr>
<tr>
<td>2012</td>
<td>£16.81</td>
<td>+1.6%</td>
<td>12.0Mbit/s (November)</td>
</tr>
<tr>
<td>2013</td>
<td>£16.96</td>
<td>+0.9%</td>
<td>17.8Mbit/s (November)</td>
</tr>
</tbody>
</table>

Source: Ofcom / operators
Increasing superfast broadband take-up is driving fixed internet revenue growth

Revenue (£bn)

2008 2009 2010 2011 2012 2013

Source: Ofcom / operators
Satisfaction with fixed broadband speed has increased

![Graph showing satisfaction levels over years]

Source: Ofcom research, data as at Q1 of each year
Mobile telecoms
The total number of mobile subscriptions fell for the first time in 2013

Source: Ofcom / operators
Note: Excludes M2M connections.
Falling SMS use resulted in a decline in retail mobile revenues in 2013

![Revenue (£bn) Chart](chart)

Source: Ofcom / operators
The real price of a basket of mobile services fell by 3.5% in 2013

Source: Ofcom / operators
More than half of new post-pay mobile contracts cost less than £20 a month

Source: GfK Retail and Technology UK Ltd
There were 55 million mobile data connections in the UK at the end of 2013

Source: Ofcom / operators
Use of mobile data services is increasing

Proportion of mobile users using service (per cent)

<table>
<thead>
<tr>
<th>Service</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Web browsing</td>
<td>40</td>
<td>47</td>
<td>52</td>
</tr>
<tr>
<td>Emailing</td>
<td>29</td>
<td>36</td>
<td>45</td>
</tr>
<tr>
<td>Downloading apps</td>
<td>19</td>
<td>29</td>
<td>35</td>
</tr>
<tr>
<td>Instant messaging</td>
<td>19</td>
<td>26</td>
<td>34</td>
</tr>
</tbody>
</table>

Source: Ofcom research, data as at Q1 of each year
4G mobile covers nearly three quarters of UK premises

Proportion of premises with 4G coverage (per cent)

UK: 73.0
UK Urban: 79.3
UK rural: 34.8

Source: Ofcom based on operator data, June 2014 data
4G take-up growing steadily

Proportion of mobile users (%)

- 4G: 12%
- Non-4G: 88%

Source: Ofcom research April 2014
Post

Steven Cape,  
Senior Analyst,  
Market Intelligence
Total mail revenues have risen by 2.9%...
…while mail volumes have declined by 5%

Source: Ofcom / operators
Access mail accounts for 49% of total mail

Year-on-year growth rate of access volumes

<table>
<thead>
<tr>
<th>Year</th>
<th>Proportion of access in total mail volume</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008</td>
<td>25%</td>
</tr>
<tr>
<td>2009</td>
<td>33%</td>
</tr>
<tr>
<td>2010</td>
<td>40%</td>
</tr>
<tr>
<td>2011</td>
<td>43%</td>
</tr>
<tr>
<td>2012</td>
<td>46%</td>
</tr>
<tr>
<td>2013</td>
<td>49%</td>
</tr>
</tbody>
</table>

Source: Ofcom / operators
End-to-end volume has grown but is less than 0.5% of total volume

Volume (million items)

<table>
<thead>
<tr>
<th>Year</th>
<th>Volume</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009</td>
<td>11.8</td>
</tr>
<tr>
<td>2010</td>
<td>11.3</td>
</tr>
<tr>
<td>2011</td>
<td>8.5</td>
</tr>
<tr>
<td>2012</td>
<td>18.0</td>
</tr>
<tr>
<td>2013</td>
<td>56.1</td>
</tr>
</tbody>
</table>

Source: Ofcom / operators
The majority of mail received by consumers is sent by businesses

Source: Ofcom research
Residential consumers are more likely to receive parcels from Royal Mail

Proportion of consumers reporting delivery of parcels, by company

Company parcels delivered by (% of all who have received a parcel in the past week)

- Only Royal Mail: 50%
- Royal Mail and any other/s: 19%
- Only other/s: 10%
- Don't know: 21%

Source: Ofcom research
Questions?