Continuity of telecoms services was maintained during 2002, showing that consumers are still willing to purchase telecoms services and are becoming interested in new technologies.

Market overview

Despite the continuing turbulent times for the telecoms market, 2002 saw the demand for telecoms services grow, with mobile, Internet and especially broadband services accounting for an increasing proportion of total telecoms revenues and volumes.

The year saw an increase in the take-up of newer services such as unmetered Internet and broadband, as well as continued growth in mobile services among residential and business consumers.

Throughout 2002, the proportion of households with both a fixed line and a mobile phone remained relatively stable at 73 per cent, and only 1 per cent of households were without telephony. Internet penetration also remained stable at 42 per cent of households, however broadband subscriptions more than tripled. The number of broadband subscribers grew to nearly 1.4 million by the end of 2002 with almost 30,000 new subscriptions a week. This increase was mostly due to narrowband Internet customers upgrading to broadband.

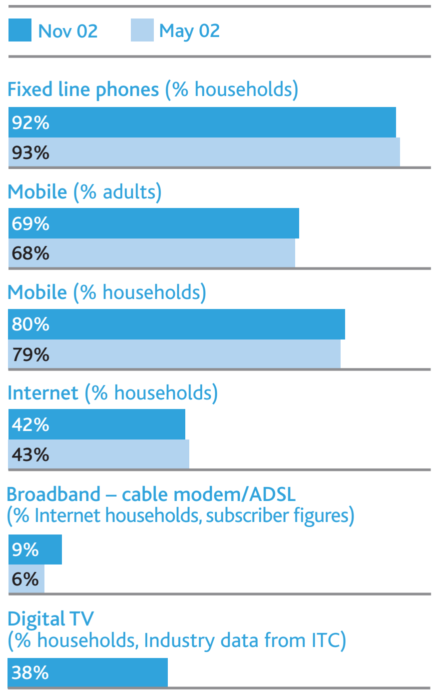
Higher revenue and call volumes

Although in 2002 the capital markets supplying telecoms services continued to be troubled, the telecoms market grew by 3 per cent in overall revenue. This continued growth suggests that although several of the competing telecoms companies have seen changes of ownership and management, the underlying infrastructure remains in use.

This growth in revenue varied across the different market sectors, with newer services such as mobile, Internet and broadband growing faster than more mature fixed line services (see figure 2).

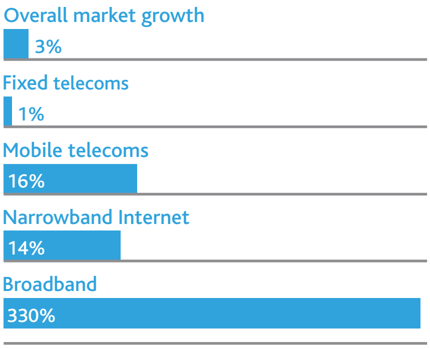
In the year to September 2002, the UK telecoms market was worth approximately £47 billion. Although the revenue growth for fixed telephony services increased by only 1 per cent, it continued to generate the largest amount of overall telecoms revenues.

Figure 1: Penetration of telecoms services



Source: Oftel market research consumer survey Nov 02

Figure 2: Estimated retail revenue growth (year to September 2002)



Source: Oftel Market Information

The year also saw narrowband Internet call minutes surpass other fixed call volumes. This reflects increased take-up of unmetered tariffs – around 75 per cent of dial-up Internet call volumes in the year ending September 2002 were unmetered.

However, growth in Internet call volumes started to slow by mid 2002. This is possibly a reflection of higher usage Internet users switching to broadband services where on-line minutes cannot be readily measured.

Mobile take-up reached 48 million subscriptions in the year ending September 2002. The growth rate slowed down dramatically compared to the previous year suggesting subscriber numbers are levelling off, but average revenue per subscriber (ARPU) started to increase. Revenue in this market increased 16 per cent to reach £8.8 billion by September 2002 reflecting a 17 per cent growth in call minutes and a 45 per cent growth in text messages over the previous year.

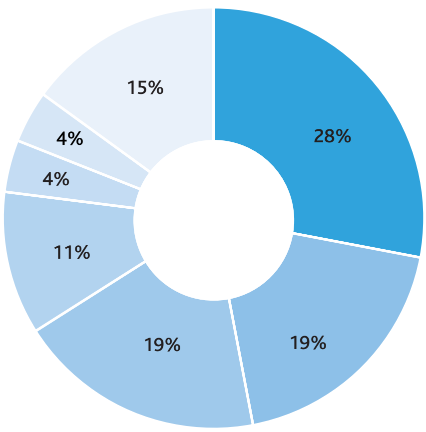
Consumer choice and satisfaction

Despite relatively static levels of activity in the more traditional telecoms services and another turbulent year for suppliers, total revenue and usage continued to rise in 2002. Continuity of service was maintained and consumer satisfaction remained as high as 90 per cent across most services.

Residential and business consumers also continued to shop around for better deals and consumers showed increased awareness of choices such as indirect access and carrier pre-selection (CPS) in the fixed market. By November 2002, approximately two-thirds of UK adults were aware of indirect access, up from 56 per cent in November 2001, and 32 per cent were aware of CPS.

Switching levels in the fixed market, at around 2 in 5, were in line with switching levels in energy markets. In the mobile market, around a third of mobile customers claim to have switched network, and almost half of users state they would consider switching payment package type if it was significantly cheaper for their needs.

Figure 3: Telecoms sector turnover – estimate year ending September 2002



Fixed calls and rental	£13bn (28%)
*Other fixed telecoms	£9bn (19%)
Mobile calls and access	£9bn (19%)
*Other mobile	£5bn (11%)
Internet and broadband	£2bn (4%)
Leased lines	£2bn (4%)
*Interconnection	£7bn (15%)

*Includes wholesale revenues
Source: Oftel Market Information

Changing market share and competition

Market shares give some indication of the extent of competition, and in the year to September 2002 the market share of the largest player in three key markets, fixed access and calls, mobile and leased line, decreased (see figure 4).

Increasing competition in all markets is also indicated by the growth of interconnection revenues, which now represent nearly £7 billion annually, an increase of 5 per cent on 2001.

Falling prices

Prices for different telecoms services continued to fall. Oftel estimated that overall, fixed telecoms prices were 3 per cent lower, in real terms, in the year ending September 2002 than in the previous year. Broadband prices also decreased by 27 per cent over the year and the increased take-up of flat rate Internet access led to price reductions for higher Internet users. Over the same period, mobile prices fell 12 per cent, in real terms.

Figure 4: Largest operator retail revenue market share (year to September 2002)

Fixed calls and access (BT)

2002	69%
2001	70%
2000	70%
1999	74%
1998	78%

Leased lines (BT)

2002	64%
2001	66%
2000	63%
1999	65%
1998	66%

Mobile (Vodafone)

2002	34%
2001	34%
2000	37%
1999	41%
1998	43%

Source: Oftel Market Information

Figure 5: Price comparison of residential services

UK Average Price relative to UK=100

	UK	Average
Fixed	100	106
Mobile	100	104
Metered Internet	100	115
Unmetered Internet	100	114
Broadband	100	98

Source: Oftel international benchmarking reports, based on tariffs valid as at Aug 02, except fixed with tariff valid at Feb 02. International average based on France, Germany, Sweden USA and, for mobile, Italy instead of USA.

Oftel's international benchmarking reports showed that, on average, UK consumers continued to get a good deal compared to consumers in other European countries and the United States (see figure 5).

Summary

2002 was another difficult year for some telecoms companies financially, following on from a turbulent market in 2001. Overall, however, continuity of telecoms services was maintained, showing that consumers are still willing to purchase telecoms services and are becoming interested in newer technologies.

Consumers continued to shop around for better deals and showed an increased awareness of the choices available.