Oftel Office of Telecommunications

Consumers' use of Internet

Oftel residential survey
Q9 May 2002

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Chapter one

Introduction

1.1 This report provides an overview of the key findings of consumer behaviour in the Internet market, taken from the ninth wave of Oftel's quarterly residential consumer survey, conducted in May 2002. Results from previous waves are used for comparison purposes where appropriate and referred to throughout this report.

1.2 The report provides trend information on which subsequent quarterly results can be compared and examines differences between consumers with different social characteristics. **The sample and methodology have been changed this quarter. It is important to understand these changes and the effect this has on the results. Please see annex 1 for further details.**

1.3 The survey was conducted for Oftel by Recom (Research into Communications) amongst 2258 UK adults[1] during May 2002, of whom 43% claimed to be connected to the Internet at home. The report has been prepared by Oftel[2], based on the results provided by Recom.

1.4 This report covers:

- Internet penetration
- Usage of ISPs and packages
- Time spent online
- Satisfaction with overall service
- Usage outside the home

[1] This survey was conducted amongst a representative sample of UK adults, reflecting the UK profile of sex, age, social grade, region and employment status. Data has also been weighted to ensure the sample is representative of the UK adult population. All data shown is weighted data. Unweighted base sizes are shown on charts and tables to show the number of people who were asked the question. Because the survey was conducted amongst a sample of adults, rather than the whole population, the data may be subject to a small margin of error. The error margin for this total sample of 2258 consumers is about 1-2%, but is higher amongst smaller subgroups. Results referred to as 'significantly' different, have been tested at the 95% level of confidence and hence are outside of the error margins and therefore can be considered real changes.

[2] The report should not be seen as recommended best buys and should not therefore be relied upon when making purchase decisions. Oftel has conducted its own checks on the data in this report and whilst we consider it to be correct, Oftel accepts no liability in respect of any of the results provided to it by Recom or any decisions taken by any person in reliance on the report.

1.5 A copy of the questions is attached in annex 2. Topics to be researched each quarter are requested by Oftel project teams and results feed into current investigations and reviews in individual market areas.

Chapter 2 - Summary findings

Oftel changed the survey sample and methodology this quarter in order to better represent consumers in rural and deprived areas. Due to these changes, some results may appear to have fallen slightly compared with last quarter (eg fixed, mobile, and Internet penetration). This is not the case. A control survey using the original sample was conducted in parallel to the new survey – the results from both surveys are shown in the main sections of this report to assist understanding of whether any change is due to the sample differences or due to a real change in consumer behaviour. The results from the new survey are quoted in the summary below as subsequent reports will be compared with this information.

Headline figures

- 48% UK adults use the Internet in a variety of locations
- 43% UK homes connected to the Internet
- 48% Internet homes currently using unmetered packages
- 6% Internet homes using broadband – according to recent subscriber figures
- 9 hours is the average weekly household time spent online

Little change in Internet market – growth slowed significantly in recent quarters

2.1 Internet access amongst UK households has remained fairly unchanged since February and currently stands at 43%[3]. The changes in the sample have not largely affected results in the Internet market.

2.2 Consumers living in higher deprivation areas are significantly <u>less</u> likely to have home Internet access than more affluent areas (21% and 53% respectively). Internet penetration in rural areas is significantly higher (50%) than within urban areas (42%).

2.3 A further 8% UK households don't have Internet at home and claim to use the Internet from various locations, broadly unchanged in recent quarters, most popular access point other than at home is the workplace. Use outside the home remains more popular amongst those with home Internet access.

2.4 PC penetration remains stable at 52%, and is less prevalent in less affluent areas.

2.5 The rise in use of unmetered packages reported last quarter has been sustained, they remain the most popular package – currently used by 48% of Internet households, and consumers continue to prefer PSTN/dial up access and connection via a PC/laptop.

2.6 The majority of UK households with Internet access pay for their subscription and/or call costs themselves. Just over 1 in 10 (13%) have their home Internet equipment and/or usage paid for by their employer.

[3] Slightly lower than the 45% reported last quarter due to sample changes and greater inclusion of deprived areas where Internet penetration is lower than average

Increase in weekly time online has been sustained

2.7 The average weekly household time spent on line is currently 9 hours. This increased last quarter from an average 8 hours. Heavier users remain younger to middle age groups, larger households and higher income groups although this quarter sees a rise in online time amongst DE social grades – currently spending 12 hours per week online.

Satisfaction with overall Internet service remains stable

2.8 9 out of 10 households (88%) are satisfied with their overall Internet service – broadly unchanged over the last year. Satisfaction levels remain behind those for the fixed and mobile markets – both of which stand at 96%.

2.9 84% are satisfied with the quality of service and reliability of their home Internet service, and access speeds remain less satisfactory - 72% satisfied. Perhaps continued dissatisfaction with the aspect will encourage consumers to look towards faster access methods.

Consumers connecting/switching to Internet via broadband

2.10 Currently 6% of Internet households connect via broadband. Almost a third connected straight to the Internet using a broadband connection and the remainder upgraded – (majority from PSTN and a few from ISDN). As subscriber figures continue to rise we will be tracking this along with the type of package (metered/unmetered) consumers are upgrading from in order to understand the drivers of broadband take up.

Main findings

Chapter 3

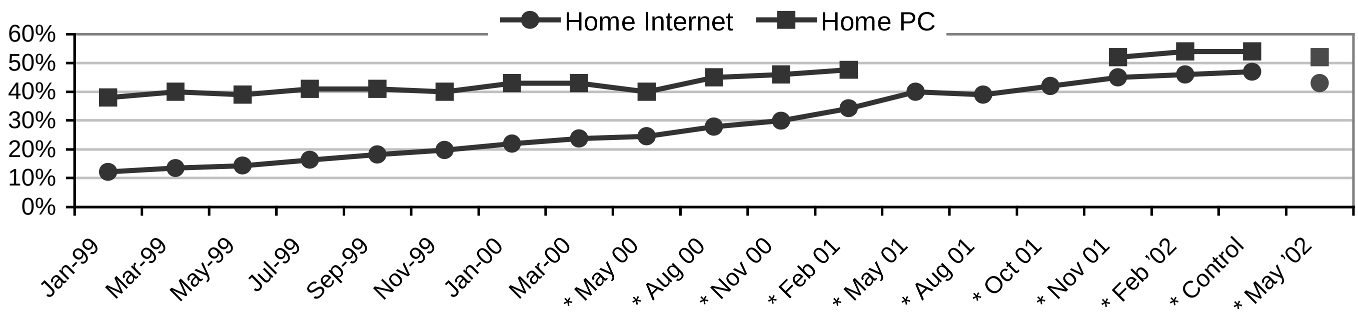
UK Internet penetration at home

3.1 Home Internet penetration and PC ownership both remain stable. Growth has slowed significantly in recent quarters and remains virtually unchanged since February '02.

3.2 This quarters' survey was conducted amongst a sample of adults, more accurately representing rural and deprived areas. A control sample was also conducted for comparison purposes, results from both surveys are shown in figure 3a. Future reports will show trend data using the revised sample. New features from this quarter onwards include whether the respondent lives in a rural or urban area, and the relative affluence of the area[4].

3.3 Currently 43% of UK homes have Internet access. This is slightly lower than the control sample due to the increased representation of deprived areas – Internet access is only established in 21% of homes within areas defined as high deprivation, compared to 53% in low deprivation areas therefore lowering overall average Internet penetration.

Figure 3a *% UK homes with Internet access*
*Base: *UK homes, May '02 (Base: 2258)*



** Note – Figures up to March 2000 are based on GB population and are taken from MORI's Technology Tracker. Figures from May 2000 onwards include Northern Ireland and therefore represent the UK adult population.*

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[4] Deprivation index is based on a composite score of the level of unemployment, overcrowding, non-car ownership and non-home ownership in an area. The index is only available for the UK mainland (ie excluding Northern Ireland) this quarter. 46% of GB adults are classified as living in areas of low deprivation, 47% in areas of medium deprivation and 7% in areas of high deprivation.
The urban definitions are as follows: urban (large) – cities/large towns, urban (medium) – medium towns, urban (small) – small satellite or isolated towns, rural – accessible rural. These definitions cover over 99% of the UK population. It is estimated that just over 1% of the population are in remote rural areas difficult to access – about half of this group (those in the Highlands and Islands of Scotland) are excluded from our sample.

3.4 Similarly, PC ownership also remains broadly unchanged, and the slightly lower penetration recorded amongst the revised May ’02 sample (52%) is again due to the increased proportion of interviews conducted within deprived areas where PC ownership is less prevalent - 63% of homes within low deprivation areas have a PC compared to 30% of those in areas of greater deprivation.

3.5 PC ownership continues to follow a similar pattern to Internet penetration – most popular amongst younger to middle age customers and higher income groups as shown in figure 3b.

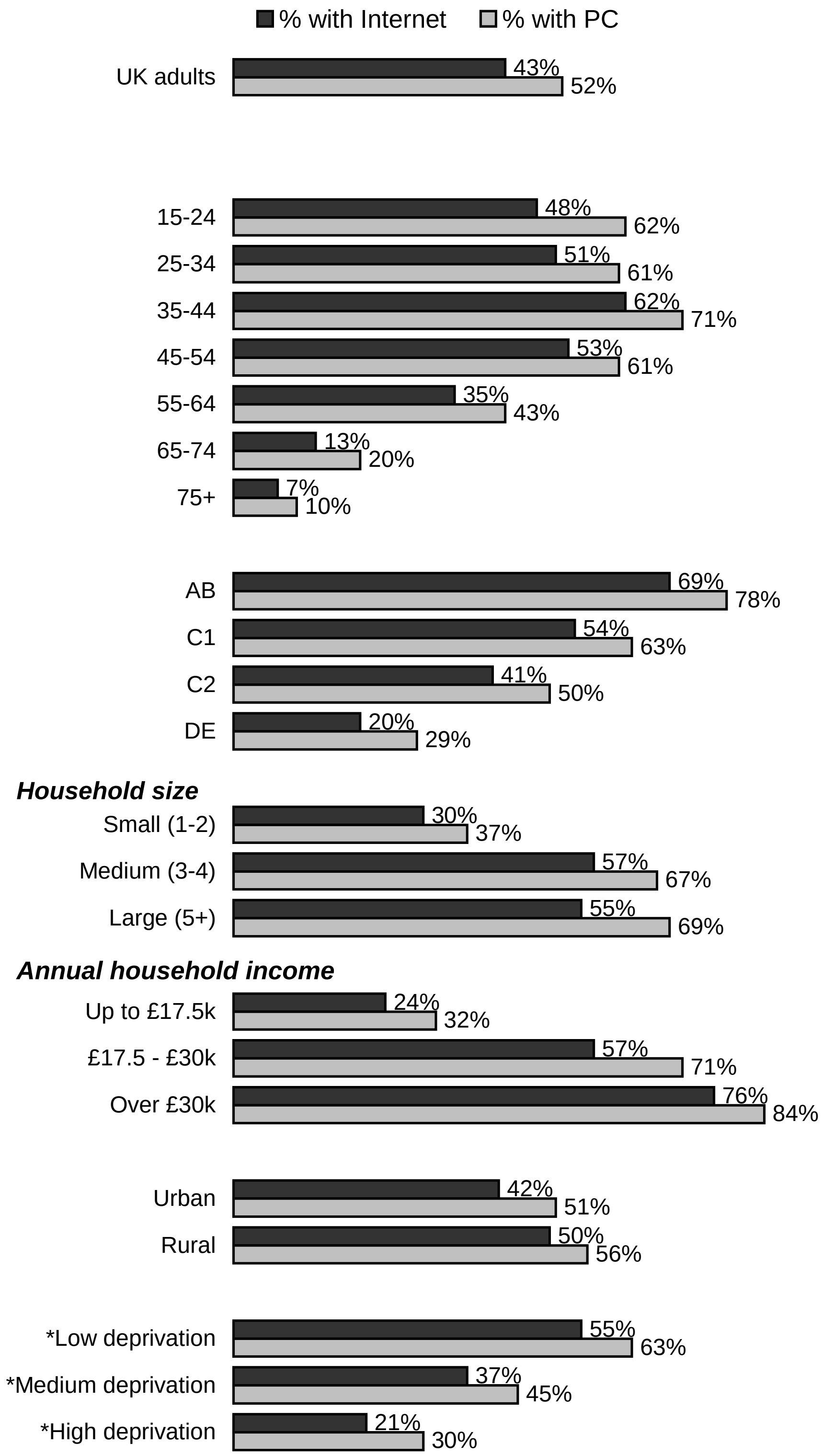
Internet usage outside the home

3.6 A further 5% of UK adults access the Internet from locations other than home. Combined with those accessing from home this equates to around half (48%) of all adults using the Internet. There has been little change in this figure since August 2001. Further details on use of alternative access points are discussed in section 7.

Which consumers are connecting to the Internet at home?

3.7 Consumers living in rural areas in the UK are significantly more likely to have home Internet access (50%) than those living in urban areas (42%). This could be linked to lifestyle, or simply the demographics of consumers living in these areas – more likely to be higher social grades and higher income groups who are more likely to have home Internet access.

Figure 3b ***% adult population with PC and Internet at home***
Base: UK residential consumers aged 15+, May '02 (Base: 2258)



***** *Nb. GB only, see footnote 4 for details on deprivation*

Chapter 4

Connection methods, ISPs, and packages used

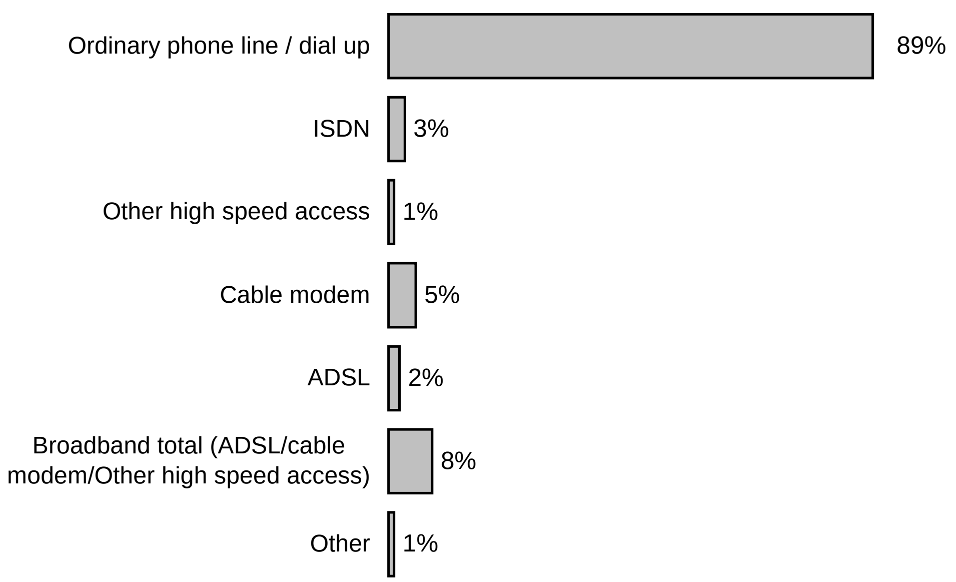
Method of connecting to the Internet at home

4.1 The PC or laptop remains the most popular method of connecting to the Internet, currently used by 94% of UK homes with Internet. Others mentioned mobile phones (8%), digital television (9%) and games consoles (3%) – various other methods were also mentioned but to a lesser extent.

4.2 A total of 16% of Internet homes are currently using methods other than a PC. Those most likely to use these methods of access tend to be men and younger consumers, lower income groups and DE social grades. Currently 2% of homes without a fixed line are using the Internet via a mobile and PC/laptop.

4.3 Figure 4a shows the various types of access used by homes with Internet access. Ordinary phone line/dial up remains the most popular method, currently used by almost 9 out of 10 households (89%).

Figure 4a ***Changing penetration of methods used by consumers to access the Internet at home***
Base: UK homes with Internet access, May '02 (Base: 933, 4% 'don't knows' have been excluded)



4.4 2% of Internet homes claimed to use ADSL which is broadly in line with current subscriber estimates from BT and Kingston. In total, subscriber estimates suggest about 6% of Internet homes use cable modem/ADSL or other high speed access. The survey results are slightly higher than these estimates but within the error margins. There are likely to be variations in these figures due to these margins and until penetration rises, lowering them, we will continue to report on Industry subscriber estimates.

Type of connection used before

4.5 Around 3 in 5 respondents claiming to use broadband (DSL or cable modem) access upgraded from an ordinary phone line dial up connection. Just less than 1 in 10 said they previously used an ISDN line. The remainder were not previously connected to the Internet at home. These figures have been drawn from a base size of less than 100 so apply caution to results.

Employers paying for home Internet usage

4.6 Just over 1 in 10 (13%) consumers with Internet access at home have their equipment and/or usage (ie. subscriptions and call costs) paid for by their employer, 5% have their equipment paid for, 3% call costs and/or subscriptions, and 6% have both paid for by their employer.

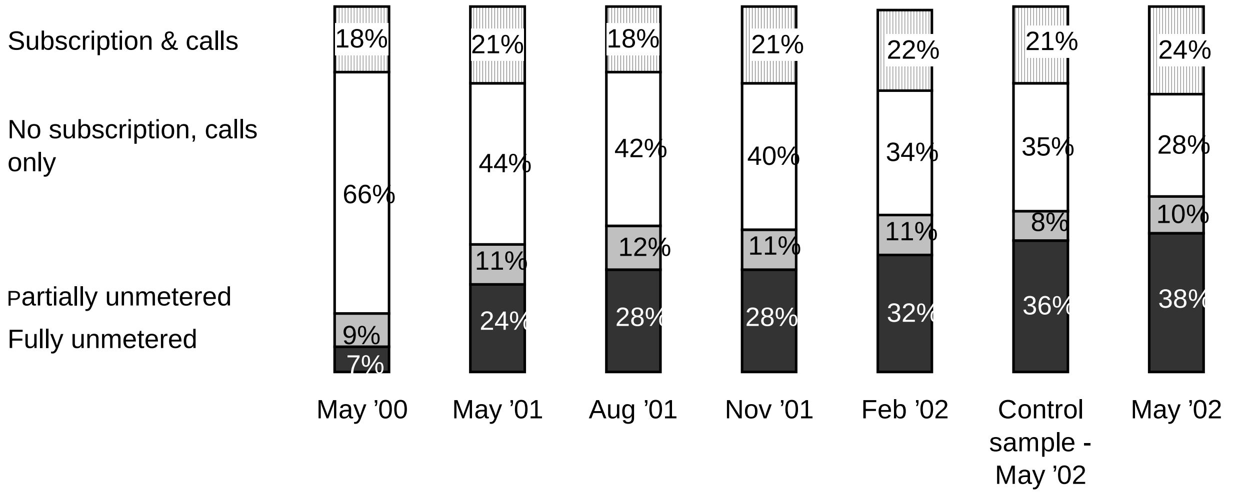
4.7 These consumers are more likely to be men, middle age groups and higher social grades. Around 2 in 5 (45%) of those who have at least some of their Internet costs paid for by their employer, are light users.

Type of Internet package used

4.8 Figure 4b shows results from both the new sample survey from this quarter alongside the control survey (based on the old sample) for comparison reasons. They confirm that the rise in use of unmetered packages reported last quarter has been sustained, along with the corresponding fall in use of calls-only packages.

4.9 Use of unmetered and subscription and calls packages is slightly higher amongst the new revised sample. This is due to a higher percentage of rural areas in the sample which tend to consist of higher income groups and social grades. These types of consumers are more likely to use these types of packages.

Figure 4b ***Main type of Internet package used at home***
Base: UK homes with Internet access May ‘02 (Base: 933, 18% ‘don’t knows/none of these’ have been excluded)



ISPs used

4.10 Consumers with Internet access continue to be making use of a range of ISPs. BT (23%), Freeserve (20%) and AOL (20%) are the most popular ISPs within the residential Internet market. The remaining significant 37% are choosing to use various other services providers for their Internet access. Figure 4c shows individual ISPs shares of the UK residential Internet market, this is based on all ISPs used.

Figure 4c ***ISP share of UK residential homes with Internet access (based on all ISPs consumer use)***
Base: All ISPs used in UK homes with Internet access, May ‘02 (Base: 933, 8% don’t knows have been excluded)

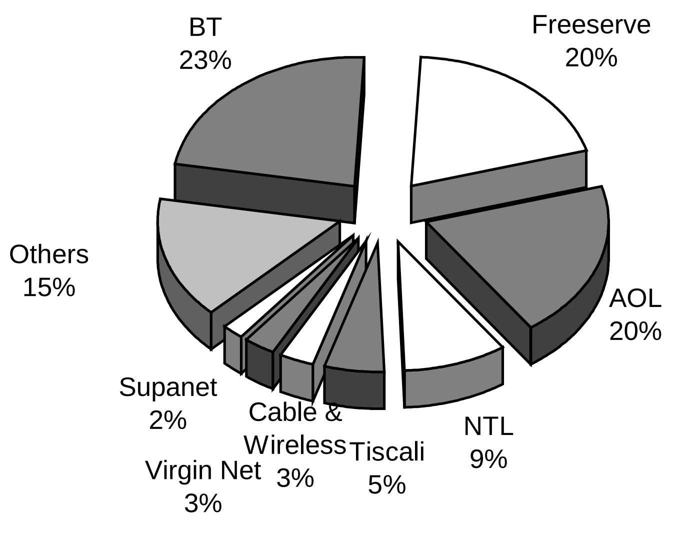


Figure 4d ISP share of UK residential homes with Internet access (based on all ISPs consumers use)
Base: All ISPs used in UK homes with Internet access May '02 (Base: 933, 11% 'don't knows' have been excluded)

	Aug '00	May '01	Aug '01	Nov '01	Feb '02	May '02
BT	15%	15%	18%	16%	**20%**	**23%**
Freeserve	27%	18%	19%	21%	**21%**	**20%**
AOL	10%	17%	16%	15%	**17%**	**20%**
NTL	5%	8%	9%	9%	**11%**	**9%**
Tiscali (including Tiny Online and Lineone from May '02 onwards)	-	-	-	3%	**2%**	**5%**
Virgin Net	3%	3%	3%	3%	**2%**	**3%**
Cable & Wireless	3%	-	-	2%	**2%**	**3%**
Supanet	3%	3%	2%	2%	**-**	**2%**
Netscape	3%	2%	2%	2%	**2%**	**-**
Tesco Net	3%	-	-	2%	**-**	**-**
MSN	-	-	2%	-	**-**	**-**
Others	23%	28%	25%	22%	**18%**	**15%**
Total	*100%*	*100%*	*100%*	*100%*	***100%***	***100%***

(– Shares of less than 2%, included in the 'Other' category)

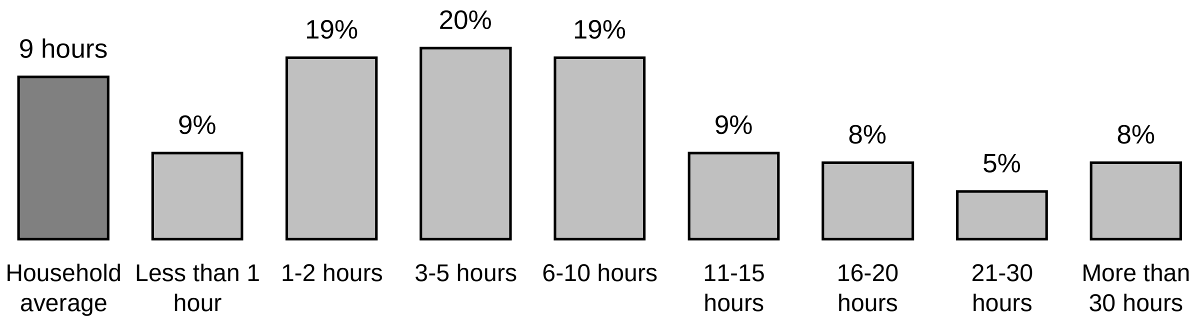
Chapter 5

General household use of the Internet

Weekly time spent online

5.1 The rise in average time online reported last quarter from 8 hours to 9 has been sustained. There has been little change in the amount of time spent online by specific groups. Younger and middle age groups continue to be heavier users, along with larger households and users of unmetered packages.

Figure 5a ***Average weekly household time spent online***
Base: UK homes connected to the Internet, May '02 (Base: 933)



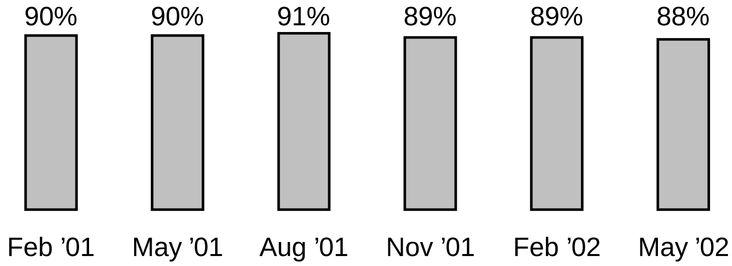
5.2 Home Internet users in the DE social group are currently using the Internet more per week than those in higher social categories. DE's are spending an average 12 hours per week online compared to 10 hours amongst AB's. This is consistent with previous findings showing that whilst these consumers are less likely to be online at home, those who are, are amongst the heavier users.

Chapter 6

Satisfaction with Internet service

6.1 Satisfaction with the overall Internet service remains stable at 88%. This figure remains lower than overall satisfaction with mobile and fixed line services, both of which currently stand at 96%.

Figure 6a ***% homes satisfied with home Internet service***
Base: UK homes with Internet access, May '02 (Base: 933, 5% 'don't knows' have been excluded)



6.2 Consumers using unmetered Internet access were slightly more satisfied (89%) than those on metered packages (85%) – in particular those paying for calls on top of a subscription fee were significantly less satisfied (81%) than other metered users (paying calls only – 89%).

6.3 The following chart shows satisfaction with various aspects of home Internet service. Speed remains less satisfactory than the quality and reliability of the service or overall satisfaction. 7 out of 10 (71%) home Internet users were satisfied with the speed of their service compared to over 8 out of 10 (84%) satisfied with the quality and reliability of service and almost 9 out of 10 (88%) for the overall service.

6.4 Satisfaction does not change amongst the Internet decision makers in the home. Perhaps the decision makers are not necessarily the main users.

Figure 6b ***Satisfaction with aspects of home Internet service***
Base: UK homes with Internet, May '02 (Base: 658, 'don't knows have been excluded)

6.5 Satisfaction with the speed of the Internet service had dropped from 80% reported in November 2002, perhaps increasing dissatisfaction with this aspect will tempt consumers to look towards connections offering faster speeds.

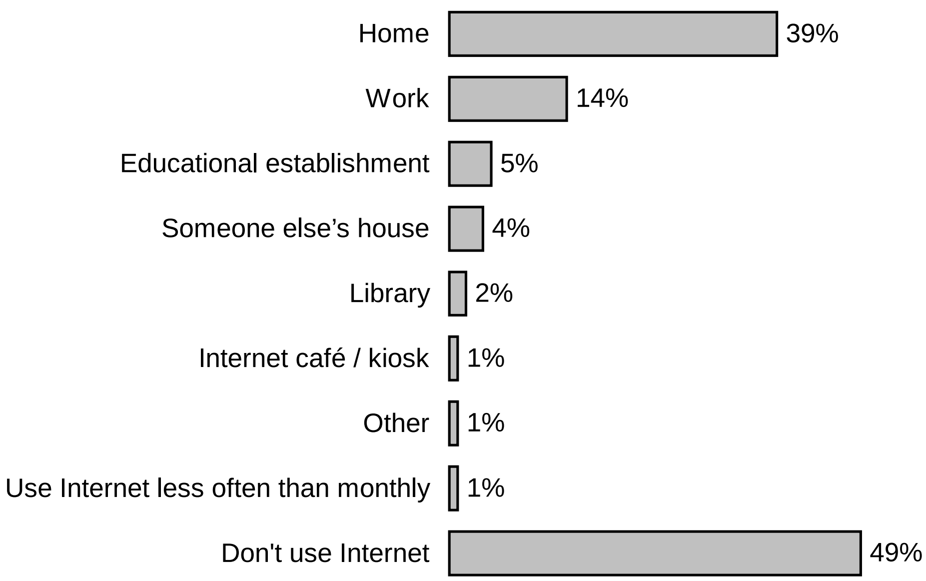
Chapter 7

Internet use outside of the home

7.1 Around half (48%) of UK adults currently claim to use the Internet in various locations. 14% access the Internet at work, this being the most popular access point other than at home. Men remain significantly more likely to access the Internet at work than women but to a lesser extent than reported last quarter (18% and 11% respectively).

7.2 There has been little change in these figures since August 2001, 1% currently use various Internet cafés or kiosks and 2% access the Internet from libraries, as shown in figure 7a. This equates to almost a quarter (23%) of UK adults who access the Internet in locations, perhaps in addition to but, outside of the home.

Figure 7a ***% adults using Internet in various locations at least once a month***
Base: UK residential consumers aged 15+, May '02 (Base: 2258)



7.3 Currently 8% of adults don't have access to the Internet at home and claim to access the Internet elsewhere. However, alternative access points are generally more popular amongst customers who already have Internet access at home.

Annex 1

Details of changes to Oftel's quarterly residential survey, May 2002

In April 2002, Oftel changed the market research agency we use to conduct the fieldwork for our UK quarterly residential surveys. At the same time we took the opportunity to refine the sample and methodology used to conduct these surveys.

The changes are as follows:

Methodology
Our surveys were previously carried on a national in home, face-to-face, CAPI omnibus survey. They are now conducted as a stand-alone Oftel survey (ie not on a shared omnibus), conducted on paper rather than CAPI, and remain in home and face-to-face.
The advantages of this new methodology include:

- giving us more flexibility in terms of who and where we interview (see below for further details).
- shorter interview for respondents (reducing potential respondent fatigue) as it is now a stand-alone Oftel survey, and is not combined with a variety of other topics on an omnibus survey
- enabling respondents to focus on telecoms issues specifically (and hence provide potentially better quality answers) rather than thinking about the variety of diverse topics that can appear on an omnibus

Sample
The sample remains a representative sample of UK adults aged 15+, representative in terms of age, gender, social grade, working status, and region. The changes include:

- Greater representation of rural and deprived areas (due to the limitations of an omnibus in reaching some of these areas).
- Controls are now set on the proportion of interviews conducted in cabled and non-cabled areas to ensure they are included in their natural proportions. Since the omnibus is not telecoms-specific, cabled status was left to fall out naturally, and no quotas were set on the number of interviews in cabled vs non-cabled areas.

These refinements enable us to control or investigate in greater detail issues that are particularly likely to influence telecoms usage. The implications of these changes are that some of the results will be affected. To understand what changes are due to these sample and methodology changes, and what changes are real changes in the market, the key tracking questions were repeated on the omnibus this quarter, in parallel to the new survey.

The main measures affected are take-up of mobile and Internet. These are lower amongst the new sample as would be expected given the higher proportion of deprived areas now included in the sample – respondents who traditionally are less likely to have these technologies. Results from both surveys are discussed where appropriate in the report to distinguish changes resulting from the sample and real changes in consumer behaviour. This should enable the reader to place the new figures (from which subsequent quarters' trend data will continue) in the context of the previous trend data.

Annex 2

Q9 May 2002 residential questionnaire – Internet questions

Q1. Do you or does anyone in your household have access to the Internet/world wide web at home (via any device eg PC, TV, mobile phone)

Q2. Do you or does anyone in your household have a PC (by PC we mean laptop or any other computer)?

Q3. Are you the person responsible for the Internet decisions in your household?

Q4. Does your work pay for any of your Internet equipment or usage

Yes – pays for equipment
Yes – pays for usage (subscription or call costs)
Yes – pays for both usage and equipment
No – pays for neither

Q5. Which of these does your household use to access the Internet at home?

PC/laptop
TV
Mobile phone/device
Personal organiser/digital assistant
Games console
Other

Q6. Any which of these types of connection does your household use to connect to the Internet at home?

Ordinary phone line/dial up access using a modem
ISDN line – mid speed access which can allow voice calls at the same time as using the Internet
DSL – high speed broadband access much faster than an ordinary phone - always on unmetered access. You can make vice calls at the same time as using the Internet
Cable modem – high speed broadband access from cable company, much faster than ordinary phone - always on unmetered access. You can make voice calls at the same time as using the Internet
High speed access via another method – eg satellite, fibre optic, fixed wireless or leased line
Other

Q7 Which type of access did you use before you got DSL/cable modem
Ordinary phone line
ISDN

Other
Nothing, previously not connected

Q8. Which Internet service provider does your household currently use (including free ISPs)?

Q9 Thinking about your households main ISP, do you have to pay a subscription fee for the package provided? This might include free usage time and normally is paid on a monthly or annual basis?

Q10 Do you ever pay any per minute call charges for the time you spend online?

Q11. Which of these statements best describes the package provided by your households main Internet service provider (ISP)?

I/we pay monthly/annual subscription and cost of calls whilst online
I/we pay no subscription fee and pay cost of online calls only
I/we pay monthly/annual subscription which gives unlimited free usage, and pay no call costs
I/we pay monthly/annual subscription which gives free usage at certain times or for certain amount of time, but pay for calls costs at other times
Q7. How many hours do you and members of your household spend using the Internet at home in a typical week?

Q12. How many hours would you say you and members of your household spend using the Internet at home in a typical week?

Q13. How satisfied are you with the following

Your home Internet service overall
The speed of your home Internet service
The quality and reliability of your home Internet service

Very satisfied
Fairly satisfied
Not very satisfied
Not at all satisfied

Q11. In which if any of the following places do you use the Internet at least once a month?
Your home
Someone else's home
Work
Internet café/shop/kiosk
Library
School/College/University/Other learning centre

Community or voluntary organisation
Somewhere else