Ofcom analyst briefing

The Communications Market Report 2015

7 August 2015
Agenda

Introduction
James Thickett, Director of Nations and Market Developments

Market overview
Jane Rumble, Director of Market Intelligence

The audio-visual industries
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The telecoms industries
Nick Collins, Senior Telecoms Analyst
Beatrix Kalmar, Senior Telecoms Analyst

Internet and online content
Steven Cape, Senior Analyst, Market Intelligence

Post
Steven Cape, Senior Analyst, Market Intelligence
Market overview

Jane Rumble,
Director of Market Intelligence
Total UK communications revenues were £56.1bn in 2014

Source: Ofcom/ operators
Average monthly household spend on communication services down since 2009

Source: Ofcom / operators/ ONS
Notes: Adjusted for CPI; historic telecoms figures have been re-stated, so are not comparable to those published in previous reports. Television excludes spend on subscriptions, download-to-own and pay-per-view online TV services.
Increase in take-up of tablets and smartphones continues

Source: Ofcom research, Q1 of each year, all adults aged 16+
Smartphones overtake laptops as the most important device to connect to the internet

Source: Ofcom research, Q1 of each year, all adults aged 16+ who use the internet at home or elsewhere.
Reported use of bundled services remained stable from 2014 to 2015

Proportion of households

Source: Ofcom research, Q1 of each year, all adults aged 16+
Satisfaction with fixed broadband and mobile telephony has decreased

Source: Ofcom research, Q1 of each year, all adults aged 16+
The audio-visual industries

Jonathan Fenn,
Senior Media Analyst,
Market Intelligence
Overall TV revenues up 3.1% YoY

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

Source: Ofcom/broadcasters. Note: Figures expressed in nominal terms.
Online TV revenues grew 38% YoY

Source: IHS
Increase in programme spend driven by sports channels

Source: Ofcom/broadcasters. Note: Figures expressed in nominal prices
Smart-TV take-up continues to grow

% of UK TV homes

<table>
<thead>
<tr>
<th>Year</th>
<th>Smart TV ownership</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>7%</td>
</tr>
<tr>
<td>2014</td>
<td>12%</td>
</tr>
<tr>
<td>2015</td>
<td>21%</td>
</tr>
</tbody>
</table>

- Research from media consultancy 3 Reasons estimates that 56% of UK TV homes had a TV connected to the internet, either via a set-top box or a smart TV, at the end of 2014.

- However, this figure is likely to be higher when other third-party devices which can also be used to connect TVs to the internet, such as games consoles or streaming devices are included.

Source: Ofcom Technology Tracker, Q1 2015.
Increase in take-up of DVRs and HDTV, while 3D TV remains niche

% of UK homes with a TV

- Total DVR take-up: 54% (2013), 62% (2014), 64% (2015)
- HD ready TV: 75% (2013), 75% (2014), 76% (2015)
- HDTV service: 50% (2013), 53% (2014), 57% (2015)
- 3D TV: 8% (2013), 10% (2014), 13% (2015)

Source: Ofcom Technology Tracker, Q1 2013-2015
Broadcast TV viewing fell for the second consecutive year

Average minutes per person per day of broadcast TV viewing: Total TV, individuals 4+

Source: BARB
All of the decline in TV viewing was to traditional live TV

Average minutes of viewing per day by activity: Total TV, Individuals 4+

Source: BARB
Fall most pronounced among under-45s

Average minutes per day of broadcast TV viewing by age group: Total TV

Source: BARB
## ITV channels had the largest decline in minutes YoY

Average minutes of viewing per day by channel group: Total TV, Individuals 4+

<table>
<thead>
<tr>
<th>Year</th>
<th>Channel 5</th>
<th>Channel 4</th>
<th>ITV</th>
<th>BBC Two</th>
<th>BBC One</th>
<th>Channel 5 portfolio channels</th>
<th>Channel 4 portfolio channels</th>
<th>ITV portfolio channels</th>
<th>BBC portfolio channels</th>
<th>Channel 5</th>
<th>Channel 4</th>
<th>ITV</th>
<th>BBC Two</th>
<th>BBC One</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>12.5</td>
<td>13.8</td>
<td>14.3</td>
<td>14.3</td>
<td>14.3</td>
<td>12.5</td>
<td>13.8</td>
<td>14.3</td>
<td>14.3</td>
<td>12.5</td>
<td>13.8</td>
<td>14.3</td>
<td>14.3</td>
<td>14.3</td>
</tr>
<tr>
<td>2011</td>
<td>13.3</td>
<td>14.3</td>
<td>14.3</td>
<td>14.3</td>
<td>14.3</td>
<td>13.3</td>
<td>14.3</td>
<td>13.3</td>
<td>13.3</td>
<td>13.3</td>
<td>14.3</td>
<td>13.3</td>
<td>14.3</td>
<td>13.3</td>
</tr>
<tr>
<td>2012</td>
<td>15.0</td>
<td>14.3</td>
<td>14.3</td>
<td>14.3</td>
<td>14.3</td>
<td>15.0</td>
<td>14.3</td>
<td>15.0</td>
<td>15.0</td>
<td>15.0</td>
<td>14.3</td>
<td>15.0</td>
<td>14.3</td>
<td>15.0</td>
</tr>
<tr>
<td>2013</td>
<td>41.1</td>
<td>38.7</td>
<td>35.9</td>
<td>35.9</td>
<td>35.9</td>
<td>41.1</td>
<td>38.7</td>
<td>41.1</td>
<td>41.1</td>
<td>41.1</td>
<td>38.7</td>
<td>41.1</td>
<td>38.7</td>
<td>41.1</td>
</tr>
</tbody>
</table>

Source: BARB
The majority of long form AV viewing is to traditional TV, but is falling

Proportion of all audio-visual viewing: traditional TV viewing vs. DVR and VoD

Source: 3 Reasons estimates (including BARB data).
Base: All devices, long-form professional AV content, Live includes simulcast. Excludes physical consumption (e.g. DVDs) and short-form
BBC iPlayer remained the most popular VoD service in 2014

Proportion watching VoD services in past 12 months (%)

Source: Kantar Media – TGI Base: GB adults 15+, all devices.
There are now over 6 million VOD subscriptions to OTT services in the UK

Source: BARB Establishment Survey Q1-Q4 2014
Q – Do you or anyone in your household, subscribe to any of the following…?
Back catalogue most common reason for subscribing

Reasons for using Amazon Prime Instant Video / Netflix

- To access back-catalogue of films: 63% (Netflix users), 60% (Amazon Prime Instant Video users)
- To access back-catalogue of TV programmes: 57% (Netflix users), 51% (Amazon Prime Instant Video users)
- To access catalogue of new film releases: 42% (Netflix users), 47% (Amazon Prime Instant Video users)
- To watch at a time that suits: 45% (Netflix users), 43% (Amazon Prime Instant Video users)
- To watch multiple episodes in a row: 38% (Netflix users), 47% (Amazon Prime Instant Video users)
- Cheaper than renting/buying DVDs/Blu-ray discs: 28% (Netflix users), 27% (Amazon Prime Instant Video users)
- To watch programmes missed when initially broadcast: 23% (Netflix users), 27% (Amazon Prime Instant Video users)
- To watch programmes wanted to see again: 23% (Netflix users), 27% (Amazon Prime Instant Video users)
- To watch something different to content on main TV: 22% (Netflix users), 24% (Amazon Prime Instant Video users)
- To watch original series made by provider: 20% (Netflix users), 24% (Amazon Prime Instant Video users)
- Cheaper than pay TV subscription: 18% (Netflix users), 20% (Amazon Prime Instant Video users)
- To watch a specific programme: 14% (Netflix users), 18% (Amazon Prime Instant Video users)
- To watch exclusive content not available elsewhere: 14% (Netflix users), 14% (Amazon Prime Instant Video users)
- To watch content suitable for children: 14% (Netflix users), 14% (Amazon Prime Instant Video users)

Source: GfK SVoD Tracker. Base: All Amazon Prime Instant Video / Netflix subscribers
The telecoms industries

Nick Collins,
Senior Telecoms Analyst

Beatrix Kalmar
Senior Telecoms Analyst
Fixed voice
Fixed voice call volumes fell by 13% in 2014

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

Proportion of respondents

Source: Ofcom Technology Tracker
Lower prices and the ability to video call and are the main advantages of using VoIP

Source: YouGov online survey
Business VoIP minutes tripled in the five years to 2014

Source: IDC

Billions of minutes

<table>
<thead>
<tr>
<th>Year</th>
<th>Minutes (Billions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009</td>
<td>5.3</td>
</tr>
<tr>
<td>2010</td>
<td>6.6</td>
</tr>
<tr>
<td>2011</td>
<td>8.6</td>
</tr>
<tr>
<td>2012</td>
<td>11.0</td>
</tr>
<tr>
<td>2013</td>
<td>13.8</td>
</tr>
<tr>
<td>2014</td>
<td>16.8</td>
</tr>
</tbody>
</table>

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Figure 4.53
The total number of fixed lines increased by 2.4%, although business lines fell in 2013

Source: Ofcom / operators
The real price of a basket of residential fixed voice services increased in 2014

Source: Ofcom / operators
Retail fixed voice revenues declined by 3%

Source: Ofcom / operators

<table>
<thead>
<tr>
<th>Year</th>
<th>Non-geographic calls</th>
<th>Calls to mobiles</th>
<th>International calls</th>
<th>Line rental &amp; bundled calls</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009</td>
<td>£1.2bn</td>
<td>£1.1bn</td>
<td>£0.5bn</td>
<td>£1.3bn</td>
</tr>
<tr>
<td>2010</td>
<td>£1.6bn</td>
<td>£1.5bn</td>
<td>£0.4bn</td>
<td>£1.2bn</td>
</tr>
<tr>
<td>2011</td>
<td>£0.9bn</td>
<td>£1.2bn</td>
<td>£0.4bn</td>
<td>£1.1bn</td>
</tr>
<tr>
<td>2012</td>
<td>£0.8bn</td>
<td>£1.0bn</td>
<td>£0.3bn</td>
<td>£1.0bn</td>
</tr>
<tr>
<td>2013</td>
<td>£0.8bn</td>
<td>£0.8bn</td>
<td>£0.3bn</td>
<td>£0.8bn</td>
</tr>
<tr>
<td>2014</td>
<td>£0.8bn</td>
<td>£0.8bn</td>
<td>£0.2bn</td>
<td>£0.8bn</td>
</tr>
</tbody>
</table>

Revenue

£10bn  £8bn  £6bn  £4bn  £2bn  £0bn

2009  2010  2011  2012  2013  2014

£9.6bn  £9.4bn  £9.0bn  £8.8bn  £8.7bn  £8.5bn

£5.1bn  £1.3bn  £1.1bn  £1.2bn  £1.0bn  £0.9bn

£1.6bn  £1.5bn  £1.2bn  £1.0bn  £0.9bn  £0.8bn

£0.5bn  £0.4bn  £0.4bn  £0.3bn  £0.3bn  £0.2bn

£1.2bn  £1.1bn  £1.0bn  £0.9bn  £0.8bn  £0.8bn

£9.6bn  £9.4bn  £9.0bn  £8.8bn  £8.7bn  £8.5bn

©Ofcom
Fixed broadband services
Fibre broadband lines up 1.3 million in 2014

Source: Ofcom / operators
One in three fixed broadband lines now superfast

Source: Ofcom / operators
Superfast broadband available to 83% of UK premises

Proportion of premises

- **UK**: 90% (NGA broadband services), 83% (Superfast broadband services)
- **UK Urban**: 92% (NGA broadband services), 88% (Superfast broadband services)
- **UK Rural**: 67% (NGA broadband services), 37% (Superfast broadband services)

Source: Ofcom / Openreach / Virgin Media / Kcom

Nations reports
Figure 4.4/4.5
Average price of a fixed broadband line increased in real terms in 2014

Source: Ofcom / operators

<table>
<thead>
<tr>
<th>Year</th>
<th>Average price £/month</th>
<th>Annual change %</th>
<th>Average actual speed Mbit/s (November)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009</td>
<td>£17.04</td>
<td>-11.0%</td>
<td>4.1Mbit/s (April)</td>
</tr>
<tr>
<td>2010</td>
<td>£16.68</td>
<td>-2.1%</td>
<td>6.2Mbit/s (November)</td>
</tr>
<tr>
<td>2011</td>
<td>£16.80</td>
<td>+0.8%</td>
<td>7.6Mbit/s (November)</td>
</tr>
<tr>
<td>2012</td>
<td>£17.08</td>
<td>+1.6%</td>
<td>12.0Mbit/s (November)</td>
</tr>
<tr>
<td>2013</td>
<td>£17.21</td>
<td>+0.8%</td>
<td>17.8Mbit/s (November)</td>
</tr>
<tr>
<td>2014</td>
<td>£18.86</td>
<td>+9.6%</td>
<td>22.8Mbit/s (November)</td>
</tr>
</tbody>
</table>
Superfast take-up driving fixed internet revenue growth

![Revenue chart showing growth from 2009 to 2014](chart.png)

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

Proportion of mobile users using service

<table>
<thead>
<tr>
<th>Service</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Web browsing</td>
<td>47%</td>
<td>52%</td>
<td>56%</td>
<td>56%</td>
</tr>
<tr>
<td>Emailing</td>
<td>40%</td>
<td>36%</td>
<td>29%</td>
<td>29%</td>
</tr>
<tr>
<td>Social networking</td>
<td>23%</td>
<td>32%</td>
<td>39%</td>
<td>43%</td>
</tr>
<tr>
<td>Downloading apps</td>
<td>19%</td>
<td>29%</td>
<td>35%</td>
<td>41%</td>
</tr>
<tr>
<td>Instant messaging</td>
<td>19%</td>
<td>19%</td>
<td>26%</td>
<td>34%</td>
</tr>
<tr>
<td>Watching video clips</td>
<td>25%</td>
<td>26%</td>
<td>26%</td>
<td>26%</td>
</tr>
</tbody>
</table>

Source: Ofcom Technology Tracker
Almost 90% of premises have outdoor 4G mobile coverage from at least one operator.

Source: Infrastructure report
UK 4G subscribers pass 23 million mark

Source: Ofcom / operators
4G users are more active on their smartphones

Proportion who do each activity on a smartphone

Accessing social networking sites: 71% vs 65%
Using online maps: 66% vs 56%
Instant messaging: 63% vs 50%
Audio-visual activities: 57% vs 40%
Online banking: 55% vs 33%
Making purchases online: 55% vs 35%
Uploading photos/video content: 51% vs 37%
Audio activities: 47% vs 28%
Using Twitter: 38% vs 28%
Internet calls: 28% vs 20%

Source: Ofcom Research, ‘Connected Devices’

Figures 1.62, 1.63, 1.64
Mobile subscriptions up 1.6 million in 2014

Source: Ofcom / operators
Total outgoing mobile call minutes increased by 2.0% in 2014

Source: Ofcom / operators
The real price of a basket of mobile services continued to fall by in 2014

£ per month (2014 prices)

- **£17.24** (£4.32 £3.69 £3.69 £2.94 £2.38 £2.94) for 2009
- **£15.86** (£4.32 £3.63 £3.02 £2.53 £1.99 £1.79) for 2010
- **£15.09** (£4.32 £3.63 £3.02 £2.53 £1.99 £1.79) for 2011
- **£14.87** (£4.32 £3.63 £3.02 £2.53 £1.99 £1.79) for 2012
- **£14.02** (£4.32 £3.63 £3.02 £2.53 £1.99 £1.79) for 2013
- **£13.96** (£4.32 £3.63 £3.02 £2.53 £1.99 £1.79) for 2014

**Source:** Ofcom / operators
Fall in retail mobile revenues from out-of-bundle messaging and calls

Source: Ofcom / operators

Revenue

£20bn
£15bn
£10bn
£5bn
£0bn

2009 2010 2011 2012 2013 2014

Out-of-bundle messaging
Out-of-bundle calls
Access and bundled services

Out-of-bundle data

Page 293
Figure 4.45
Total telecoms revenues fell by 2.0% in 2014

Source: Ofcom / operators / IDC
Internet and online content

Steven Cape,
Senior Analyst,
Market Intelligence
Smartphone and laptop ownership on par

Source: Ofcom research
Smartphones are the most important device for accessing the internet

Source: Ofcom research
Users spend more time online on smartphones than on desktops and laptops

Average time spent online in March 2015 (hours)

- Total digital audience: 88.9 hours
- Laptop and desktops: 31.3 hours
- All smartphones (browser & app combined): 58.6 hours

Source: comScore
51 billion minutes a month on Facebook

Total minutes (billions)

- Facebook: 51.04
- Google Sites: 34.16
- BBC Sites: 9.52
- Apple Inc.: 8.01
- Microsoft Sites: 7.98
- Yahoo Sites: 5.52
- eBay: 4.90
- NETFLIX.COM: 3.22
- Amazon Sites: 3.02
- Sky Sites: 2.85

Source: comScore
Digital advertising was worth £7.2bn across internet, TV and press brands

Advertising expenditure (£ millions)

- Internet: £7,194m
- TV: £4,766m
- Press brands: £2,961m
  - Non-Digital: £2,306m
  - Digital: £655m
- Direct Mail: £1,835m
- Out of home: £1,019m
- Radio: £575m
- Cinema: £202m

Source: AA/Warc Expenditure Report
Digital advertising grew 15% in 2014

Digital advertising expenditure

Source: IAB / PwC Digital Adspend
Mobile display advertising up 96%

Source: IAB / PwC Digital Adspend
Post

Steven Cape, Senior Analyst, Market Intelligence
Total addressed letter revenues are broadly stable...

Source: Ofcom / operators
... and volume decline has slowed

Source: Ofcom / operators
Access mail volumes have fallen

Year on year growth rate of access volumes

<table>
<thead>
<tr>
<th>Year</th>
<th>Proportion of access in total mail volume</th>
<th>Growth Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>44%</td>
<td>13.1%</td>
</tr>
<tr>
<td>2011</td>
<td>49%</td>
<td>3.8%</td>
</tr>
<tr>
<td>2012</td>
<td>54%</td>
<td>0.9%</td>
</tr>
<tr>
<td>2013</td>
<td>56%</td>
<td>-0.6%</td>
</tr>
<tr>
<td>2014</td>
<td>56%</td>
<td>-1.2%</td>
</tr>
</tbody>
</table>

Source: Ofcom / operators
Online shoppers value free, quick and efficient deliveries…

% of respondents stating each factor

- Offers free delivery: 56%
- Deliveries are quick and efficient: 49%
- Offers click & collect in store: 28%
- Offers range of delivery options: 26%
- The provider used for delivery: 11%

Source: YouGov
..and they like to have tracking and notification features in place

% of respondents stating each feature

- Email confirmation at all stages of delivery: 63%
- Tracking of parcel/goods in real time: 61%
- Texts with exact time of product delivery: 43%
- Click and collect: 40%
- One hour time slots for delivery: 39%
- Delivery options which include Sundays: 32%
- Able to amend delivery details after order: 32%
- Delivery to alternative collection points: 24%

Source: YouGov
But a majority are not prepared to pay

% of respondents that would be prepared to pay for each feature

- Faster delivery time: 16%
- Specified delivery time: 14%
- Real time tracking: 6%
- Change delivery details after order: 4%
- Not prepared to pay to upgrade at all: 60%

Source: YouGov
Questions?