The International Communications Market 2017

International price benchmarking

Contents

3.1 Introduction

In this section of the report we compare communications service prices in the UK to those in the other EU5 countries and the US.

We have included international pricing comparisons in the International Communications report since 2008; however, in this year's report we have used a different methodology.

For landline, mobile phone and fixed broadband services, we have used a methodology similar to that used by Teligen in its ongoing price benchmarking work for the Organisation of Economic Co-operation and Development (OECD). For dual-play and triple-play bundled services, we have used data from Teligen's *Bundle Benchmarking* service, and have compared the cost of these services using a similar methodology to that used for landline, mobile phone and fixed broadband services.

3.2 Key findings

- Across all the services and metrics included in our analysis, the UK ranked third among our six comparator countries, after France and Germany.
- The UK also ranked third in terms of both weighted average and lowest available basket prices across the services that are included in our analysis.
- France had the lowest prices overall in terms of both average and lowest available prices across all services, while the US was the most expensive on both metrics.
- The UK's best rankings were for mobile phone service prices (where it was joint first overall with France) and prices for triple-play bundles, where it ranked second (after France).
- The UK's lowest ranking was for the price required to receive fixed voice services,[72] where it came fifth.

Figure 1 Country rankings: by service type, and overall

	All services			Landline			Fixed broadband			Mobile phone			Dual-play bundles			Triple-play bundles		
	Average	Lowest	Overall	Average	Lowest	Overall	Average	Lowest	Overall	Average	Lowest	Overall	Average	Lowest	Overall	Average	Lowest	Overall
UK	**3**	**3**	**3**	4	5	**5**	4	4	**4**	2	1	**1**	3	4	**4**	2	1	**2**
FRA	1	1	1	2	1	**1**	2	1	**2**	1	2	**1**	2	3	**2**	1	1	**1**
GER	**2**	**2**	**2**	1	4	**2**	3	3	**3**	4	3	**4**	1	2	**1**	3	1	**3**
ITA	**4**	**4**	**4**	6	6	**6**	1	1	**1**	3	3	**3**	4	1	**3**	4	4	**4**
ESP	**5**	**5**	**5**	5	2	**4**	5	5	**5**	4	5	**5**	5	5	**5**	5	5	**5**
USA	**6**	**6**	**6**	2	3	**3**	6	6	**6**	6	6	**6**	6	6	**6**	6	6	**6**

Source: Ofcom, using data provided by Teligen

Note: Circles denote the top-ranking country for each metric

[72] The analysis in this report does not include the reduction in line rental from £18.99 to £11.99 for BT customers who buy only a landline telephone service, which was announced in October 2017. This will be introduced in April 2018, and is the result of an Ofcom review.

Methodology

Our analysis is based on comparing the best prices available from the leading providers by retail market share in each country to buy a 'basket' of services. Baskets are based on typical usage levels for low, medium and high users, as defined by the OECD.

Minor usage level adjustments have been made to reflect current use, especially for mobile data and fixed broadband speed requirements, where we have added the requirement for a mobile phone service with 8GB of data per month, and an ultrafast fixed broadband product with an advertised speed of 300Mbit/s or higher.

To give examples of the baskets that are used in the analysis, a mobile basket includes the requirement for a set number of calls, text messages and data use; and a fixed broadband basket includes a set amount of data and a required download speed. Voice call durations are set according to OECD definitions.

Analysis was undertaken for landline, mobile voice and fixed broadband, and for dual-play (fixed broadband and fixed voice) and triple-play (fixed broadband, fixed voice and pay-TV) service bundles. For each service, and each basket, all of the leading providers' published residential prices are costed using the defined methodology for each profile, and the cheapest offer available from each provider is considered. These results are then used to define the cheapest and most expensive cost per country for each basket, as well as a weighted average, which is based on provider market share.

Our analysis includes only those tariffs targeted at residential customers; we do not look at the prices available to businesses. Promotional offers (e.g. in the form of introductory reduced prices) and offers where savings can be made by paying for services up-front (e.g. 'line rental saver' offers) are taken into account, where applicable.

We include tariffs from at least the three largest providers in each market, ensuring that we include providers which achieve a combined market share of at least 80% by service (except in the US, where providers may operate regionally). When we calculate 'average' prices, we weight the data according to the retail market share of each provider.

For the bundle pricing analysis, we have used the main providers in each of the countries covered (based on fixed broadband and pay TV as starting services). As market share data are not available for bundled services, the market share for fixed broadband is used when weighting average prices by market share.

The communications providers whose tariffs are included in this year's analysis are shown in the table below, and broadly mirror those covered in the International Price Benchmarking section in the 2016 *International Communications Market Report* (ICMR).[73] Please note that not all providers may offer the relevant bundle type, and some providers may be excluded from the result for that reason.

[73] https://www.ofcom.org.uk/research-and-data/multi-sector-research/cmr/cmr16/international

Figure 2 Providers included in the analysis, by country and service

	Landline	Fixed broadband	Mobile phone	Dual-play and triple-play bundles
UK	BT, Sky, TalkTalk & Virgin Media		EE, O2, Tesco Mobile, Three & Vodafone	BT, Sky & Virgin Media
France	Bouygues Telecom, Free, Orange & SFR			
Germany	T-Home, Unity Media & Vodafone	T-Home, United Internet (1&1), Unity Media & Vodafone	Base, O2, T-Mobile & Vodafone	T-Home, United Internet (1&1) & Vodafone
Italy	Fastweb, Telecom Italia & Wind	Fastweb, Telecom Italia, Tiscali, Vodafone & Wind	TIM, Vodafone & Wind/Tre	Fastweb, Telecom Italia & Tiscali
Spain	Jazztel, Movistar, Orange & Vodafone/Ono		Movistar, Orange & Vodafone	Jazztel, Movostar, Orange and Vodafone
USA	AT&T, Frontier, RCN & Xfinity	AT&T, Verizon & Xfinity	AT&T, Sprint, T-Mobile & Verizon	AT&T, Verizon & Xfinity

Source: Teligen

3.2.1 Limitations of our approach

There are some other limitations to our methodology, and it is important to bear these in mind when interpreting the results:

- Our pricing analysis is based on a limited number of baskets, when actual consumer use will span a much wider range of types of use.
- By using average rankings to compare prices across our six countries, we place the same weight on the results of each basket, when some will have higher take-up than others.
- We only include tariffs offered by the largest operators in each country; lower prices may be available from smaller providers which are excluded from the analysis.
- Our analysis considers the lowest available prices for each basket, and weighted average prices based on lowest available provider prices, when in reality, few consumers will be on the cheapest tariff for their usage level.
- The tariffs used are those offered for sale on the relevant providers' websites; our analysis excludes prices which are available only via other channels, and 'retention' or 'loyalty' discounts which may be tailored to individual customers.
- We have used providers' retail customer market shares to calculate the weighted averages, rather than the subscriber base of individual tariffs, and bundle prices are weighted by fixed broadband market shares.
- Some services (e.g. superfast and ultrafast fixed broadband services) are not available nationally, and some providers operate only in certain areas.
- The triple-play price comparisons are not made on a like-for-like basis, due to wide variations in the type, amount and quality of TV content included with these services.

3.2.2 Data used in the analysis

The tariff data used in the analysis were taken from operator websites in Q3 2017: the bundled tariff data were collected in July and August 2017, and the single service pricing data covers either August or September 2017, depending on the service.

The purchasing power parity (PPP) exchange rates are for July 2017 and are taken from the OECD database of comparative price levels (CPL), while the exchange rate data used to convert prices into GBP are taken from the OANDA web service[74] (using exchange rates as at 1 August 2017).

3.2.3 Presentation of results

We consider the prices available for baskets of residential services as we have done in previous ICMR reports, although the metrics we use to compare prices across countries are slightly different to those used previously. In this report we use two metrics:

- weighted average price based on the cheapest result for each provider considered, weighted by their retail market share for the service (or by fixed broadband share for dual-play and triple-play bundles); and
- price range (based on the cheapest result from the cheapest provider and the cheapest result from the most expensive provider), focusing on the lowest available price in each country.

All results are based on the average monthly costs, and are presented in pounds sterling including VAT.

3.3 Fixed voice services

Three fixed voice baskets are used in our analysis: a low-use basket requiring 20 outgoing calls per month, a medium-use basket with 60 outgoing calls per month, and a high-use basket with 140 outgoing calls per month. Twenty calls corresponds to 63 outgoing call minutes per month, 60 calls corresponds to 190 minutes, and 140 calls corresponds to 520 minutes, distributed across fixed national and international destinations, as well as to mobiles.

Our analysis takes the following tariff elements into account: installation (amortised over five years); line rental; and outgoing calls to fixed lines, mobile phones and international destinations. It considers the lowest price required to be able to receive the required landline services, and where a provider does not offer a suitable standalone service, a dual-play (landline and fixed broadband) bundle is considered, with line rental saver tariffs being included in the analysis, where offered.

As such, the analysis does not represent the price of standalone landline services (although these tariffs are included in the analysis, where available). Instead, it considers the minimum price required to receive these services, whether bought on a standalone basis or as part of a bundle.

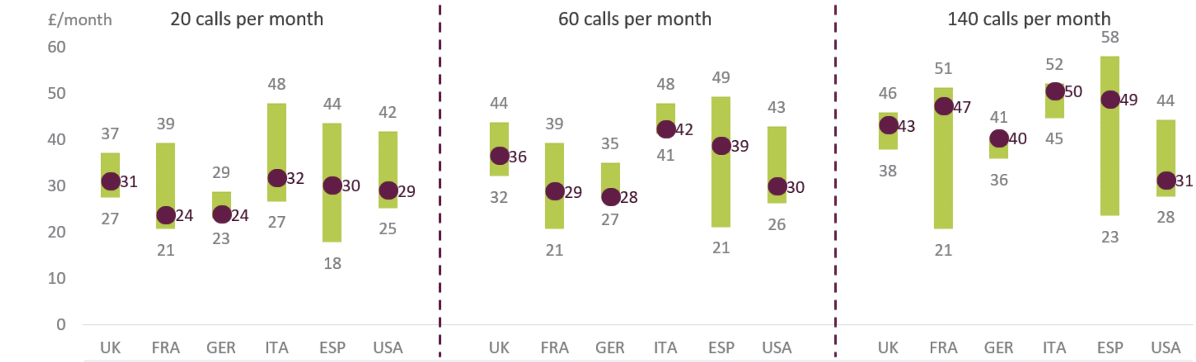
The UK ranked 4/6 for average landline prices across the three baskets used in our analysis, on average, and 5/6 in terms of the lowest available prices for these baskets, with UK prices comparing more favourably for the higher-use baskets. On average, across all three baskets, Germany ranked first in terms

[74] www.oanda.com

of weighted average prices, while France ranked first in terms of lowest available prices. Italy ranked 6/6 for both metrics.

In October 2017 it was announced that, following an Ofcom review, BT customers who buy only a landline service will have their monthly line rental reduced by £7 per month, from £18.99 to £11.99.[75] This reduction will be introduced in April 2018, and is not captured in the analysis in this report.

Figure 3 Comparative fixed voice pricing



Rank	UK	FRA	GER	ITA	ESP	USA	UK	FRA	GER	ITA	ESP	USA	UK	FRA	GER	ITA	ESP	USA
Average	5	1	2	6	4	3	4	2	1	6	5	3	3	4	2	6	5	1
Cheapest	6	2	3	5	1	4	5	1	4	6	2	3	5	1	4	6	2	3

Source: Ofcom, using data provided by Teligen
Note: The purple dot shows the weighted average price across the providers included in the analysis, while the green bar shows the range of prices available.

3.4 Fixed broadband services

Three fixed broadband product types are included in our baskets: a basic product with an advertised speed of <30Mbit/s,[76] a superfast product with an advertised speed of ≥30Mbit/s and an ultrafast product with an advertised speed of ≥300Mbit/s.

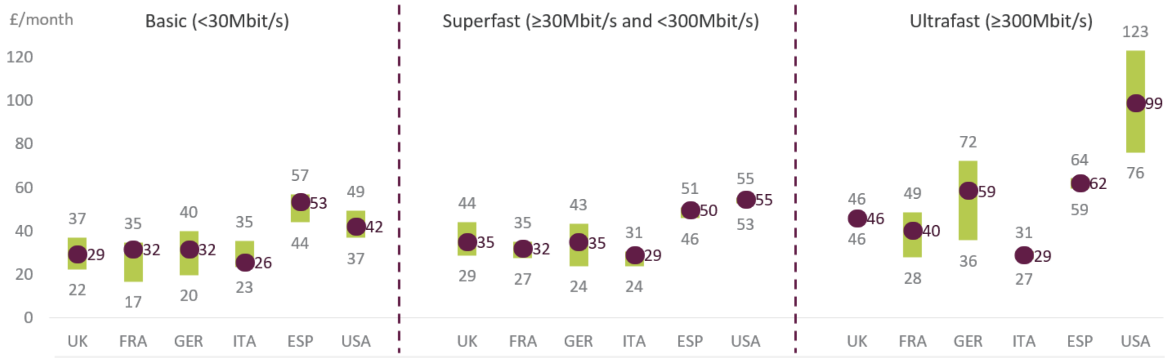
Each basket requires an unlimited data allowance; tariffs with lower data allowances are excluded from the analysis, which takes into account the following tariff elements: installation (amortised over three years), monthly rental (including any option charges) and modem charges, where relevant.

Our analysis considers the lowest price required to be able to receive the required fixed broadband connectivity, and where a provider does not offer a suitable standalone fixed broadband service, a bundled offer based on fixed broadband plus another service (usually landline) is considered. As such, the analysis does not represent the price of standalone fixed broadband services (although these are included in the analysis, where available). Instead, it considers the minimum price required to receive the required fixed broadband services, whether bought on a standalone basis or as part of a bundle. Line rental saver tariffs (i.e. services that offer a reduction for an up-front payment of line rental) are included in the analysis, where applicable.

[75] https://www.ofcom.org.uk/about-ofcom/latest/media/media-releases/2017/charges-cut-million-bt-customers
[76] In the Connected Nations 2017 report, we define basic broadband as being those connections with an actual download speed ≥10Mbit/s and an actual upload speed ≥1Mbit/s. See https://www.ofcom.org.uk/research-and-data/multi-sector-research/infrastructure-research/connected-nations-2017.

On average, the UK ranked 4/6 across our three fixed broadband baskets in terms of both average and lowest available prices, with superfast and ultrafast broadband prices tending to compare less favourably than those of basic services. Italy ranked 1/6 in terms of weighted average prices across the three baskets, and was joint first (with France) in terms of lowest available prices. Spain was the most expensive for basic broadband services, for both average and lowest available prices, while the US was the most expensive for superfast and ultrafast services for both of these metrics.

Figure 4 Comparative fixed broadband pricing



Rank	UK	FRA	GER	ITA	ESP	USA	UK	FRA	GER	ITA	ESP	USA	UK	FRA	GER	ITA	ESP	USA
Average	2	4	3	1	6	5	4	2	3	1	5	6	3	2	4	1	5	6
Cheapest	3	1	2	4	6	5	4	3	2	1	5	6	4	2	3	1	5	6

Source: Ofcom, using data provided by Teligen
Note: The purple dot shows the weighted average price across the providers included in the analysis, while the green bar shows the range of prices available.

3.5 Mobile phone services

Three mobile voice connections with varying usage levels are included in our analysis:

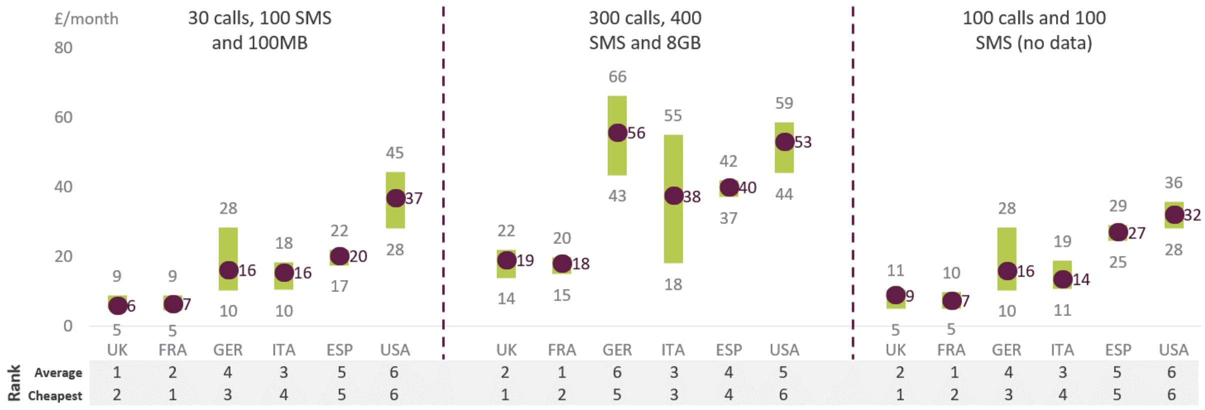
- Connection 1: 30 calls, 100 SMS and 100MB per month
- Connection 2: 300 calls, 400 SMS and 8GB per month
- Connection 3: 100 calls and 100 SMS per month (no data)

Thirty calls corresponds to 50 minutes per month, 100 calls to 189 minutes, and 300 calls to 569 minutes, distributed across the defined destinations.

Our analysis takes into account the following tariff elements: connection (amortised over three years); monthly rental; fixed network, on-net mobile, off-net mobile and voicemail calls, SMS and data. Selective discounts, such as ‘friends and family’ calls are also included where applicable. It includes both pre-pay and post-pay tariffs but does not include the cost of a handset, recognising that in all countries SIM-only services are widely available and the price of a mobile service can be significantly distorted by including the cost of a handset. Where a provider only offers tariffs that include a handset, these tariffs are considered, although any costs that relate specifically to a handset are excluded.

Across the three mobile phone baskets used in our analysis, the UK ranked 2/6 (after France) in terms of average prices and 1/6 for lowest available prices. The US was the most expensive for both metrics.

Figure 5 Comparative mobile phone pricing



Source: Ofcom, using data provided by Teligen

Note: The purple dot shows the weighted average price across the providers included in the analysis, while the green bar shows the range of prices available.

3.6 Bundled services

We use three dual-play and two triple-play baskets in our analysis, all of which require unlimited allowances for landline calls and fixed broadband data use.

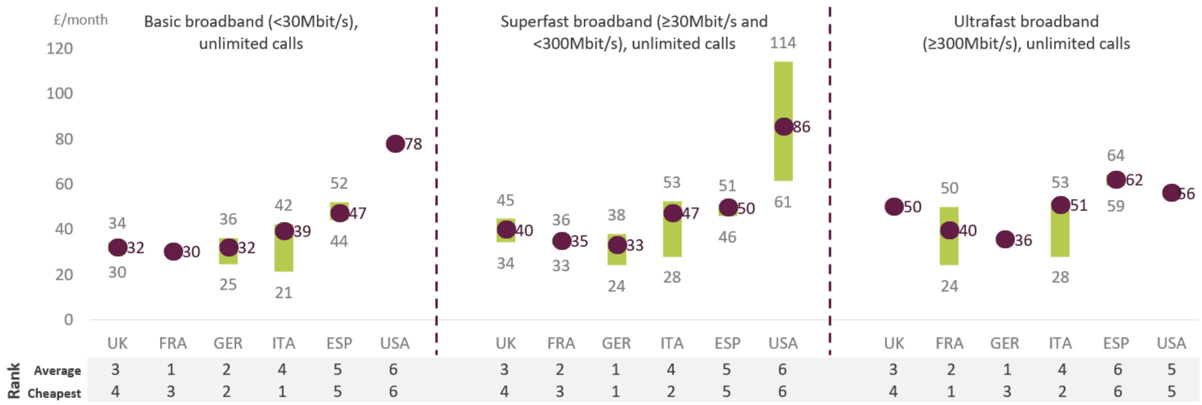
- Dual-play basket 1: with basic broadband (advertised speed <30Mbit/s);
- Dual-play basket 2: with superfast broadband (advertised speed ≥30Mbit/s and <300Mbit/s);
- Dual-play basket 3: with ultrafast broadband (advertised speed ≥300 Mbit/s);
- Triple-play basket 1: with basic broadband (advertised speed <30Mbit/s) and basic pay TV including a DVR; and
- Triple-play basket 2: with superfast broadband (advertised speed ≥30Mbit/s and <300Mbit/s) and premium pay TV including films and sports add-ons and a DVR.

To take into account the fact that some providers may offer bundles that include a wider range of services than is required by a basket (e.g. an offer that is available only as a quad-play bundle, including mobile), our analysis considers bundles which meet the minimum, rather than the exact, requirements of the basket.

3.6.1 Dual-play bundle pricing

The UK ranked 3/6 in terms of average prices and 4/6 for lowest available prices for all three of the dual-play bundles included in our analysis. Germany and Italy ranked first in terms of average and lowest available prices respectively, while the US was the most expensive in terms of both metrics.

Figure 6 Comparative dual-play bundle pricing



Source: Ofcom, using data provided by Teligen

Note: The purple dot shows the weighted average price across the providers included in the analysis, while the green bar shows the range of prices available

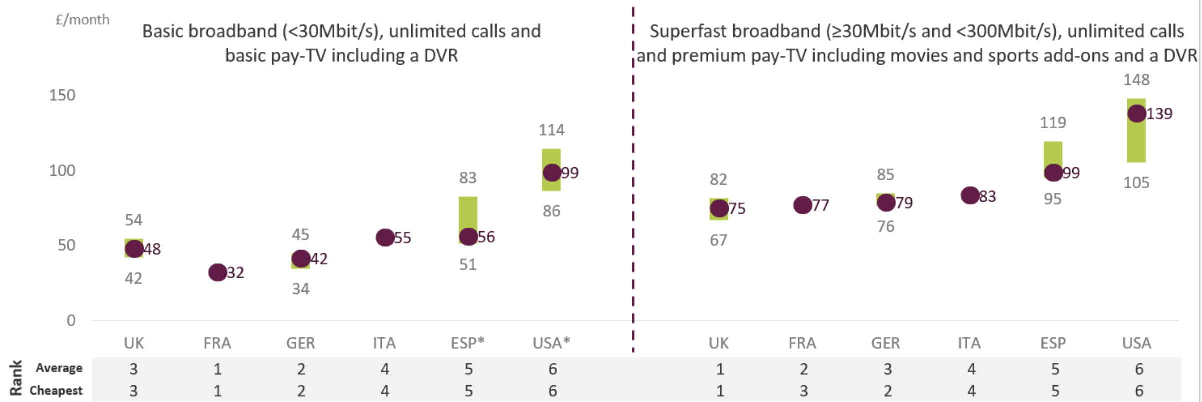
3.6.2 Triple-play bundle pricing

Within the bundle, TV channels can either be basic or premium. Basic services are defined as basic paid-for TV that includes a DVR box or service (although not an HD box or service, unless this is the default). Free-to-air (FTA) channels may be included in the basic channels, but FTA services, such as Freeview and Freesat in the UK, are not included in the analysis.

Premium services cover the basic channels as above, plus premium films and premium sports content, and include a DVR box or service (although not an HD box or service, unless this is the default).

The UK ranked 3/6 for the triple-play bundle with basic broadband and basic pay TV, in terms of both average and lowest available prices, while France ranked first for both metrics for this basket. The UK performed better for the bundle including superfast broadband and premium pay TV, ranking top for both average and lowest available prices. The US was the most expensive for both the triple-play bundles included in the analysis, in terms of both average and lowest available prices.

Figure 7 Comparative triple-play bundle pricing



Source: Ofcom, using data provided by Teligen

*Notes: The purple dot shows the weighted average price across the providers included in the analysis, while the green bar shows the range of prices available; * denotes that a suitable bundle with basic broadband was not available in 2017, so a bundle with a higher speed broadband connection has been included in the analysis*