



# The International Communications Market 2010

## **2 Comparative international pricing**

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## 2.1 Introduction and methodology

### 2.1.1 Introduction

There are many ways to compare the experience of UK consumers with those in other countries. Elsewhere in this report we benchmark the UK against other countries in terms of the availability, take-up and use of services and the revenue generated from these services.

However, when comparing markets for communications services across the world, the metric which probably matters most to the greatest number of consumers is the price they pay for their services.

Unfortunately it is difficult to provide meaningful international comparisons to help place UK pricing in context. The complexity of tariffs, the wide range of usage profiles across households within countries, large variation in 'average' use between countries, the rise of 'service bundling' (where more than one service is offered on a single bill from the same provider), and the variations of installation and hardware costs, all require a holistic and multifarious approach if a price benchmarking exercise is to be meaningful.

To try to address these issues, we have developed a methodology for comparing prices which is based on consumption across 'typical' household types in the UK, France, Germany, Italy, Spain and the US (where we have used Illinois as a representative state), and which considers issues such as the impact of hardware subsidies and multi-service discounts.

Within this section, we provide an overview of the methodological principles (which are essential to understanding the basis of the findings), and then provide a summary of findings followed by a basket-by-basket analysis. Appendix C details our methodology.

### 2.1.2 Methodology

Full details of the methodology are provided in Appendix C, but the basic principles are as follows:

- We constructed five 'typical' household types, which collectively may be seen as representative of the average population across our countries, and defined a basket of communications services (fixed-line voice, mobile, broadband, TV) appropriate for each household type.

**Figure 2.1 Household types**

'Typical' household type		Fixed voice	Intern'l voice	Mobile voice	Mobile messaging	Fixed-line broadband	Mobile broadband	Television
1	A retired low-income couple	Low	-	-	-	-	-	Basic
2	A couple of late adopters	Medium	Low	Low	-	Low	-	Basic
3	A single mobile-only user	-	Medium	High	High	-	High	Pay TV
4	A 'networked' family	High	Medium	Medium	High	Medium	-	Pay TV
5	Affluent couple with sophisticated use	Low	High	High	Medium	High	-	Premium pay TV

Source: Ofcom

- We included a wide range of components within the baskets to ensure as accurate as possible a representation of the real costs consumers pay. For example:
  - Fixed voice minutes were distributed by whether they were to fixed or mobile lines, by call distance (local, regional, national and international, including a range of international destinations), and time of day (day, evening, weekend).
  - In addition, mobile calls (and messaging) were split between 'on-net' and 'off-net', and voicemail was included.
  - Call set-up costs and per-minute charging were incorporated, and a range of call lengths were used (distributed around a defined mean based on averages across 30 OECD countries).
  - Incoming calls to mobile phones were included in recognition of the different pricing mechanism in the US.
  - The broadband component was defined both by minimum headline speed and by minimum data and time online requirements.
  - The television element included the licence fee, a digital receiver and (for some baskets) a digital video recorder (DVR). Because of difficulties in comparing channels and their programmes, two tiers of pay-TV were considered: the most basic pay service available over and above the channels available on free-to-air TV; and a premium service defined by first-run movies from the major Hollywood studios and the best package of top-tier football matches.
- The average monthly use across the baskets was adjusted to ensure that it was closely aligned with average use in households across the six countries.
- Mobile phones, broadband routers, digital set-top boxes and DVRs were included within the baskets (and amortised over an appropriate period in order to attribute a monthly cost). This was necessary because they are often inseparable from the service price, as operators frequently include subsidised or 'free' equipment (for example, a mobile phone or a wireless router), but seek to recoup the cost of these devices from subscriptions and service payments across the life of a contract. For similar reasons, we included connection and/or installation costs.
- In July 2009, details of every tariff and every tariff combination from the largest three operators in each country by retail market share were collected (and from more than three operators, if this was required to ensure that a minimum of 80% of the overall market was represented). Multi-play tariffs (i.e. those which incorporate more than one service) were also collected. Only those tariffs which were published on the websites of the operators were included.
- Across the six countries, the tariff data included consisted of:
  - fixed voice: 649 tariff options;
  - mobile: 3,427 tariff options;
  - broadband: 252 tariff options;
  - television: 328 tariff options; and

- multi-play: 812 tariff options.
- Our model identified the tariffs that offer the lowest price for meeting the requirements of each of the household baskets.
- All prices have been converted to UK currency using a Purchasing Power Parity (PPP) adjustment based on OECD comparative price levels and an exchange rate based on the average exchange rate between 1 August 2009 and 1 July 2010.

In order to provide both an illustration of representative prices for the individual services in each country, and an illustration of the best value that consumers could get for their full 'basket' of services, we have provided two types of analysis for each basket.

The first (which we call 'average single service' pricing) illustrates the price of each individual service, as defined by the average of the lowest price tariffs offered by the three operators which provide the service in each country. These are then weighted by the market share of the service provider in order to ensure fair representation. This provides a useful comparison of the relative costs of communications services, but an important limitation is that single-service offers are sometimes not available from leading suppliers. For example, in the UK, Sky markets broadband only to television subscribers and TalkTalk only offers broadband together with fixed voice. In Spain and Germany, the largest three broadband providers by retail market share offer broadband only in association with voice services.

The second type of analysis (which we call 'best-offer' pricing) identifies the lowest price that a consumer could pay for this basket of services, including, where appropriate, by purchasing 'bundled' services. Our view is that this type of analysis is essential in order to provide a true picture of the position of consumers in each market, since they increasingly buy multiple services from single operators. Examples in the UK are BSkyB's TV, broadband and talk 'triple-play' offer, and Virgin's 'quad-play' offer which includes TV, voice, broadband and mobile. However, there are two key limitations to this type of analysis. First, 'bundled' service offerings are typically not available to all consumers as they are generally geographically constrained to areas where premises are connected either to a cable network or to an unbundled telephone exchange. Second, even in areas where these services are available, they may not have high take-up. Therefore, although the 'best offer' provides insight into the lowest prices available to some customers, it is not as good a reflection of the prices that consumers are actually paying as the weighted average analysis - which is only possible when looking at single-service pricing.

We believe that a multi-platform, basket-based approach is the most useful way of comparing international pricing of communications services. Nevertheless, there are some limitations to our methodology and the following notes and caveats are important in interpreting the analysis below.

- The analysis assumes a systematic and rational consumer who has a full understanding of his or her usage requirements and is prepared to shop around and undertake some often quite complex calculations to identify the tariff which offers the best value. In reality, many consumers do not act in this way, but we believe the assumption is necessary in order to provide effective international comparisons. It should be noted, however, that alternative measures of consumer choice and the competitive environment are the complexity of tariff structures (a large range of tariffs is generally beneficial to consumers as it indicates that consumers have choice and are more likely to find an option which meets their needs; but the complexity of tariffs may make it more difficult to compare prices and select the optimal tariff), and the ease of switching to an appropriate tariff.

- In looking only at tariffs offered by the largest operators in each country, lower prices which might be available from smaller operators seeking to disrupt markets are not included, purely for practical reasons. Nevertheless, we believe that using the prices of the largest operators is appropriate, both because they are the best reflection of the general consumer experience and because their pricing both defines and is defined by the competitive environment in which they operate.
- Although we have been as comprehensive as possible, tariffs are often highly complicated and there are some components that we have been unable to incorporate into our model; for example, the benefits available from fixed-line and mobile tariffs which include free or reduced rates to nominated 'friends and family' numbers.
- In order to calculate the weighted average, we have used market share calculations based on operators' retail customers. It should be noted that market share calculations are based on the overall subscriber base, not the subscriber base for the particular tariff (for which data are not available).
- Pay-TV services constitute a component of three of the baskets we examine. However, it has not been possible to compare like-for-like subscriptions principally because of differences in the composition of basic and premium channels across the six countries. As a consequence, quantitative comparison of international TV pricing is arguably less meaningful than for telecoms services. This is also an issue in the pricing of 'triple-play' services, where there is a wide variation in the types of TV content.
- For television services in some countries there are only two operators with nationwide coverage (or only one, for some premium TV offerings) and/or significant market share. In these instances, we have identified the best-value tariff from each of them and calculated a blended average based on their market shares.
- To avoid 'skewing' the average single-service pricing analysis, tariffs which are over 100% higher than that offered by the lowest price provider are excluded from the weighted average (the aim here is to exclude tariffs which are clearly not targeted at the usage profile we are analysing).
- Some services are not available nationwide. This is particularly true for services which are available only where local exchanges have been unbundled, and for IPTV, which requires a high-speed broadband connection, but is also true for cable TV and all types of broadband.
- We do not define whether the mobile phone component in a basket is pre-pay or post-pay. We believe this enables better international comparison, given the very different pre-pay / post-pay splits in different countries (for example, over 80% of Italian mobile connections are pre-pay, while over 80% of US mobile connections are post-pay). However, a consequence of this is that the analysis does not recognise the different characteristics of the services; for example, a pre-pay mobile may be the only option available to consumers with a poor credit rating and may also offer advantages to those who vary their use month by month.
- Representative pricing in the US as a whole is difficult, due to large regional variations as a result of local incumbent telco operators and cable operators offering localised prices for fixed-line services. We use only those tariffs available within the state of Illinois, chosen because it is reasonably representative of the US as a whole in terms of its relative wealth and rural-urban split (it incorporates the city of Chicago

as well as large agricultural regions). Nevertheless, US pricing should not be viewed as representative of the whole country.

- In order to ensure that changes we identify within countries have been driven by changes in the market rather than simply by changes in the currency exchange rate, we have used the same exchange rate in 2009 and applied it to 2008 data. This means that there may be some distortions in the relative positions of countries compared to the findings in 2008 (in particular, the fall of the pound against the Euro means that UK pricing is presented as lower relative to France, Germany, Italy and Spain than it was in 2008 – although the PPP adjustment mitigates to some extent against this).

## 2.2 Summary of findings

### 2.2.1 Summary of findings: 'multi-play'

For all of the baskets that include a fixed-line broadband connection, consumers in the European countries can make savings by purchasing multiple services in a multi-play 'bundle' from one provider, rather than purchasing each service on a stand-alone basis.

Figure 2.2 below indicates that the lowest price available in the UK for Basket 2, which includes a basic broadband connection and a fixed-line voice line, was around £29. This involves purchasing a tariff which includes 'unlimited' broadband access at a speed of 'up to' 20Mbit/s, line rental and inclusive weekend and evening calls to UK geographic numbers, and it is more than £8 less than the lowest price achievable by purchasing all the services separately (see Figure 2.3). This 'dual-play' voice and broadband tariff in the UK is available from an operator which also offers discounts to broadband consumers taking a pay-monthly mobile contract. However, the low use of the mobile within this basket means that there is no benefit, and the lowest price is achieved by purchasing a separate pay-as-you-go mobile service.

For Basket 4, which includes a basic pay-TV deal, the lowest prices available in the UK, France, Germany and Spain involve purchasing broadband, fixed-line voice and television services in a 'triple-play' bundle. The greatest savings compared to purchasing the lowest price stand-alone services are in Spain and Germany (however, this may be misleading as in both countries stand-alone broadband is not available from the largest operators, so taking a bundle is the default option), where consumers can save £37 and £27 a month; in the UK, the saving is £4 a month.

Basket 5 includes premium pay-TV services (top league domestic football and first-run Hollywood movies). In the UK and Spain, the lowest price available for these were achieved by purchasing a 'triple-play' bundle, whereas in France, Germany and Italy the lowest prices were achieved by purchasing a 'dual-play' voice and broadband service, with television purchased separately from a different supplier.

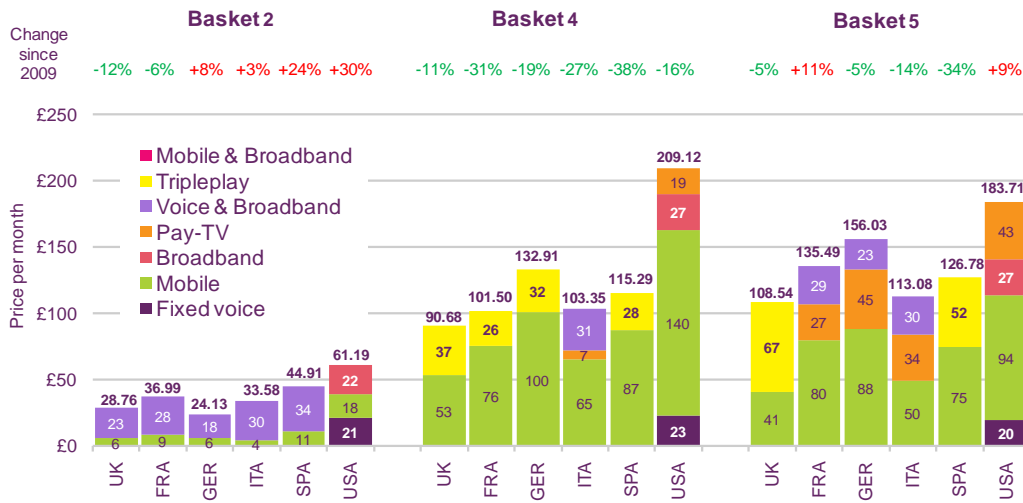
In the US, there are no savings available by purchasing services in 'bundles' rather than purchasing the lowest-price single services. This is probably the consequence of less diversification in local markets, with the incumbent telco and the local cable operator typically competing in a duopoly to serve voice, broadband and TV services to customers. In this environment, the bundling of 'free' broadband with voice and/or TV is value-destroying for operators who generally view voice, broadband and TV as three separate revenue streams.

This contrasts with Europe, where local loop unbundling and wholesale line rental with regulated price controls has led to a competitive landscape characterised by alternative network operators building market share by launching bundled services (the incremental costs of adding a broadband service to a voice service are low, and the consumer benefits high) - and incumbents have responded by doing the same.

Prices for most of the baskets have fallen since 2009. However, these decreases are primarily the result of lower mobile prices (see Section 2.2.3 below). It is notable that 'bundles' including mobile services do not feature as delivering the lowest overall prices in any of these countries, despite the increasing availability of multi-play services which include mobile (typically within a broadband tariff or a 'quad-play' tariff including broadband, fixed voice and TV). This perhaps reflects the fact that there are fewer synergies between mobile and the other services, in that mobile is delivered via a different network and is typically an individual rather than a household purchase.

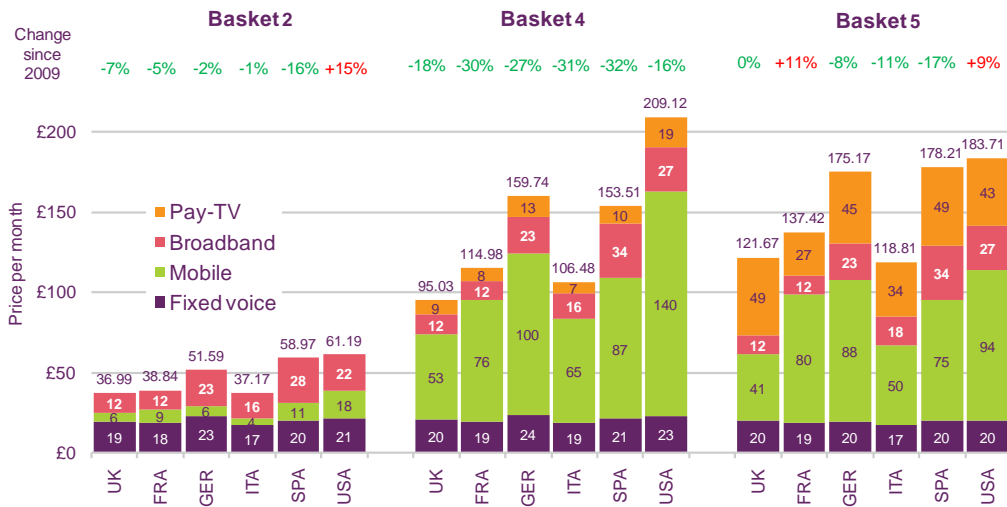


**Figure 2.2 Best prices available, including multi-play offers**



Source: Ofcom using data supplied by Teligen  
 Note: Lowest tariffs available including multi-play from any of the three largest operators by market share for each service in each country, July 2009 and July 2010; PPP adjusted.

**Figure 2.3 Best prices available for stand-alone services**



Source: Ofcom using data supplied by Teligen  
 Note: Lowest tariff available from any of the three largest operators by market share for each service in each country, July 2009 and July 2010; PPP adjusted.

**2.2.2 Summary of findings: Fixed voice**

Figure 2.4 and Figure 2.5 below look at the costs of the fixed-line voice components of those baskets which include a fixed-line phone. Overall, as calculated from the weighted average of the best-value tariffs from the three largest operators in each country (Figure 2.4), the UK offers the lowest pricing. However, prices increased in the UK between July 2009 and July 2010, whereas they fell in all other countries.

The small increases in the UK are the result of higher line rental fees, with BT increasing the price of its basic line rental from £11.50 to £12.50 from April 2010.

The basic line rental fee is typically higher in the UK than in some other countries, but a feature of the UK market is that even basic line rental often includes some inclusive calls while value seekers can potentially reduce prices by purchasing 'add-ons' to their basic line rental which provide reduced or inclusive calls for certain call types in return for a fixed monthly payment. Indeed, the reason for prices falling in other countries is a consequence of the increasing availability of tariffs which include similar options which enable consumers with good awareness of their calling needs to save money by purchasing tariffs which include certain types of call within the line rental fee.

In addition, the BT tariffs used (which have the most impact on the weighted average pricing, as BT has 55% market share) include those which are available only to customers committing to a 12-month rolling contract. These customers are able to get 'free' calls to UK geographic numbers and 0845/0870 numbers in the evenings and at weekends, and for an additional £4.99 a month can make unlimited numbers of these call types at any time of the day.<sup>16</sup> Further savings can be achieved through purchasing add-ons such as 'Friends and Family Mobile' or 'International Freedom' (where applicable, these are also included in our analysis).

Other operators have followed a broadly similar pricing strategy to BT, with line rental prices starting at around £11 and a range of 'add-ons' offering discounted or lower price calls for a fixed monthly payment, for example Virgin Media's 'Talk Anywhere' plans, Sky's 'Talk Unlimited' Plan or TalkTalk's 'Anytime / Mobile / International Calls Boost' plans. While it is notable that there is less variation in prices between operators in the UK than in other countries, it is also evident that consumers are likely to be able to make significant savings by carefully identifying the tariff best suited to them; tariff structures are fairly complex and consumers typically achieve the lowest prices only if they are able to match the best tariff to their usage, and make an effective choice from a range of pricing options which include contract length/commitment, paper or electronic bills and payment type.

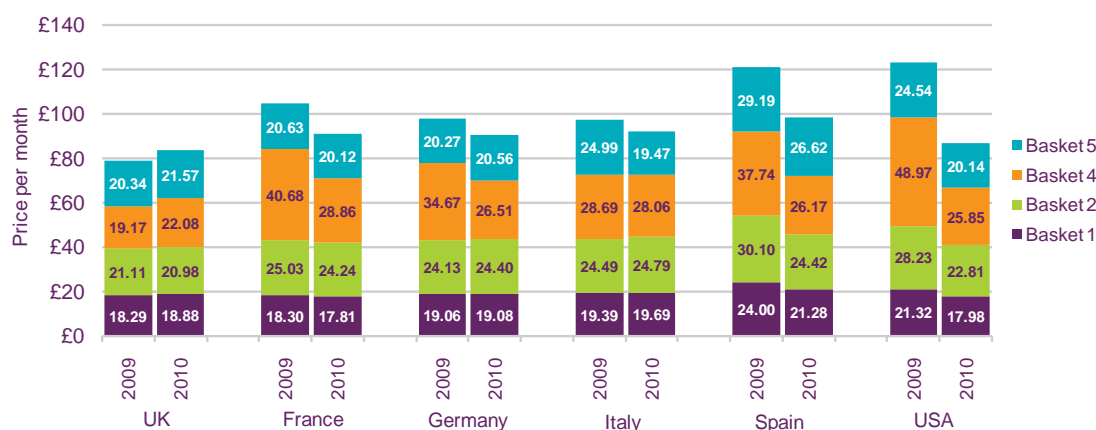
The biggest falls in France, Spain and the US come from falling prices in the cost of Basket 4 – which, with 600 minutes of calls a month, is the highest-use basket. In all countries, these falls come largely through the availability of line rental packages which include 'free' or discounted calls.

- In France, the price available from incumbent France Telecom (which has 74% market share and is therefore the major component of the weighted average pricing) has fallen by 41% since 2009 due to the availability of a new tariff which includes up to two hours of calls, including international calls.
- In Spain, the best tariff for this basket from incumbent Telefonica (market share 80%), includes 1,000 anytime minutes a month to fixed lines in Spain.
- In the US, one of the drivers of the falling price is the availability of a tariff combination from largest operator AT&T (market share 29%) which includes an add-on for low-cost US national calls and another add-on which includes unlimited calls to Canada.

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<sup>16</sup> This analysis is based on data collection in the first half of July 2010, before BT introduced changes to its tariffs. For most customers the impact of these tariff changes will be an overall increase in the cost of fixed voice services, with a 50p increase in the cost of line rental and increases in the cost of a peak time call (up by 0.5p a minute) and the cost of connection g a call (up by 1p). However, at the same time BT also offered customers signing up to a 12-month line rental contract before November a £3.80 a month reduction on line rental for the first 12 months, if they paid for a year's line rental in advance.

**Figure 2.4 Comparative single-service 'weighted average' fixed-line voice pricing**



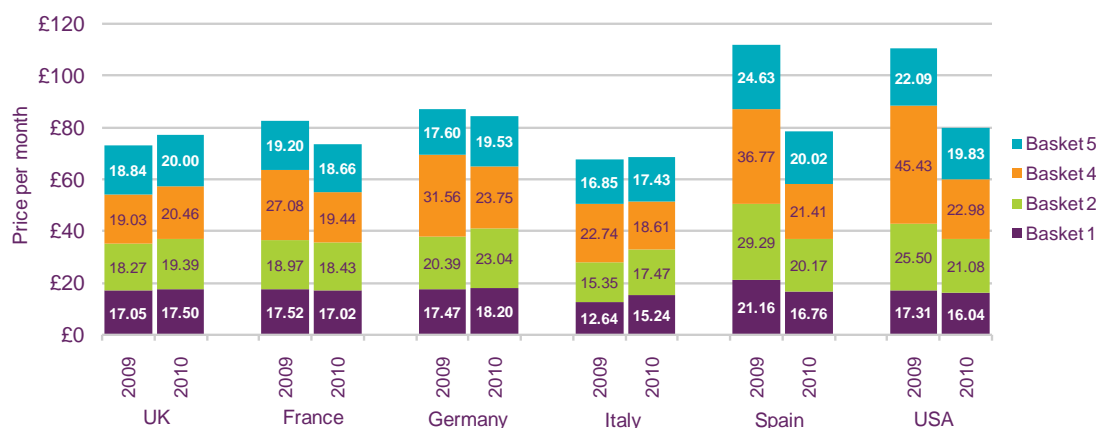
Source: Ofcom using data supplied by Teligen

Note: Weighted average of best-value tariff from each of the three largest operators by market share in each country; July 2009 and July 2010; PPP adjusted

While the 'weighted average' analysis is to a considerable extent a reflection of incumbent pricing (incumbents have retail market share of over 50% of fixed line connections in all the European countries), the 'best offer' analysis gives prominence to tariffs from the largest alternative network (alt-net) operators, which typically undercut incumbent pricing as they look to gain market share. In looking at the best tariff available from the three largest operators in each country (Figure 2.5), Italy offers the lowest prices overall as a result of much lower prices from alternative network (alt-net operators) than from incumbent Telecom Italia.

In all countries, there was less difference between the prices offered by the largest operators in 2010 than had been the case in 2009. However, there was significant variation between countries. The best prices available in Italy were overall 25% lower than the weighted average pricing. By contrast, in the UK and in Germany the lowest prices available were overall just 7% lower than the 'weighted average'. The UK is the only European country in which a tariff from the incumbent (BT) appears as a 'best offer' tariff in any of the baskets.

**Figure 2.5 Comparative single-service 'best offer' fixed-line voice pricing**



Source: Ofcom using data supplied by Teligen

Note: Lowest tariff available for the fixed-line voice component of each basket from any of the three largest operators by market share in each country, July 2009 and July 2010; PPP adjusted.

### 2.2.3 Summary of findings: mobile

Across the five households we include in our analysis there are eight mobile phone connections, ranging from low use and a basic handset typical of a pre-pay subscriber in the UK to high use and an advanced handset, typical of a pay-monthly smartphone user in the UK. The connections are summarised in Figure 2.6 below. Connections also vary in terms of the distribution of call and messaging volumes (e.g. proportion of calls which are to UK mobile, to UK geographic numbers or to international numbers); full details are provided in the basket analysis below.

Overall, the UK offers the lowest 'weighted average' prices, although it is more expensive than some other European countries for the low-use connections 1, 2 and 3 (which all have 60 minutes of voice, and vary in the amount of messaging) (Figure 2.7). In general, prices in the UK and Italy are lower than those in other countries

This is, perhaps, indicative of higher levels of price competition in the UK and Italy, driven by:

- saturated markets – in both countries the number of mobile connections has exceeded the population since 2005;
- the affect caused by new entrant Hutchison 3G (branded as '3') in Italy and the UK, which launched in both countries in 2003 and since then has sought to gain market share through low-priced offers, particularly for medium and high users (until recently the higher cost of 3G handsets compared to 2G handsets has meant that 3G operators have had limited success in targeting low-spending consumers). (Note that as Hutchison 3G is the fourth largest operator in the UK and the fourth largest in Italy, its tariffs are excluded from this analysis); and
- relatively low levels of market concentration in both countries, which fosters intense competition between relatively equally matched operators. Until 1 July 2010, when T-Mobile and Orange officially combined their UK operations into Everything Everywhere, The UK was the only European market with five mobile network operators; (the Herfindahl-Hirschman Index (HHI), often used as an index of the level of competition in the market, finds that the UK has the least concentrated mobile market in Europe), while in Italy there are four mobile network operators and the HHI index finds that the market is less concentrated than in France and Spain, and comparable to Germany.

However, although they both offer low prices, the characteristics of the mobile markets in the UK and Italy are very different.

In the UK, around 42% of mobile connections are post-pay, and these tariffs are characterised by heavily subsidised (or even 'free') handsets, with operators recouping the value over the course of the contract. Fixed monthly line rentals typically include a large number of inclusive any-time any-network minutes and SMS texts, and, increasingly, a data allowance. The result is that high users tend to pay a 'flat rate' for most of their use, and the value available from these tariffs is evident in the low relative prices for the high-use mobile connections in Basket 3, Basket 4 and Basket 5 (although of course, this assumes that consumers know their regular monthly usage level and select the correct tariff accordingly). In the last two years, 'SIM-only' tariffs have become increasingly popular, in which customers are not given a new handset when signing up for a contract, but are supplied only with a SIM card which they can use in a handset they already own. These now account for around one in five new post-pay connections and in July 2010, one-month SIM-only tariffs offering at least 300 minutes and unlimited texts were available for £15 or less from four UK

mobile network operators. However, for customers willing to commit to a 24-month contract, similar tariffs are available which also include a basic handset.<sup>17</sup> It is these tariffs which typically offer the best value for all the UK connections which include 180 voice minutes or more (in order to provide like-for-like comparison we also include the cost of a handset within our baskets, calculated as a monthly cost on a three-year amortisation; in 2009, the lowest-cost tariffs for these connections in the UK involved purchasing a SIM-only contract and a separate handset, while in 2010 the lowest cost was achieved by purchasing a two-year contract with an inclusive handset). In our analysis in all countries the lowest-use baskets are best served with pre-pay tariffs. However, in the UK this may be changing as operators launch sub-£10 post-pay SIM-only tariffs. Because of its small market share, Virgin Media's £8.50 a month SIM-only contract, which includes 100 call minutes and unlimited SMS, was not included in the analysis, and in August 2010 Tesco Mobile (which is again not included in our analysis) launched a £5 a month SIM-only contract including 100 minutes and unlimited SMS.

In contrast to the UK, around 90% of mobile connections in Italy are pre-pay and there is little by way of handset subsidy even for post-pay tariffs, where line rental is typically much lower than in the UK, with correspondingly lower numbers of inclusive minutes and SMS. Indeed, there is little variation between pre- and post-pay in Italy; they tend to have the same basic call charges. The result is that Italian tariffs are characterised more by metered than 'flat rate' pricing. Prices for consumers with low monthly use tend to be lower than in the UK (as in Basket 2, and for two of the connections in Basket 4). Although not captured in our findings, this pricing structure has benefits to consumers in that it offers greater flexibility to consumers who either do not know their monthly usage or, typically, vary it from month to month. It also means there are fewer tariff combinations available in Italy than in the UK – our research identified 170 different tariffs in Italy (the lowest of the six countries surveyed) and 1,056 tariffs in the UK (the highest of the six countries). The range and complexity of UK tariffs is an issue which was raised in 2009 by Consumer Focus, which claimed that there were 1.3 million deals available – resulting in consumers often being "bewildered" and overspending by signing up for an unsuitable package<sup>18</sup>. Research in July 2010, commissioned by price comparison site Top1.com, found that 55% of UK adults on pay-monthly contracts claimed never to use all their inclusive minutes, and estimated that on average, pay-monthly consumers could save over £5 a month by switching to contracts which better reflected their usage.<sup>19</sup>

Although prices in the UK are, overall, lower than in other countries, the gap is narrowing; prices fell by 8% in the UK between July 2009 and July 2010, compared to falls of 24% in Italy, 23% in Spain, 16% in France and 11% in Germany. The fall in pricing in Spain comes as a wider range of tariffs have become available, particularly post-pay tariffs offering a high number of inclusive minutes within the line rental. The fall in prices in Italy comes as a result of falling prices of the higher-use baskets, and are in some respects artificial – in 2009 there was little availability of post-pay tariffs offering more than 200 minutes a month, and the result was that the requirements of the high-use mobile connections in Baskets 3, 4 and 5 were best served by *iPhone* tariffs, which factored into the price the cost of the inclusive *iPhone* handset; in 2010 tariffs were available that did not include a handset subsidy.

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<sup>17</sup> In the *Communications Market Report 2010*, fig 5.25, we compare £15 SIM-only contracts and £15 handset-inclusive contracts from the UK's mobile network operators,

<http://stakeholders.ofcom.org.uk/market-data-research/market-data/communications-market-reports/cmr10/uk/>  
<sup>18</sup> [www.consumerfocus.org.uk/en/content/cms/News\\_Press\\_speech/Over\\_a\\_million\\_deals/Over\\_a\\_million\\_deals.aspx](http://www.consumerfocus.org.uk/en/content/cms/News_Press_speech/Over_a_million_deals/Over_a_million_deals.aspx); our pricing analysis interrogates 857 UK mobile tariffs, more than in any other country.

<sup>19</sup> [www.itpro.co.uk/624880/uk-mobile-users-spend-800-million-on-unnecessary-contracts](http://www.itpro.co.uk/624880/uk-mobile-users-spend-800-million-on-unnecessary-contracts)

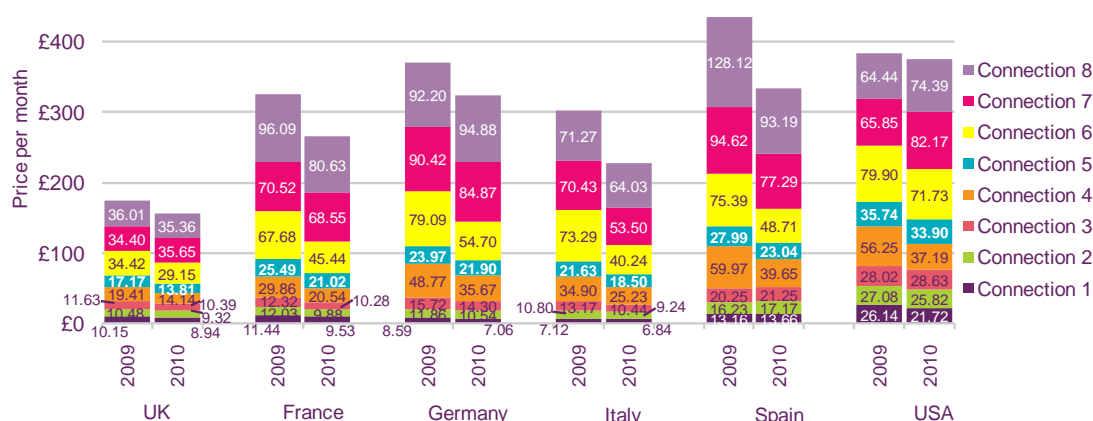
A likely contributory factor to pricing for the higher use baskets in particular is the level of mobile termination rate (MTR), which is the regulated maximum price per minute at which one operator can charge another to for incoming calls to its network. All the European countries except Germany saw cuts in MTRs in the period between July 2010 and July 2011, with cuts of around 10% in Spain and the UK, 14% in Italy and over 33% in France (implemented on 1 July 2010).

**Figure 2.6 Summary of mobile connections**

	Basket	Handset type	Outbound voice minutes per month	Outbound SMS per month	Outbound MMS per month	Data use per month
Connection 1	Household 2	Basic	60	-	-	-
Connection 2	Household 4, #4	Basic	60	65	2	-
Connection 3	Household 4, #3	Basic	60	70	2	-
Connection 4	Household 4, #2	Mid-tier	180	160	4	-
Connection 5	Household 5, #2	Mid-tier	200	20	-	-
Connection 6	Household 4, #1	Advanced	300	30	-	30MB
Connection 7	Household 5, #2	Advanced	400	80	-	30MB
Connection 8	Household 3	Advanced	550	150	10	100MB

Source: Ofcom

**Figure 2.7 Comparative single-service 'weighted average' mobile pricing**



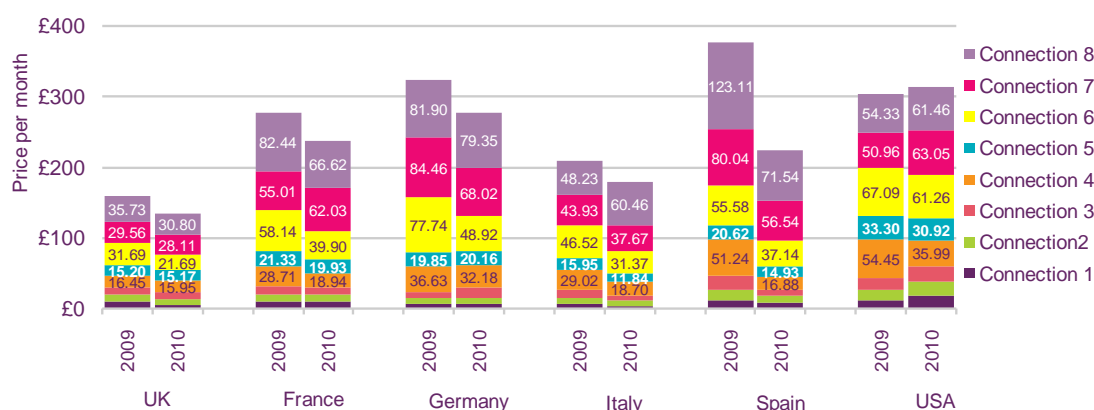
Source: Ofcom using data supplied by Teligen

Note: Weighted average of best-value tariff from each of the three largest operators by market share in each country; July 2009 and July 2010; PPP adjusted

In looking at the lowest prices available for the mobile phone components of each basket, the pattern is broadly similar to the 'weighted average' analysis.

Typically, the operators with lower market share tend to offer the lowest prices (note however, that as this analysis includes only the largest operators by retail market share in each country, the prices of some smaller MNOs such as 3 in the UK and Italy, and all MVNOs, are not included in the analysis). Overall, the lowest price for a mobile is offered by the mobile operator with the largest market share on only two occasions (out of 48, comprising eight mobile connections in six countries); and in France and Italy the third-largest operator offers the lowest price for six of the eight connections. No single operator offers the lowest price for more than three of the eight connections in the UK.

**Figure 2.8 Comparative single-service 'best offer' mobile pricing**



Source: Ofcom using data supplied by Teligen

Note: Lowest tariff available for the mobile phone component of each basket from any of the three largest operators by market share in each country, July 2009 and July 2010; PPP adjusted.

The US mobile market is very different from that in Europe because of a different interconnect regime which results in charges for incoming as well as outgoing calls (in order to incorporate this, our analysis includes both inbound and outbound calls); a consequence is that US mobile contracts typically include a very high number of inclusive (inbound and outbound) minutes in order to provide a 'flat-rate'-style tariff which incentivises consumers to leave their phone switched on. Most contracts in the US include over 900 (inbound and outbound) minutes a month, and there are very few contracts available that include fewer than 450. Similarly, pay-as-you-go services have much lower take-up, with 82% of mobile connections being pay-monthly; and pay-as-you-go connections typically follow a different model than in Europe, offering a set number of inbound and outbound minutes to be used in a 30-day period, rather than charging by the minute.<sup>20</sup>

This fundamental difference in the US market has an impact on our pricing analysis in two, related, ways. Firstly, basic line rental is typically much higher in return for many more minutes, meaning that there are very few US tariffs targeted at low users, such as connections 1, 2 and 3 in Figure 2.7 above. Secondly, overall average mobile phone use in the US is much higher than in European countries (678 combined inbound and outbound minutes per mobile connection in 2009, compared to 141 outbound minutes in France, 127 outbound minutes in the UK, 110 outbound minutes in Spain, 106 outbound minutes in Italy and 70 outbound minutes in Germany). This means that, even though the baskets have been created to be representative of average use across the six countries, the mobile baskets collectively have a much lower usage profile than the US average. Because the baskets are less representative of the US market than of the European market, they contain a bias against the US.

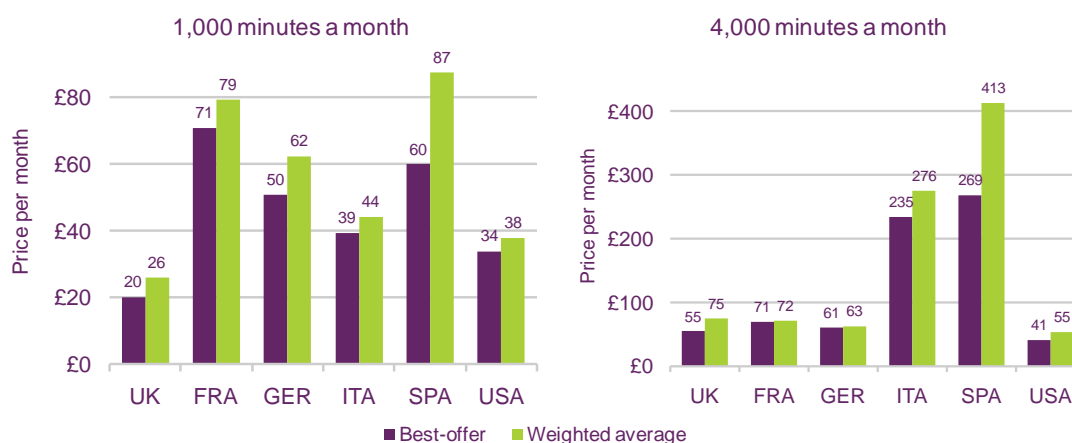
Put simply, were our analysis to look at actual minutes of calls on a price-per-minute basis, rather than being based on a usage basket, the US would be relatively less expensive.<sup>21</sup> Similarly, were our baskets to contain much higher mobile usage, the US would also be relatively less expensive. In order to examine this, we also looked at the prices for a basket

<sup>20</sup> Differences between the UK and the US market, and the impact of the 'receiving party pays' interconnect regime are discussed in detail in Ofcom's consultation into mobile voice termination (May 2009), see: [www.ofcom.org.uk/consult/condocs/mobilecallterm/annex9.pdf](http://www.ofcom.org.uk/consult/condocs/mobilecallterm/annex9.pdf)

<sup>21</sup> In Section 6 of this report we find that the average cost of an outbound voice call minute in 2009 was 3.1p in the US compared to 8.5p in Italy, 8.8p in the UK, 13.9p in France, 14.3p in Spain and 16.3p in Germany.

of 1,000 minutes and 4,000 minutes (Figure 2.9). This found that the UK was again the cheapest for the basket of 1,000 minutes (where the lowest tariff was a SIM-only deal which offered free on-net calls and 600 any-network minutes for £20 a month on a 12-month contract, which delivered an overall cost of £39.89), and that the US offered the second-lowest pricing. Prices for the 4,000 minute basket should be treated cautiously as this is a highly theoretical basket which does not match any typical usage profile (indeed, it should be noted that prices in Italy and Spain are more than four times as expensive as for the 1,000 minute basket). Nevertheless, it is notable that at this extreme high usage level the US is less expensive than any European country.

**Figure 2.9 Comparative pricing for mobile tariffs with 1000 minutes and 4,000 minutes, July 2010**



Source: Ofcom using data supplied by Teligen

Notes: (1) Includes 1,000/4,000 inbound and 1,000/4,000 outbound minutes and a premium handset; Call split = 17% to fixed-line local, 9% to fixed-line national, 37% to on-net mobile, 37% to off-net mobile, 0% to international; 60% weekday daytime; 19% weekday evening; 21% weekend. (2) Calculated from the lowest tariff available for the mobile phone component of each basket from any of the three largest operators by market share in each country, July 2010; PPP adjusted

## 2.2.4 Summary of findings: fixed-line broadband

Single-service broadband pricing comparison should be treated with some caution, as broadband is very frequently bought as part of a multi-service bundle, and many operators do not even offer stand-alone broadband. We have defined the prices below as the lowest price for purchasing a broadband service, excluding the price of telephone line rental where this is required (as the cost of the line rental is attributed to the voice element of the basket).

In the UK, all of the largest operators incentivise consumers to purchase other services along with their broadband connection (for example, by including free call packages), while Sky markets broadband only to its pay-TV customers; in Spain and Germany none of the largest three broadband operators offer a stand-alone product (it is always bundled with voice) and in France broadband is typically taken within a triple-play service that includes voice (often delivered via VoIP) and IPTV (every broadband package from the largest provider, France Telecom, has IPTV included - although not all consumers are able to receive IPTV services).

Our broadband baskets are defined by the headline speed of the connection, and require a minimum of 2Mbit/s, 4Mbit/s or 8Mbit/s. The lowest overall prices are available in the UK and in France, and it is a characteristic of both countries that the most basic packages from all the leading operators meet the requirements of the highest specification basket (8Mbit/s and



5GB per month). Increasingly, for DSL broadband, there is little price differentiation between broadband at different speeds. In the UK, all the largest DSL operators offer a headline speed of 'up to' 20 or 24Mbit/s as standard on all of their products (with package prices determined primarily by data allowance). The same is true in France, where in addition the leading cable operator, Numericable, makes no pricing distinction between those who are able to receive 100Mbit/s or 30Mbit/s services. By comparison, in Italy and the US, markets are characterised by tiered pricing by headline speed.

However, it should be noted that none of our baskets include genuinely high-speed broadband. This is because the limited availability of next-generation access broadband in most countries would make price comparisons meaningless, and because it is not possible to purchase superfast broadband as a stand-alone service from many operators in many countries. Nevertheless, it should be recognised that high-speed alternatives, often at no great incremental cost, are available to many households in the US and to significant numbers of households in Italy, France and Germany. In the UK, Virgin Media cable provides a service, available to around 48% of UK households, offering headline speeds 'up to' 50Mbit/s for a monthly fee of around £8 a month higher than its 20Mbit/s service and £15.50 a month higher than its 10Mbit/s service. The only other nationally available 'superfast' service in the UK is BT Infinity, a fibre-to-the-cabinet service offering speeds of 'up to' 40Mbit/s, which should be available to 40% of UK households by the end of 2012; the price for the basic Infinity service is £6 a month more expensive than a basic DSL service.

Relatively low prices in the UK are maintained by a competitive environment in which no single provider has more than 30% market share, and consumers are able to choose from a range of services provided by operators offering service via wholesale line rental (WLR) (available to virtually 100% of the population), local loop unbundling (LLU) (available to 85% of the population) and cable (available to 48% of the population).<sup>22</sup> Similarly, in France broadband competition has been intense, particularly between incumbent France Telecom (with around 47% market share) and alternative network providers Free and SFR/Neuf (who both have over 20% market share).

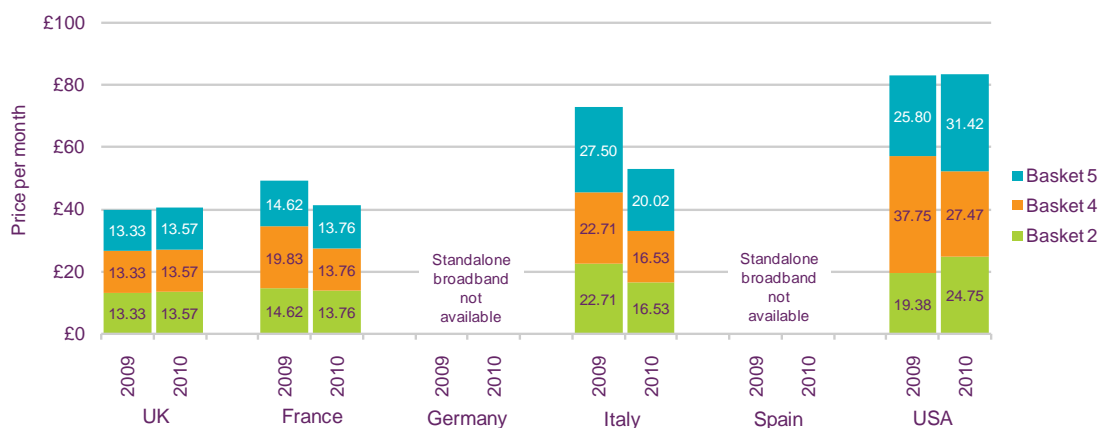
In all countries for all baskets, the price does not include any additional usage charge above that of the line rental, reflecting that broadband is typically priced on a 'flat rate' rather than a 'per MB' basis. Tariffs in the UK and US all include a WiFi router, whereas these are a separate cost for all of the baskets in France and two of the three baskets in Italy.

In the UK, France and the US stand-alone broadband prices from the largest providers are broadly similar, resulting in little variation between the 'best offer' price and the 'weighted average' price, whereas in Italy the weighted average price is much higher than the lowest price due to the higher prices of incumbent Telecom Italia (which offers a nationwide service, has around 74% market share and is significantly more expensive than some services from alt-net providers which do not have nationwide availability).

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<sup>22</sup> See the Glossary for a definition of WLR and LLU

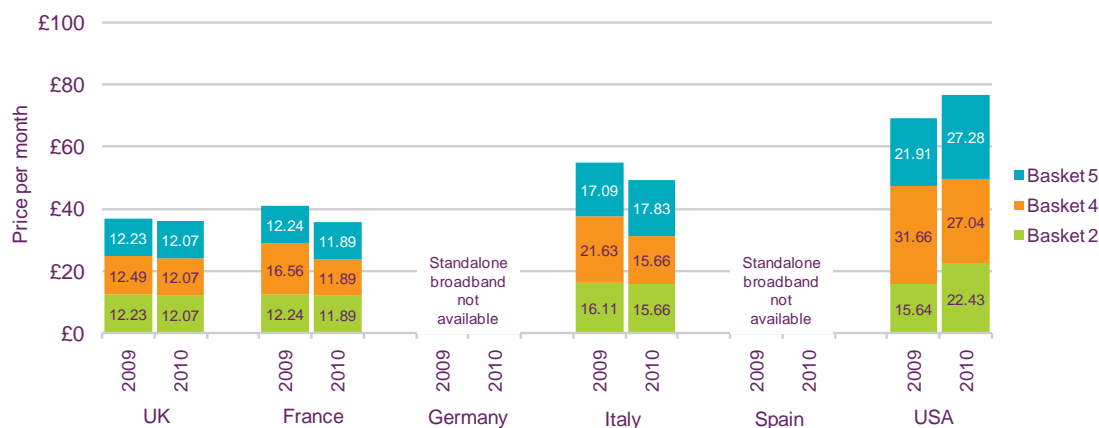
**Figure 2.10 Comparative single-service 'weighted average' fixed-line broadband pricing**



Source: Ofcom using data supplied by Teligen

Note: Weighted average of best-value tariff from each of the three largest operators by market share in each country; July 2009 and July 2010; PPP adjusted

**Figure 2.11 Comparative single-service 'best offer' fixed-line broadband pricing**



Source: Ofcom using data supplied by Teligen

Note: Lowest tariff available for the mobile phone component of each basket from any of the three largest operators by market share in each country, July 2009 and July 2010; PPP adjusted.

## 2.2.5 Summary of findings: mobile broadband

Our basket analysis includes only one mobile broadband connection, which is a 3GB per month connection included in basket 3.

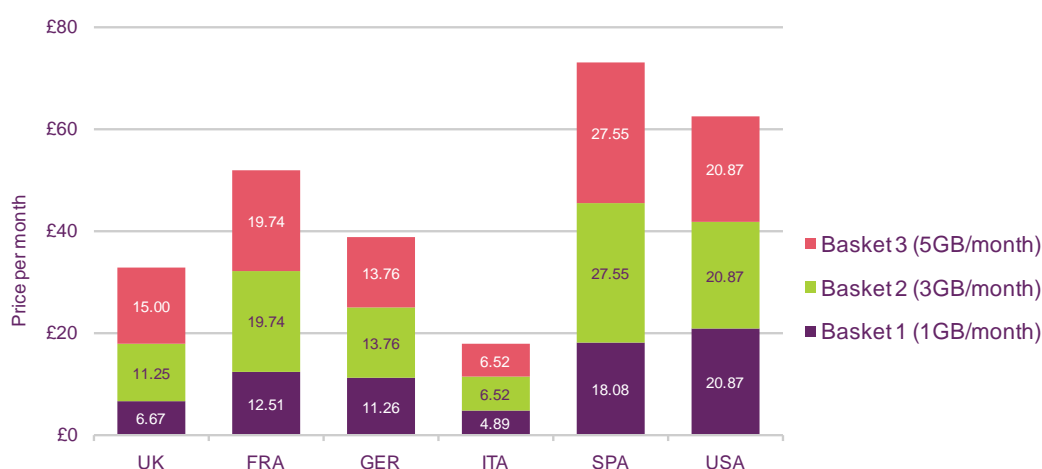
However, we also looked at two other connections, a low-use 1GB per month connection and a high-use 5GB per month connection. We consider only the 'best offer' service available, as lack of data on market share and the wide range of prices available from operators in some countries make it problematical to analyse on a 'weighted average' basis.

The lowest prices for mobile broadband were available in Italy, followed by the UK. This indicates that the competitive dynamics, which are delivering lower prices for mobile phone tariffs, are also reflected in mobile broadband. 3G and HSPA networks were launched relatively early in these countries, with three operators offering HSPA networks by the end of 2006, and by early 2008 mobile broadband had launched as a mass market consumer proposition in both countries. The 3G-only operator, 3, has been active in both countries in promoting mobile broadband, as a differentiator to build market share and utilise spare capacity in its network, and to develop new revenue streams and compete with fixed

broadband suppliers (unlike most of the leading mobile operators, 3 does not have a fixed broadband network). A consequence is that the markets are relatively mature compared to other countries, with all the MNOs competing to win mobile broadband share.

In both the UK and Italy, the price for mobile broadband compares favourably with the price of the basic fixed-line broadband connection in Basket 2. In addition, mobile broadband does not need a fixed phone line, as is required for DSL broadband. However, the levels of quality of service for fixed-line and mobile broadband are different, with fixed-line broadband typically offering greater reliability, higher speeds and higher usage allowances. In the UK, the majority of consumers with a mobile broadband connection also have a fixed-line broadband connection, indicating that the two services are often complementary, serving different purposes (i.e. a fixed-line connection is used in the home and a mobile broadband connection is used when out and about).

**Figure 2.12 Comparative ‘best offer’ single-service mobile broadband pricing**



Source: Ofcom using data supplied by Teligen

Note: Weighted average of best-value tariff from each of the three largest operators by market share in each country, July 2010; PPP adjusted

## 2.2.6 Summary of findings: TV

The variation in numbers and types of channels and different types of programme content means that like-for-like comparison of the pricing of television services is difficult. However, we have included television tariffs within our analysis in order to include comparisons of ‘triple-play’ (voice, broadband and TV) packages, which have had increasing take-up in all countries. The comparative pricing of television services has been discussed in some detail in the context of Ofcom’s pay-TV market investigation<sup>23</sup>. Our view is that it is difficult to draw strong conclusions from an analysis of comparative pricing levels for pay-TV packages<sup>24</sup>. For the purposes of this analysis we have used some headline prices of common pay-TV packages, but this is not intended to either supplement or replace the analysis conducted for the pay-TV investigation.

<sup>23</sup> See Section 3 of our Second Pay TV Consultation::

[http://www.ofcom.org.uk/consult/condocs/second\\_paytv/condoc.pdf](http://www.ofcom.org.uk/consult/condocs/second_paytv/condoc.pdf).

<sup>24</sup> See paragraphs 8.264 to 8.266 of Ofcom’s Pay TV Statement (March 2010):

[http://www.ofcom.org.uk/consult/condocs/second\\_paytv/](http://www.ofcom.org.uk/consult/condocs/second_paytv/)

Licence fees are highest in Germany and the UK, which have the highest investment per head in public service broadcasting. There is no licence fee in Spain and the US, where public funding is raised by alternative means.

'Basic pay-TV' is defined as the lowest subscription required to receive channels in addition to those available on free-to-view television. France, Italy and Spain offer the lowest costs for this 'entry-level' service, but the type of service varies significantly. The lowest-cost service in Italy is from a cable operator at €10 a month, and includes 18 channels. In France the leading satellite operator's entry-level service is available for €12.90 (£10) a month, with the first three months discounted to €19.90, and provides 23 channels (the reason for the price increase since 2009 is that in July 2009 the same service was available at the same basic price, but with an offer of the first three months free of charge). In Spain the lowest-cost service is an IPTV service (with limited geographical availability) that offers 50 channels for €11 a month. In Germany the lowest-price offer is a cable service offering 36 channels for €17.90 a month, plus a connection fee, while in the US the best offer is a cable service for \$25.49 a month.

The lowest price for basic pay-TV as a stand-alone service has fallen in the UK since 2009 as a result of Virgin Media's cheapest pay-TV service (M+) now being available without the requirement to take a Virgin phone line<sup>25</sup>. However, in terms of comparing like-for-like, prices in the UK have increased slightly – the lowest price for Sky TV in July 2009 was £18 a month compared to £16.50 in July 2009), and the lowest price for Virgin Media TV and phone line was £17.49 a month (compared to £16.50 in July 2009) .

We also looked at the price for a basket of 'premium' services, consisting of the best package of top-flight football (NFL in the US) and first-run major Hollywood studio movies). Because of the variation of content in these packages it is difficult to compare packages, and apparent changes in the prices in France and Spain between 2009 and 2010 have more to do with changing package structures than genuine changes in price. This basket does not include a requirement for high definition (HD) channels; however, in most countries HD is now standard with these premium channels; the UK is the only country in which HD channels are not included in the service that offers the lowest price (an additional £10 per month is required for HD services).

**Figure 2.13 Comparative single-service TV pricing**



Source: Ofcom using data supplied by Teligen

Note: Basic pay-TV is defined as the minimum price required to purchase a pay-TV packages which includes channels not available over free-to-air TV; Premium TV is defined as the best package of

<sup>25</sup> Note that from 1 October 2010, Virgin Media increased the price of the stand-alone M+ TV tariff from £11.50 a month to £12.50 a month, and the price of M+ TV with a Virgin Media phone line from £17.49 to £18.49.

*top-league football (NFL in the US and first run films from major Hollywood studios); lowest tariff available for the pay-TV component of each basket from any of the three largest operators by market share in each country, July 2009 and July 2010; PPP adjusted.*

Having provided an overview of findings on a single-service basis, we now detail the relative total prices for baskets of communications services representative of five household types.

## 2.3 Baskets analysis

### 2.3.1 Basket 1: a low-use household with basic needs

Our first basket contains a usage pattern typical of a retired low-income couple in any of our comparator countries. They rely on a fixed-line phone for communications and spend around seven and a half minutes a day making calls, the majority of which are local. They only occasionally make calls to mobiles and do not make any international calls. They watch free-to-air multichannel digital television, which is available in all of our countries (largely via satellite in Germany and via the terrestrial platform in the other countries).

**Figure 2.14 Composition of Basket 1**

Fixed-line voice	Mobile	Broadband	Television
Total outbound: 225mins  - Local: 61% - Regional: 14% - National: 22% - To mobile: 3%  - Daytime: 58% - Evening: 25% - Weekends: 17%	No connection	No connection	Free-to-air digital television --- 1 digital receiver / set-top box

Source: Ofcom

Using a weighted average of the best-value tariffs from the three largest operators in each country, there is little variation between the prices of the fixed-voice component of this basket. The lowest prices are available in Italy and the highest prices are in Spain.

Despite reasonably low use, in most countries there are advantages to users who opt to purchase an add-on', or pay a higher line rental for a service that offers inclusive calls (or much lower-priced calls), rather than simply taking a basic package with line rental and metered calls. For example, the lowest prices for all three of the operators considered in the UK require the consumer to pay additional monthly rental fees for 'Anytime' plans that offer inclusive calls to any UK fixed number at any time of day. This emphasises that the lowest prices are available only to consumers who have a good understanding of their requirements and do the research necessary to identify the tariff combination which best meets these requirements.

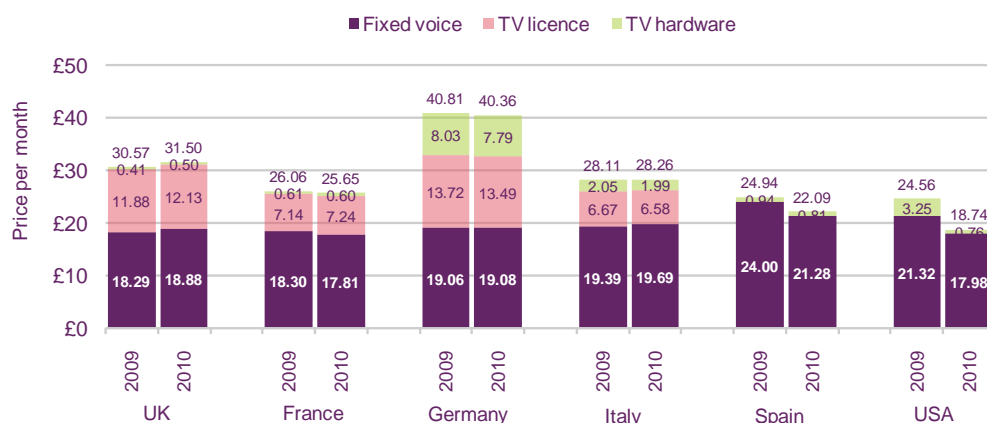
As these data represent an average of the lowest prices available from the largest operators, weighted by the market share of these operators, the fixed voice pricing, to a large extent, reflects the pricing of incumbent operators, which have over 50% retail market share in each of the European countries. The fall in voice pricing in Spain comes largely through the availability of a new tariff from incumbent operator Telefonica (with a market share of 80%) having a new tariff which includes national calls in return for a slightly higher monthly line rental fee, while similarly the price falls in Italy are driven mainly by lower prices from incumbent Telecom Italia (market share 52%), with the prices for this basket of calls having fallen by 37% between July 2009 and July 2010. Prices in the UK have increased slightly as a result of higher line rental fees, with BT increasing the price of its basic line rental from £11.50 to £12.50 from April 2010 (although the actual price rise for this basket is lower than £1 due to an increase in inclusive call types).

There is significant variation in the cost of the television licence across the six countries (which, along with the cost of a receiver / set-top box, represents the only television costs for this basket, which does not take pay-TV services). With higher investment per head in public

service broadcasting than in the other countries, the TV licence is most expensive in Germany and the UK. By contrast, there is no licence fee in the US or in Spain, where public funding for television is raised by alternative means (and is lower per head than in the other countries).

Digital terrestrial television is the largest platform for basic TV services in the UK, France, Italy and Spain - so the prices in Figure 2.15 are an accurate reflection of what the majority of people pay. Digital terrestrial television has also been used for the US as the cheapest way of receiving basic multichannel services, even though only around 15% of homes receive terrestrial rather than cable or satellite television. In Germany, because less than 5% of homes receive terrestrial television on their main set, we have used the free satellite service (received by over 20% of households) as the basic service, resulting in higher hardware and installation costs. The largest TV platform in Germany is cable (with around 60% market share), with monthly prices for access to a basic set of channels beginning at around €4 (£3.50) for apartment dwellers and rising to €17 (£15) for those living in houses.

**Figure 2.15 Basket 1: 'weighted average' single-service pricing**



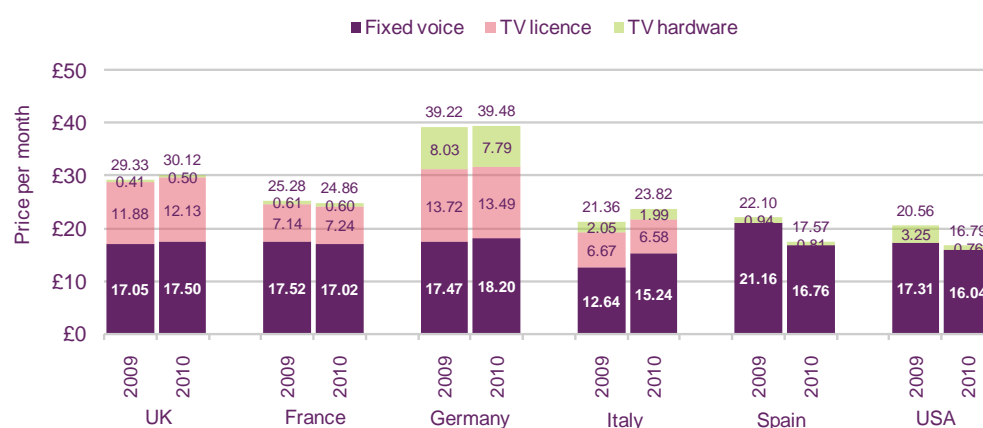
Source: Ofcom using data supplied by Teligon

Note: Weighted average of best-value tariff from each of the three largest operators by market share in each country; July 2009 and July 2010; PPP adjusted

There are some differences when looking at the lowest-priced fixed-line voice tariff available from any of the largest operators, rather than the weighted average of tariffs (Figure 2.16). (The television component remains the same, because the basket has free-to-air television, where the only costs are the licence fee and the hardware).

The biggest difference between the 'weighted average' and the lowest price available from the three largest operators is in Spain, where a service from an alternative network provider is 44% lower than the comparable tariff from incumbent Telefonica. By contrast there is relatively low variation between the prices of the three largest operators in the UK, France and Germany.

**Figure 2.16 Basket 1: comparative ‘best offer’ pricing**



Source: Ofcom using data supplied by Teligen

Note: Lowest tariff available for each service type from any of the three largest operators by market share in each country, July 2009 and July 2010; PPP adjusted.

### 2.3.2 Basket 2: A broadband household with basic needs

The second basket is representative of a couple of ‘late adopters’ who are fairly heavy users of the fixed-line phone, have one mobile between them which they use occasionally, and have a basic broadband connection.

**Figure 2.17 Composition of Basket 2**

Fixed-line voice	Mobile	Broadband	Television
Total outbound: 430mins  - Local: 65% - Regional: 18% - National: 11% - International: 3% - To mobile: 3%  - Daytime: 58% - Evening: 25% - Weekends: 17%	One basic handset  Voice: Total outbound: 60mins To national fixed: 24% To on-net mobile: 38% To off-net mobile: 38% Total inbound: 60mins  Daytime: 58% Evening: 25% Weekend: 17%	Basic fixed-line connection  Minimum speed: 1Mbit/s Minimum usage: 0.5GB Minimum hours: 10	Free-to-air digital television --- 1 digital receiver / set-top box

Source: Ofcom

The fixed-line voice component of this basket consists largely of calls to fixed-line phones within the same country (accounting for 94% of total calls), which are largely made in the daytime. It therefore favours tariffs that include these call types within the line rental fee. This is the case in the UK, where tariffs from all operators offer unlimited UK geographic calls for a relatively small increment in the line rental fee (for example, BT customers can get unlimited anytime UK geographic calls for an additional £4.99 a month). As a result, this is the only basket of the four fixed voice baskets included in this analysis whose price in the UK fell between July 2009 and July 2010; this was because savings from better pricing for inclusive calls exceeded the cost of increased line rental. UK costs are just 11% higher than for Basket 1, despite this basket including almost twice as many minutes. By comparison, fixed-line voice prices in France and the US are 30% higher than for Basket 1. Prices have fallen by the greatest amount in Spain and the US, due to the availability of new ‘inclusive’ call packages.



The low use of the mobile phone in this basket is typical of a pre-pay mobile user. Around 90% of mobile connections in Italy are pre-pay, resulting in competition which focuses heavily on price-per-minute charges, and reflected in the fact that Italy offers the lowest pricing for this basket. However, low monthly rental contract tariffs (including SIM-only contracts) are increasingly being offered in many countries, and so, even for low users, post-pay contracts now often offer lower prices than pay-as-you-go; £10 a month tariffs including at least 100 minutes and unlimited texts are now available from four UK mobile network operators, and in this analysis two of the three best-value tariffs included in the calculation of average UK pricing are pay-monthly.

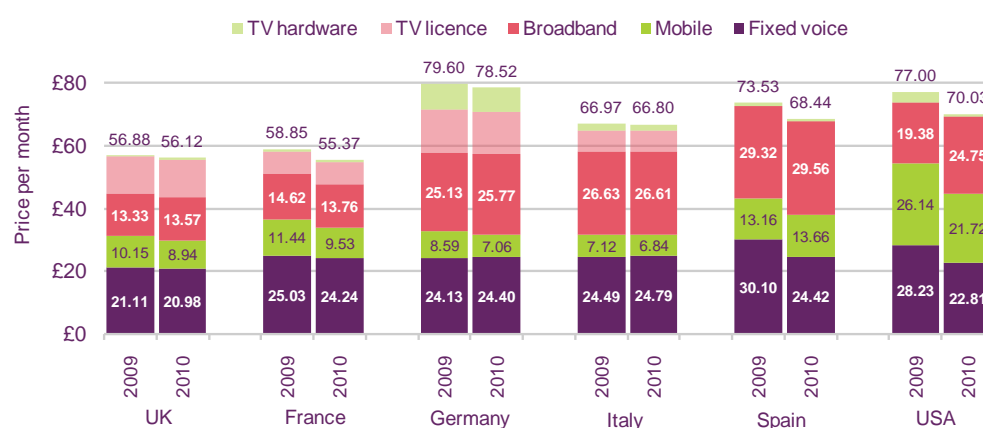
The highest mobile prices for this basket are in the US. This is the consequence of two features of the US market. Firstly, pre-pay has a much lower take-up than in any of the European countries, resulting in the availability of a narrower range of tariffs; indeed, of the three tariffs included in the average pricing calculation of the US, two are post-pay. Secondly, retail pricing in the US is characterised by consumers typically being charged for incoming calls (this is a consequence of the interconnect regime, which differs from that in Europe in that the call-receiving operator bears the cost for the incoming call, rather than the operator from which the call originated paying an 'interconnect' charge to the call-receiving operator). The response from many operators is to incentivise customers to purchase large numbers of additional minutes (in order to ensure that they keep their phone switched on), either included with the monthly line rental or, for pre-pay, through higher value top-ups (which typically expire after 30 days). The result is that the price per minute for low users is higher than in the European countries.

Single-service broadband pricing comparison should be treated with some caution, as broadband is very frequently bought as part of a multi-service bundle. Indeed, in Spain and Germany none of the largest three operators actually offers broadband on a stand-alone basis (the tariff we use is therefore a tariff which also includes a voice connection). This explains why pricing in Spain and Germany is relatively higher than in the other countries.

France and the UK offer the lowest pricing for the basic broadband requirements of this basket (note that this excludes the price of line rental and also includes any introductory promotions such as a reduced price for the first three months of the contract, which are incorporated into calculating the average monthly price for a 12-month period). However, pricing in the UK increased between July 2009 and July 2010. This was in part due to a small increase in price from incumbent operator BT, and was also due to a stand-alone tariff from an alternative network provider no longer being available. The UK and France are both characterised by having well-established alternative network operators; in both countries the incumbent has less than 30% market share (in the UK BT's market share is around 25%), and the two largest alternative network providers each have a retail market share of more than 20%.

This basket contains the same basic free-to-air digital television service as Basket 1.

**Figure 2.18 Basket 2: 'weighted average' single-service pricing**



Source: Ofcom using data supplied by Teligen

Note: Weighted average of best-value tariff from each of the three largest operators by market share in each country; July 2009 and July 2010; PPP adjusted

In all the European countries, the lowest prices available for this basket of services are available when consumers buy broadband in a package which includes fixed voice (Figure 2.19). In the UK a combined voice and broadband tariff (including line rental) is available for £23.24 a month from an LLU operator, whereas the lowest price available by purchasing voice and broadband separately is £31.46.

The lowest price available for combined voice and broadband services is in Germany, from the third largest provider, which for this basket offers prices which are 45% lower than those of incumbent Deutsche Telekom.

In the US, the lowest price is achieved by purchasing broadband and voice services separately. This reflects the fact that service bundling is less common in the US, which is the consequence of a market structure in the, where, in the majority of areas, a local duopoly is in place with the incumbent telecoms company in competition with the local cable operator for the supply of voice and broadband services. Whereas in European countries new entrants have sought to gain market share by offering bundled services, the US has not seen the same level of market disruption and operators offer fewer discounts for purchasing services in a 'multi-play' bundle.<sup>26</sup>

Although the requirements of this basket are for a basic broadband service with a headline download speed of 1Mbit/s or more, the lowest-price packages in all of the countries offer headline speeds considerably in excess of this – tariffs in Germany and Spain offer speeds of 'up to' 6Mbit/s, France and Italy 'up to' 8Mbit/s, the US 'up to' 10Mbit/s and the UK and Italy 'up to' 20Mbit/s. However, in all of the European countries the lowest-price service is delivered via DSL, and the speeds available depend on the length and quality of the copper telephone line between the local telephone exchange and the customer premises. The

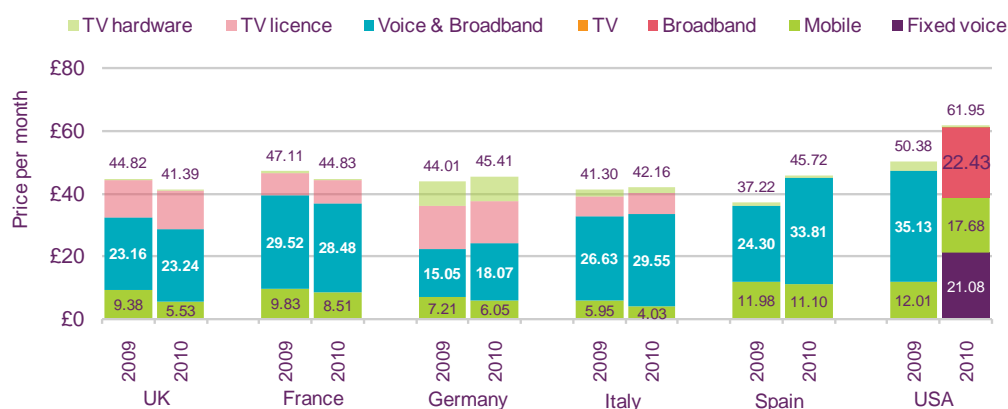
<sup>26</sup> The lowest price for this basket in the US in July 2009 was achieved through purchasing a voice and broadband bundle, from Verizon. Broadband tariffs are not included from Verizon in the 2010 analysis as a result of the sale of its fixed-line operations in 13 states (including Illinois, which is the state we use for our analysis) to Frontier. The sale was approved in May 2010. The Frontier voice and broadband bundle is the lowest priced bundled service available, but lower prices are achievable by purchasing voice and broadband separately.

lowest-price US service is delivered via cable, which typically delivers actual speeds closer to headline speeds.<sup>27</sup>

In terms of the best prices available for the mobile element of this basket, there is a similar pattern to the average prices, with pre-pay tariffs in Italy and Germany offering the lowest prices. There is less variation between the best-priced tariff and the average of the best tariffs available in the UK than in other countries. This indicates that, rather than shopping around for the lowest-price tariff, UK consumer should focus on their specific needs, as there is very little difference between the price of the ‘best offer’ pre-pay tariff from one operator and a the lowest-price 24-month contract tariff from another operator.

The lowest-price offer in the US for this basket is less than half the cost of the ‘weighted average’ price. This is driven entirely by the availability of a pre-pay tariff from T-Mobile USA, offering 1,000 minutes, which can be used over 12 months when topping up with \$100. By comparison, pre-pay tariffs from other operators typically require that top-ups are used within 30 days.

**Figure 2.19 Basket 2: comparative ‘best offer’ pricing**



Source: Ofcom using data supplied by Teligen

Note: Lowest tariff available for each service type from any of the three largest operators by market share in each country, July 2009 and July 2010; PPP adjusted.

### 2.3.3 Basket 3: A mobile ‘power user’

The third basket represents a single-person household typical of a young professional or student. This person has eschewed fixed-line telecoms and is instead a heavy user of both a mobile phone and of mobile broadband (using a mobile ‘dongle’ to connect to the internet on a laptop computer).

<sup>27</sup> See Ofcom’s report into broadband speeds for further information on the difference between actual and headline speeds and the variation by access technology, <http://stakeholders.ofcom.org.uk/market-data-research/telecoms-research/broadband-speeds/broadband-speeds-2010/>

**Figure 2.20 Composition of Basket 3**

Fixed-line voice	Mobile	Broadband	Television
No connection	One high-end handset  Voice: Total outbound: 550mins To national fixed: 13% To on-net mobile: 37% To off-net mobile: 37% To international: 6% To voicemail: 7% Total inbound: 550mins  Daytime: 60% Evening: 19% Weekend: 21%  Messaging and data: SMS: 150 MMS: 10 Internet: 100MB / 300mins	Mobile broadband connection  Minimum speed: 1Mbit/s Minimum usage: 3GB Minimum hours: 15	Entry-level pay-TV subscription (including channels which are not available via free digital television) --- 1 digital receiver / set-top box

Source: Ofcom

There is greater variation between countries in the total cost of this basket than for any other basket, ranging from £78.29 in the UK to £140.75 in Germany, driven primarily by large variation in the cost of the mobile phone element (Figure 2.21).

For this high-use mobile phone connection, the UK offers significantly lower prices than any of the other five countries, with the weighted average price 44% lower than in the next least-expensive country, Italy. All three of the UK's largest operators offer tariffs that deliver a lower cost for this basket than any tariff in any other country; all operators offer tariffs on 24-month contracts for £30 a month or less, that include at least 600 minutes, 3,000 texts, 500Mb data usage and an inclusive high-end handset; in addition, for two of the tariffs 'bolt-ons' are available, offering better value for the 33 minutes of international calls included in this package.

Italy offers the next lowest prices. However, the composition of the pricing in the two countries is very different: in the UK the monthly access fee accounts for 77% of the overall prices of the three tariffs, whereas in Italy it accounts for just 29%, with the remainder being usage-related (61%) or required to purchase the handset (9%), which is not included within the monthly fee. There are, of course, benefits to tariffs which are predominantly usage-related as they provide the flexibility to vary usage from month to month and be charged accordingly.

Whereas the US was the most expensive country for the low-use mobile phone in Basket 2, the high-usage requirements of this basket means that the US offers among the lowest average prices for Basket 3. High-end US tariffs typically include a large 'bucket' of minutes and unlimited weekend, evening and on-net calls (this is related to the interconnect regime in the US, as discussed above) and as a result are characterised by relatively high monthly rental fees and low usage fees. However, the international calls element is typically more expensive in the US.

Prices for the mobile phone element have fallen by the greatest amount in France and Spain. In both countries this comes as new tariffs offer more inclusive calls, message and data within access fees. A further factor driving prices down in France may be the lower mobile termination rates (MTRs); cut by 33% (for SFT and Orange) and 43% (for Bouygues) from 1 July 2010. In all countries, lower prices are associated with longer contracts;

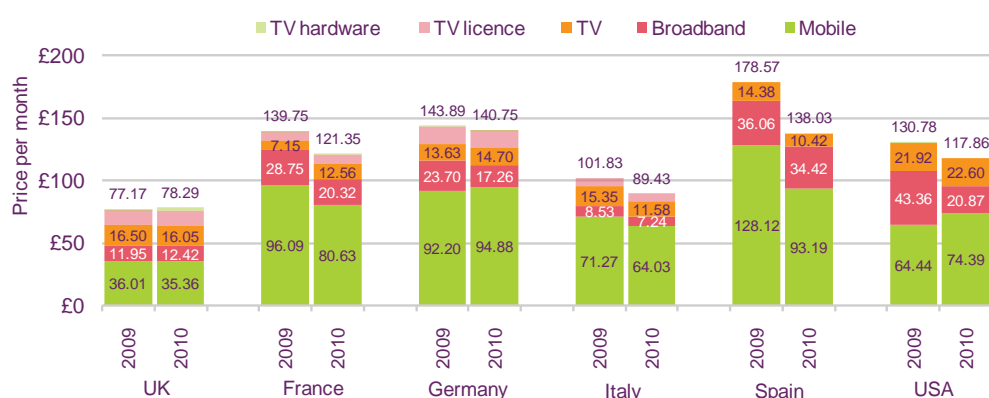
however, whereas 24-month contracts are commonplace in the UK, France, Germany, Italy and the US, the longest mobile contracts available in Spain in July 2010 were for 18 months.

There is large variation in mobile broadband prices between the countries, which in part represents different levels of take-up. Prices are lowest in Italy, France and the UK. Relatively low prices in Italy and the UK indicate that the competitive dynamics which are delivering lower prices for mobile phone tariffs are also reflected in mobile broadband. 3G and HSPA networks were launched relatively early in these countries, with three operators offering HSPA networks by the end of 2006, and by early 2008 mobile broadband had launched as a mass market consumer proposition in both countries. The 3G-only operator, 3, has been active in both countries in promoting mobile broadband, as a differentiator to build market share and use spare capacity in its network, and to develop new revenue streams and compete with fixed broadband suppliers (unlike most of the leading mobile operators, 3 does not have a fixed broadband network).

In both the UK and Italy, the price for mobile broadband compares favourably with the price of the basic fixed-line broadband connection in Basket 2. In addition, mobile broadband does not need a fixed phone line, as is required for DSL broadband. However, the levels of quality of service for fixed-line and mobile broadband differ, with fixed-line broadband typically offering greater reliability, higher speeds and higher usage allowances. In the UK, the majority of consumers with a mobile broadband connection also have a fixed-line broadband connection, indicating that the two services are often complementary, serving different purposes (i.e. a fixed-line connection is used in the home and a mobile broadband connection is used when out and about).<sup>28</sup>

This basket also includes a basic 'entry-level' pay-TV service, which is defined as the lowest subscription required to receive channels in addition to those available on free-to-view television. Because of the variation in numbers and types of channels and quality of programming, like-for-like comparison is more problematic than for telecoms services.

**Figure 2.21 Basket 3: 'weighted average' single-service pricing**



Source: Ofcom using data supplied by Teligen

Note: Weighted average of best-value tariff from each of the three largest operators by market share in each country; July 2009 and July 2010; PPP adjusted

In the UK and in Italy, there is much lower variation in the prices available for this basket among the three largest operators than is the case in the other countries. In the UK, the

<sup>28</sup> In the UK Communications Market report 2010, we report that 9% of UK households had both a fixed and mobile broadband connection, and 6% of households had a mobile broadband connection but no fixed-line broadband connection, p294:

[http://stakeholders.ofcom.org.uk/binaries/research/cmr/753567/CMR\\_2010\\_FINAL.pdf](http://stakeholders.ofcom.org.uk/binaries/research/cmr/753567/CMR_2010_FINAL.pdf)

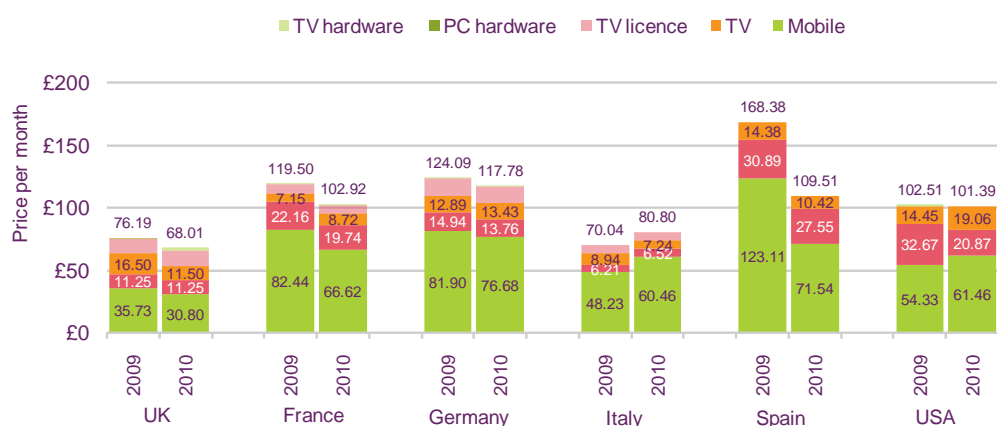
lowest price is available on a £25 a month 24-month contract which includes 600 minutes and a high-end mobile handset; the lowest-cost offers from the other two operators are based on taking a SIM-only contract and purchasing the handset separately (note that the requirements of the basket include a premium handset, so the overall cost of the SIM-only tariff also includes the separate purchase of a handset).

In looking at the mobile broadband component, again there is little difference between the prices of the tariffs of the largest three operators in the UK, resulting in the 'best value' offer being only marginally lower than the 'weighted average'.

The least expensive mobile broadband tariff is in Italy, where a tariff at €10 (£8) a month (with the first two months free of charge), allows for 30 hours of usage every month (Italy and France are the only countries in which allowances in some tariffs are according to time online; all other tariffs provide a data volume allowance).

In Italy, Germany and the US the lowest price for a basic pay-TV service is offered by a cable TV operator, in France by a satellite TV operator and in Spain by an IPTV operator. In the UK, the lowest price is offered by cable operator Virgin Media which now offers its basic M+ TV service without the requirement to take a Virgin Media phone line. However, the fall in price of £4 between July 2009 and July 2010 is perhaps misleading; in like-for-like terms, the lowest prices in the UK have increased slightly – the lowest price for a basic package from satellite operator Sky was £18 a month in July 2010 compared to £16.50 a year previously, while the lowest price for a television and phone package from Virgin Media has increased from £16.50 to £18.49.

**Figure 2.22 Basket 3: comparative 'best offer' pricing**



Source: Ofcom using data supplied by Teligen

Note: Lowest tariff available for each service type from any of the three largest operators by market share in each country, July 2009 and July 2010; PPP adjusted.

### 2.3.4 .Basket 4: A family household with multiple needs

Basket 4 represents a family of two parents and two teenage children, all with their own mobile handset but with different mobile needs, with the adults using more voice and the children more messaging. However, they are cost-conscious and favour using the fixed-line phone whenever possible, which gets fairly heavy use. The family members are also heavy users of the internet, requiring a minimum connection speed of 4Mbit/s, and subscribe to entry-level pay-TV services.

**Figure 2.23 Composition of Basket 4**

Fixed-line voice	Mobile	Broadband	Television
Total outbound: 600mins - Local: 68% - Regional: 9% - National: 14% - International: 7% - To mobile: 2%  - Daytime: 59% - Evening: 25% - Weekends: 16%	One high-end handset One mid-range handset Two basic handsets  Mobile connection 1 Voice: Total outbound: 300mins To national fixed: 17% To on-net mobile: 33% To off-net mobile: 33% To international: 10% Voicemail: 7% Total inbound: 300 mins Messaging and data: SMS: 30 Internet: 30MB / 100mins  Mobile connection 2 Voice: Total outbound: 180mins To national fixed: 20% To on-net mobile: 34% To off-net mobile: 34% Voicemail: 12% Total inbound: 180mins Messaging and data: SMS: 160 MMS: 4  Mobile connection 3 Voice: Total outbound: 60mins To national fixed: 30% To on-net mobile: 30% To off-net mobile: 30% Voicemail: 10% Total inbound: 60mins Messaging and data: SMS: 70 MMS: 2  Mobile connection 4 Voice: Total outbound: 60mins To national fixed: 30% To on-net mobile: 30% To off-net mobile: 30% Voicemail: 10% Total inbound: 60mins Messaging and data: SMS: 65 MMS: 2	Fixed-line broadband connection  Minimum speed: 4Mbit/s Minimum usage: 5GB Minimum hours: 50	Entry-level pay-TV subscription (including channels which are not available via free digital television) --- 1 digital receiver / set-top box

Source: Ofcom

Overall, the UK has the lowest prices for this basket, and the US has the highest prices, driven mainly by the mobile phone costs, which account for nearly half of the total costs of this basket in the UK and a higher proportion in other countries (Figure 2.24).

Of all the five baskets we examined, this one has the highest volume of fixed-line voice calls. The UK has significantly lower costs than any other country for this component, due both to the availability (from all of the leading three operators) of ‘anytime’ plans, which offer inclusive calls to any fixed line in the UK, and separate ‘add-ons’ which offer savings on calls to mobile and international calls. All the best-value tariffs for this basket from the largest three UK operators involve purchasing a line rental package which includes unlimited calls to UK geographic numbers, and a separate add-on which offers lower-price international calls,

while one of the tariffs also includes purchasing an add-on which offers lower prices on calls to mobiles. This means that although the monthly fee is higher in the UK than in other countries, usage fees are typically lower.

Although the weighted average cost of the best value tariffs from the three largest operators is lower in the UK, the lowest price tariffs among all those considered are from alt-net operators in France and Italy. However, the 'weighted average' is to a large extent a reflection of the 'best value' tariffs available from the incumbents (which have more than 50% market share in every country), and for this particular basket the price available from BT was 31% lower than that available from the incumbent in Italy (Telecom Italia) and 32% lower than that available from the incumbent in France (France Telecom).

The biggest fall in fixed voice prices for this basket, between July 2009 and July 2010, was in the US and was due to all three operators offering tariffs that included unlimited national calls and calls to mobiles within a monthly package. In general, however, US prices for national calls are more expensive than in the European countries, perhaps a consequence of the greater geographic area covered. Among the European countries, none of the operators considered in the UK, France or Germany made any pricing distinction between local, regional and national calls.

This basket includes four mobile phones, one with relatively high voice use (300 minutes a month), one with average voice use (180 minutes a month) and two with low voice use (60 minutes a month). In most countries, the two mobile phones with the highest usage requirements (connections 1 and 2) achieve the lowest prices with post-pay tariffs, and the two phones with the lowest-use (connections 3 and 4) achieve the lowest pricing with pre-pay tariffs. Overall, the lowest prices (as defined by the 'weighted average') for the high-use connections are available in the UK, while the lowest prices for the low-use connections are available in Italy.

The greatest fall in the price of the mobile connections has come in Spain as a wider range of tariffs have become available, particularly post-pay tariffs offering a high number of inclusive minutes within the line rental.

Overall, prices are highest in the US. A couple of factors are driving this. Firstly, as discussed in 2.2.3 above, US tariffs are structured to favour much higher use; for the low-use connections 3 and 4 the lowest prices available in the US are generally more than double the cost of those in the European countries. Secondly, the price of international calls from mobiles is much higher in the US than in Europe. This may be a result of the introduction of the Euro-tariff in the European Union in 2007, which put a cap on the prices of mobile calls between EU countries.

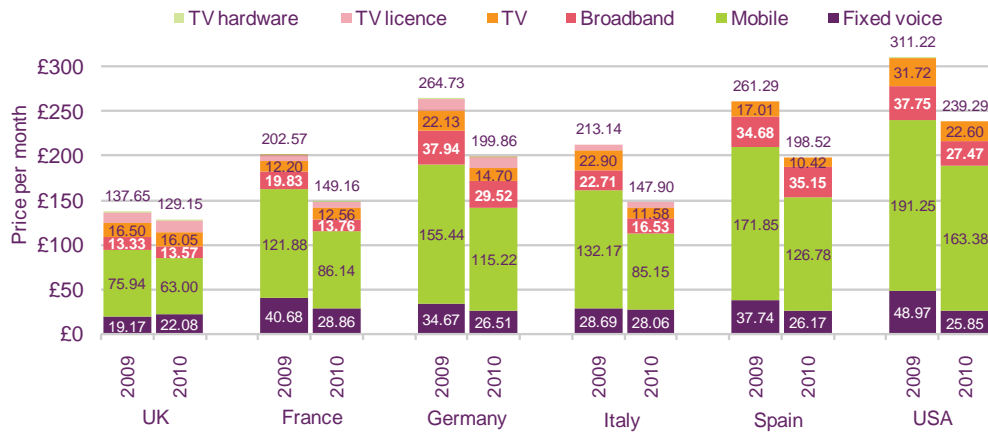
The lowest broadband prices for this basket are in the UK and France; in both countries, despite the higher speed and data use requirements, the costs are exactly the same as for Basket 2 - a reflection of the fact that the large majority of broadband tariffs offer a headline speed of at least 8Mbit/s and unlimited data use.

Prices for broadband are highest in Germany and Spain. However, in both countries the largest three operators do not offer broadband as a stand-alone service, but offer it only in combination with voice services (our theoretical consumers in Germany and Spain are therefore purchasing two voice services in the single-service analysis in Figure 2.24 and Figure 2.25 – one to meet the requirements for the fixed voice component, and another which is included with the broadband connection).

The television element in this basket is the same as in Basket 3.



**Figure 2.24 Basket 4: 'weighted average' single service pricing**



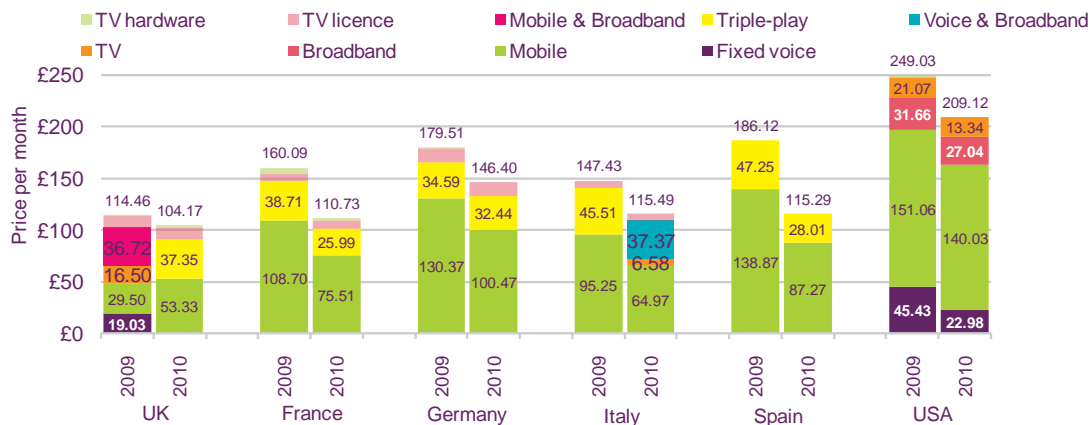
Source: Ofcom using data supplied by Teligen

Note: Weighted average of best-value tariff from each of the three largest operators by market share in each country; July 2009 and July 2010; PPP adjusted

As with Basket 2, there are considerable savings to be made in all European countries by purchasing services within a bundle (Figure 2.25). In the UK, France, Germany and Spain the lowest prices were available by purchasing a 'triple-play' service incorporating fixed-line voice, broadband and basic pay-TV, while in Italy a 'dual-play voice and broadband tariff, with the pay-TV component purchased separately, offered the lowest overall price. However, while in France, Germany and Spain triple-play offers provided a significantly lower overall price than other components, in the UK there was little difference between the price of purchasing these services in triple-play, or purchasing television separately and bundling broadband with fixed voice services or mobile services.

Prices for triple-play services providing the fixed voice, broadband and basic pay-TV requirements of this basket are lowest in France, Spain and Germany, where the lowest tariffs are available from cable operators. While the basic requirements of the pay-TV element are the same as for Basket 3, it is notable that many of these triple-play tariffs provide services in excess of the least expensive available on a stand-alone basis. For example, the triple-play offer in France includes 138 channels compared to 23 for the lowest-price stand-alone service, and the triple-play service in Germany includes 60 channels compared to 36 for the lowest-price stand-alone service.

**Figure 2.25 Basket 4: Comparative 'best-offer' pricing including multi-play tariffs**



Source: Ofcom using data supplied by Teligen

Note: Lowest tariff available for each service type from any of the three largest operators by market share in each country, July 2009 and July 2010; PPP adjusted.

### 2.3.5 Basket 5: An affluent two-person household with high use of mobile, internet and premium TV

Our final basket is typical of a young couple of high-end users who have low price sensitivity. They both have mobile connections and are fairly high users of voice and (to a lesser extent) SMS. They also have a fixed line, but this has relatively low use. They have a fast broadband connection and are heavy internet users, and have a premium television package for watching sport and the latest movies, and also a digital video recorder (DVR).

Figure 2.26 Composition of Basket 5

Fixed-line voice	Mobile	Broadband	Television
Total outbound: 250mins - Local:60% - Regional:7% - National: 13% - International: 8% - To mobile: 12%  - Daytime: 59% - Evening: 25% - Weekends: 16%	One high-end handset One mid-range handset  Mobile connection 1 Voice: Total outbound: 400mins To national fixed: 20% To on-net mobile: 29% To off-net mobile: 29% To international: 14% Voicemail: 8% Total inbound: 400mins Messaging and data: SMS: 80 Internet: 30MB / 100mins  Mobile connection 2 Voice: Total outbound: 200mins To national fixed: 30% To on-net mobile: 30% To off-net mobile: 30% Voicemail: 10% Total inbound: 200mins Messaging and data: SMS: 20	Fixed-line broadband connection  Minimum speed: 8Mbit/s Minimum usage: 5GB Minimum hours: 50	Premium pay-TV subscription, including: - Best package of live top-flight football / NFL - Film package including first-run major studio movies - PVR service --- 1 digital receiver 1 DVR

Source: Ofcom

As for Baskets 3 and 4, the UK offers the lowest pricing for this basket because of significantly lower prices for the mobile component than in the other countries (Figure 2.27)

For the fixed-line component, prices are similar to those of Basket 1, which has a similar volume of calls. In all countries except Italy, prices for the fixed-line component are slightly higher than for Basket 1, which has a similar volume of calls, as a result of the higher proportion of calls to international and mobile numbers. Italy has seen the biggest fall in prices of the fixed-line component as a result of a new tariff from incumbent Telecom Italia which includes discounted calls to mobiles. Prices are proportionally higher in Spain than in the other countries, largely as a result of the lack of availability of suitable 'add-ons' offering reduced prices for mobile and international calls from the incumbent, Telefonica. The UK is the only country in which prices increased between July 2009 and July 2010, due to increases in line rental prices.

The UK offers the lowest price for both of the mobile connections in this household, although it is the only one of the European countries in which prices increased between July 2009 and July 2010 (up by 2%). Mobile connection 1 includes 56 minutes of international calls and also internet browsing, and tariffs including 'add-ons' for web browsing and for international calls are available from all of the largest three UK operators. Overall, the weighted average price for this connection in the UK is 31% lower than in the next least expensive country (Italy) and more than 50% lower than in Germany, Spain and the US. All three UK operators

meet the requirements of the basket with pay-monthly 24-month contracts which include the full price of the handset (in all other countries, payment for the handset is required up-front – we amortise this cost over three years to calculate the monthly cost).

With 200 minutes of use a month, mobile connection 2 represents lower than average use for the average contract pay-monthly customer in the UK, and higher than average use for the average pre-pay customer<sup>29</sup>. One of the UK's three largest operators offers the lowest price for this basket with a pre-pay tariff, while the lowest price from the other two operators is achieved by £15-a-month pay-monthly contracts, with the handset included within a 24-month contract.

Prices for the mobile component are highest in the US. While prices are broadly in line with those in France, Germany and Spain for the higher-use connection 1, prices are 50% higher than in any other country for the lowest-use connection 2. Once again, this highlights the characteristics of the US market, whereby low-use tariffs are relatively expensive (the consequence of the 'receiving party pays' interconnect regime which has resulted in tariffs tending to offer a high number of inclusive minutes, but where monthly rental or pre-pay 'top-up' costs are high).

As for Baskets 2 and 4, the UK and France offer the lowest price for broadband; indeed, the three tariffs which offered the lowest price for Basket 2, which only required a minimum speed of 1Mbit/s and 0.5GB use a month, are all still valid for the higher requirements of this household (8Mbit/s and 5GB per month).

This basket also includes a premium TV component. Among the European countries, Spain, Germany and the UK have the most expensive TV pricing for this top-end package of premium top-league football rights and first-run movies from the major Hollywood studios. This is partly a consequence of the way operators bundle this content with other content and channels. BSkyB in the UK and Audiovisual Sport in Spain both own rights to most of the biggest football matches, and the "best packages" which include this content comprise a large amount of TV content (both premium and non-premium). By contrast, in Germany, Premiere's segmentation (via its distribution partners) is to offer matches on a pay-per-view basis as well as within an 'all inclusive' monthly tariff. Therefore in Germany consumers can choose to purchase the top matches on an individual basis, or within a monthly 'bundle' (this does not affect the comparisons below; the price used is the price for a monthly 'bundle', as the requirement of the basket is for the 'best package').

In Italy a fragmented football rights market creates more pressure on pricing; rights are sold on a club-by-club basis, and separate packages are sold to the terrestrial and satellite platforms. As a result, even though satellite operator Sky Italia has been able to secure a better overall package of rights than its competitors, the availability of a wide range of matches on digital terrestrial television (many on a pay-per-view basis) combines to create competition between the two platforms.

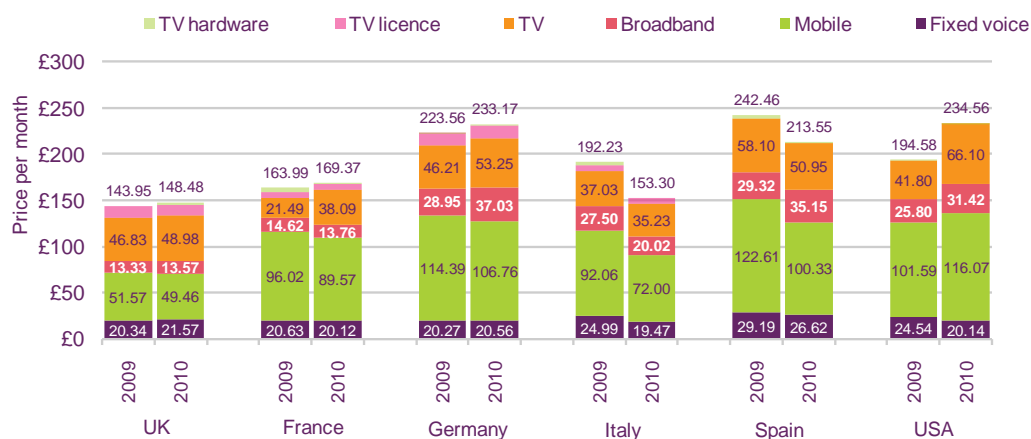
Comparisons with the US are harder to make, partly because we are comparing NFL with football, but also because a characteristic of the US market is that NFL viewing packages are wrapped up in many different ways and offered through a combination of pay-per-view and subscription.

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<sup>29</sup> In 2009, contract mobile connections in the UK used an average of 236 outbound minutes a month, and pre-pay mobile connections used an average of 61 outbound minutes a month (UK Communications Market Report, 2010, p341: [http://stakeholders.ofcom.org.uk/binaries/research/cmr/753567/CMR\\_2010\\_FINAL.pdf](http://stakeholders.ofcom.org.uk/binaries/research/cmr/753567/CMR_2010_FINAL.pdf))

This basket does not contain the requirement for high-definition (HD) television, because of its low take-up in some countries. However, it is worth noting that the services in all countries except the UK include HD channels, an HD receiver and a DVR without any additional fee. Premium HD channels are available for additional charges in the UK.

**Figure 2.27 Basket 5: 'weighted average' single-service pricing**



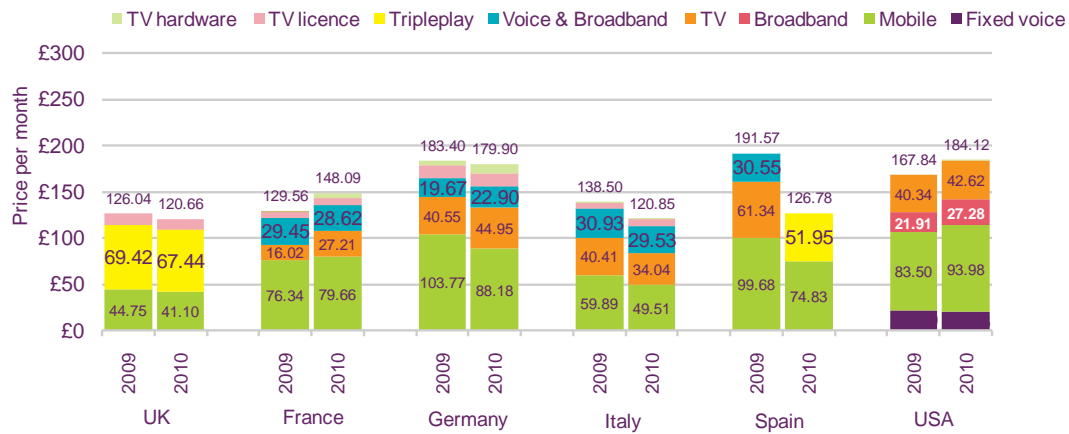
Source: Ofcom using data supplied by Teligen

Note: Weighted average of best-value tariff from each of the three largest operators by market share in each country; July 2009 and July 2010; PPP adjusted

There are not many triple-play tariffs in any of the countries which meet the requirement of containing premium football and movies. Premium television packages are typically offered as an 'add-on' to a basic service and so do not generally offer savings if purchased within a triple-play subscription rather than on a stand-alone basis. Only in the UK and Spain does a combined 'triple-play' tariff offer better value than purchasing TV separately, although in Spain the television component is offered via IPTV and therefore has limited availability. In France, Italy and Germany, a voice and broadband bundle offers the best value, while in the US stand-alone services provide the lowest prices.

The largest savings, compared to purchasing services on a stand-alone basis, are found in Spain, where there was the steepest fall in prices between July 2009 and July 2010. This was due to the availability of a triple-play tariff from incumbent Telefonica, which in the last year has launched triple-play services under the Movistar brand – previously, IPTV-based television services were sold under the name Imagenio.

**Figure 2.28 Basket 5: comparative 'best-offer' pricing, including multi-play tariffs**



Source: Ofcom using data supplied by Teligen

Note: Lowest tariff available for each service type from any of the three largest operators by market share in each country, July 2009 and July 2010; PPP adjusted.

## 2.4 Conclusion

Figure 2.29, Figure 2.30 and Figure 2.31 below summarise the service pricing of each basket in each country (TV licence and equipment costs are excluded). The findings enable us to draw some general conclusions about the pricing of communications services, as well as highlighting differences between the six countries.

A number of conclusions can be drawn about the relative pricing of communications services in the UK compared to the five comparator countries:

- Overall, prices in the UK compare favourably to those in other countries. Among the six countries analysed, the UK offers the lowest prices for four of the five baskets when looking at the 'weighted average' of single-service pricing, and for three of the five baskets when looking at 'best offer' pricing.
- However, much of this difference is due to lower mobile prices in the UK than in other countries – with the UK offering the lowest prices both in terms of 'weighted average' pricing and best-offer pricing for all of the baskets that contain a mobile element, except for Basket 2, which has a very low-use mobile component.
- For stand-alone broadband, pricing in the UK, along with France, is lower than in the other countries. However, comparisons of stand-alone broadband are not very useful, as most broadband in all the European countries we consider is purchased as a 'bundle' along with at least one other service – and stand-alone broadband is not available from the largest operators in Germany and Spain.
- In terms of bundled services, pricing in the UK compares favourably with other countries for a basic bundle of broadband and voice services (Basket 2), but once a pay-TV requirement is included, pricing in the UK is comparatively more expensive. Among the European countries, the UK is the most expensive for a basket of fixed voice, fixed broadband and basic pay-TV services (Basket 4), and France and Italy are less expensive for a basket of fixed voice, fixed broadband and premium TV services (Basket 5).

The difference between the 'weighted average' and the 'best offer' pricing of the single services indicates the range of pricing between the largest operators in each country, and therefore indicates the countries where consumers potentially have most to gain by switching providers.

Compared to other countries, there is little variation in mobile, fixed-line and broadband pricing in the UK between the 'weighted average' price and the lowest price. This indicates similar pricing from all the largest operators.

For example, the difference between the 'weighted average' pricing of the fixed voice component and the best price available in the UK is never more than £2 a month (the greatest difference is in Basket 2, where the best available price is 13% lower than the 'weighted average' price). By comparison, in Italy 'best-offer' prices for fixed-line voice are up to a third cheaper than the weighted average. Similarly, in mobile the biggest difference between the 'best offer' and the 'weighted average' pricing in the UK is much lower than in other countries; the biggest difference between the 'weighted average' and 'best offer' pricing in the UK is 13% (Basket 4), whereas in the US there is a bigger difference in all baskets, with the best pricing for Basket 2 more than 50% less expensive than the 'weighted average' pricing.

The mobile phone component is easily the largest cost for all of the baskets 3, 4 and 5. This is in line with the relative sizes of the fixed-line voice, broadband and mobile industry sectors – with mobile generating over 50% of telecoms industry revenue in all of the countries. However, it is also notable that it is the mobile component which shows greatest variation across the countries analysed. This is perhaps due to greater variation in the industry structures between the countries than is the case for fixed-line services (where, in all the European countries, the incumbent still has more than 50% of all retail voice connections). For example:

- Lower prices in the UK may be a reflection of competition between five mobile network operators (until July 2010 when Orange UK and T-Mobile UK officially combined into Everything Everywhere, while still retaining the two brands), compared to three in France; four in Germany, Italy and Spain, and four nationwide operators plus regional operators in the US.
- The 'receiving party pays' interconnect regime in the US to a large extent defines the structure of tariffs, which typically include a large number of inclusive minutes. This in turn means that 'low-use' baskets are expensive compared to other countries, whereas higher-use baskets are less expensive. (This is of course also reflected in consumer behaviour, with much higher use per connection in the US than in other countries).
- Nearly 30% of Germany's mobile connections are with mobile virtual network operators (MVNOs). This provides part of the explanation why the low-use baskets are relatively low-priced, as MVNOs have, in particular, driven competition at the low end of the market.
- The Italian market is 90% pre-pay, whereas the US market is 90% post-pay; as a result pricing in Italy tends to be more usage-based (i.e. metered), and US pricing is characterised by 'flat-rate pricing'. The result is that Italy offers relatively low prices for low-use connections, while the US is more competitive for high-use connections.
- In Italy and the UK the award of 3G licences led to a new 3G-only operator entering the market, whereas in Germany, Spain and France 3G licences went only to existing operators. The resulting disruption in the Italian and UK markets, caused by a new operator seeking rapidly to gain market share, may be reflected in lower overall prices than in the other countries.

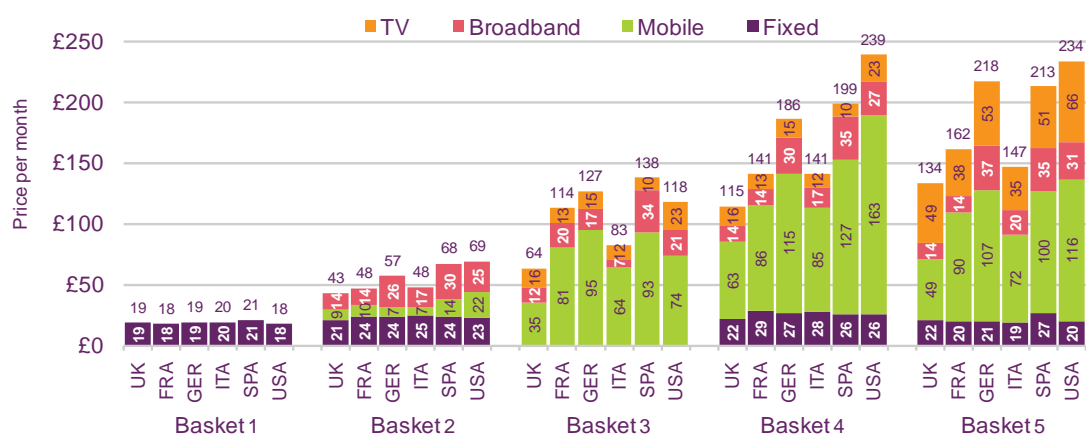
As broadband is frequently 'bundled' with other services, consumers in all countries can make significant savings by purchasing communications services in bundles, compared to purchasing the lowest-price single services (as evident in Baskets 2, 4 and 5 which all include a fixed-line broadband connection). However, the extent of the savings varies from country to country. In the UK, the savings that consumers get from purchasing a whole basket of services as a bundle vary from 7% for Basket 5 to 18% for Basket 2. By comparison, consumers in Germany (where most operators offer broadband only in a bundle with voice services), the prices for Basket 2 are 59% lower when purchasing services in a bundle than when purchasing the lowest-price equivalent services on a stand-alone basis; similarly, German consumers can save 25% on Basket 4 and 14% on Basket 5.

Like-for-like TV price comparison is not really possible, due to variations in channel numbers and package content. However, we have included it in order to include comparisons of 'triple-play' (voice, broadband and TV) packages, which have had increasing take-up in all countries, although it must be noted that, because of variations in television content in these triple-packages, pricing comparisons should be treated with caution. 'Triple-play' services

deliver the lowest prices for basket 4 in France, Germany, Italy and Spain, where the requirement is for a basic pay-TV service.

By contrast, prices for triple-play packages, including a basic pay-TV element in the UK, are more expensive than in the other European countries for this basic pay-TV package and do not offer the lowest price for this basket, which is achieved by purchasing a dual-play voice and broadband tariff and a separate pay-TV service. However, for Basket 5, which includes premium TV services, the UK and Spain are the only countries where a 'triple-play' service offers lower prices than purchasing a 'dual-play' (voice and broadband) service with a separate pay-TV service.

**Figure 2.29 Comparative 'weighted average' pricing of 'single services' for all countries**

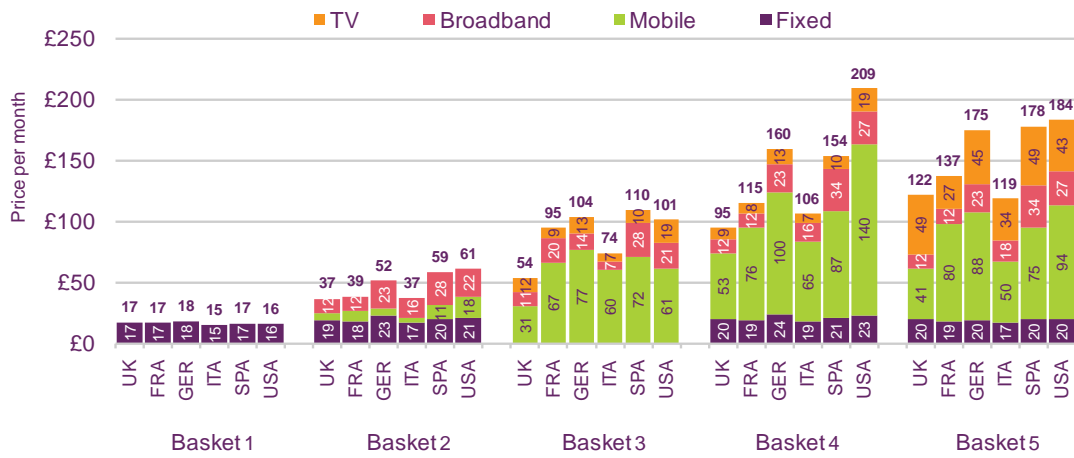


Source: Ofcom using data supplied by Teligen

Note: Weighted average of best-value tariff from each of the three largest operators by market share in each country; July 2009; Note 'single-service' broadband in Spain and Germany includes the best value 'voice and broadband' tariff as single-service broadband was not available from the largest operators; PPP adjusted



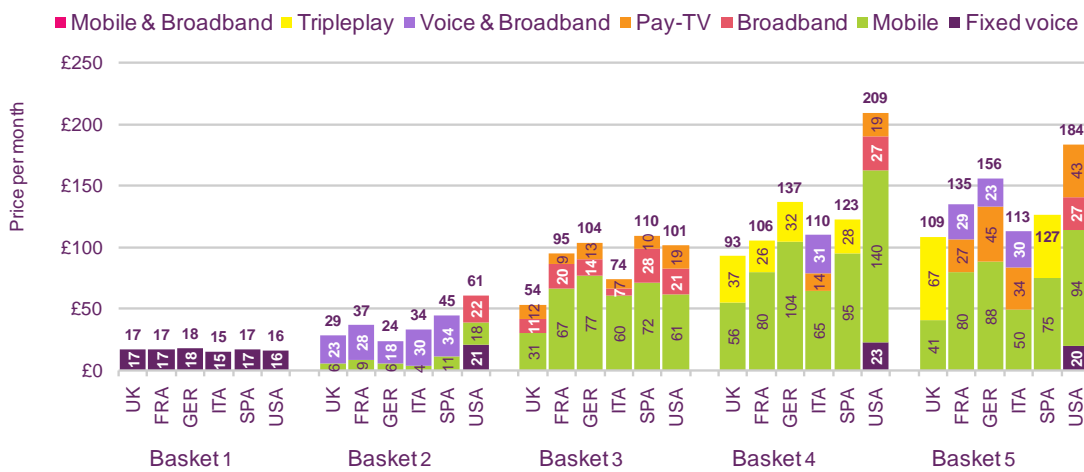
**Figure 2.30 Comparative 'best offer' pricing of 'single services' for all countries**



Source: Ofcom using data supplied by Teligen

Note: Weighted average of best-value tariff from each of the three largest operators by market share in each country; July 2010; PPP adjusted

**Figure 2.31 Comparative cost of lowest price services, including multi-play, for all countries**



Source: Ofcom using data supplied by Teligen

Note: Weighted average of best-value tariff from each of the three largest operators by market share in each country; July 2010; PPP adjusted