



International Communications Market Report 2012

2 Comparative international pricing

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2.1 Comparative international pricing

2.1.1 Introduction

In this section of the report we benchmark the UK against other countries in terms of the metric which is most important to the largest number of consumers when choosing communications services: price.

Tariff complexity, the wide range of usage profiles within countries, variations in 'average' use between countries, increasing service bundling and variations in installation and hardware costs make it extremely difficult to provide meaningful price comparisons, so, to attempt to address these issues, we have developed a methodology for comparing prices which is based on consumption across 'typical' household types.

This methodology considers issues including the impact of hardware subsidies and multi-service discounts, and compares prices in the UK, France, Germany, Italy, Spain and the US (where we have used Illinois as a representative state).

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

The key findings of this section include:

- **Prices in the UK compared favourably to those in the other five countries covered by our price benchmarking work.** All five of the lowest 'weighted average' single-service basket prices and four of the lowest possible basket prices were found in the UK.⁶⁵
- **Low basket prices in the UK were largely due to mobile prices being the lowest among our six countries.** The UK also benefits from comparatively low fixed voice, fixed broadband and mobile broadband prices.
- **France also performed well, having the lowest 'best-offer' including multi-play price for our 'connected family' household, and the second lowest 'weighted average' prices for all five households.** The connected family 'best-offer' price in France was significantly cheaper than in the UK as a result of the availability of a low-cost quad-play bundle of fixed voice, fixed broadband, mobile and pay-TV services.
- **There is some evidence that UK communications service prices are increasing, in nominal terms at least.** In the year to July 2012 the weighted average cost of four of our five baskets increased in the UK in nominal terms. In France (where weighted average prices were next lowest) the cost of all five fell.
- **In the UK, the main driver behind increasing weighted average basket prices was increases in mobile prices.** The weighted average cost of more than half of the mobile connections increased in the year to July 2012 in the UK, with these increases ranging from 5% to 31% in nominal terms.

⁶⁵ 'Weighted average' basket price refers to the sum of the weighted average single service price of each service included in the basket, these averages being calculated as the average of the lowest price tariffs offered by the three largest operators which provide the service in each country, weighted by the market share of each service provider.

- **Consumers in most of our comparator countries were able to make cost savings by purchasing fixed broadband services as part of a bundle.** The potential savings available by bundling the services required by the three baskets that included a fixed broadband connection ranged from 5% to 40%.
- **HD premium pay-TV services were the main area where the UK did not perform well.** This was partly due to Sky bundling a large number of channels in its premium pay-TV package and charging its satellite TV customers an additional £10 a month to let them access premium channels in HD.
- **In the UK, the difference between the ‘weighted average’ and the ‘best offer’ pricing of the single services for our five baskets was among the lowest across our six countries.** ‘Best offer’ prices in the UK were, on average, 19% lower than the ‘weighted average’ for our five baskets - only in Spain was this figure lower, at 18%.

2.1.2 Methodology

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

We constructed five household types, which taken together may be seen as representative of the population across our countries, and for each household we defined a basket of communications services (fixed-line voice and broadband, mobile voice, messaging and broadband and TV) appropriate for each household type (Figure 2.1). The overall average use across the five baskets has been adjusted so that it closely matches the average use across the six countries. This is in order to address the potential biases associated with our baskets being more closely aligned with the usage profiles of some countries than others.

Figure 2.1 Summary of households and baskets used in the analysis

	‘Typical household type’	Fixed voice	Mobile voice	Mobile messaging	Fixed line broadband	Mobile broadband	Television
1	A low use household with basic needs	Low	Low	n/a	n/a	n/a	Basic
2	A broadband household with basic needs	Medium	Low	Low	Low	n/a	Basic
3	A mobile ‘power user’	n/a	High	High	n/a	High	Pay-TV
4	A family household with multiple needs	High	Medium	High	Medium	n/a	Pay-TV with recorder
5	An affluent two person household	Low	High	Medium	High use superfast	Medium	HD premium pay-TV with recorder

Source: Ofcom

We included a wide range of components within the baskets to make them as accurate as possible a representation of the real prices 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). Non-geographic calls were excluded from the analysis.
- 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 an average based on figures from 30 OECD countries).
- Incoming calls to mobile phones were included in recognition of the different charging mechanism in the US.
- The broadband components were defined both by minimum headline speed and by minimum data requirements.
- The television element included the licence fee and hardware cost. 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 high-definition channels and a top price film/entertainment package combined with the best package of top-tier football matches.

Mobile handsets, 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 this equipment is often inseparable from the service price, as operators frequently include subsidised or 'free' equipment (for example, a mobile handset or a WiFi 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 include connection and/or installation costs.

In July 2012, details of every tariff and every tariff combination (including bundled services) 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 (i.e. excluding bespoke tariffs which are offered only to certain customers).

Across the six countries, the tariff data included consisted of:

- 616 fixed voice tariffs;
- 230 fixed broadband tariffs;
- 4,091 mobile tariffs;
- 386 mobile broadband tariffs;
- 307 television tariffs; and
- 2,280 multi-play bundle 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 exchange rates as at 1 July 2012.

Analysis

We provide two types of analysis for each basket:

‘Average single service’ pricing: the price of each individual service, as defined by the average of the lowest price tariffs offered by the three largest operators which provide the service in each country, and are weighted by the market share of the service provider, in order to ensure fair representation. We assume that consumers are only able to obtain stand-alone services, and although this provides a useful comparison of the relative costs of communications services, a limitation of this analysis is that an increasing number of providers do not offer stand-alone services.

‘Best-offer’ pricing: 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. There are, however, two 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, take-up may be low. 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.

Limitations

We believe that a multi-platform, basket-based approach is the most useful way to compare 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 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, few consumers act in this way and will actually be on the lowest-cost combination of services for their usage profile, but we believe the assumption is necessary in order to provide effective international comparisons.
- 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, benefits which are available only to certain types of consumers, such as BT Basic which offers lower-price line rental to low-income consumers in the UK.
- 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 figures were not available).

- Pay-TV services are 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 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 those 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). This rule is slightly different to that applied in the 2011 report, when tariffs which were over 100% higher than those offered by the other two providers feeding into our weighted average analysis were excluded.
- 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 telecoms 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 broadly 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 the 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 PPP-adjusted exchange rate in 2012 and applied it to 2011 data. This means that there may be some distortions in the relative positions of countries compared to the findings in 2011. The prices quoted are in nominal terms.

Report structure

We start the analysis in this section of the report by looking at the individual components of our five baskets in order to compare the relative prices of services across these countries, both in terms of the lowest prices available when they are purchased on a stand-alone basis, and the 'weighted average' single-service cost across the largest operators in each market.

Then we look in more depth at the cost of fulfilling the requirements of each of our baskets in terms of the 'weighted average' cost across the three largest providers in each nation, and also the 'best prices' available when 'multi-play' bundles are included.

2.1.3 Analysis by service

Fixed voice summary

Figure 2.2 and Figure 2.3 look at the costs of the fixed-line voice components of those baskets which include a fixed-line phone, based on the price of stand-alone services (i.e. those not purchased with other services as part of a bundle).

In 2012 the UK had the lowest weighted average of the best-value tariffs from the three largest operators among our comparator countries, for all four baskets which include fixed voice services (Figure 2.2). One reason for this is the availability of line-rental pre-payment tariffs, which were offered by two of the providers feeding into the UK weighted average in July 2012 (BT and TalkTalk) and enable customers to make savings of up to £5 a month on their line rental by paying a year upfront rather than a monthly fee.⁶⁶ Were pre-payment tariffs not available in the UK, the weighted average cost of fulfilling the fixed-line requirements of each of the four baskets which included the service would have been £3-£4 a month higher in 2012 (and the total weighted cost of the fixed elements of our baskets would have remained the lowest among our comparator countries).

In addition, Virgin Media's tariffs did not feed into the 'weighted average' calculations for Baskets 2 and 4 (as its lowest possible prices were more than twice those available from either BT or TalkTalk), and the exclusion of these from the calculation had a downward effect of the weighted averages for these baskets.

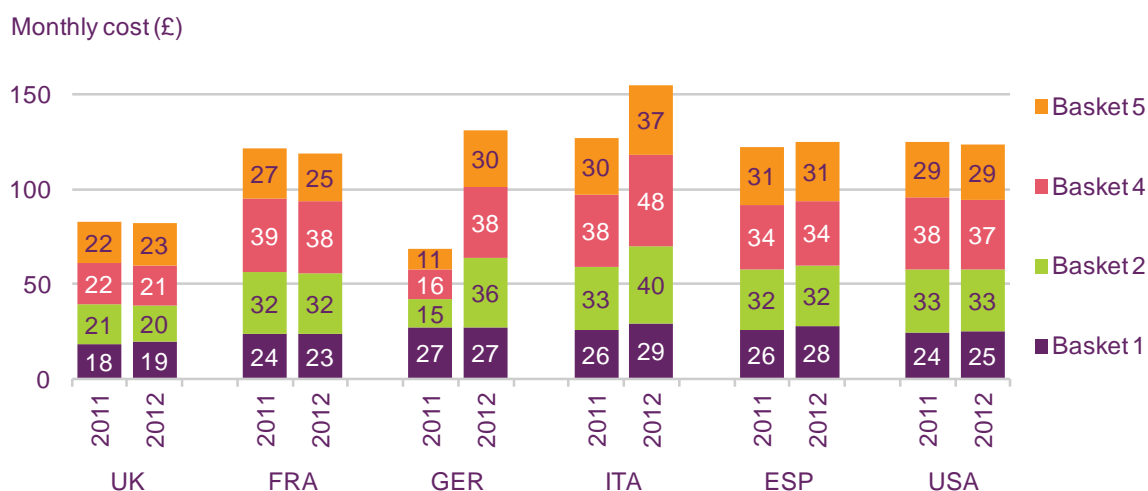
A feature of many fixed-line tariffs is that basic line rental usually includes some inclusive calls, and many consumers can reduce their spend by purchasing 'add-ons' to basic line rental, which provide additional calls for certain call types, or reduced call rates in return for a fixed monthly payment. All three UK operators featuring in this analysis follow a similar strategy, with basic line rental prices starting at around £14 a month and a range of 'add-ons' being available to customers. This means that a wide range of tariffs are available to UK consumers, which increases tariff complexity and in turn may make it more difficult for consumers to select the cheapest service for their usage profile.

There is evidence that fixed voice prices are increasing. France was the only comparator country where the average single service price of the fixed voice element of all four baskets fell in the year to July 2012, while the weighted average cost of fulfilling the fixed voice requirements of all four baskets increased in Germany, Italy and Spain. The most marked increases were in Germany and Italy, and in Germany the 'best offer' prices for Baskets 2, 4 and 5 all more than doubled. These baskets include a fixed broadband connection, and in 2011 the 'weighted average' price for the fixed voice component of these baskets were based on VoIP-based services offered by Freenet, which required a fixed broadband connection that could be purchased from any ISP. Freenet withdrew these services in the year to July 2012, resulting in significant increases in the prices for these three baskets in 2012. In Italy, the single-service fixed voice cost increased by an average of 22%, largely due to Telecom Italia's tariffs being more expensive in 2012 than its 2011 equivalents.

In the UK, the weighted average cost of Baskets 2 and 4 fell in the year to July 2012 and the total weighted average cost of fulfilling all four baskets fell by 1%. The key driver behind these falls was the omission of Virgin Media's lowest cost tariffs from the weighted average calculation, as outlined previously, although the introduction of TalkTalk's line rental pre-payment tariff was also a contributing factor.

⁶⁶ Provided they remain customers for the full term of the contract. Should they end the contract early relevant contract terms often seek to allow the provider's retention of the whole of the upfront (pre-) payment. The savings to customers do not take into account any amount that may be foregone on early termination nor any other matter relating to contract terms and termination.

Figure 2.2 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 2011 and July 2012; PPP adjusted

While weighted average analysis is to a large degree a reflection of incumbent pricing (as fixed line incumbent providers generally had the largest market share in the countries included in our analysis), ‘best offer’ analysis highlights the lowest-cost stand-alone tariff, which in the past has frequently been offered by an alt-net provider as it tries to gain market share. However, this is not the case in some of our comparator countries: in 2012 T-Home in Germany had the ‘best offer’ stand-alone tariffs for all four of our fixed-line baskets, and in the UK BT had two of the four ‘best offer’ basket prices (with TalkTalk having the ‘best offer’ prices for the other two).

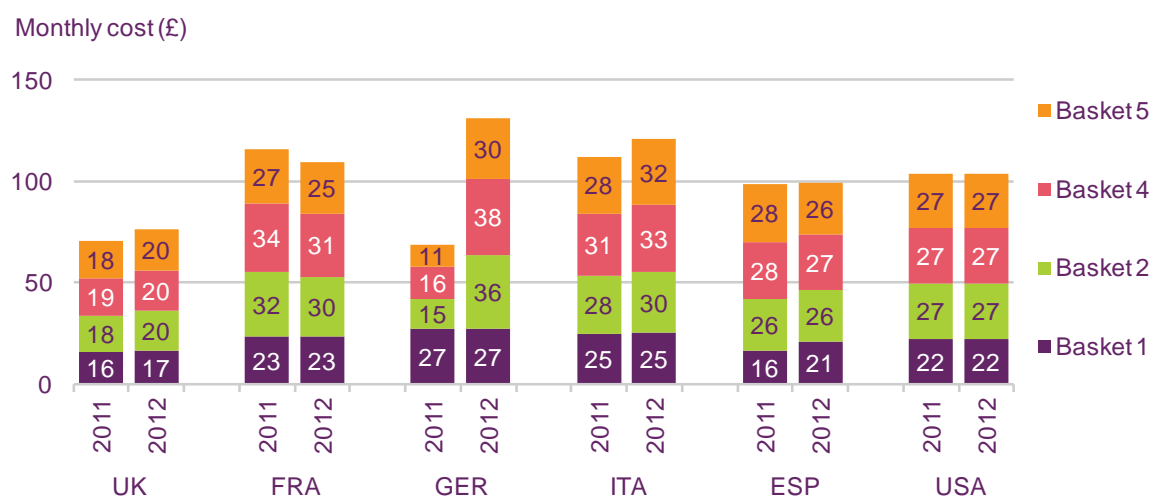
Again, our analysis indicates increases in fixed-line voice pricing, with the total ‘best offer’ cost of fulfilling the fixed voice requirements of the four baskets that include the service having increased in all of our comparator countries except France (where it fell by an average of 5%) and the US (where it was unchanged) in 2012 (Figure 2.3). In France the ‘best offer’ tariffs were the same in 2012 as they had been in 2011 for Baskets 1, 2, and 4, and falling prices were as a result of SFR offering six months of reduced line rental on its *Ligne Fixe 5h vers fixes, mobiles et international* and *Ligne Fixe illimite vers fixes et international tariffs* (the lowest-cost offers for Baskets 2 and 4’s usage) and the cost of fulfilling Basket 5 falling as France Telecom introduced a new tariff (*Optimale 2h fixe et mobiles*) which included two hours of calls to fixed lines and mobiles (the previous best-offer tariff for this basket was also provided by France Telecom and although it had lower line rental, the two hours of inclusive calls excluded calls to mobiles, resulting in higher out-of-bundle call costs).

The increase in overall ‘best offer’ pricing in Germany in 2012 (as a result of Freenet withdrawing its VoIP-based services, as mentioned previously) meant that the UK had the lowest stand-alone ‘best offer’ prices for our four baskets, despite the best offer price of all four having increased in 2012 (the average increase being 8%). These increases were as a result of BT introducing price increases during the year, and came despite TalkTalk launching line rental pre-payment tariffs, which meant it had the lowest stand-alone ‘best offer’ prices for two of the baskets.

As in the UK, the ‘best offer’ cost of all four baskets increased in Italy in 2012, and again the average increase was by 8%, while in Spain the ‘best-offer’ price fell for all four baskets apart from Basket 1 (the lowest-use basket) for which Vodafone had the ‘best offer’ tariff in

2011 and 2015. Both Vodafone services had the same line rental and call costs; however, in 2011 there was a promotion offering six months half-price line rental.

Figure 2.3 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 2011 and July 2012; PPP adjusted.

Mobile summary

Across the five household types which we include in our analysis, there are nine mobile phone connections, ranging from high use and an advanced handset, typical of a pay-monthly smartphone user in the UK, to low use and a basic handset typical of a pay-as-you-go subscriber in the UK. The nine connections are summarised in Figure 2.4 below, and also vary in terms of the distribution of call and messaging volumes (e.g. proportion of calls which are to national mobiles, to national geographic numbers or to international numbers); full details are provided in the basket analysis later in this section.

Figure 2.4 Summary of mobile connections

	Basket	Handset type	Outbound voice minutes per month	Outbound SMS per month	Data use per month
Connection 1	Household 1 handsets 1 & 2	Basic	55	n/a	n/a
Connection 2	Household 2 handsets 1 & 2	Basic	55	30	n/a
Connection 3	Household 4 handset 4	Basic	55	65	n/a
Connection 4	Household 4 handset 3	Basic	55	70	n/a
Connection 5	Household 4 handset 2	Intermediate	169	160	n/a
Connection 6	Household 5 handset 2	Intermediate	188	20	100MB
Connection 7	Household 4 handset 1	Advanced	280	30	300MB
Connection 8	Household 5 handset 1	Advanced	376	80	300MB
Connection 9	Household 3 handset 1	Advanced	516	150	1GB

Source: Ofcom

As was the case in 2011, our analysis found that UK mobile prices were the lowest among our six comparator countries in 2012, and the UK offered the lowest 'weighted average' prices for all nine of the connections included within our baskets in 2012 (Figure 2.5). However, the weighted average cost of the two lowest-use connections (Connections 1 and 2) and the three highest-use connections (Connections 7, 8 and 9) all increased in the UK in the year to July 2012, and the total weighted cost of all nine connections increased by 10% during the year (the US was the only other comparator country where there was a similar increase, although it was lower, at 4%).

Weighted average mobile prices in the US were the highest among our countries for eight of the nine connections included in our analysis, partly because mobile users in the US are charged for incoming as well as outgoing mobile calls. This means that mobile post-paid contracts are usually relatively expensive as they include large numbers of call minutes (for incoming and outgoing use) and US mobile usage is typically higher than in Europe. In addition, minimum pre-pay top-ups in the US are high-value (for example \$50), and credit often expires after a month, making pre-pay services less attractive to consumers in the US than to those in other countries.

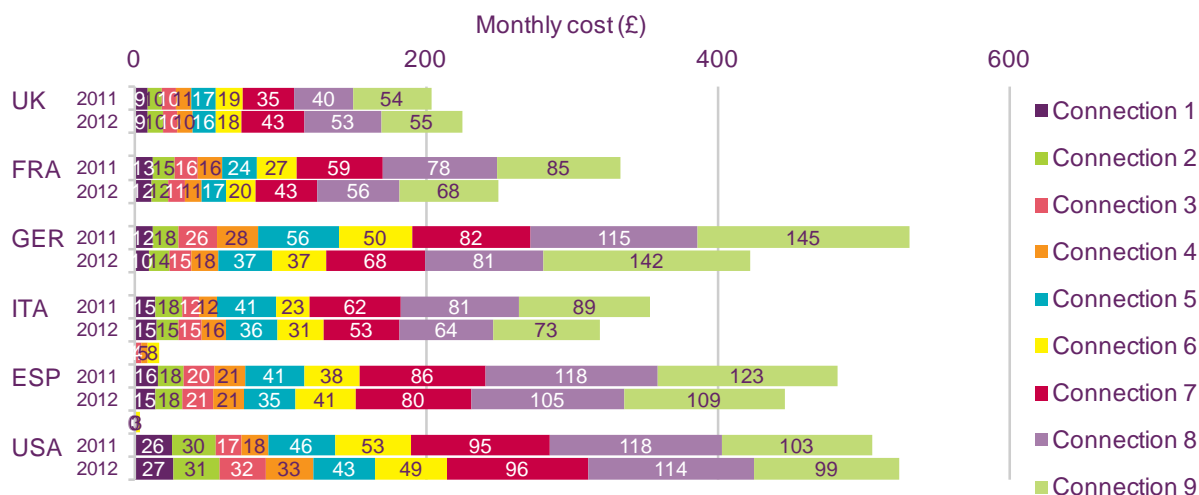
After the UK, France had the second lowest weighted average mobile pricing across our nine connections in 2012 (as it had in 2011). However, unlike the UK, the weighted average cost of all nine connections fell during the year, with the total cost of fulfilling all nine connections declining by 25%. This was partly due to the launch of a fourth mobile network in France in January 2012, Free Mobile, which has sought to gain market share by offering low-priced services. Although Free Mobile's market share was not sufficient for it to feature in our analysis, the service's launch has had a downward effect on mobile price levels in France. A result of declining prices in France was that whereas in 2011 the total UK weighted average cost of the nine connections was 39% lower in the UK than it was in France in 2011, this difference was just 10% in 2012.

Germany was the only comparator country other than France where the weighted average price of all nine connections fell in the year to July 2012, and although the fall in the total weighted average cost of fulfilling the requirements of all nine connections was lower than that in France (at 21%) it was sufficient to lead to the total weighted average cost in Germany falling below that in Spain (where it declined by 8%) during the year. The weighted average cost of four of the connections increased in Spain in the year to July 2012, as did the weighted average cost of four of the connections in Italy, and in both cases these increases tended to be among the lower-use connections, and the weighted average cost of the three highest-use connections fell. This may be related to operator strategies to migrate customers from pre-pay to post-pay tariffs, as the proportion of mobile connections which were post-pay increased in both countries during 2011 (see Section 6.2.5) and cuts in mobile termination rates may also be driving operators to increase the cost of pre-pay mobile connections.

'SIM-only' tariffs (whereby customers do not receive a new handset when signing up to a mobile contract, but are supplied with a SIM card which they can use in a handset they already own) have become increasingly popular over the last few years, as mobile providers are able to pass the lower cost associated with not having to subsidise handsets onto consumers in the form of lower charges. In the UK almost half (44%) of the tariffs feeding into the UK average best-pricing analysis of our connections in July 2012 were SIM-only contracts, up from 30% in July 2011 (it should be noted that where a tariff is SIM-only our model factors in the cost of buying a handset separately). France (48%) and Italy (47%) were the only comparator countries which had a higher proportion of SIM-only monthly contract tariffs feeding into the July 2012 analysis. Similarly, the proportion of operator best-price offers feeding into the UK connection analysis that were pay-as-you-go fell from 33% to 19% in the year to July 2012, (the second lowest proportion after France at 15%). The

proportion of best-price offers feeding into average of our nine connections in the UK which were monthly contracts provided with a handset was unchanged at 37%, suggesting that operators are incentivising consumers to switch from pre-pay tariffs to SIM-only monthly contract services.

Figure 2.5 Comparative single-service ‘weighted average’ mobile pricing



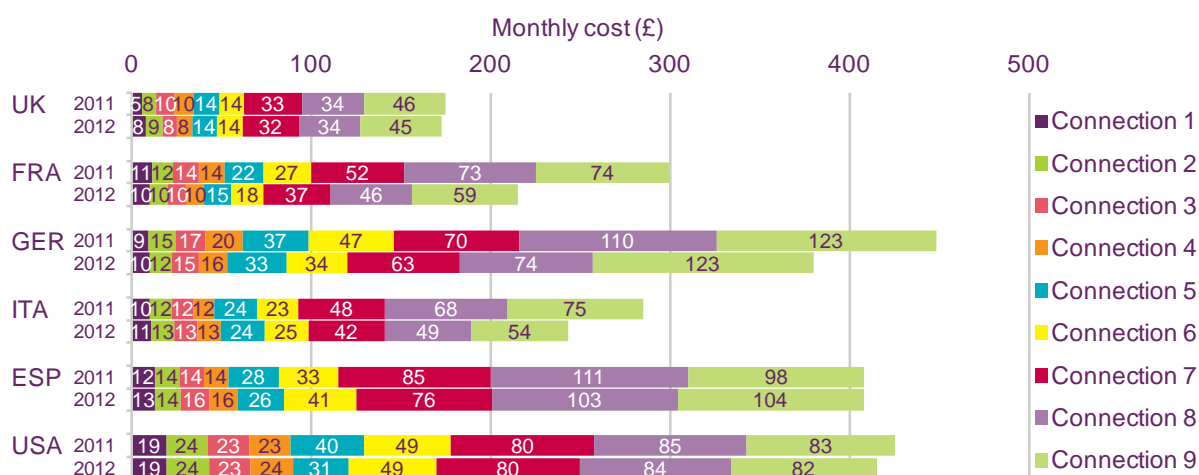
Source: Ofcom using data supplied by Teligen

Note: Weighted average of best-value tariff from each of the three largest operators by market share in each country; July 2011 and July 2012; PPP adjusted

The pattern of the lowest prices available for the usage profiles used in our analysis closely resembled that of the ‘weighted average’ analysis, with the UK having the lowest cost for all nine connections (Figure 2.6). France had the second lowest best-offer prices for all of the connections except Connections 1 and 9, where Germany and Italy respectively were cheaper.

In the UK, T-Mobile had the lowest prices for five of our connections, while Vodafone had the lowest prices for the three highest-use connections and Orange the lowest price for Connection 1, the lowest-use connection (note that even lower prices may be available from smaller operators that were not included in our analysis). O2, the mobile brand with the highest connection share in the UK, did not provide any of the best-offer prices for our nine connections in 2012. In a number of our comparator countries there was evidence that one provider’s prices were generally lower than the other operators included in our analysis: in the US and France, AT&T and Orange respectively each offered seven of the nine best-offer tariffs for our connections, while in Germany O2 offered six.

Figure 2.6 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 2011 and July 2012; PPP adjusted.

Fixed-line broadband summary

Comparisons of single-service fixed broadband prices should be treated with a degree of caution as fixed broadband is often bought in a bundle of communications services from the same supplier. In fact, most of the fixed broadband services included in our analysis were 'bundled' tariffs which included at least one other service, in all of our comparator countries, and many ISPs no longer offer stand-alone fixed broadband services. In addition, most fixed broadband services also require a fixed-line voice service, although this is not generally the case for cable broadband and 'naked DSL' (a DSL broadband service provided without the requirement for a fixed voice line) which is available from some operators in France, Italy, Germany and the US.

In our single-service price comparisons we have excluded the cost of telephone line rental even if this is required, and have instead included it in the fixed voice element of the baskets in question (see Section 2.1.3). The inclusion of line rental in this analysis would increase the cost of fixed broadband services in those countries which do not have significant naked DSL availability (including the UK). The fixed broadband connections used in our analysis are defined by the headline 'up to' speed of the connection, and require speeds of 4Mbit/s, 8Mbit/s and 30Mbit/s for Baskets 2, 4 and 5 respectively. However, none of the ISPs included in our analysis in Italy offer services with a headline speed of 30Mbit/s or more (as is required for Basket 5), and for that reason figures for Basket 5 Italy include 'up to' 20Mbit/s services, and are therefore not comparable to those in our other countries.

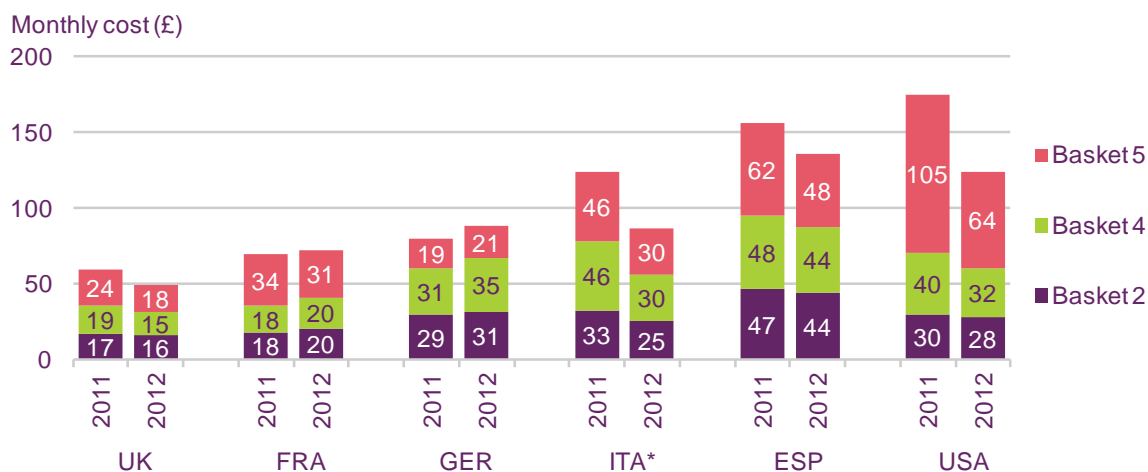
The lowest overall average stand-alone fixed broadband prices were found in the UK in July 2012, where the weighted single-service cost of the fixed broadband element of all three of the baskets that include this service fell in 2012 (Figure 2.7). For Basket 2, this fall was the result of BT lowering the price of its *BT Broadband Option 1* service, and Sky withdrawing its stand-alone fixed broadband service (meaning that it was replaced by a lower-cost service in our average calculation) during the year. For Basket 4 it was due to a fall in the cost of fulfilling the basket's requirements using BT services, and the substitution of Sky's withdrawn stand-alone ADSL service with a lower-cost O2 service (taking a three-month rental-free promotion into account) in the weighted average calculation. As Virgin Media's basic cable broadband service increased in cost, it too was removed from the calculation (as it cost more than twice as much as the O2 service, partly because it is a true stand-alone service that does not require a fixed line).

The weighted average cost of the broadband element of Basket 5, which includes a superfast connection (i.e. one with an advertised connection speed of 30Mbit/s or more), fell in the UK as a result of BT reducing the price of its *BT Infinity Option 1* service and offering three months' half-price rental to new users, and because Virgin Media upgraded its basic cable service to offer 'up to' 30Mbit/s, meaning that a lower-cost service fulfilled the basket's connection requirements.

France and Germany were the only comparator countries where the combined weighted average single-service cost of the fixed broadband elements of our baskets increased in the year to July 2012. In France this was as a result of Orange increasing the price of its *Decouverte Internet 8 Megamax* service (which fed into the 2011 and 2012 weighted averages for Baskets 2 and 4) by €5 a month to €21 a month. The weighted average single service prices increased for all three baskets of fixed broadband use in Germany. However, this was because the averages were pulled upwards by the inclusion of T-Home's *DSL6000* and *DSL16000* services (which had been excluded from the weighted averages of Baskets 2 and 4 in 2011 as their monthly fee was more than twice that of the lowest-cost offering). The cost of the superfast connection in Basket 5 increased in Germany because Unity Media no longer offered a promotional discount on its basic superfast service (which had a faster connection speed and lower monthly fee than in 2011) and because of the inclusion of a new 32Mbit/s Kabel BW service in the weighted average.

In Spain, the weighted single-service cost of fulfilling the three baskets of fixed broadband services fell by an average of 13% in 2012, and all of the services contributing to the average for each basket had a lower cost than the 2011 weighted average. The weighted average single-service cost of the fixed broadband element of all three baskets fell in the US in 2012. For Baskets 2 and 4 this was as a result of AT&T launching lower-priced promotions for new ADSL subscribers, while for Basket 5 it was as a result of Comcast and RCN introducing superfast services with lower headline speeds and monthly fees.

Figure 2.7 Comparative single-service 'weighted average' fixed-line broadband pricing



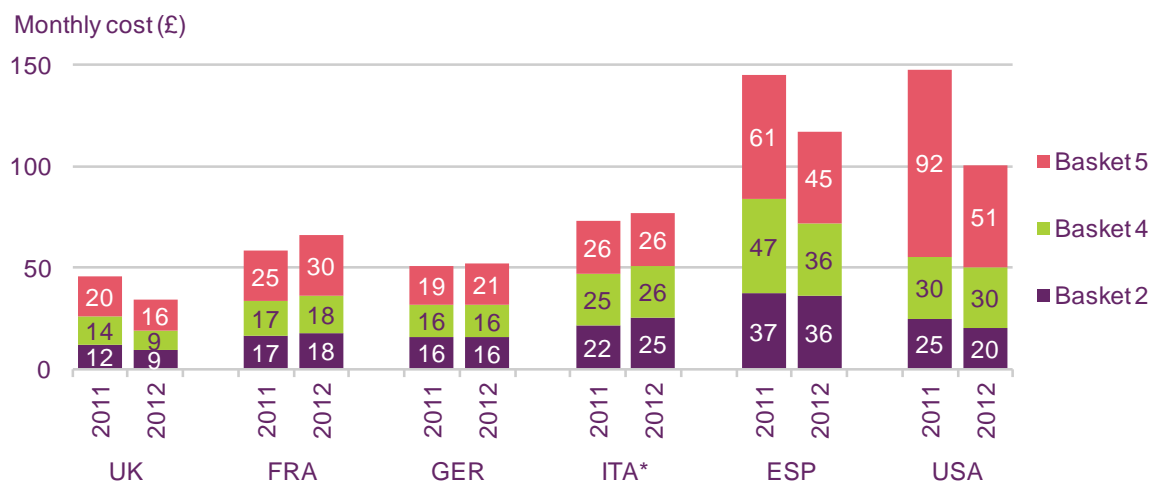
Source: Ofcom using data supplied by Teligen

Note: Weighted average of best-value tariff from each of the three largest operators by market share in each country; July 2011 and July 2012; PPP adjusted; *Basket 5 figures for Italy include 'up to' 20Mbit/s services as none of the providers included in our model offered superfast services.

The lowest stand-alone 'best offer' prices for the fixed broadband element of the three baskets which included the service were all found in the UK in 2012 (Figure 2.8). The difference between the weighted average prices and best-offer prices gives an indication of the range of prices available in each country, and these varied significantly among our

comparator countries in 2012, ranging from an 8% difference in France (where broadband prices are closely aligned) to 40% in Germany (in the UK the figure was 30%, the second highest difference after Germany).

Figure 2.8 Comparative single-service ‘best offer’ fixed-line broadband pricing



Source: Ofcom using data supplied by Teligen

Note: Lowest tariff available for the fixed broadband component of each basket from any of the three largest operators by market share in each country, July 2011 and July 2012; PPP adjusted; *Basket 5 figures for Italy include ‘up to’ 20Mbit/s services as none of the providers included in our model offered superfast services

Mobile broadband summary

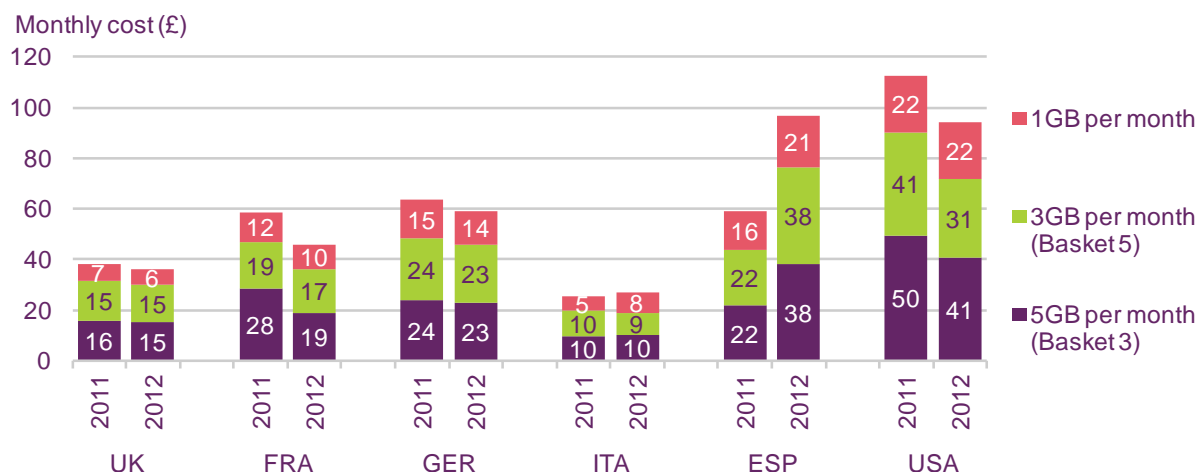
Two of the five baskets include a mobile broadband connection (using a datacard or ‘dongle’), the first in Basket 3 having high use (5GB of data over 30 days a month) and the second in Basket 5 having medium use (3GB of data over 25 days a month in Basket 5). In order to provide a comparison of the full range of mobile broadband use, we also consider the cost of a low-use connection (1GB of use over ten days a month). Unlike our analysis of fixed broadband services, we do not take the speed of the connection into account when comparing services, and we also do not take account of whether the tariff includes any bundled use of WiFi hotspots. We also only consider the ‘best offer’ service available, as the relatively narrow range of tariffs available in many countries makes it difficult to produce a meaningful ‘weighted average’ analysis.

As was the case in 2011, the lowest single-service prices for mobile broadband services were available in Italy, despite the costs of fulfilling the low- and high-use profiles having increased in the year to July 2012 (Figure 2.9). The UK had the second lowest mobile broadband prices in 2011 (as it had in 2011), but whereas the UK prices increased for all three usage profiles in 2011, all three fell in 2012. The largest proportional decrease was a 14% fall in the price for the low-usage profile (as a result of 3UK reducing the price of the dongle required to use its *Pay as you Go + 12GB* service), while the cost of the medium- and high-use connections fell as a result of T-Mobile introducing its *Mobile Broadband Pay Monthly 10GB* service, which had a monthly fee of £15.

Lower mobile broadband prices in Italy and the UK are partly a result of the mobile broadband markets in these nations being relatively mature, with mobile broadband having become a mass-market service in both countries by early 2008, and all mobile network operators and some MVNOs offering mobile broadband services. In addition, new entrant operator 3 offers services in both countries and has used lower prices to gain market share, in doing so prompting the existing mobile providers to offer similar low-priced options.

While the total 'best offer' cost of fulfilling the three usage profiles fell in the UK, France, Germany and the US in the year to July 2012, it increased by 64% in Spain. This was due to Movistar (which had provided the 'best offer' tariffs for all three profiles in 2011) increasing the price of its stand-alone service offering 2GB of data per month, and replacing its 5GB service with a more expensive one offering double the data allowance. As a result, in 2011 the 'best offer' tariffs for our usage profiles were provided by Vodafone, and all three were more expensive than Movistar's had been in 2011.

Figure 2.9 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 2011 and July 2012; PPP adjusted

Pay-TV summary

Wide variations in the numbers and types of channels provided by different television packages make it difficult to provide like-for-like comparisons for these services. However, we consider that it is important to include TV services in our analysis, given the wide take-up of bundled services that include a TV component (often as triple-play with fixed voice and fixed broadband services) and sometimes as quad-play tariffs which include mobile telephony services.

In our analysis we have used the following definitions:

- basic pay-TV is the lowest subscription required to receive channels additional to those that are available on free-to-view television; and
- premium pay-TV is the subscription required to receive HD channels and the best package of both top-flight football (NFL in the US) and a top-price film/entertainment package.

Our analysis includes TV licence fees, which were highest in Germany and the UK (there is no licence fee in Spain and the US, where public funding for broadcast services is raised by alternative means). As with mobile broadband services, we consider only single service 'best offer' TV service pricing in this section, as the relatively low number of services available in each country makes it difficult to produce meaningful weighted single-service pricing analysis.

The lowest single-service 'best offer' price for a basic 'entry-level' pay-TV service was found in the UK in 2012, and was Virgin Media's *TV Size M+ with V HD*, as it had been in 2011.

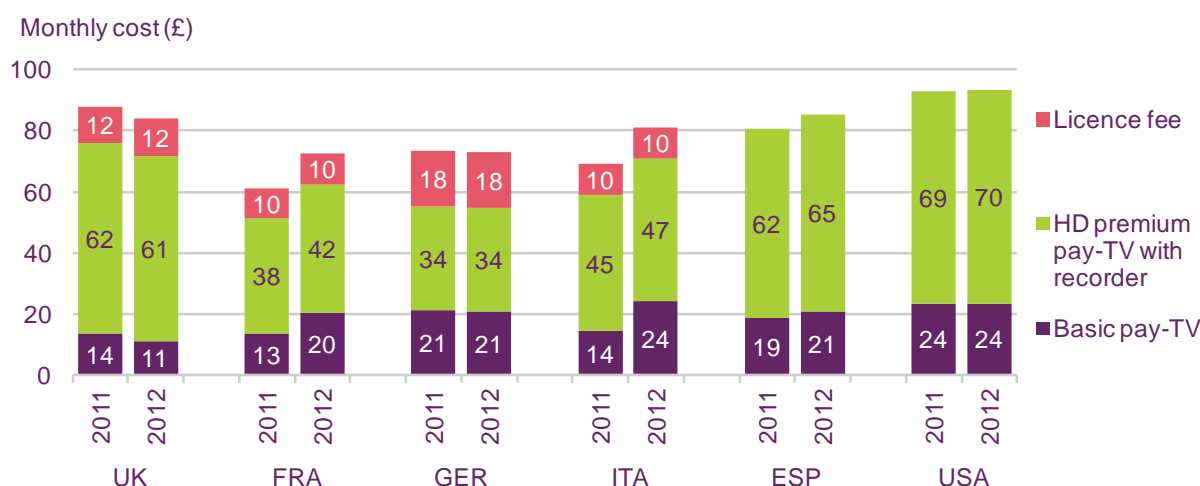
The cost of the service (which offered 75 basic channels in July 2012) was lower than in 2011, as an increase in the service's monthly charge was offset by a promotion halving the monthly fee for six months. As in 2011, the lowest-cost basic pay-TV service in France was a satellite service provided by CanalSat; however, price increases and the lack of a promotional offer in 2012 meant that the lowest-cost service available (*Canal+ par ADSL*) was considerably more expensive than *Canalsat 3 stars*, the lowest-cost service in 2011, although it included 200 basic channels and ten premium channels, rather than the 18 basic and five premium channels included in the 2011 best-offer tariff.

The cost of the lowest-price stand-alone TV services also increased in Italy and Spain in the year to July 2012. In Italy, the lowest-cost basic pay-TV services were provided by Mediaset in both 2011 and 2012. However, Mediaset's lowest-cost package in 2012 (*Mediaset Premium Cinema*) had a less generous promotional offer and a higher monthly fee than in 2011, despite providing fewer channels than the 2011 best-offer service, although it did include HD channels which the latter did not). In Spain, the increase was due to Digital Plus increasing the monthly fee of its *Canal+ Liga (Basic Package)* satellite service.

In Germany the lowest-price offer was Unity Media's *DigitalTV Basic* cable service, offering 70 basic channels and no premium channels, while in the US the best offer was Comcast's *Basic Cable* service (as in 2011) offering 30 basic channels and no premium channels for an unchanged monthly fee of \$25.49.

It is more difficult to compare premium pay-TV packages, due to the variations in content in these packages; the apparent changes in the prices in France, Italy and Spain in the year to July 2012 are likely to be a result of channel line-up changes rather than genuine movements in price. This basket includes a requirement for a recorder and high definition (HD) channels, and whereas HD is now standard with premium-channel packages in most countries, it costs an additional £10.25 a month for UK users of Sky's satellite service. This service had the single-service 'best-offer' HD premium pay-TV with recorder service (*Sky World + HD Mix*) in both 2011 and 2012 (the cost of this service was slightly lower in 2012 than in 2011, as a price increase during the year was offset by the introduction of an offer providing a reduced monthly fee for six months).

Figure 2.10 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 package which includes channels not available over free-to-air TV; premium TV is defined as the best package of top-league football (NFL in the US and a top price film/entertainment package); 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 2011 and July 2012; 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.

2.1.4 Basket analysis

Basket 1: a low-use household with basic needs

Our first basket contains a usage pattern typical of a retired low-income couple who have a fixed line from which they make almost four hours of calls a month (the majority of which are local, although they occasionally make calls to mobiles and do not make any international calls). They each have a mobile phone which they use to make just under an hour of calls each per month (they do not send any SMS messages or use any data services). They watch free-to-air multichannel digital television, which is available in all of our comparator countries.

Figure 2.11 Composition of Basket 1

Fixed-line voice	Fixed broadband	Mobile	Mobile broadband	Television
223 call minutes	n/a	Connection 1 55 call minutes Connection 2 55 call minutes	n/a	Free-to-air

Source: Ofcom

The cheapest weighted average cost of fulfilling the requirements of Basket 1 in July 2012 was in the UK, at £50 a month, a £2 per month increase compared to July 2011.

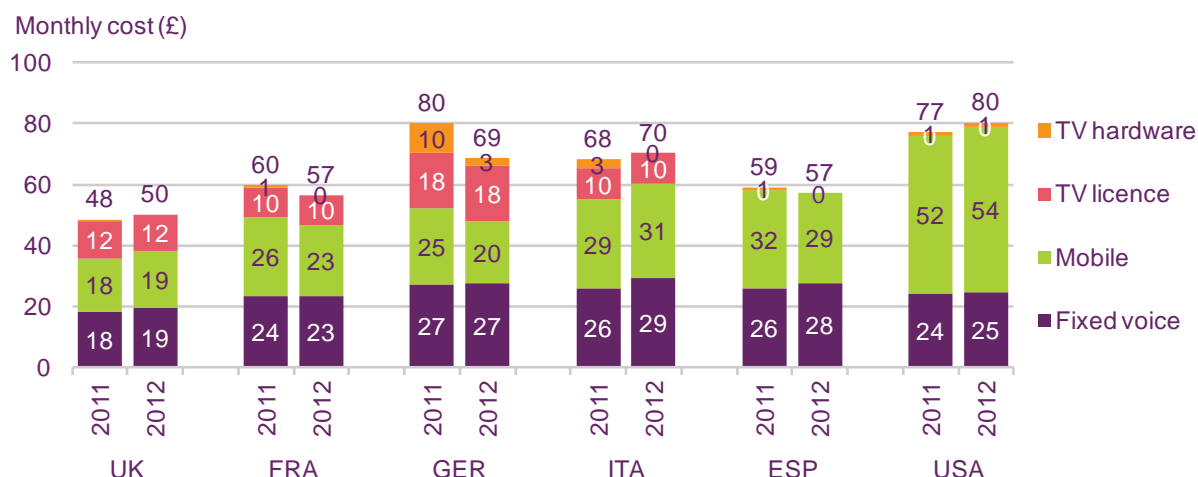
The weighted average single service pricing is a weighted average of the best-value tariffs from the three largest operators in each country and, for fixed voice services, is to a large degree a reflection of the incumbent's prices, as these providers tend to have the largest market share (in all of our comparator countries except the US the incumbent provider had a market share of over 50%). Using weighted average pricing, the lowest prices for fulfilling the fixed-voice component of Basket 1 were in the UK at £19 per month, while there was little variation in prices outside the UK, ranging from £23 in France to £29 in Italy (Figure 2.12).

The £1 a month increase in the weighted average price in the UK was due to BT and Virgin Media increasing their prices during the year, and came despite TalkTalk's introduction of a line rental pre-payment tariff which allowed its customers to save money by paying a year's line rental in advance. The largest monthly increase was in Italy, where it was due to the lowest cost of fulfilling the basket's fixed voice requirement, using Telecom Italia's tariffs, increasing from £25 to £30 per month during the year.

The UK and the US were the only comparator countries where the cost of fulfilling the mobile requirements of the basket (two basic handsets with low voice use and no SMS or data) increased in the year to July 2012. In the UK this was largely due to Orange increasing the price of a call add-on to its *Racoon PAYG* service, which gives 100 minutes of calls, from £5 a month in 2011 to £7.50 a month, while in the US it was due to Verizon increasing out-of-bundle call charges on its *Daily Access Plan \$0.99* pre-pay tariff. The largest fall in fulfilling the mobile element of the basket was in Germany, where it fell from £35 a month to £20 a month as a result of T-Mobile and O2 introducing new tariffs: for T-Mobile it was a pay-monthly tariff offering 100 minutes of calls for €9.95 (rather than 120 minutes for €24.95 as in 2011), while for O2 it was a pre-pay tariff with lower call charges than those available in 2011.

As Basket 1 includes only free-to-air TV services, the main driver of the cost of the TV component of the basket is the TV licence fee (although not in Spain and the US where there is no licence fee). In fact, as the basket does not include pay-TV services, the only other TV cost is that related to equipment purchase and installation (we include the cost of a set-top box/decoder, but not the cost of the television). There was significant variation in the cost of the television licence across the six countries, with the TV licence being most expensive in Germany and the UK, while the equipment cost was highest in Germany, where the lowest-cost free-to-air service was a satellite service, which had high up-front costs as it required a satellite decoder and dish, along with installation.

Figure 2.12 Basket 1: 'weighted average' single-service pricing



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 2011 and July 2012; PPP adjusted

Best-offer pricing analysis shows the lowest possible monthly cost of fulfilling the basket's usage requirements, using the tariffs of the largest providers in each country, including bundled services. The difference between the weighted average and the best-offer prices of each service in the bundle gives an indication of the range of prices available in each country; these were relatively small for the fixed voice and mobile elements of the basket, suggesting that tariffs for the service are closely aligned in each country (Figure 2.13).

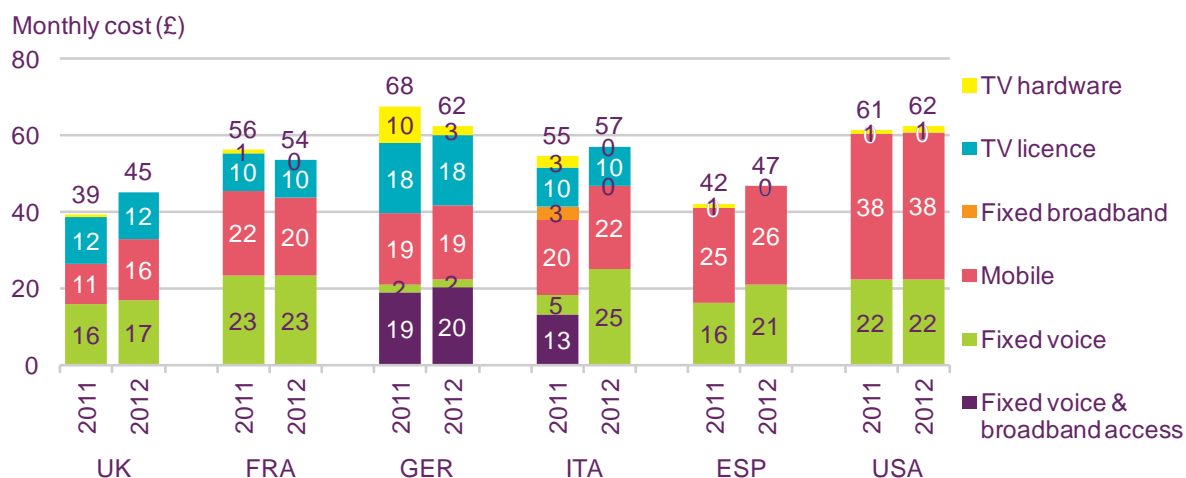
The cheapest best-offer cost of fulfilling the requirements of Basket 1 in July 2012 was in the UK, at £45 a month. This was £6 a month more than in 2011, with £5 of this increase being due to the previously-mentioned increase in the cost of Orange's 100 minute pre-pay call add-on.

In Germany, the best-offer option to fulfil the basket's fixed-line use included a bundled fixed broadband connection, even though this was not a requirement of the basket (this was not the situation in Italy in 2012, although it had been in 2011). The cost of the television component of the basket remains the same in the best-offer analysis, as it includes free-to-air television, where the only costs are the licence fee, hardware and installation.

Overall, the biggest difference between the 'weighted average' and the 'best-offer' price available from the three largest operators was in the US in 2012, where the lowest-cost combination of services needed to fulfil the requirements of the basket was 22% less than the weighted average best-cost price (in the UK it was 10% less). By contrast, there was relatively little variation between the 'weighted average' and the best-offer prices in France, with the best-offer price being just 5% cheaper than the weighted average, indicating that

there was little difference between the mobile and fixed voice tariffs available from the largest operators

Figure 2.13 Basket 1: comparative ‘best offer’ pricing



Source: Ofcom using data supplied by Teligon

Note: Lowest tariff available for each service type from any of the largest operators by market share in each country, July 2011 and July 2012; PPP adjusted; where a service is included in a bundle any additional usage charges are recorded separately against the relevant service

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 a basic fixed broadband connection, and each has a mobile phone which they use occasionally for voice and SMS.

Figure 2.14 Composition of Basket 2

Fixed-line voice	Fixed broadband	Mobile	Mobile broadband	Television
428 call minutes	5GB per month, minimum 4Mbit/s connection	Connection 1 55 call minutes 30 SMS Connection 2 55 call minutes 30 SMS	n/a	Free-to-air

Source: Ofcom

The cheapest weighted average cost of fulfilling the requirements of Basket 2 in July 2012 was in the UK, at £68 a month, £2 a month less than in 2011. Germany was the only country where the total weighted average price of the basket increased during the year (up by 8%), while the largest decline in the weighted average price of the basket was a 7% fall in Italy.

The fixed-line voice requirement of this basket mainly consists of calls to fixed-line phones within the same country, made during the daytime, meaning that the basket favours packages which include these call types within the monthly fee. This was the case with the tariffs, feeding into the UK weighted average price, which was the lowest among the countries in our analysis, at £20 a month, a £1 a month fall since July 2011 as a result of the exclusion of Virgin Media’s lowest cost service from the calculation (as it was more than twice the lowest available from BT and TalkTalk) and TalkTalk introducing a line rental pre-payment tariff. The bundling of calls with line rental in the UK meant that the weighted

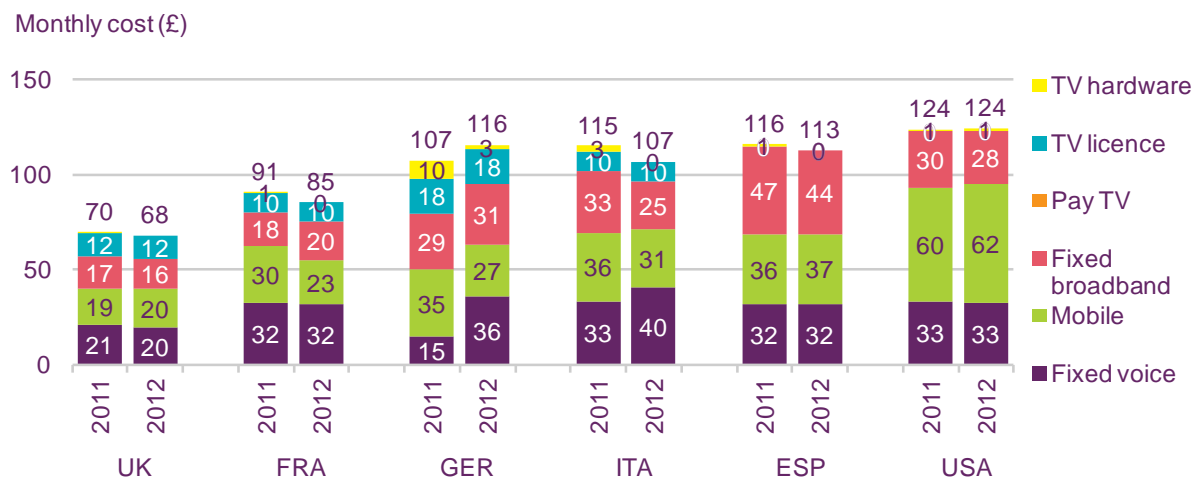
average fixed voice cost for Basket 2 was only 1% higher than for Basket 1, despite this basket including almost twice as many outgoing call minutes (in all of the other comparator countries except Spain the weighted average fixed-line voice cost of Basket 2 were more than 30% higher than for Basket 1). Germany had the largest increase in the weighted average cost of the fixed voice element of the basket, at almost 150%. This was because the lowest-cost option for this basket (and Baskets 4 and 5) in 2011 was a Freenet VoIP service which was withdrawn in the year to July 2012.

The lowest weighted average single-service costs for the mobile elements of the basket (two handsets with low voice and SMS use) were in the UK and France (at £20 and £23 a month respectively), while the largest fall in the weighted average cost of the mobile requirement of the basket was in Germany, where it fell by £8 a month (23%) to £27 a month as a result of all three providers feeding into the weighted average (Vodafone, T-Mobile and O2) introducing lower-cost tariffs. The highest weighted average mobile costs were in the US, at £62 a month, for the reasons stated in Section 2.1.3.

The UK had the lowest weighted average price for the fixed broadband element of Basket 2 in July 2012 at £16 a month, £1 a month less than in 2011 for two reasons: BT reduced the price of its ADSL service (and introduced an offer giving three months free rental) and Sky withdrew its stand-alone fixed broadband service, meaning that a lower-cost (discounted) O2 service fed into the weighted average. Virgin Media increased the price of its stand-alone basic cable broadband service during the year, although in 2012 this was an 'up to' 30Mbit/s connection (rather than 'up to' 10Mbit/s as in 2011). The largest increase in the weighted average cost of the fixed broadband element of the basket, in the year to July 2012, was in France (where it increased by 15% to £20 a month). This was as a result of Orange increasing the monthly fee of its *Decouverte Internet 8 Megamax with Livebox* service from €16 to €21 during the year.

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

Figure 2.15 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 2011 and July 2012; PPP adjusted

The cheapest best-offer cost of fulfilling the requirements of Basket 2 in July 2012 was in the UK at £53 a month, £1 a month less than was the case in July 2011.

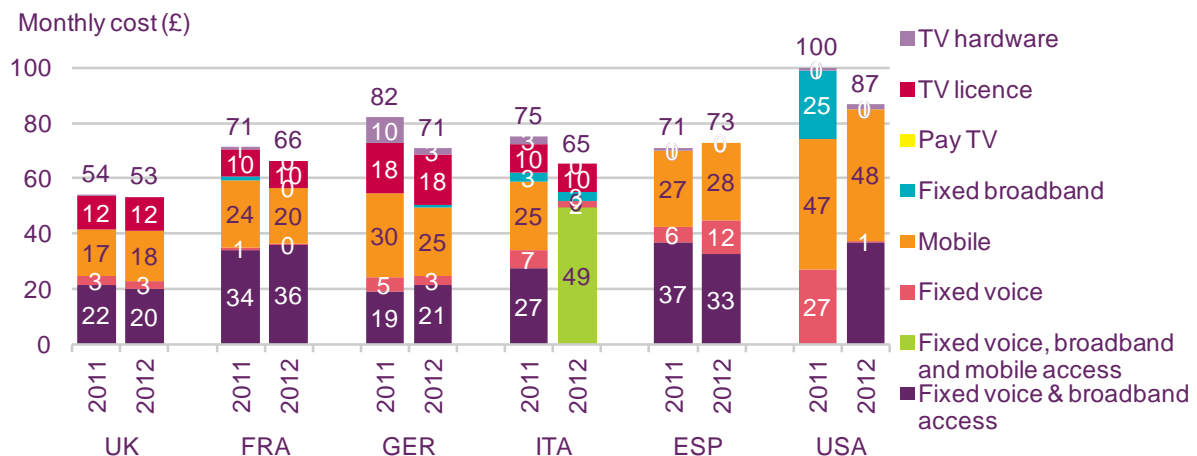
In all of our comparator countries the lowest prices available for Basket 2 involved buying fixed broadband services as part of a bundle. In Italy the best-offer price included buying a

Wind (Infostrada) bundle of fixed voice, fixed broadband and mobile services (*Super Tutto Incluso L*), while in all of our other comparator countries it involved buying a double-play bundle of fixed voice and fixed broadband services (Figure 2.16). In the UK the monthly cost of the combined fixed voice and broadband service (including line rental) was £23 in 2012, £2 a month less than in 2011, as the introduction of a line rental pre-payment tariff made TalkTalk's *Essentials (with Line Rental Saver) + 100 Mobile Minutes Boost* service the lowest-cost option. The monthly cost of this bundle was £6 a month (21%) less than the lowest possible cost of buying the bundle using stand-alone services. The greatest difference between the cost of fulfilling the basket's fixed voice and fixed broadband requirements using stand-alone and bundled services was in Germany, where bundled services provided by Kabel BW were £27 a month (52%) cheaper than the lowest-cost combination of stand-alone products.

The basic fixed broadband requirements of this basket (a connection with an 'up to' speed of at least 4Mbit/s headline speed and 5GB of data use) meant that most of the fixed broadband services in our six countries were sufficient to fulfil these requirements. In the US the fixed broadband connections in the 'best-offer' service combination were provided using FTTx, while in Germany they were provided over a cable network. In the UK, France, Italy and Spain the broadband connections were provided using ADSL, meaning that the actual speeds received by consumers are likely to be significantly different to those advertised; the performance of ADSL connections is highly dependent on the length and quality of the copper telephone line between the local telephone exchange and the customer premises.

The lowest best-offer prices for the mobile services required by this basket were found in the UK (£18 a month using T-Mobile's *Pay Monthly 7* service) and France (£20 a month using Orange's *Forfait M6 Mobile bloque 1h SIM* service), while the highest cost was in the US (£48 a month using AT&T's *10c/Minute Plan + 200 Messages* tariff) for the same reasons as those detailed for Basket 1.

Figure 2.16 Basket 2: comparative 'best offer' pricing



Ofcom using data supplied by Teligen

Note: Lowest tariff available for each service type from any of the largest operators by market share in each country, July 2011 and July 2012; PPP adjusted; where a service is included in a bundle any additional usage charges are recorded separately against the relevant service

Basket 3: A mobile 'power user'

The third basket represents a single-person household typical of a young professional person who lives alone. This person lives in a mobile-only household and is 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).

The ‘weighted average’ basket analysis in this report includes the ‘best offer’ single service cost of the mobile broadband element of the baskets, as the relatively narrow range of tariffs available from operators in many countries makes it difficult to produce a meaningful ‘weighted average’ figure.

Figure 2.17 Composition of Basket 3

Fixed-line voice	Fixed broadband	Mobile	Mobile broadband	Television
n/a	n/a	516 call minutes 150 SMS 1GB data	5GB over 30 days per month	Basic pay-TV

Source: Ofcom

The cheapest weighted average cost of fulfilling the requirements of Basket 3 in July 2012 was in the UK at £100 a month, unchanged from 2011; a £1-a-month increase in the mobile handset element of the basket was offset by a fall in the cost of the mobile broadband element.

There were larger variations between countries in the total cost of this basket than for any other basket, ranging from £100 in the UK to £212 in Germany, driven primarily by large variations in the cost of the mobile phone element, which was the largest component of the total weighted average basket cost in all of our comparator countries (Figure 2.18). The UK offered significantly lower mobile handset prices than any of the other five countries included in the analysis for the high usage required by this basket, with the weighted average (£55 a month) being 23% lower than in the next least-expensive country (France, at £68 a month). Mobile phone prices in the US compared more favourably for this basket than for the lower-use connections (where it was most expensive); again, because US contract tariffs typically include a large ‘bucket’ of (incoming and outgoing) minutes. However, the US remained the third most expensive country after Germany and Spain, in part because of comparatively high data charges.

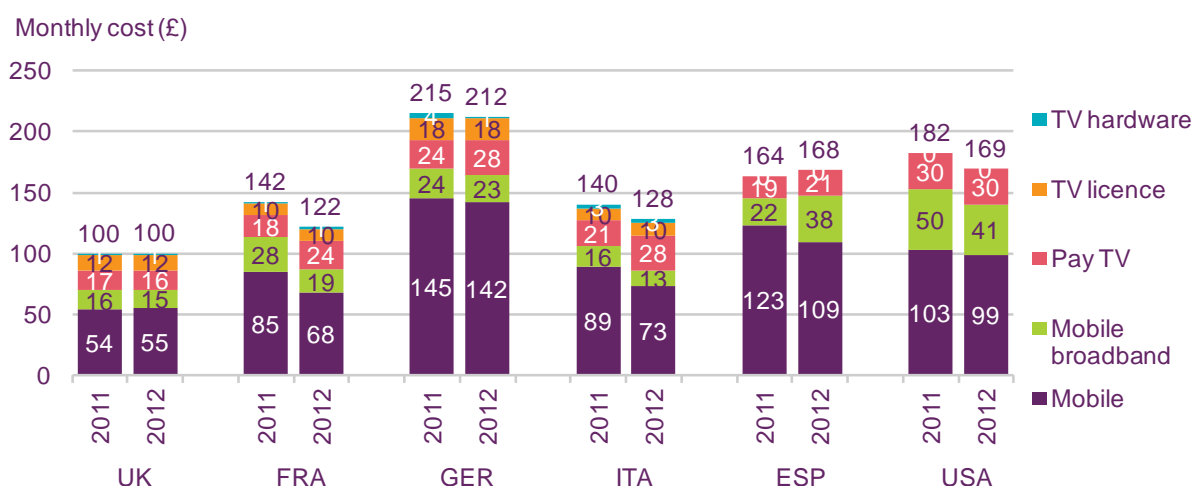
Prices for the mobile handset element of this basket fell by the greatest amount (£17 a month), in France in the year to July 2012 (a 20% fall), as all three providers with services feeding into the weighted average (Orange, SFR and Bouygues Telecom) introduced new tariffs which made fulfilling the basket’s mobile handset requirements cheaper. The weighted average monthly cost of the basket’s mobile handset use fell by £16 a month (18%) to £73 in Italy, as the cost of using TIM’s tariffs to fulfil the basket’s requirements fell by 26% in the year to July 2012, and because of the introduction of a new SIM-only tariff (*All Inclusive Smart SIM only + Noi Tutti*) by Wind. This meant that the lowest-cost option to fulfil the basket’s requirements from among Wind’s tariffs fell, and as a result was less than half that of Vodafone’s lowest-cost option, meaning that the latter fell out of the weighted average cost calculation, having a further downward effect on the average.

There were also large variations in the cost of mobile broadband prices between the countries, with prices for this high-usage connection (5GB over 30 days during the month) being lowest in Italy, at £13 a month, and highest in the US, at £41. Low prices in Italy (and the UK where they were second-lowest at £15 a month) indicate that the competitive dynamics that are delivering lower prices for mobile phone tariffs are also reflected in mobile broadband. The only comparator country where the cost of the mobile broadband element of the basket increased in the year to July 2012 was Spain, where it grew by £16 a month (75%) as a result of Movistar withdrawing its *Tarifa MIT 35* service (which had offered 5GB

of data for €17.50 in 2011) making a more expensive Vodafone service (*Internet Movil 5GB* at €35 a month with 50% off for the first three months) the lowest-cost option for this usage profile.

Basket 3 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, but lowest prices were available in the UK, Spain and France (see Section 2.1.3 above for a discussion of TV pricing, including ‘entry-level’ pay-TV services).

Figure 2.18 Basket 3: ‘weighted average’ single-service pricing



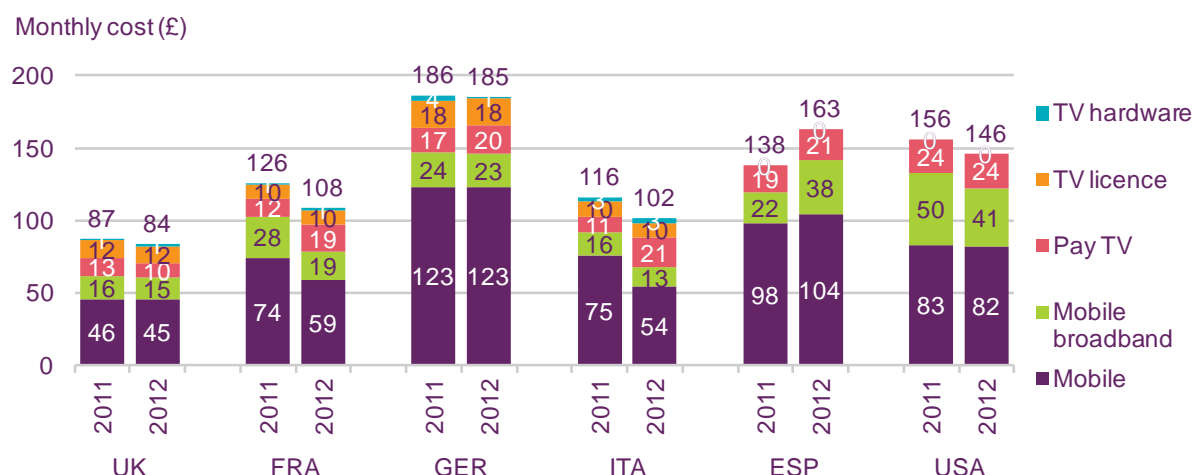
Source: Ofcom using data supplied by Teligen

Note: Weighted average of best-value tariff from each of the three largest operators by market share in each country; July 2011 and July 2012; PPP adjusted; the figure for mobile broadband is the best-offer single service cost

The cheapest best-offer cost of fulfilling the requirements of Basket 3 in July 2012 was in the UK at £84 a month, £3 a month less than in July 2011.

In none of our comparator countries did the best-offer combination of services to fulfil the requirements of Basket 3 involve buying bundled services, in effect meaning that Figure 2.19 compares the single service best-offer tariffs discussed previously in this section of the report. There was less variation between the weighted average best price and the best-offer combination than was the case for the other baskets, because Basket 3 includes a relatively low number of services and because we have used ‘best offer’ single service broadband prices in the ‘weighted average’ analysis (for the reasons outlined previously).

Figure 2.19 Basket 3: comparative ‘best offer’ pricing



Source: Ofcom using data supplied by Teligem

Note: Lowest tariff available for each service type from any of the largest operators by market share in each country, July 2011 and July 2012; PPP adjusted

Basket 4: A family household with multiple needs

Basket 4 represents a family of two parents and two teenage children, each with their own mobile handset but with different mobile usage profiles, with the adults using more voice and the children more messaging. However, they are also heavy users of the fixed-line phone and the internet, requiring a minimum headline connection speed of ‘up to’ 8Mbit/s, and subscribe to entry-level pay-TV services with a DVR.

Figure 2.20 Composition of Basket 4

Fixed-line voice	Fixed broadband	Mobile	Mobile broadband	Television
593 call minutes	15GB per month, minimum 8Mbit/s connection	Connection 1 280 call minutes 30 SMS 300MB data Connection 2 169 call minutes 160 SMS Connection 3 55 call minutes 70 SMS Connection 2 55 call minutes 65 SMS	n/a,	Basic pay-TV with recorder

Source: Ofcom

The UK had the lowest weighted average prices for this basket at £145 a month, while the highest prices were found in the US at £314 a month.

Variations in cost between countries were primarily driven by the mobile phone costs, which accounted for over half of the total basket cost in all of our comparator countries in 2012, except France and Italy (Figure 2.21).

This basket has the highest fixed voice call use, at almost 600 minutes a month, and the UK had the lowest weighted average fixed voice cost among our countries in 2012, at £21 a month. This was due to the exclusion of Virgin Media's lowest cost service from the calculation (as it was more than twice the lowest available), the availability of line rental pre-payment tariffs in the UK, and because the tariffs feeding into the UK weighted average included additional bolt-ons, which enabled savings on various elements of the basket's use, such as the cost of calls to mobile phones and international destinations. The highest cost of the fixed-line element of the basket was in Italy at £48 a month, £10 a month higher than it had been in 2011, largely due to Telecom Italia (with 52% market share) introducing significant increases to its out-of-bundle call charges.

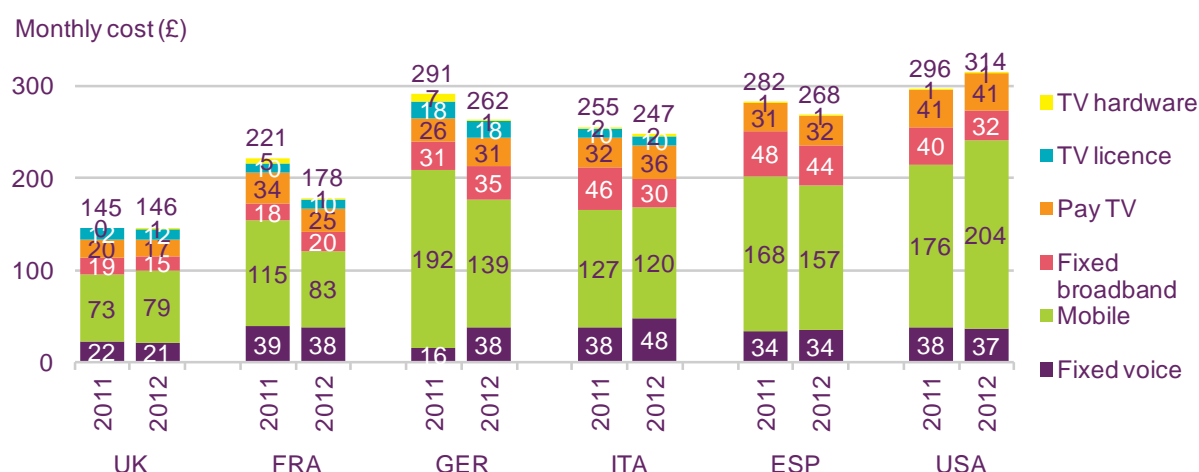
In most countries, while the lowest fixed voice prices tended to be offered by alt-net providers, the 'weighted average' was to a large extent a reflection of the 'best value' tariffs available from the incumbent in each country (which had a market share of over 50% in every country except the US). For Basket 4 the lowest price available from the UK incumbent, BT (which included its *Line Rental Saver* pre-payment option), was 36% less than the next lowest-cost option from an incumbent, which was offered by Movistar in Spain. The lowest-cost option from any provider was from TalkTalk in the UK, at £20 a month, and again, this included a line rental pre-payment option.

This basket includes four mobile phones, one with relatively high voice use, low SMS use and 300MB of data, one with average voice use and high SMS use, and two with low voice use and average SMS use. The lowest total 'weighted average' price for all four of the connections included in the basket was found in the UK, at £79 a month, while the highest overall weighted average cost of fulfilling the mobile requirements of the basket was in the US, where it was over two-and-a-half times that in the UK, at £204. Most of the tariffs (20 out of 34) feeding into the weighted average prices for the two connections with the lowest use (Connections 3 and 4) were pre-pay, while eight of the 14 pay-monthly tariffs feeding into the averages for these connections were SIM-only deals. Conversely, just five of the 35 tariffs feeding into the weighted averages for the two higher-use connections included in the basket (Connections 5 and 7) were pre-pay, with the remaining 30 being post-pay contracts (10 of which were SIM-only).

The lowest fixed broadband prices for this basket were found in the UK and France (at £15 and £20 a month respectively) and in both countries the weighted average costs (and the three tariffs feeding into them) were exactly the same as for Basket 2, despite the higher speed and larger data-use requirements. This reflects the fact that most broadband tariffs in these countries offer a headline speed of at least 8Mbit/s and include at least the 15GB data usage sufficient to satisfy the fixed broadband elements of this basket. Weighted average monthly fixed broadband prices were highest in Spain (£44) and Germany (£35) among our comparator countries in July 2012.

The television element in this basket is the same as that in Basket 3 (basic pay-TV), but this basket also requires a digital video recorder (DVR). In all of our countries the inclusion of a DVR in the TV element of the basket led to an increase in the weighted average cost of the service, and this ranged from £1 a month in the UK to £12 a month in Spain (these differences being driven by whether the pay-TV services included in the weighted average of the TV element of Basket 3 provided a DVR as standard).

Figure 2.21 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 2011 and July 2012; PPP adjusted

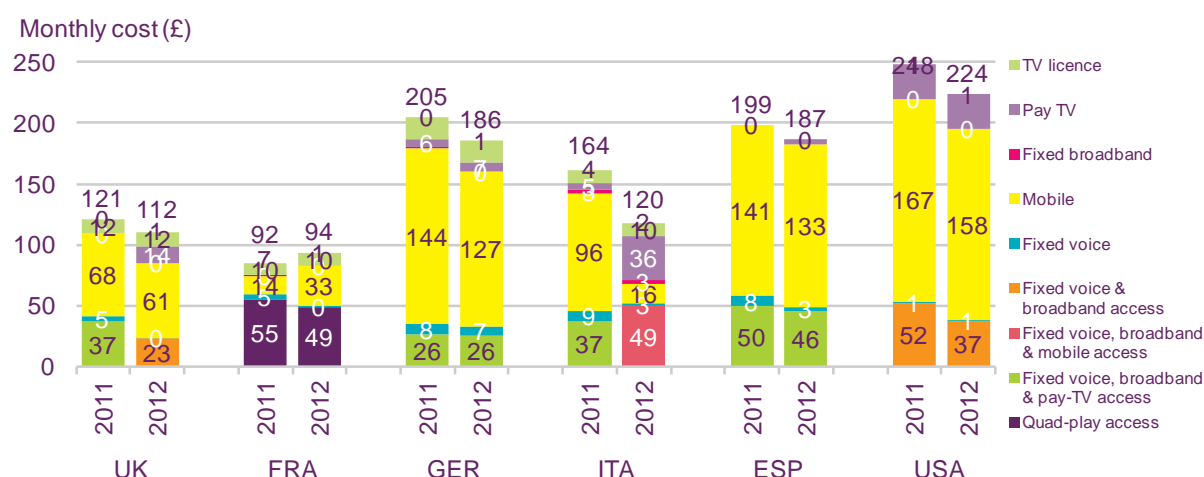
The cheapest best-offer cost of fulfilling the requirements of Basket 4 in July 2012 was in France, at £94 a month. The UK had the second-lowest best-offer price, at £112 a month; £9 a month less than it cost in July 2011.

As was the case with Basket 2, there were substantial savings to be made by buying the services required by Basket 4 as part of a bundle, and among our six countries the difference between the best-offer price and the lowest cost of fulfilling the basket's requirements using stand-alone services ranged from £6 a month (5%) in the UK to £80 a month (40%) in Italy (Figure 2.22). The least expensive way of fulfilling Basket 4's requirements in France (where the lowest overall prices were available) involved purchasing a Bouygues Telecom quad-play bundle of fixed voice, fixed broadband, mobile and pay-TV services, which had a monthly fee of €59.80 discounted to €51.80 for a year.

In Germany and Spain the lowest-cost option included buying a triple-play bundle of fixed voice, fixed broadband and pay-TV, while in Italy it involved purchasing a triple-play bundle of fixed voice, fixed broadband and mobile services. The lowest-cost options in the UK and the US included a fixed line and broadband double-play offer, and stand-alone pay-TV and mobile services (in the UK the bundle was TalkTalk's *Essentials with Line Rental Saver* service, with bolt-ons giving inclusive anytime calls, inclusive calls to 36 international destinations and 100 minutes of calls to mobiles).

While the basic requirements of the pay-TV element of Basket 4 are the same as for Basket 3, it is notable that many of the bundled tariffs provide services in excess of the least expensive available on a stand-alone basis. For example, the quad-play offer in France included 108 basic channels and 12 premium channels, compared to 18 basic channels and five premium channels for the lowest-price stand-alone service, and the triple-play service in Spain included 83 basic channels, compared to 40 basic channels and two premium channels for the lowest-price stand-alone service.

Figure 2.22 Basket 4: comparative ‘best-offer’ pricing including multi-play tariffs



Source: Ofcom using data supplied by Teligem

Note: Lowest tariff available for each service type from any of the largest operators by market share in each country, July 2011 and July 2012; PPP adjusted; where a service is included in a bundle any additional usage charges are recorded separately against the relevant service

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

Basket 5 is typical of an affluent young couple of high-end users who have low price sensitivity. They both have mobiles and are fairly high users of mobile voice and data services and, to a lesser extent, SMS. They have a fixed line with relatively low use, are heavy internet users with a superfast broadband connection (i.e. with a headline speed of 30Mbit/s or more), have a premium television package for watching HD sport and the latest films, and also a digital video recorder (DVR).

Figure 2.23 Composition of Basket 5

Fixed-line voice	Fixed broadband	Mobile	Mobile broadband	Television
246 call minutes	10GB per month minimum 30Mbit/s connection	Connection 1 376 call minutes 80 SMS 300MB data Connection 2 188 call minutes 20 SMS 100MB data	3GB over 25 days per month	HD pay-TV with recorder, movies and football

Source: Ofcom

As previously mentioned, it should be noted that the ‘weighted average’ basket analysis in this report includes the ‘best offer’ single-service cost of the mobile broadband element of the baskets, as the relatively narrow range of tariffs available from operators in many countries make it difficult to produce meaningful ‘weighted average’ figures.

The UK offered the lowest ‘weighted average’ pricing for Basket 5, at £200 a month, with prices for all services being the lowest in our comparator countries except for mobile broadband (where it was the second cheapest) and pay-TV (Figure 2.24). However, the UK was the only country where the weighted average price of the basket increased in 2012, and

the decline in the weighted average cost of the basket was highest in France in 2012, at 17%.

Prices for the fixed-voice component of Basket 5 were similar to those for Basket 1 in 2012, as levels of use were similar (at 246 and 223 outgoing call minutes per month respectively). The additional calls in Basket 5 (coupled with slightly different call patterns) meant that in all countries the cost of the fixed-line component of Basket 5 was higher than that of Basket 1, with the difference ranging from £2 a month in Germany and France to £7 in Italy, and the overall cost of Basket 5's fixed-voice element ranged from £23 in the UK to £37 in Italy. France was the only country where the cost of the fixed-voice element of the basket fell in the year to July 2012 (it increased by 4% in the UK, the largest proportional increase among our six comparator countries).

The lowest average weighted cost of satisfying the mobile requirements of the basket (the first with 376 minutes of outgoing calls, 80 SMS and 300MB of mobile data use, and the second with 188 outgoing call minutes, 20 SMS messages and lower mobile data use at 100MB) was also in the UK in 2012, at £71 a month. As was the case in 2011, in 2012 the UK had the lowest weighted average prices for both connections, with the second lowest prices for each being found in France. However, the difference between the two sets of prices was much smaller in 2012: for the higher-use connection UK weighted average prices were 6% lower than those in France, while for the lower-use connection they were 8% lower; in 2011 these figures had been 49% and 31% respectively.

For the lower-use connection this was because the weighted average in France fell by £7 in the year to July 2012, while it fell by less than £1 in the UK; however, while the weighted average cost of the higher-use connection fell by £22 in France over the period, it increased by £12 in the UK, mainly due to the lowest-cost options, using O2 and T-Mobile's tariffs, being significantly more expensive than those that were available in 2011. Weighted average prices for Basket 5's mobile component were highest in the US, where the cost of fulfilling each of the basket's connections was the highest among our countries. As discussed in Section 2.1.3 above, mobile services are comparatively expensive in the US as a result of the called-party-pays interconnection regime.

Basket 5 requires a fixed broadband connection with a minimum headline download speed of 'up to' 30Mbit/s (compared to 4Mbit/s for Basket 2 and 8Mbit/s for Basket 4) and 10GB of usage. None of the ISPs in Italy included in our analysis offered a service which fulfilled this requirement, so the fixed broadband element of Basket 5 in Italy includes lower-speed ('up to' 20Mbit/s) services. This means that the fixed broadband (and therefore total) prices for this basket in Italy are not directly comparable to those in our other countries. As was the case with the fixed broadband elements of Baskets 1 and 2, the weighted average cost of the broadband connection required by Basket 5 was lowest in the UK.

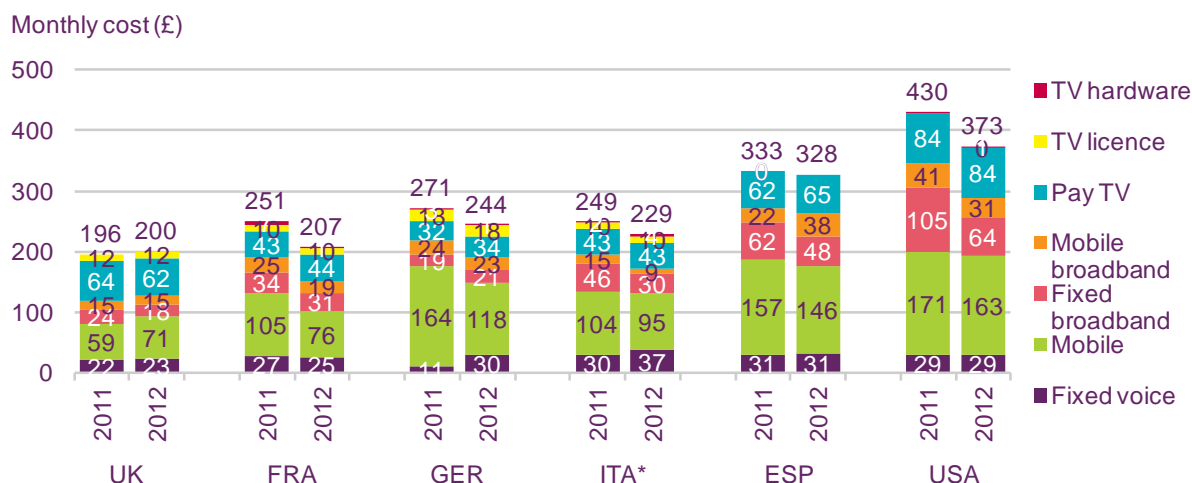
The medium-use mobile broadband connection included in this basket requires 3GB of data and use over 25 days a month. The lowest cost of providing this service was in Italy at £9 a month, while it was second lowest in the UK at £15 a month, unchanged from 2011.

Basket 5 also includes an HD premium pay-TV component. Among our comparator countries the most expensive weighted average costs for the package, including top-league football and a top price film/entertainment package required by the basket, were in the US (£84 a month rental), Spain (£65) and the UK (£62 a month). The pricing of the pay-TV element of this basket is largely a result of the way in which channels are bundled: in the UK and Spain the football and film content needed to fulfil the basket's requirements comes bundled with large amounts of additional programming, whereas in Germany (where the TV rental was £34 a month) consumers can purchase the top matches within a monthly football 'bundle', and in Italy (£43 a month) the total number of matches available for viewing within a

package is relatively low. Prices in the UK are also inflated by the basket's HD programming requirement; in all other countries HD is standard within premium packages, whereas in the UK, Sky, the largest pay-TV provider by market share, charges a £10 a month premium for HD services.

Comparisons with the US are hard to make as NFL viewing packages are wrapped up in many different ways and offered through a combination of pay-per-view and subscription.

Figure 2.24 Basket 5: 'weighted average' single-service pricing



Source: Ofcom using data supplied by Teligen

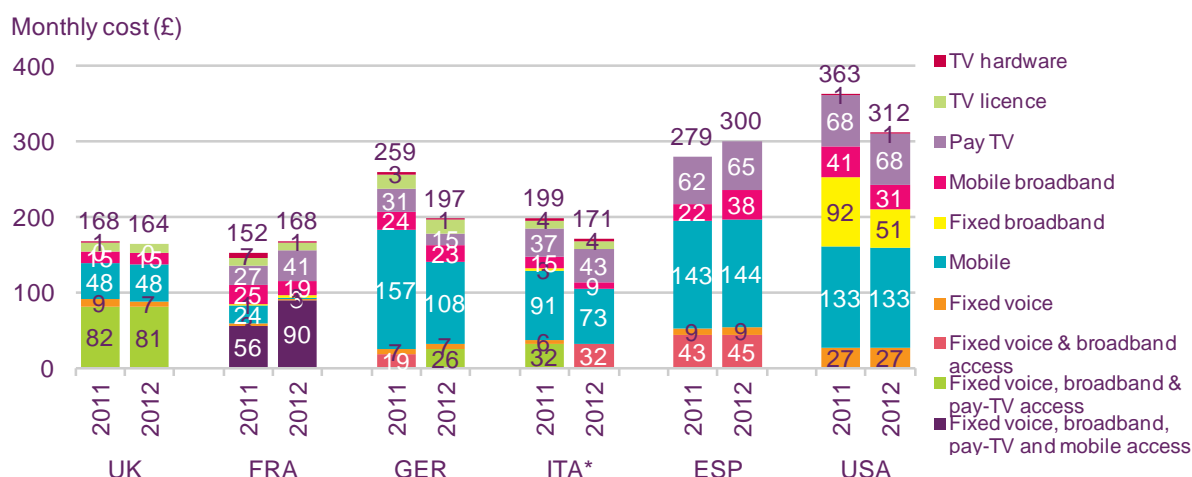
Note: Weighted average of best-value tariff from each of the three largest operators by market share in each country; July 2011 and July 2012; PPP adjusted; the figure for mobile broadband is the best-offer single service cost; *figures for Italy include 'up to' 20Mbit/s services as none of the providers included in our model offered superfast services.

The lowest best-offer pricing for Basket 5 was in the UK at £164 a month, £4 a month less than in 2011.

The UK and Germany were the only countries where the lowest-cost combination of services that fulfilled Basket 5's requirements included a triple-play of fixed voice, fixed broadband and pay-TV. In the US the cheapest option was to purchase stand-alone services, while in Italy and Spain it was a double-play package of fixed line and fixed broadband plus the additional purchase of stand-alone pay-TV and mobile services. In France the lowest-cost option involved purchasing a quad-play of fixed voice, fixed broadband, pay-TV and mobile services in both 2011 and 2012; however, as the pay-TV offering included with these bundles was not sufficient to fulfil the basket's requirements, it was also necessary to purchase a separate stand-alone HD premium pay-TV service. France had the lowest and second-lowest best-offer prices for Basket 5 in 2011 and 2012 respectively; despite the fact that this meant that the lowest-cost option in France included two separate pay-TV services.

The largest savings, compared to purchasing services on a stand-alone basis, were found in Germany, where the cost of the cheapest bundle of services was 15% (£36 a month) less than the cheapest combination of stand-alone services. In the UK this saving was £8 a month (5%). The steepest fall in the best-offer prices for Basket 5 in the year to July 2012 was in Germany, where the best-offer price fell by 24% (£62 a month) with the largest fall in cost (£49) being in the mobile element of the basket, as a result of mobile prices declining across all of the providers included in our analysis (mobile prices in Germany were the highest of all our countries in 2011).

Figure 2.25 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 largest operators by market share in each country, July 2011 and July 2012; PPP adjusted; where a service is included in a bundle any additional usage charges are recorded separately against the relevant service; *figures for Italy include ‘up to’ 20Mbit/s services as none of the providers included in our model offered superfast services.

2.1.5 Conclusion

Figure 2.26 summarises the pricing of each of our baskets across our six comparator countries. From this we are able draw some general conclusions about the pricing of communications services in each country:

Prices in the UK compared favourably to those in the other five countries covered by our price benchmarking work. All five of the lowest ‘weighted average’ single-service prices and four of the lowest ‘best-offer’ (including multi-play) basket prices were found in the UK. France also performed well, having the lowest ‘best-offer’ (including multi-play) price for Basket 4 and the second lowest ‘weighted average’ prices for all five baskets. The Basket 4 ‘best-offer’ price in France was significantly (16%) cheaper than the UK, as a result of the availability of a low-cost quad-play bundle of fixed voice, fixed broadband, mobile and pay-TV services.

Low basket prices in the UK were largely due to the ‘weighted average’ and ‘best-offer’ mobile prices in the UK being the lowest among our six countries for all nine mobile connections included in the analysis (all five of the baskets include a mobile telephony element). In addition, the UK also benefited from low fixed voice and fixed broadband prices (having the lowest ‘weighted average’ and ‘best-offer’ prices for all of the connections used in our baskets) as well as low mobile broadband prices (it had the second lowest ‘best-offer’ costs for mobile broadband services, after Italy).

HD premium pay-TV services (including a recorder) were the main area where the UK did not perform well, with UK single-service prices being the third highest after the US and Spain (the lowest price for the service was found in Germany). As stated previously, it is difficult to produce like-for-like comparisons of these services, as the number of channels and the content which each package includes varies considerably, and it should be noted that Sky’s premium TV packages includes more bundled channels than the football and films packages offered by pay-TV providers in other countries. This is due to Sky bundling a large number of channels in its premium pay-TV package, and because it charges its satellite TV customers an additional £10 a month to let them access premium channels in HD.

Figure 2.26 Summary of ‘weighted average’ and ‘best offer’ basket pricing

Weighted average' single service pricing (£ per month)			Best offer' pricing including multi-play (£ per month)				
Basket 1	1	UK	50	Basket 1	1	UK	45
	2	FRA	57		2	ESP	47
	3	ESP	57		3	FRA	54
	4	GER	69		4	ITA	57
	5	ITA	70		5	USA	62
	6	USA	80		6	GER	62
Basket 2	1	UK	68	Basket 2	1	UK	53
	2	FRA	85		2	ITA	65
	3	ITA	107		3	FRA	66
	4	ESP	113		4	GER	71
	5	GER	116		5	ESP	73
	6	USA	124		6	USA	87
Basket 3	1	UK	100	Basket 3	1	UK	84
	2	FRA	122		2	ITA	102
	3	ITA	128		3	FRA	108
	4	ESP	168		4	USA	146
	5	USA	169		5	ESP	163
	6	GER	212		6	GER	185
Basket 4	1	UK	146	Basket 4	1	FRA	94
	2	FRA	178		2	UK	112
	3	ITA	247		3	ITA	120
	4	GER	262		4	GER	186
	5	ESP	268		5	ESP	187
	6	USA	314		6	USA	224
Basket 5	1	UK	200	Basket 5	1	UK	164
	2	FRA	207		2	FRA	168
	3	ITA	229		3	ITA	171
	4	GER	244		4	GER	197
	5	ESP	328		5	ESP	300
	6	USA	373		6	USA	312

Source: Ofcom using data supplied by Teligen

There is some evidence that UK communications services prices are increasing, in nominal terms at least. Figure 2.27 shows that in the year to July 2012 the weighted average cost of four of our five baskets increased in the UK, while in France (where weighted average prices were next lowest) the cost of all five fell. In the UK, the main driver behind rising weighted average basket prices were increases in mobile prices: the weighted average cost of more than half of the mobile connections increased in the year to July 2012, with these increases ranging from 5% to 31% in nominal terms.

Figure 2.27 Change in ‘weighted average’ single service basket pricing, 2012

	UK	FRA	GER	ITA	ESP	USA
Basket 1	3.5%	-5.5%	-14.1%	3.2%	-3.2%	4.3%
Basket 2	-2.6%	-6.1%	7.7%	-7.2%	-2.9%	0.5%
Basket 3	0.3%	-14.3%	-1.7%	-8.7%	2.8%	-7.1%
Basket 4	0.4%	-19.4%	-10.0%	-2.9%	-4.9%	6.0%
Basket 5	2.3%	-17.4%	-10.0%	-8.3%	-1.6%	-13.2%

Source: Ofcom using data supplied by Teligen

Figure 2.28 shows the percentage change in the single-service cost of the individual components of our baskets in the year to July 2012. This shows that there was a general downward trend in the price of these services across our countries during the period, with pay-TV being the only service for which prices increased in the majority of countries (the UK and France were the only nations where the total weighted average cost of the three pay-TV services required by our baskets fell in 2012). The UK was one of three of our countries (along with France and the US) where the total weighted average cost of the fixed voice elements of our baskets fell during the year, although the key driver of the UK fall was exclusion of Virgin Media’s lowest cost services from the ‘weighted average’ calculation for two of the baskets of use. The UK and the US were the only countries where the total weighted average cost of the nine mobile connections included in our analysis increased. France and Germany were the only nations where the total weighted average cost of the fixed broadband component of our baskets increased in 2012, and Spain was the only country where best-offer stand-alone mobile broadband prices increased during the year.

Figure 2.28 Change in the single service pricing of basket components: 2012

	UK	FRA	GER	ITA	ESP	USA
Fixed voice	-0.7%	-2.1%	90.6%	22.4%	1.9%	-1.1%
Mobile	10.4%	-25.2%	-20.5%	-9.7%	-7.6%	3.5%
Fixed broadband	-16.7%	4.3%	10.4%	-30.5%	-13.5%	-29.0%
Mobile broadband	-4.2%	-23.4%	-5.3%	-3.7%	75.0%	-20.4%
Pay TV	-5.6%	-1.3%	13.9%	12.3%	5.3%	0.3%

Source: Ofcom using data supplied by Teligen

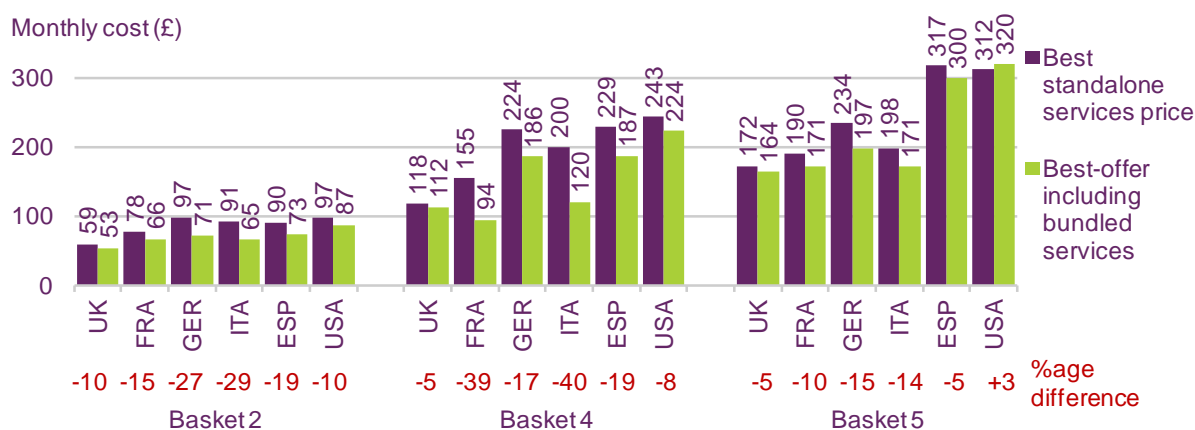
Notes: Fixed voice, fixed broadband and pay-TV figures are the change in the total weighted average cost of fulfilling our basket’s requirements for those services; pay-TV figures include the licence fee; mobile figures are the change in the total weighted average cost of fulfilling the requirements of the nine mobile connections included in our baskets; mobile broadband figures are the change in the total single service ‘best offer’ cost of fulfilling the requirements of the baskets which include the service.

Fixed broadband services are frequently bought in conjunction with other communications services, and consumers in most of our comparator countries were able to make cost savings by purchasing the services required by the three baskets that included a fixed broadband connection as part of a bundle, rather than by purchasing the lowest-price single service combination. However, the potential savings available by bundling the services required for Baskets 2, 4 and 5 (which include a fixed-line broadband connection) varied

from country to country (Figure 2.29). In the UK, the savings that consumers get from purchasing these baskets of services in a bundle ranged from 5% for Baskets 4 and 5 to 10% for Basket 2, while among the other comparator countries it ranged from a 5% saving for Basket 5 in Spain to a 40% saving for Basket 4 in Italy.

Across all of the countries covered in this section of the report, Basket 5 in the US was the only one of our baskets which included a fixed broadband connection for which there were no savings to be made by buying a bundle of services.

Figure 2.29 Difference between best stand-alone service and best-offer prices including bundles



Source: Ofcom using data supplied by Teligen

Note: Lowest tariff available for each service type from any of the largest operators by market share in each country, and July 2012; PPP adjusted; where a service is included in a bundle any additional usage charges are recorded separately against the relevant service; *figures for Basket 5 in Italy include 'up to' 20Mbit/s services as none of the providers included in our model offered superfast services.

In the UK, the difference between the 'weighted average' and the 'best offer' pricing of the single services for our five baskets was among the lowest across our six countries, with 'best offer' prices being, on average, 19% lower than the 'weighted average' for our five baskets (only in Spain was this figure lower, at 18%). This indicates that while there is a comparatively narrow range of prices offered by operators in the UK, most consumers will be able to save money by shopping around for the provider and tariff that best suits their needs (Figure 2.30). By way of comparison, the largest difference between weighted average and best-offer basket pricing was in Italy, at 34%. In the UK, the single-service offerings with the widest range of prices were for mobile connections.

Figure 2.30 Difference between 'weighted average' and 'best-offer' pricing

	UK	FRA	GER	ITA	ESP	USA
Basket 1	-10%	-5%	-9%	-19%	-18%	-22%
Basket 2	-21%	-22%	-39%	-39%	-35%	-30%
Basket 3	-16%	-11%	-13%	-21%	-3%	-14%
Basket 4	-23%	-47%	-29%	-51%	-30%	-29%
Basket 5	-18%	-19%	-19%	-25%	-8%	-17%

Source: Ofcom using data supplied by Teligen