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The Communications Market Report 2018

Ofcom analyst briefing

Date: 2 August 2018

Agenda

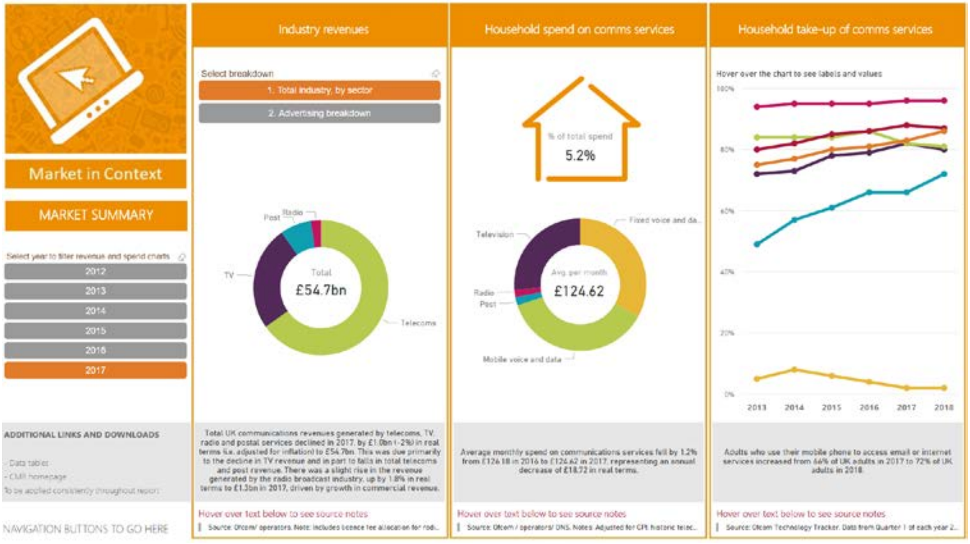
Introduction & Market overview
Yih-Choung Teh, Group Director, Strategy and Research

The telecoms industries
Nick Collins, Head of Market Developments – Telecoms

The audio-visual industries, radio, internet and online content, post
Eleni Marouli, Head of Market Developments – TV, Radio, Post, Online

What’s new in 2018?

- A comprehensive **interactive report**
- A **shorter**, more focused **written report** focusing on key market developments
- A one-stop shop for key metrics from Ofcom’s flagship publications including the *Media Nations Report, Connected Nations Report, Technology Tracker and Media Use and Attitudes*



Market overview

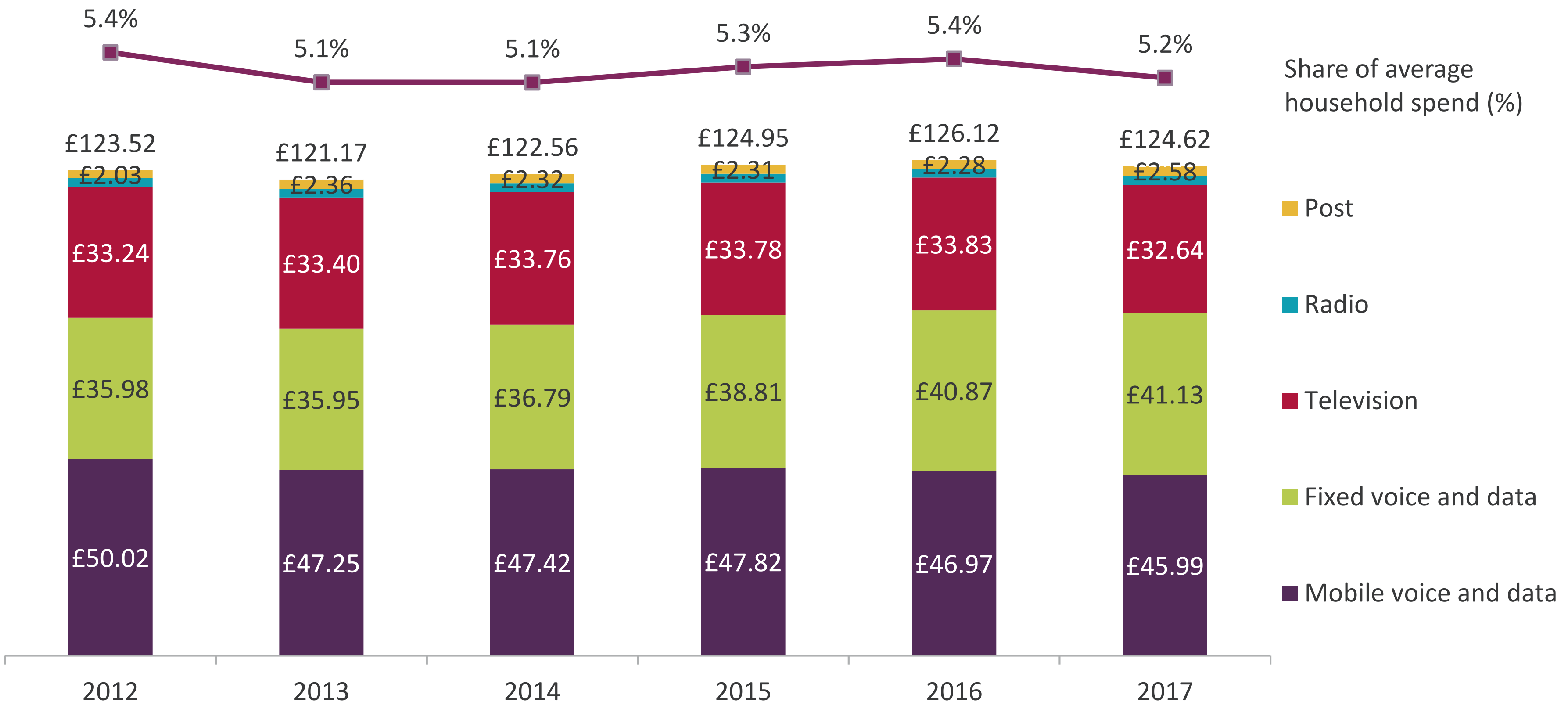
Yih-Choung Teh

Group Director, Strategy and Research

UK communications revenue declined to £54.7bn in 2017, the lowest level in the last five years

	Annual change	5 year CAGR
Total	**-2.1%**	**-1.2%**
Post	-5.8%	-1.8%
Radio	1.8%	0.3%
TV	-3.7%	0.3%
Telecoms	-1.1%	-1.7%

Monthly household spend on communications also fell to £124.62



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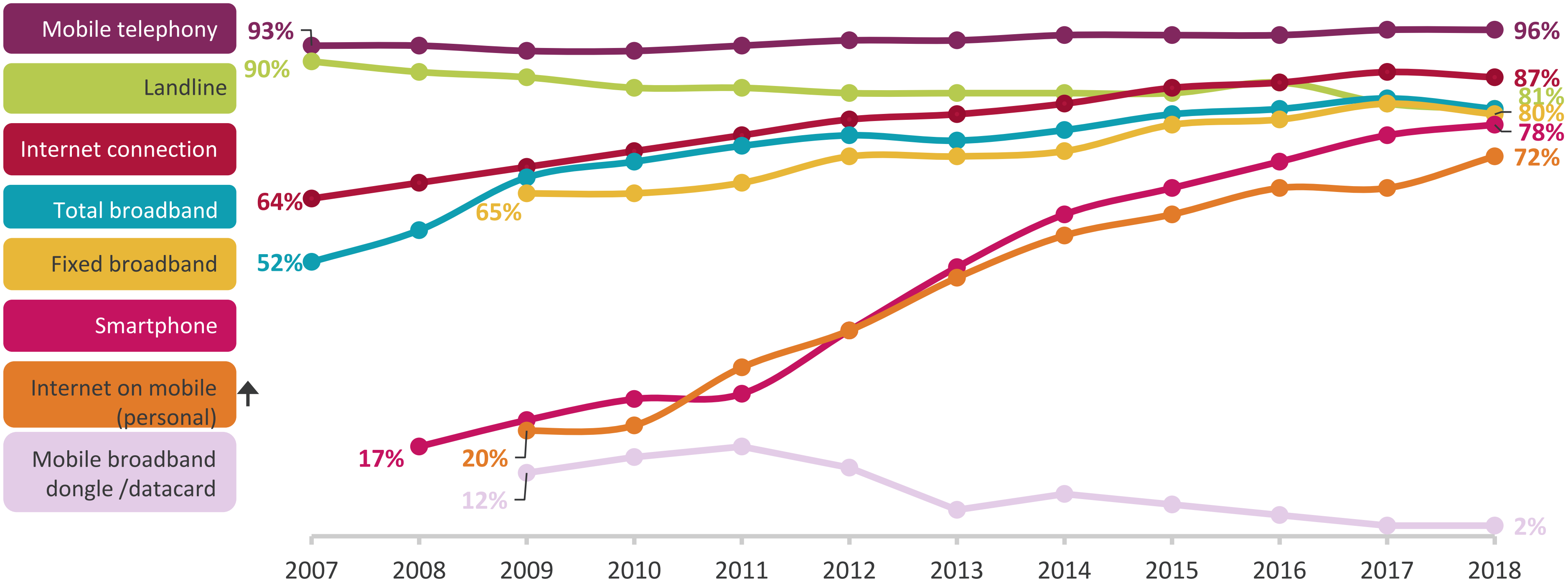
Seven in ten people now use internet on their mobile



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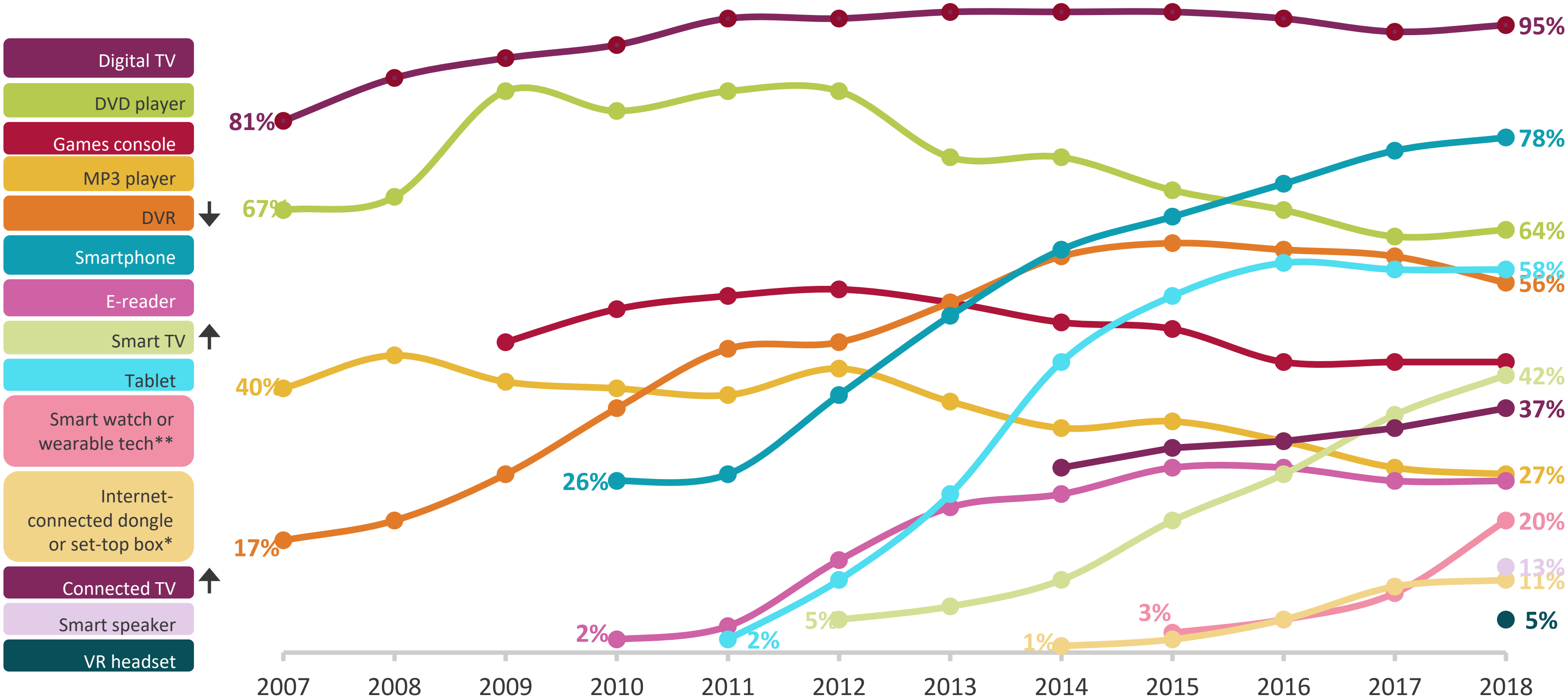
Take-up of smart TVs and connected TVs grew, while use of DVRs declined in 2018



Connected TV is a TV that is connected to the internet via any device other than a smart TV.
**Internet-connected dongle or set-top box includes NOW TV set-top box, Roku, Google Chrome, Amazon Fire TV stick, Amazon Fire TV, Apple TV*
***Smart watch question wording amended in H1 2018 to add 'or wearable tech such as fitness trackers' so data is not directly comparable with previous years.*

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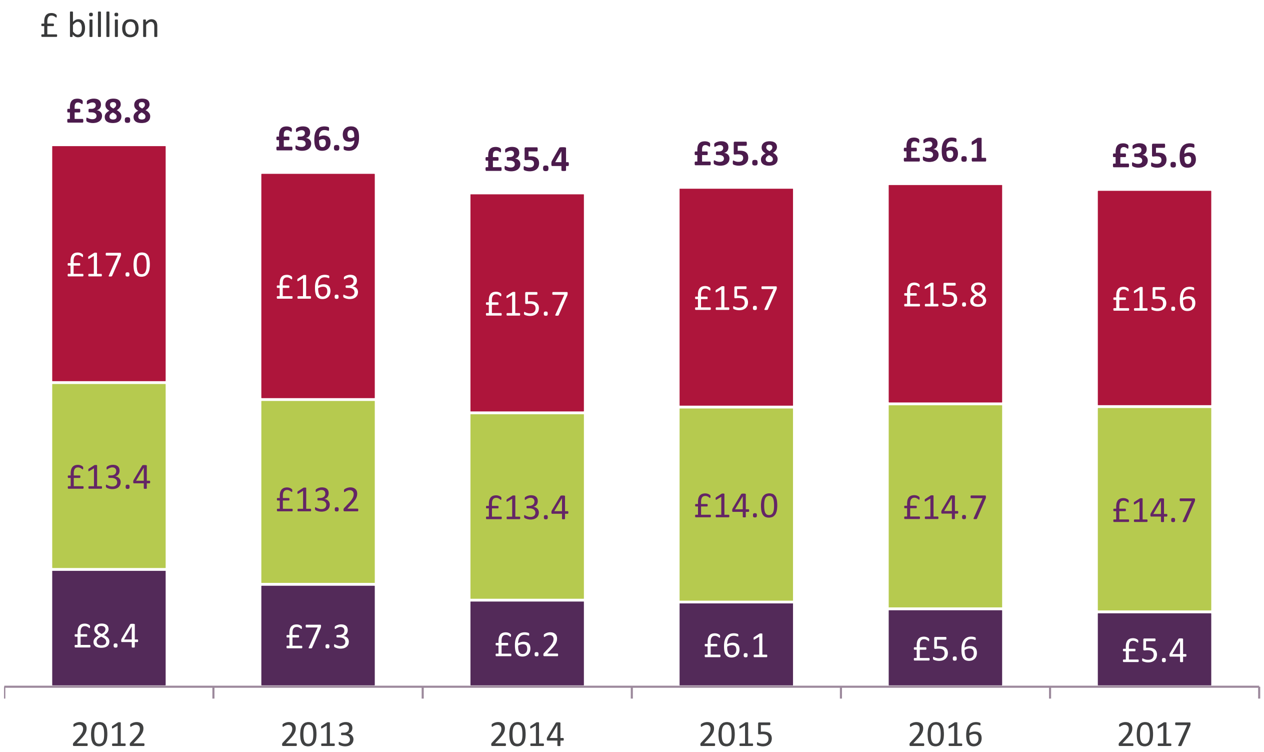
The telecoms industries

Nick Collins
Head of Telecom Market Developments

Telecoms revenues fell in real terms in 2017

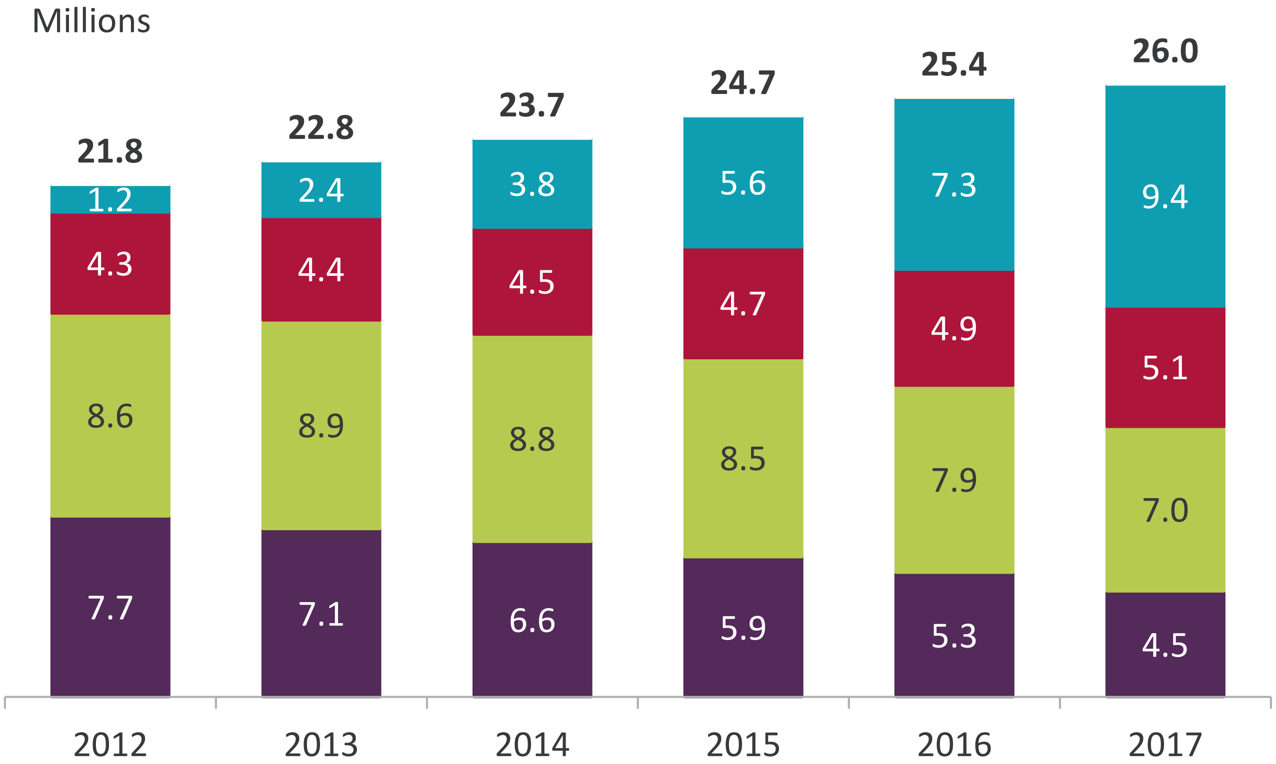


	2017 change	5 year CAGR
Total	**-1.1%**	**-1.7%**
Retail mobile	-1.3%	-1.8%
Retail fixed	0.1%	1.9%
Wholesale Services	-3.9%	-8.6%

Source: Ofcom / operators

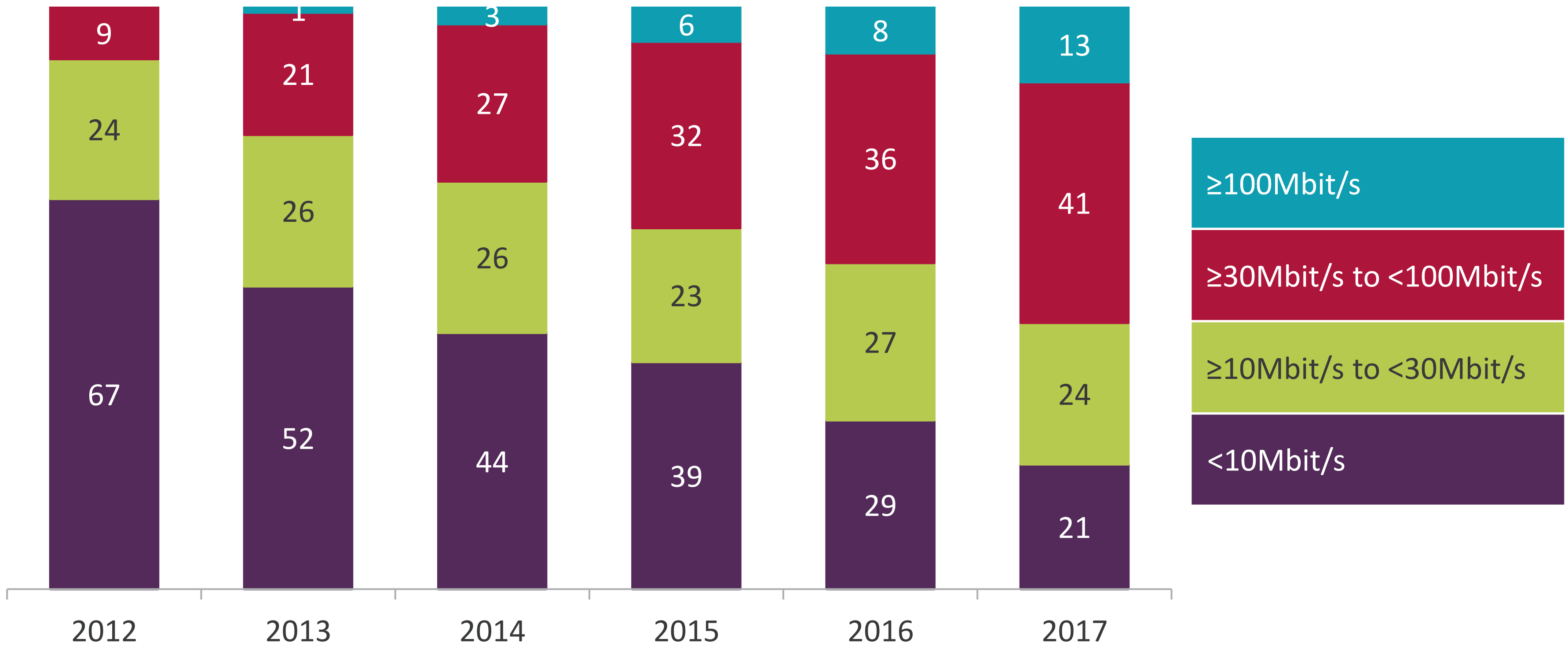
Notes: Excludes corporate data services; adjusted for CPI (2017 prices)

NGA broadband connections accounted for more than half of broadband connections



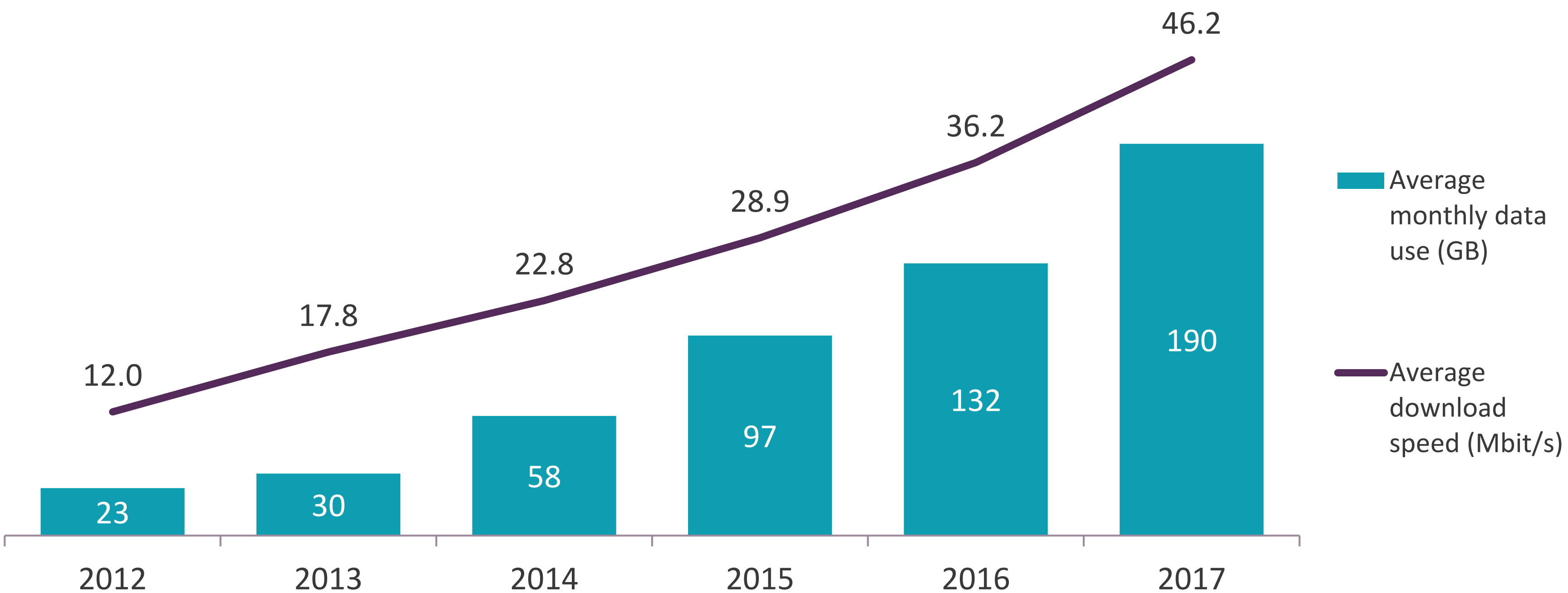
	2017 change	5 year CAGR
Total	**2.2%**	**3.6%**
FTTC/P	29.2%	3.6%
Cable	3.8%	3.6%
LLU-ADSL	-12.1%	-4.1%
Non-LLU ADSL	-14.9%	-10.2%

Fifty-four per cent of residential broadband lines received average speeds of 30Mbit/s or higher in 2017…



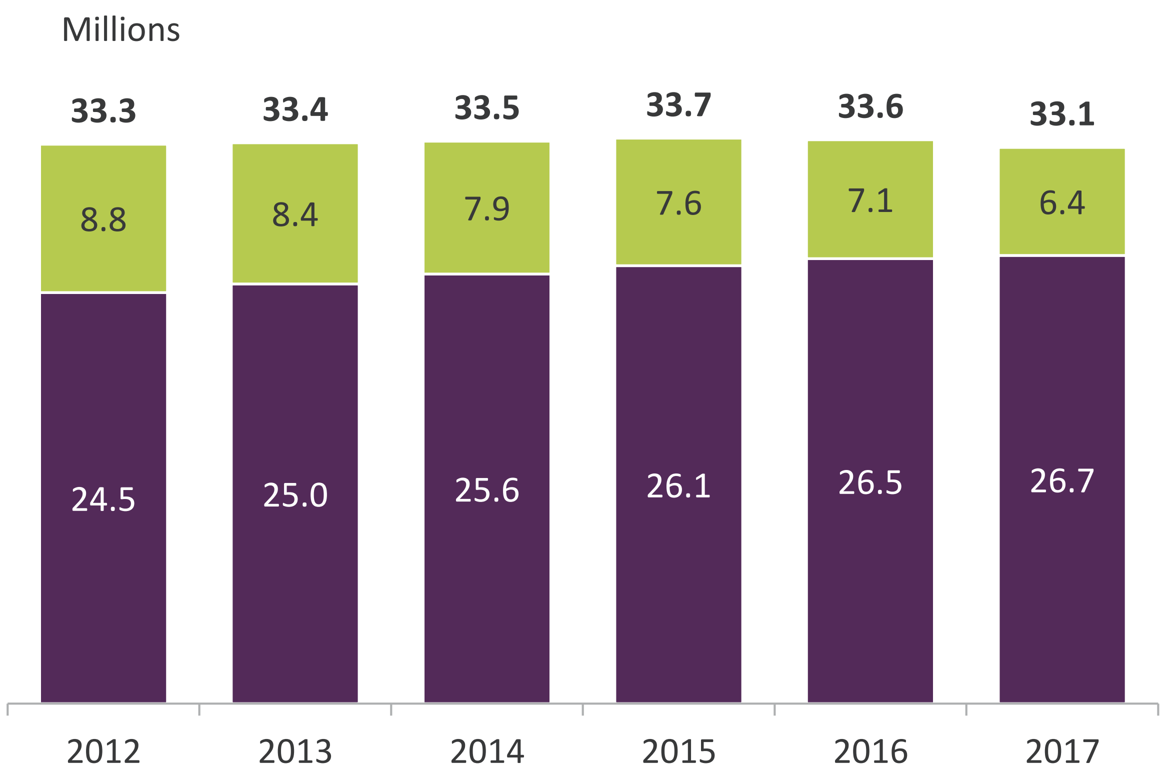
Source: Ofcom, using data provided by SamKnows

Residential usage continued to increase alongside average connection speeds



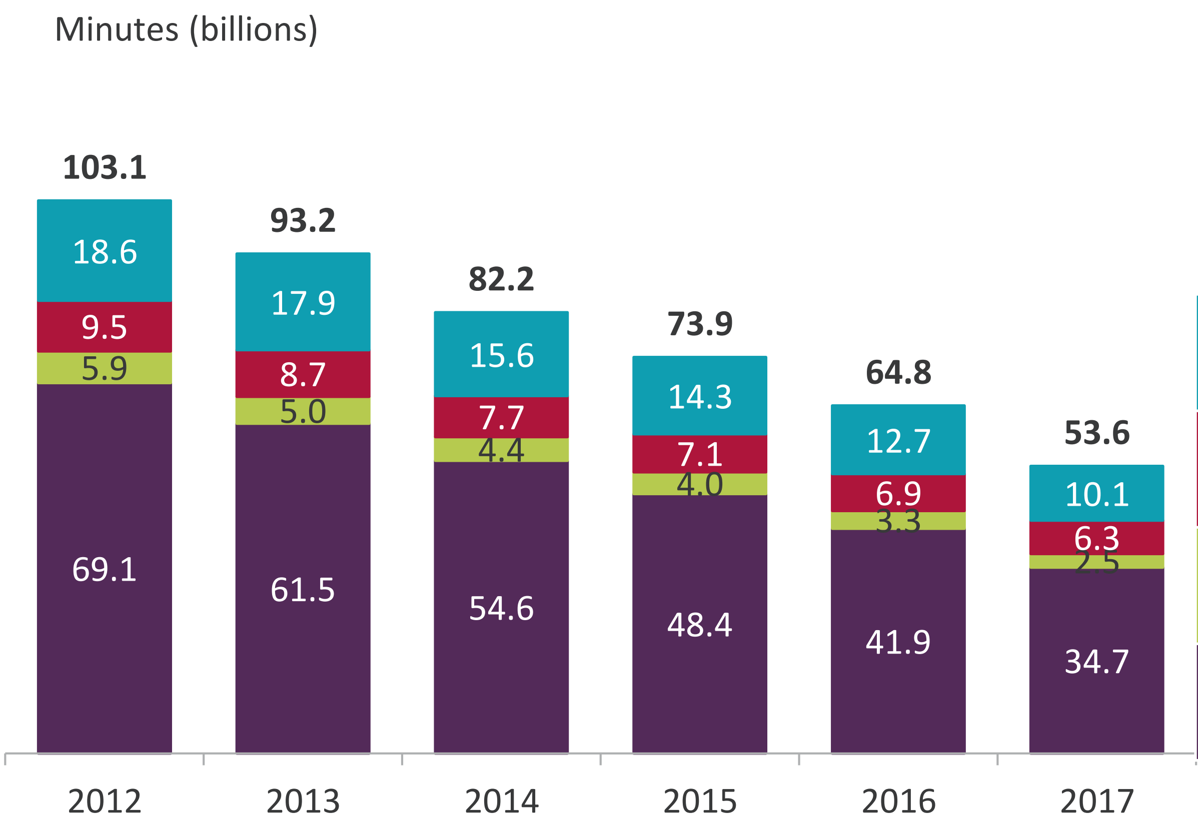
Source: Ofcom Connected Nations Reports 2011 - 2016 / UK Home Broadband Performance reports

The number of landlines fell by 0.5 million in 2017



	2017 change	5 year CAGR
Total	**-1.3%**	**-0.1%**
Business	-9.1%	-6.1%
Residential	0.7%	1.7%

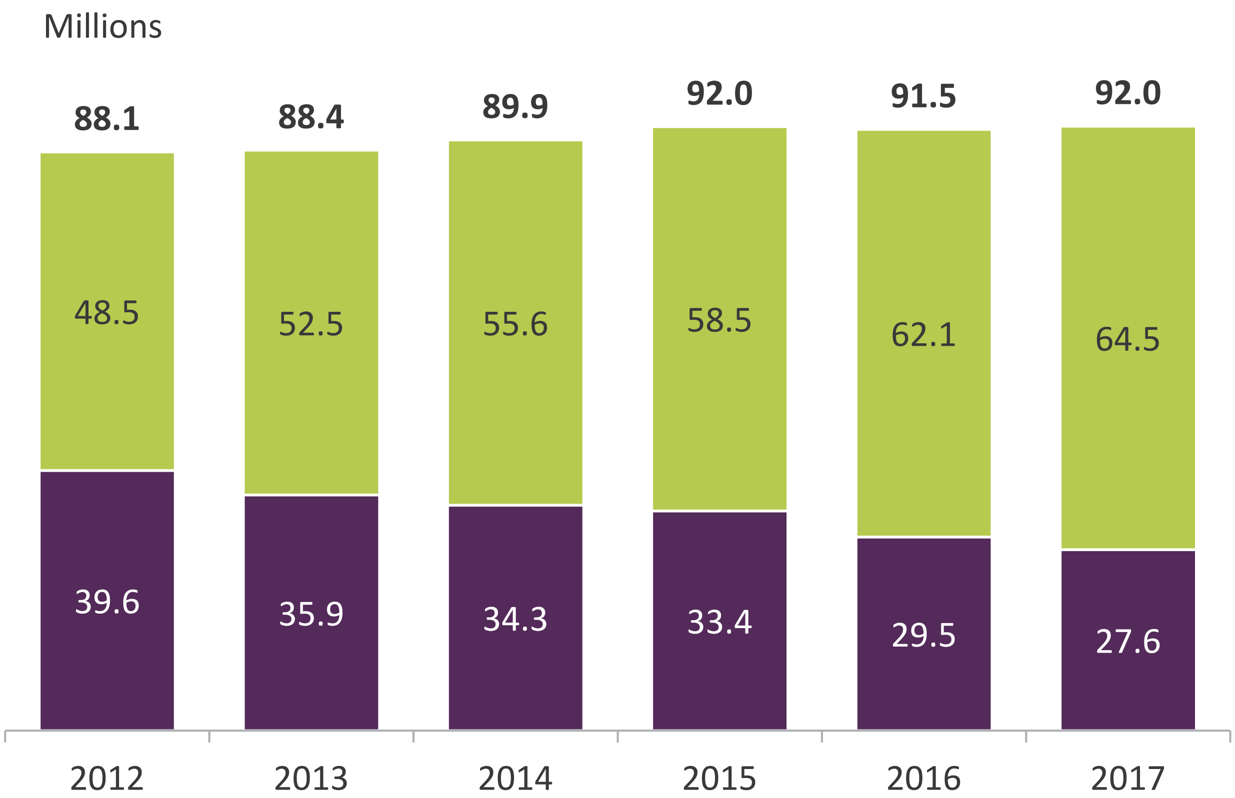
Outgoing fixed call volumes fell by 17% during the year



	2017 change	5 year CAGR
Total	**-17.4%**	**-12.3%**
Other calls	-20.4%	-11.5%
Calls to mobiles	-9.1%	-7.9%
International calls	-23.8%	-15.6%
UK geographic calls	-17.3%	-12.9%

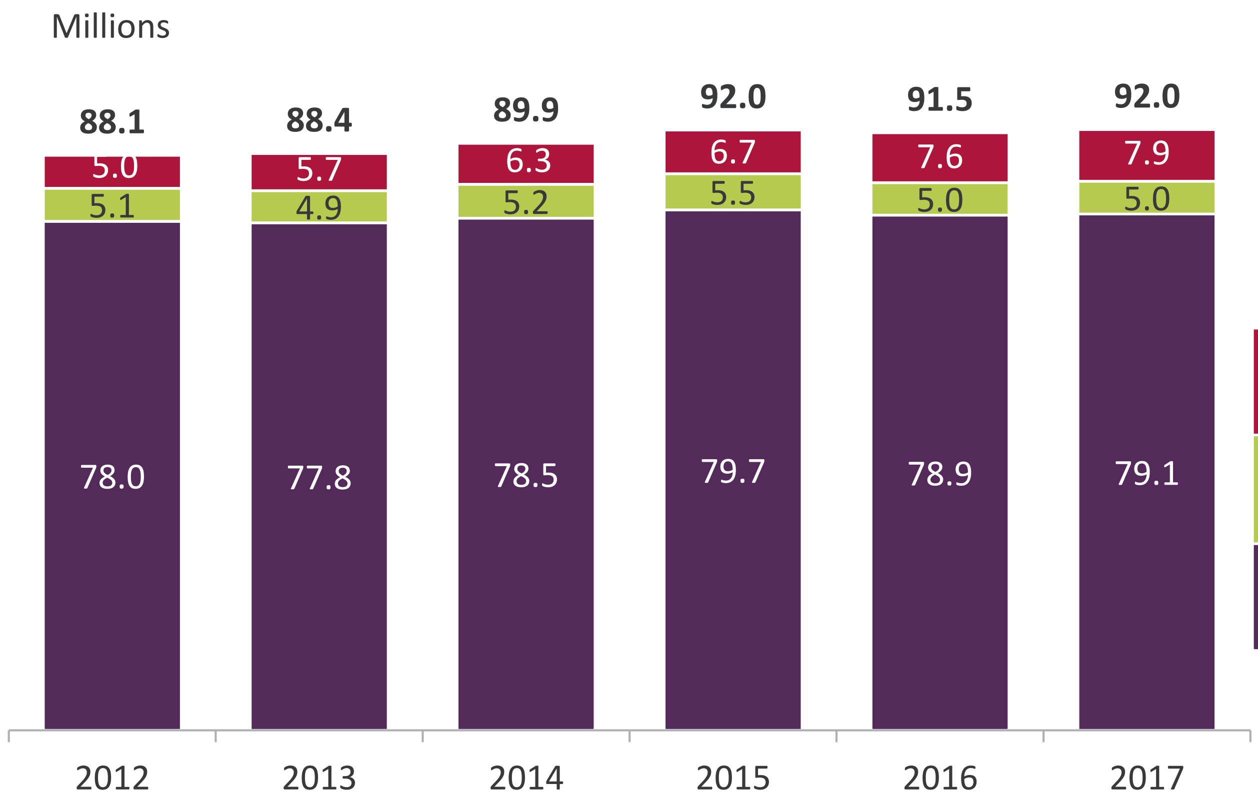
Source: Ofcom / operators

Seventy per cent of mobile subscriptions were post-pay at the end of 2017



	2017 change	5 year CAGR
Total	**0.5%**	**0.9%**
Pay-monthly	3.9%	5.9%
Pre-pay	-6.5%	-7.0%

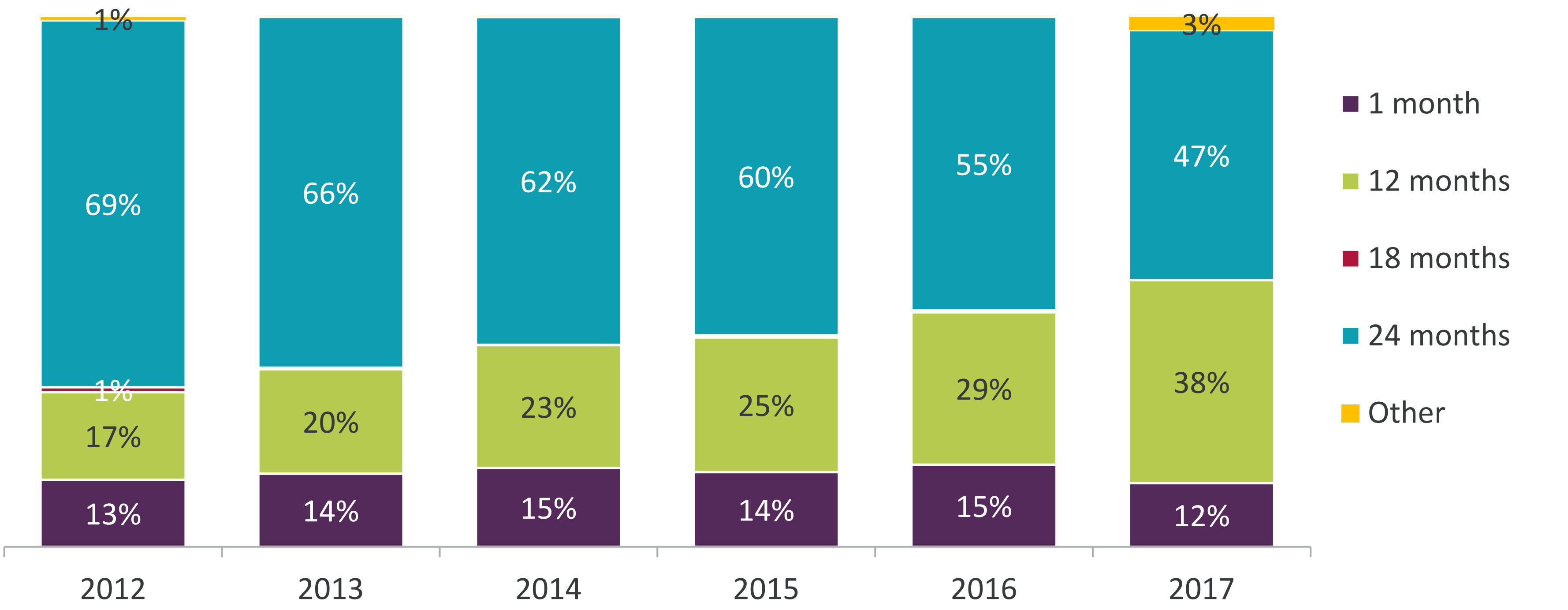
Increasing mobile subscriptions driven by M2M and handsets



	2017 change	5 year CAGR
Total	**0.5%**	**0.9%**
M2M	3.6%	9.4%
Dedicated mobile data	0.8%	-0.2%
Mobile handset	0.2%	0.3%

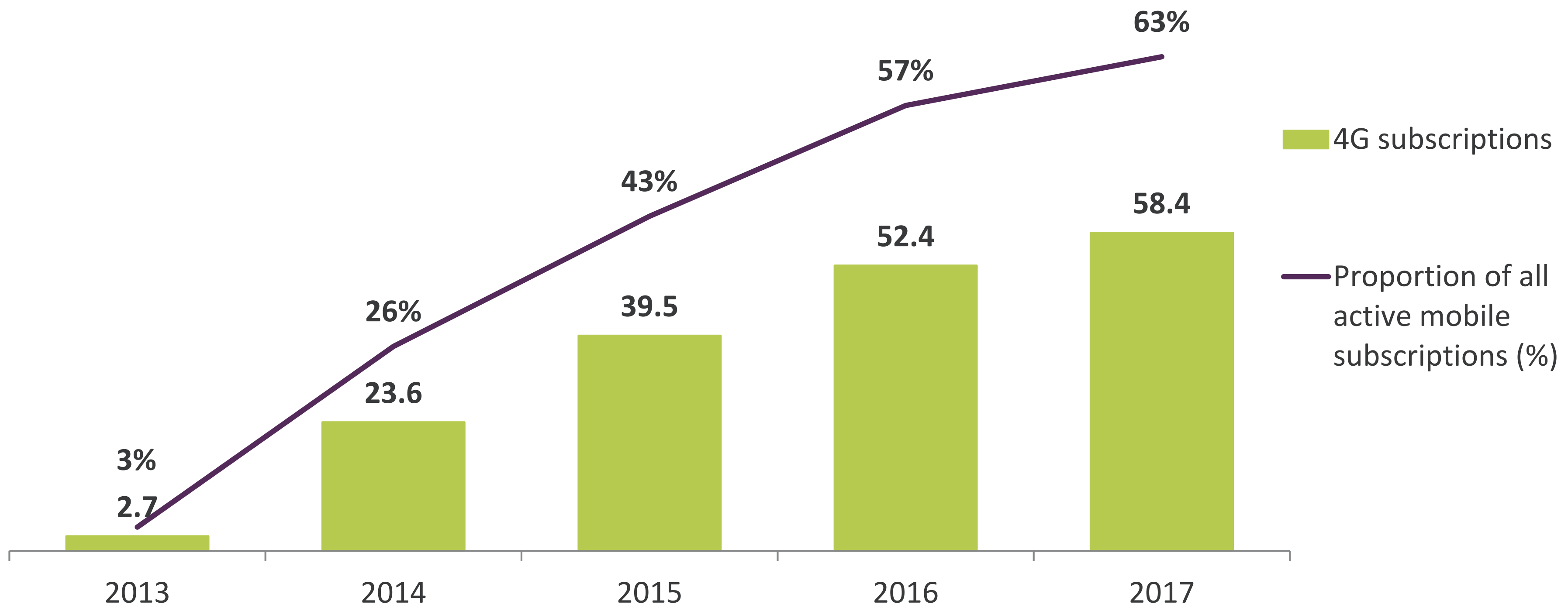
Source: Ofcom / operators

Less than half of mobile contract sales in 2017 had a minimum term of 24 months



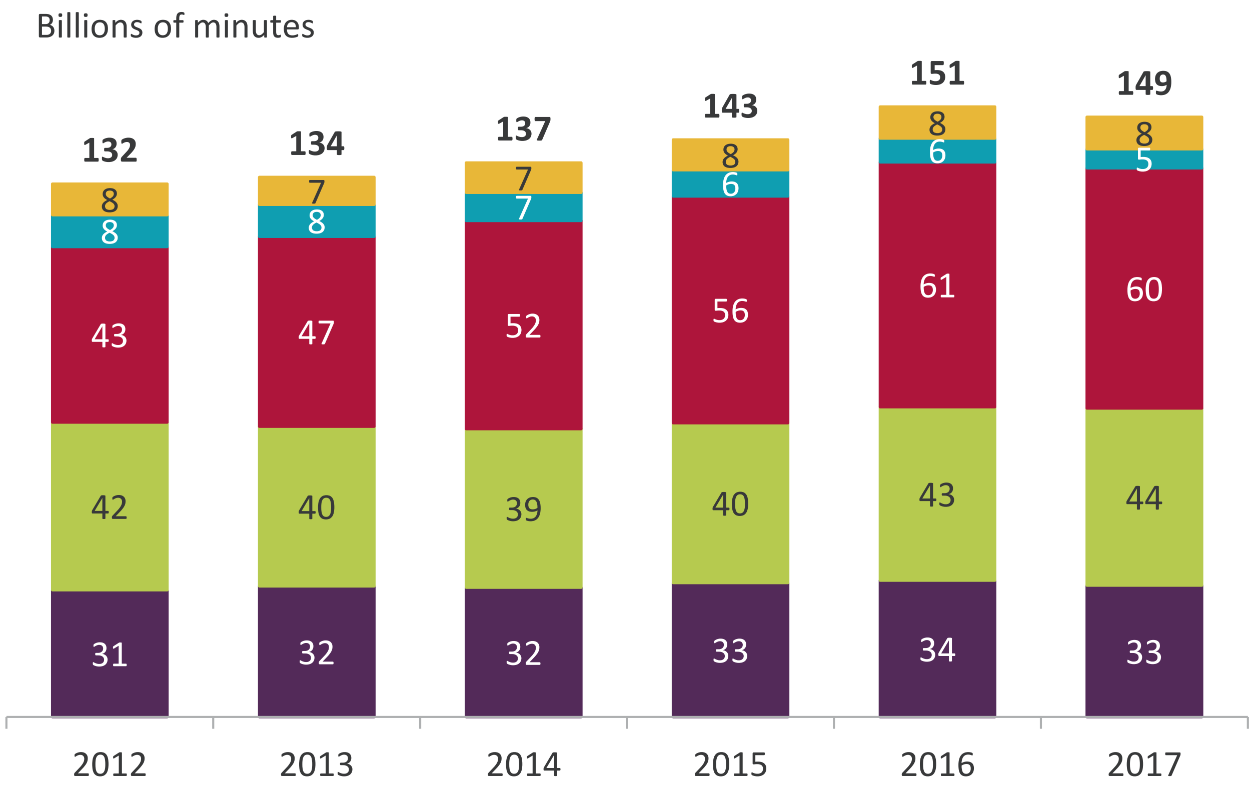
Source: GfK Retail and Technology

Almost two-thirds of mobile subscriptions were 4G-enabled in 2017



Source: Ofcom / operators

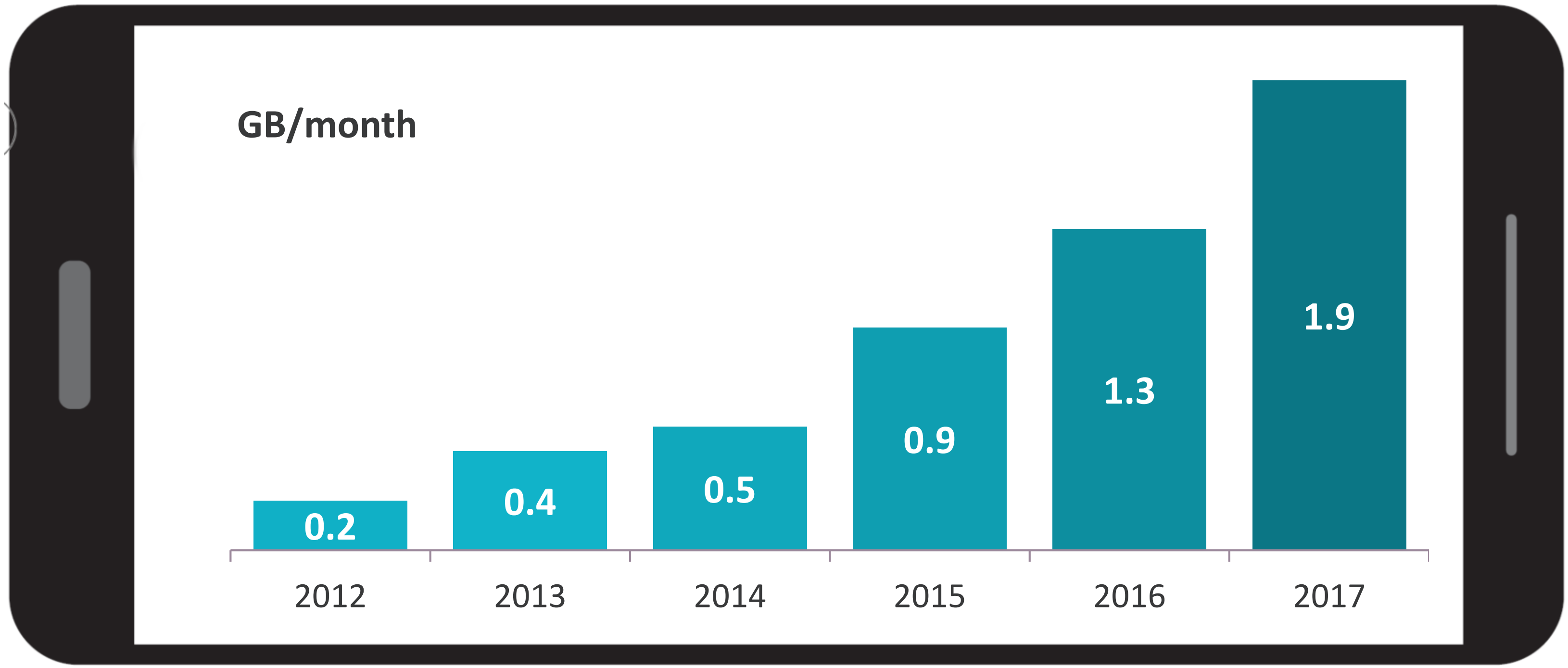
Outgoing calls from mobiles fell for the first time in 2017



	2017 change	5 year CAGR
Total	**-1.7%**	**2.7%**
Other calls	1.7%	0.2%
International	-20.5%	-5.5%
Off-net mobile	-1.8%	6.9%
On-net mobile	2.0%	0.7%
UK geographic	-3.5%	1.5%

Source: Ofcom / operators

Average mobile data use per connection grew by over 40% in 2017



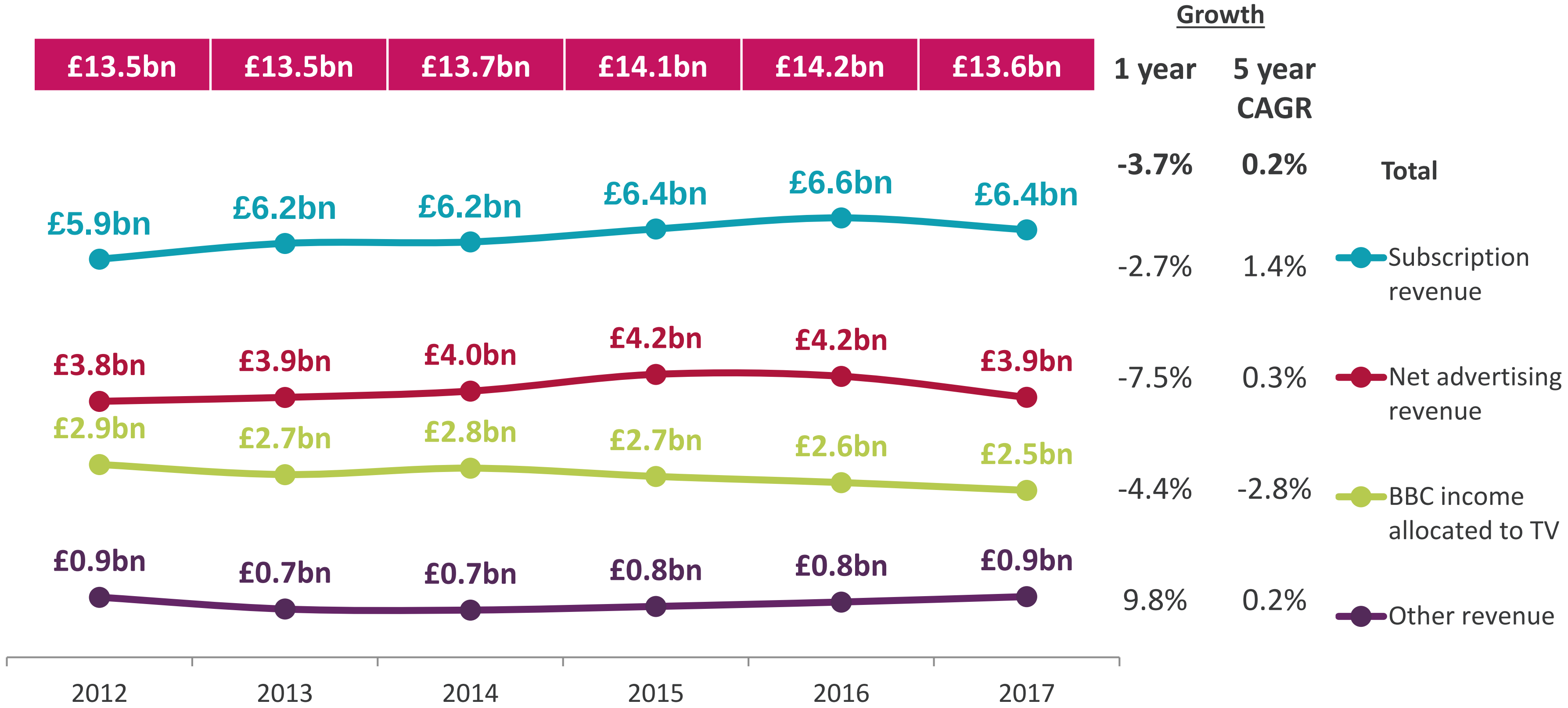
Source: Ofcom Connected Nations Reports

The audio-visual industries

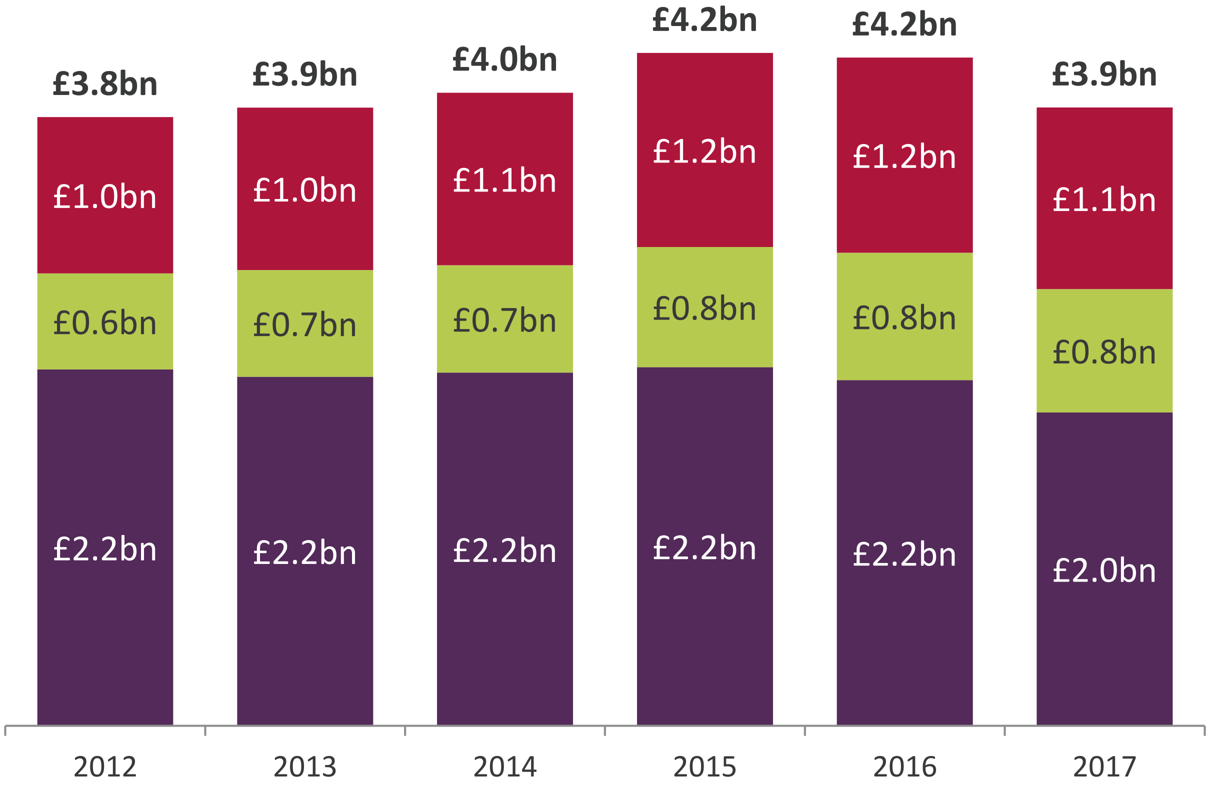
Eleni Marouli

Head of Market Developments – TV, Radio, Post, Online

UK TV revenues declined by 4% in 2017



TV advertising revenue was down mainly due to falls in commercial PSB channels

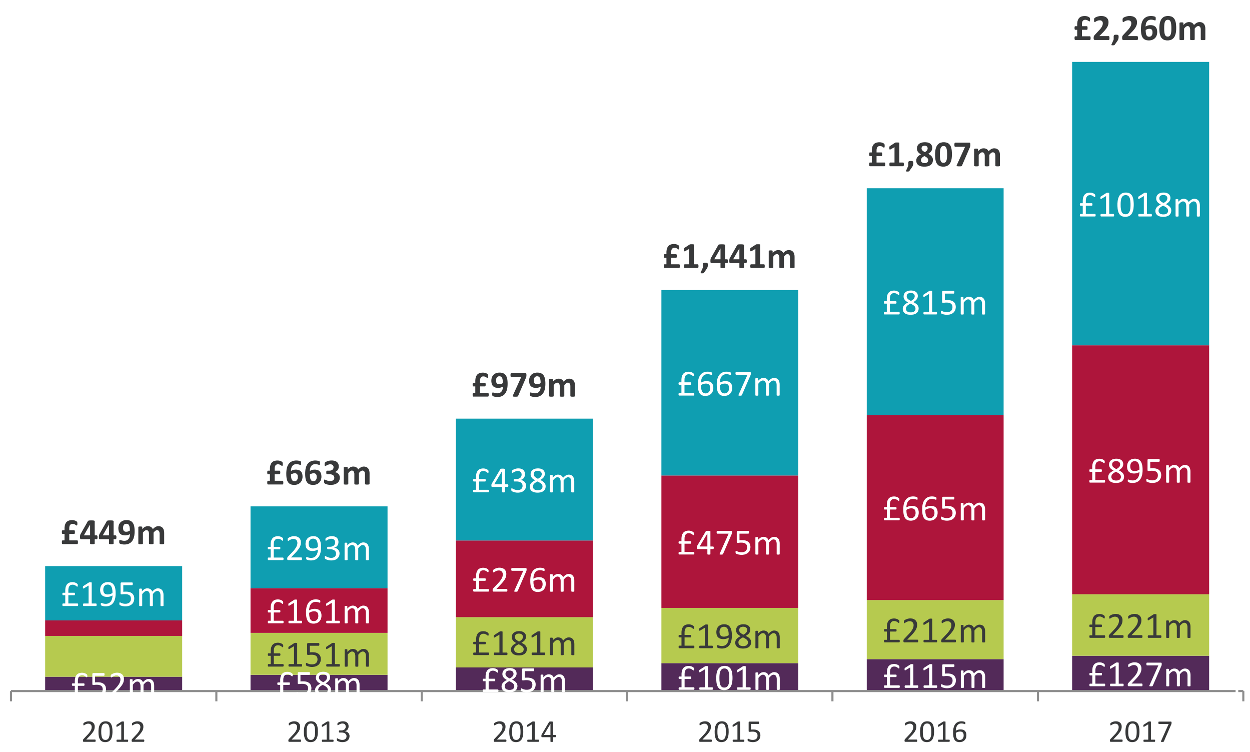


Growth

1 year	5 year CAGR	
-7%	0%	Total
-7%	3%	Commerical multichannels
-3%	5%	Commercial PSB portfolio channels
-9%	-3%	Commercial PSB channels

Source: Ofcom/broadcasters. Figures are adjusted for CPI (2017 prices).

Online audio-visual revenues have doubled in the last 3 years

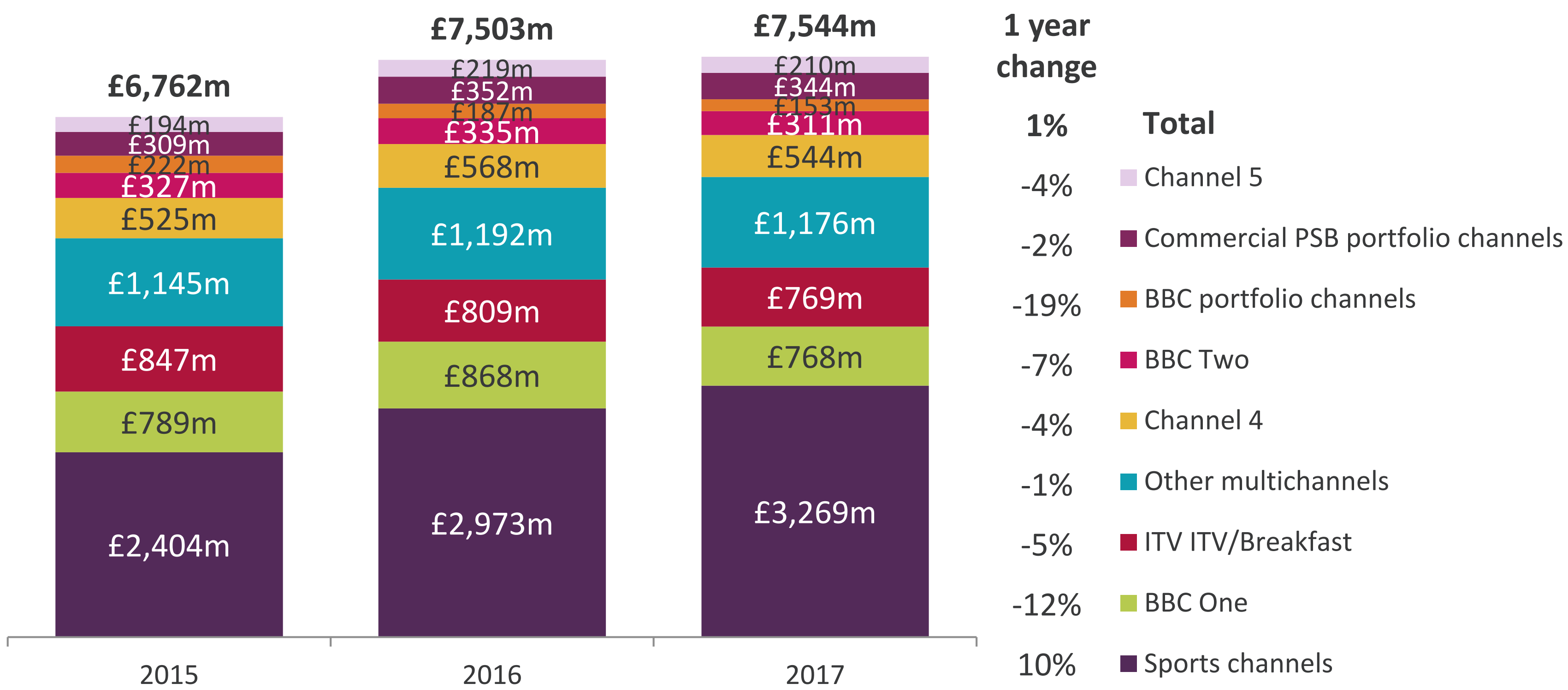


Growth

	1 year	5 year CAGR
Total	**25%**	**38%**
Ad funded video	25%	39%
OTT Subscription	35%	74%
Digital Rental	4%	9%
Digital Retail	10%	20%

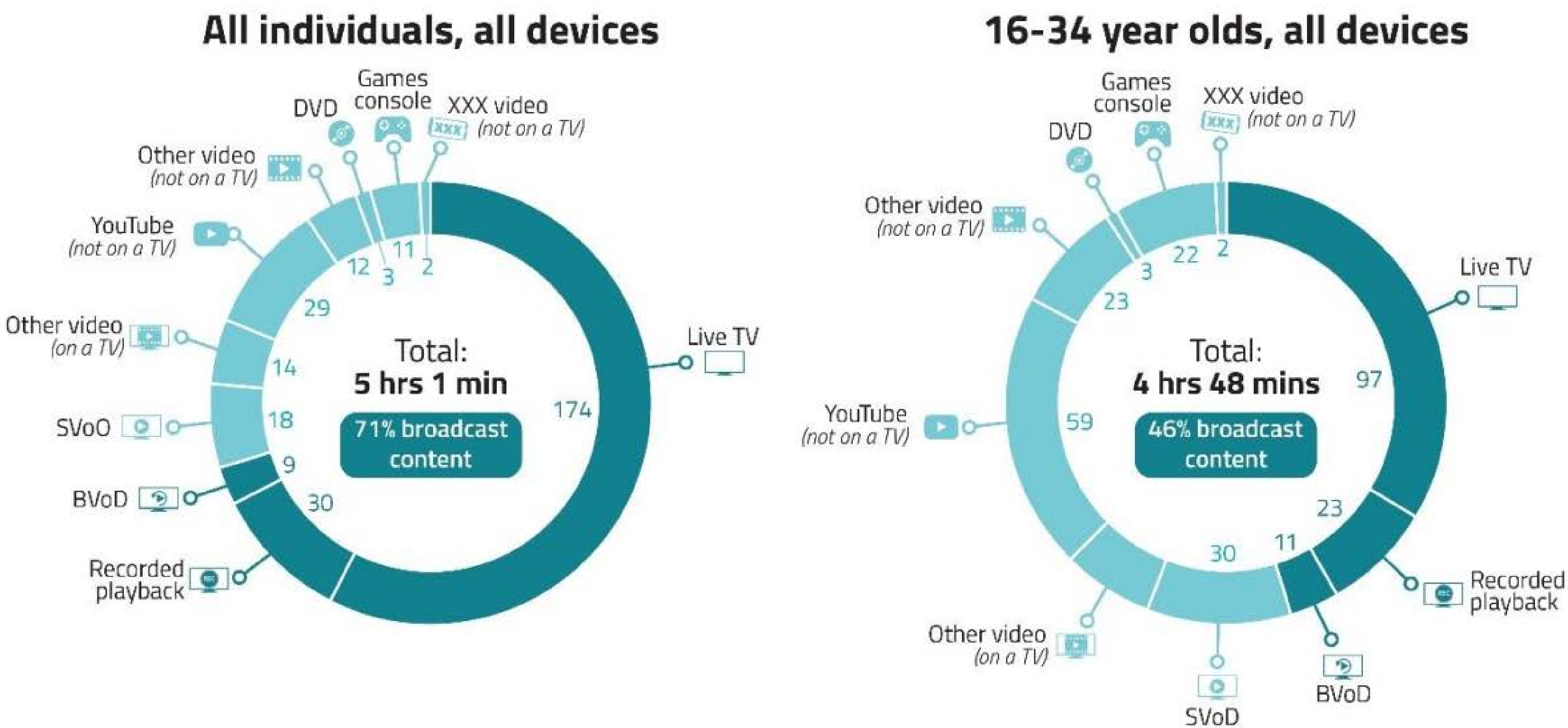
Source: Ampere Analysis. Figures are adjusted for CPI (2017 prices).

Broadcasters spent £7.5bn on networking programming in 2017, but 43% was on sports channels



Source: Ofcom/broadcasters. Figures are adjusted for CPI (2017 prices).

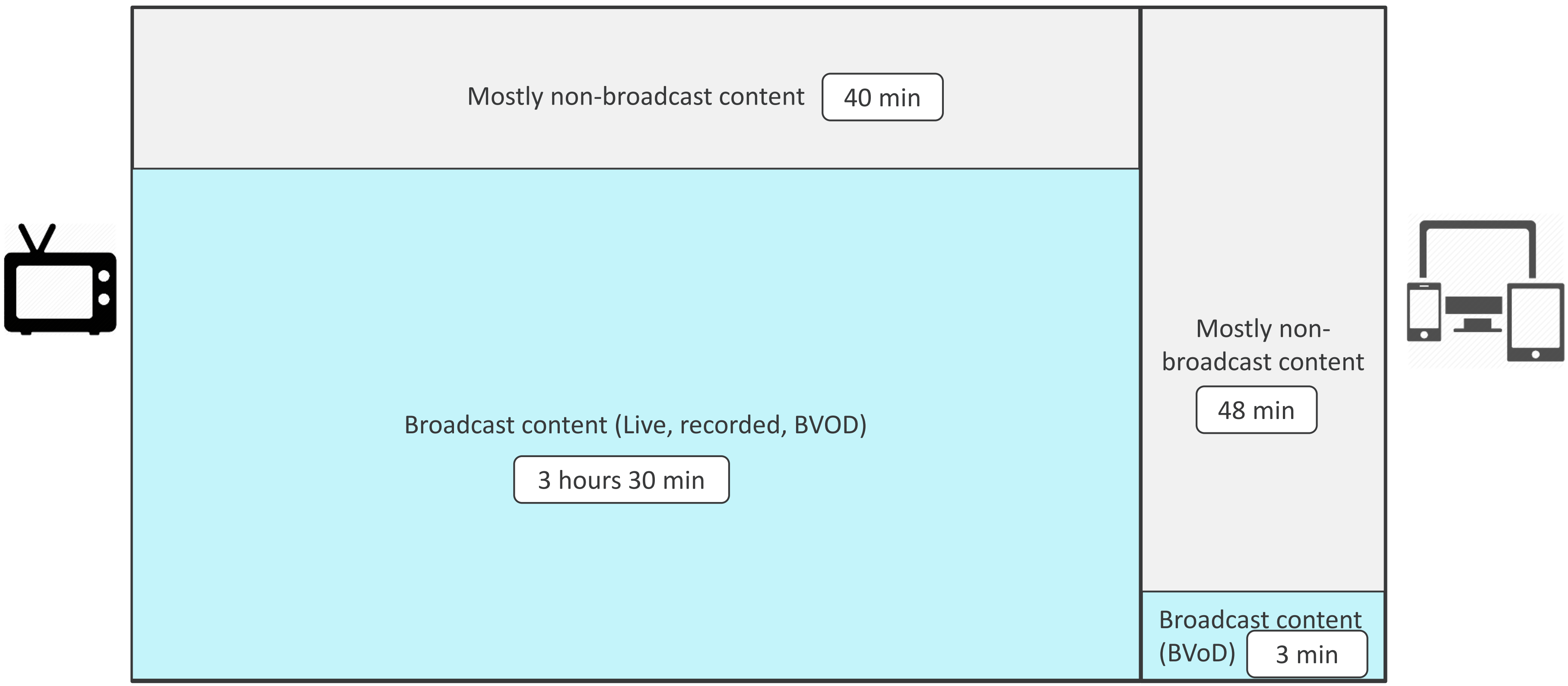
Broadcast accounted for 71% of all viewing, but less than half for 16-34s



Source: Ofcom/BARB/BARB TV Player (census data)/Touchpoints/ComScore – see detailed methodology section of how the sources are used to construct a total estimated view of video watched

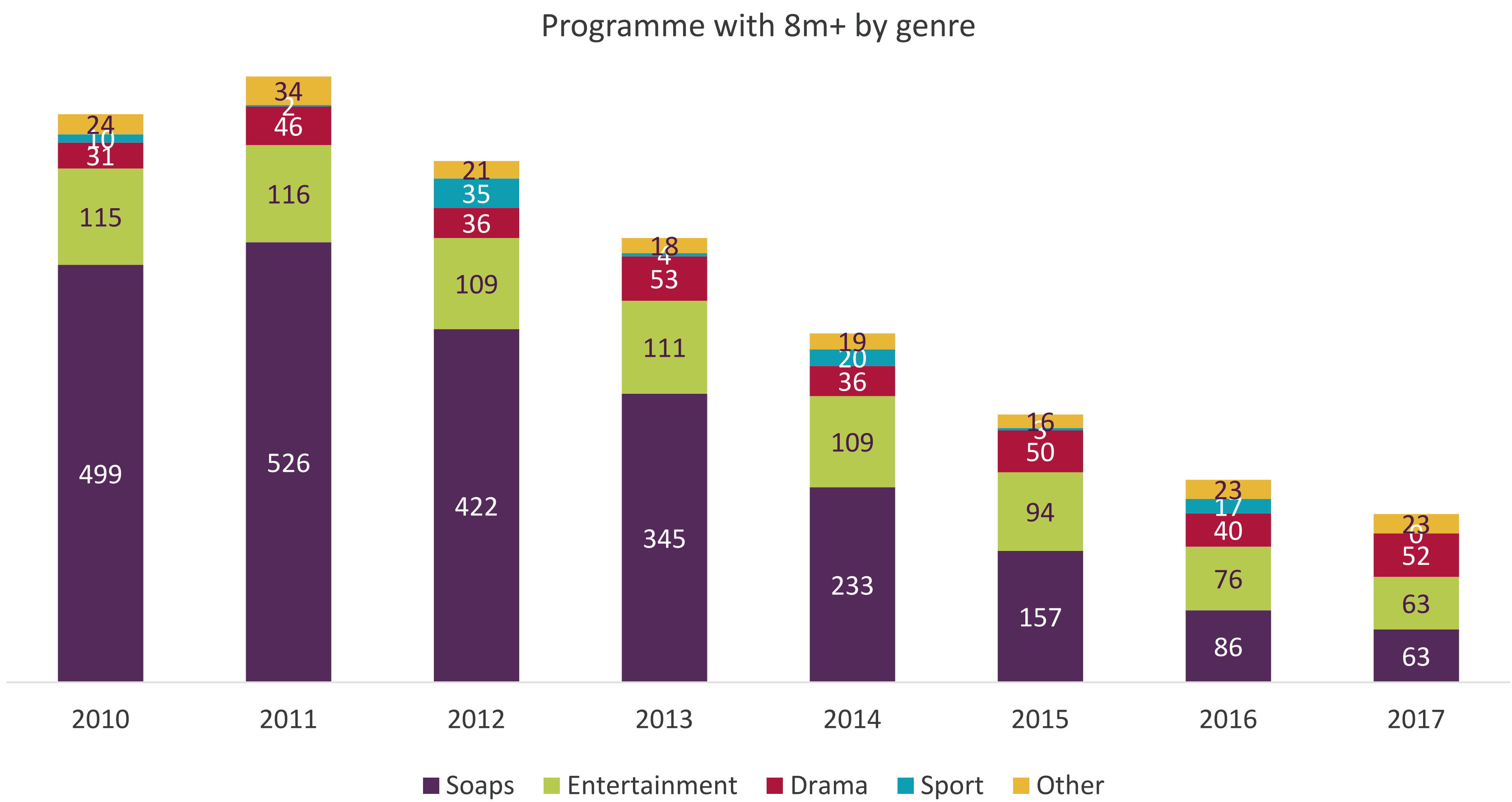
Almost half of non-broadcast content was watched on the TV set

Average minutes per day – all individuals – total of **5 hours 1 minute**



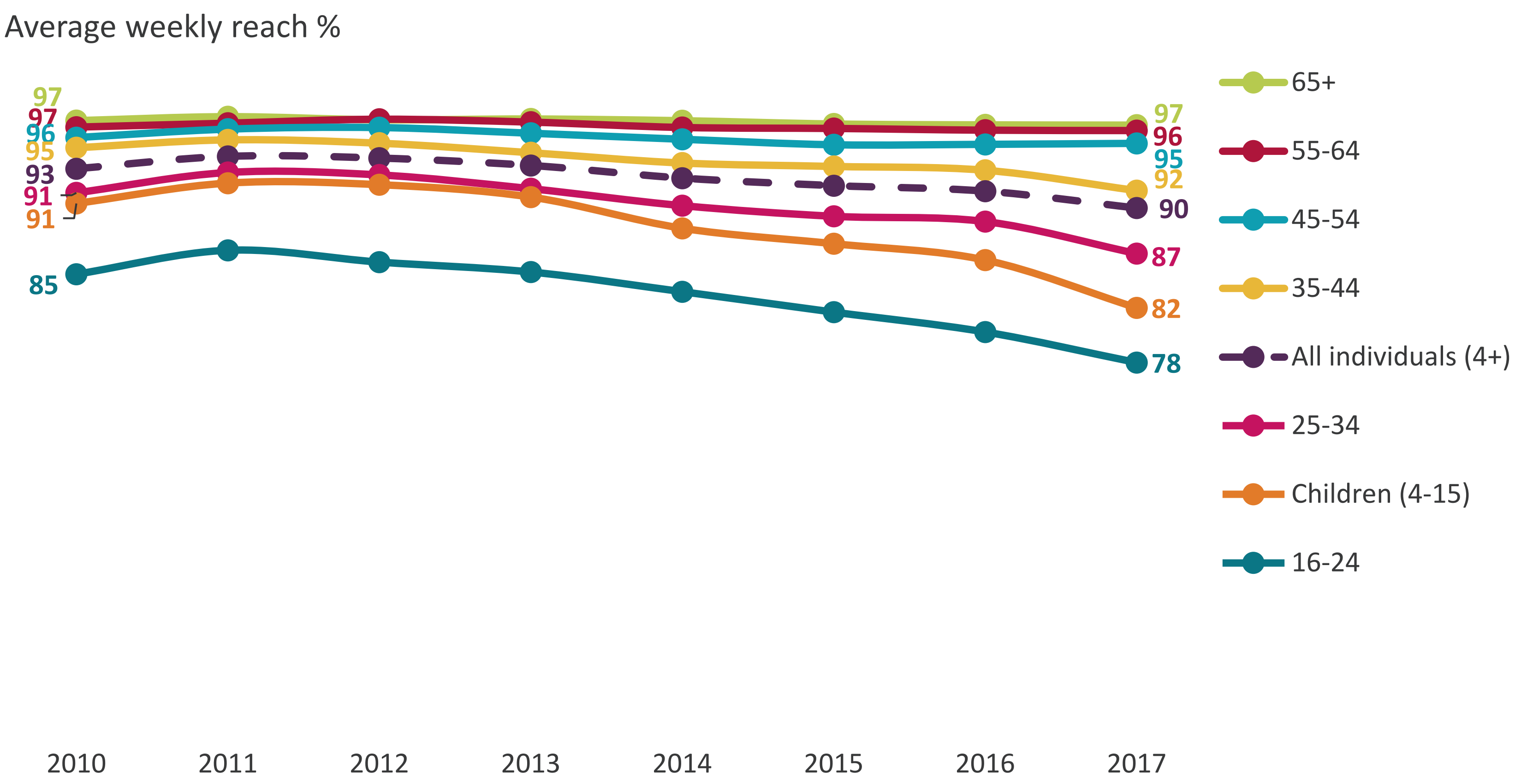
Source: Ofcom/BARB/BARB TV Player (census data)/Touchpoints/ComScore – see detailed methodology section of how the sources are used to construct a total estimated view of video watched

However it is increasingly hard to reach very large audiences on linear TV



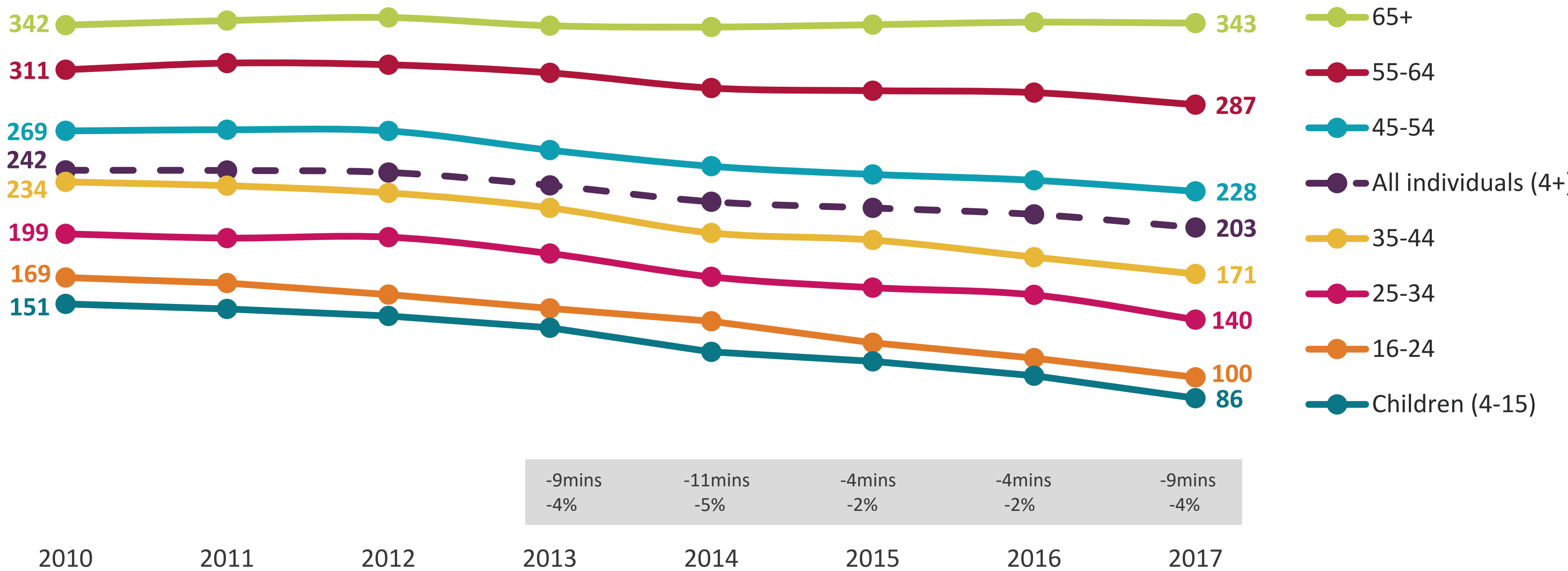
Source: BARB average audiences for programmes in selected genres. Note: interpret years before BARB panel change in 2010 (dotted line) with caution

Nine in ten people continue to watch TV every week



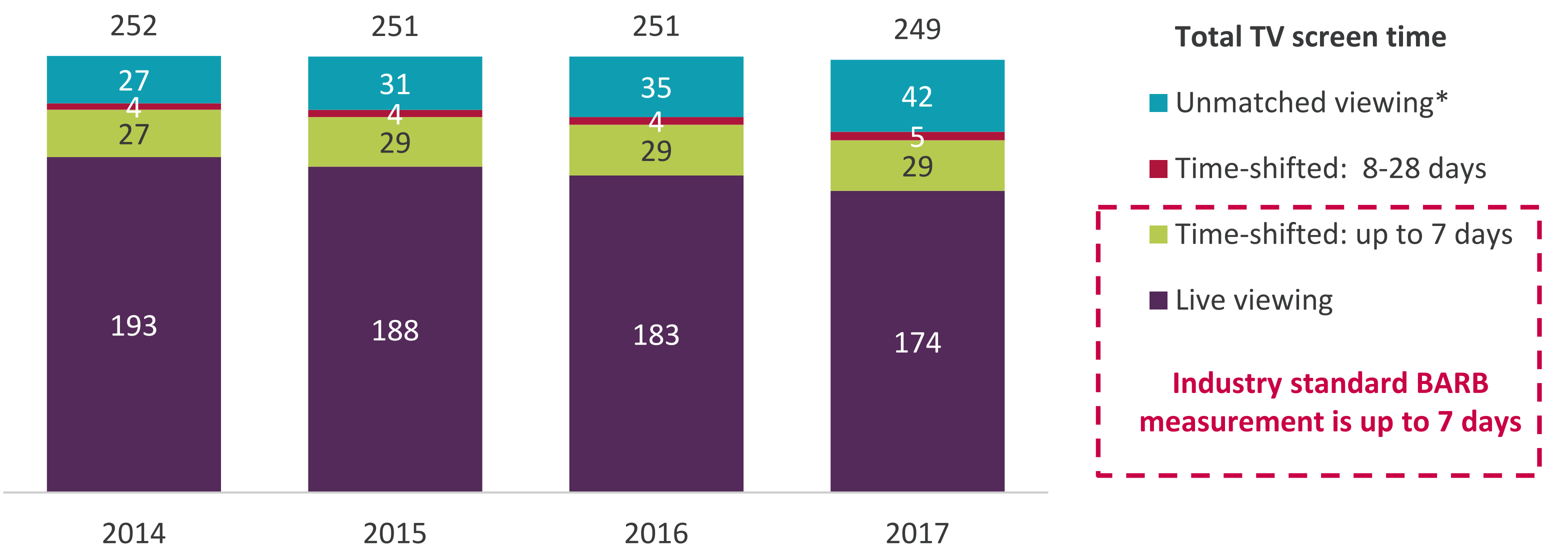
Viewing decline accelerated for the first time since 2014

Average minutes of viewing per day



Source: BARB, network.

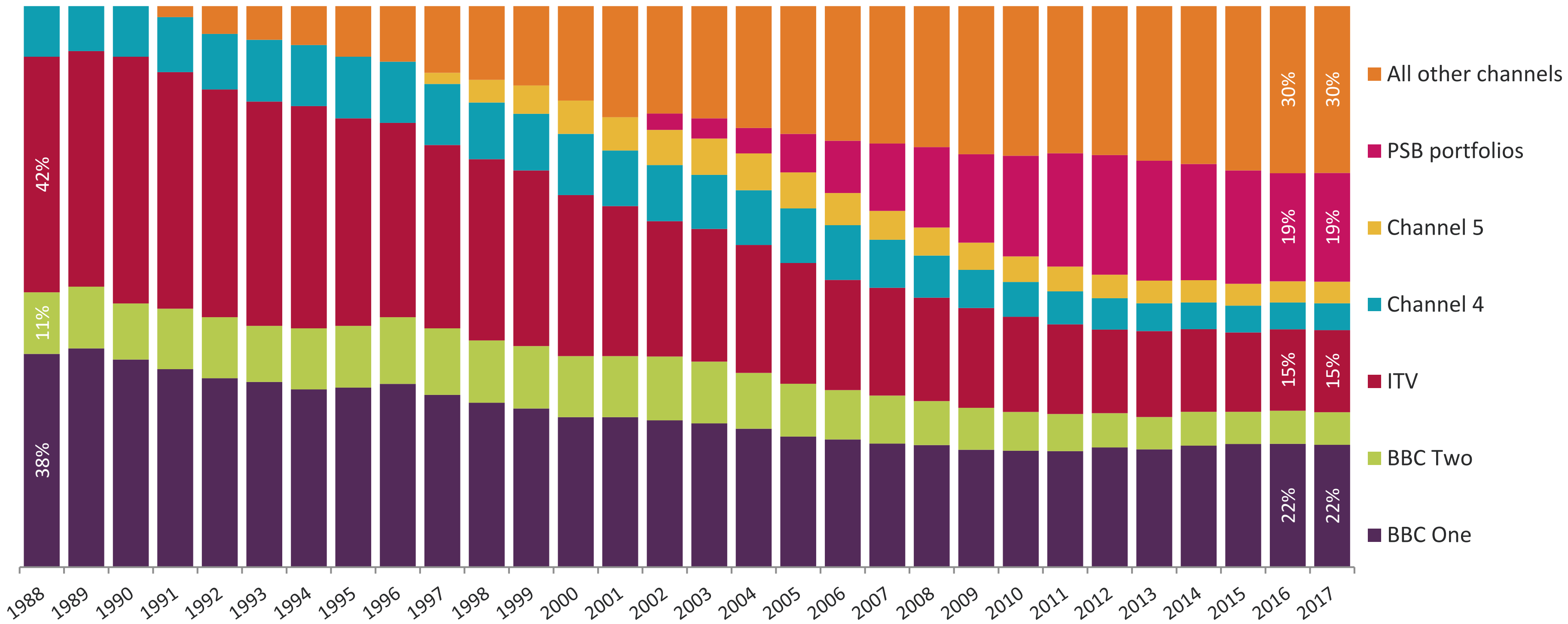
Unmatched viewing increased by seven minutes but was not enough to offset declines in live TV



Source: BARB. All individuals 4+, network, total TV. Average minutes of viewing/day.

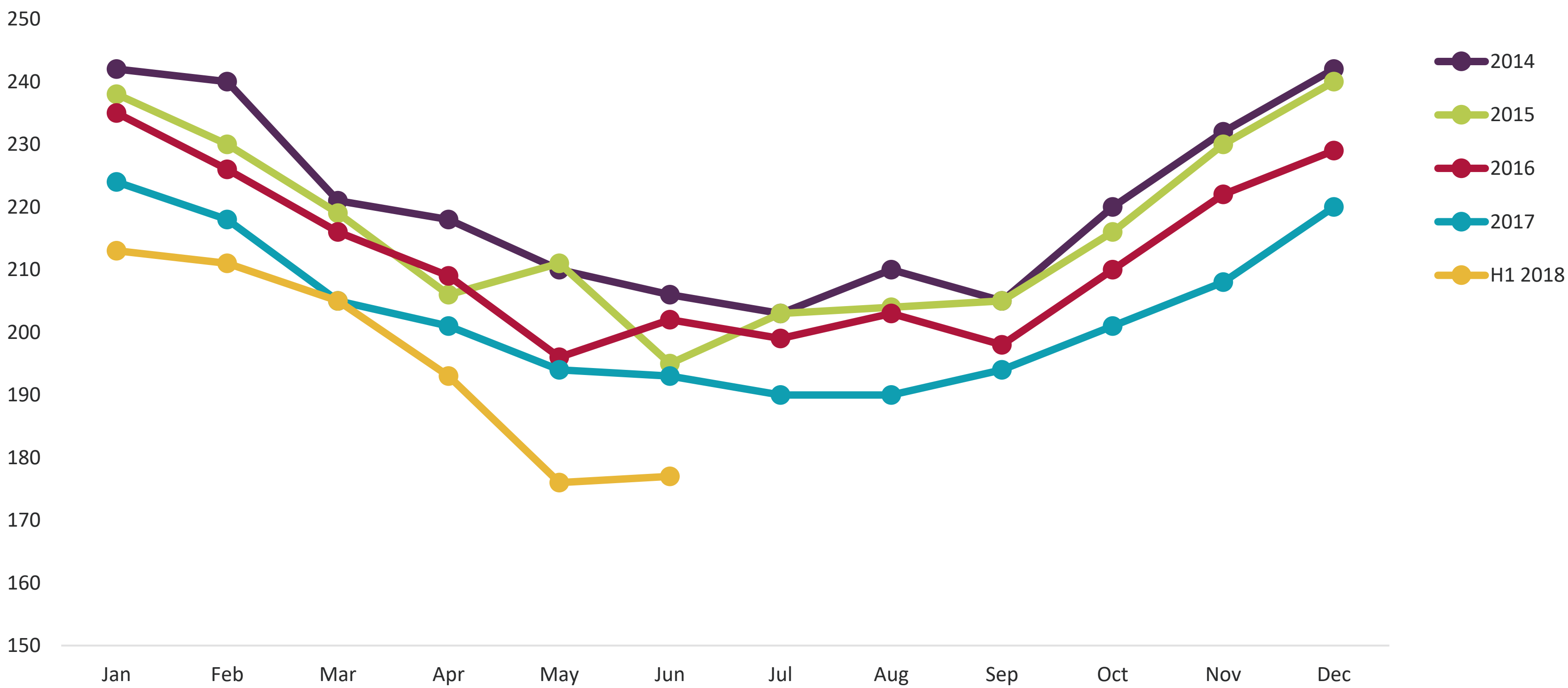
*Note: Unmatched viewing = TV in use but content cannot be audio-matched or otherwise identified. Includes gaming, viewing DVDs/box sets/archives, SVoD, time-shifted viewing beyond 28 days, apps on smart TVs and navigation around EPG guides where there is no in-picture broadcast content. Audio-matched digital radio stations (which accounted for 2 minutes of viewing time per person a day in 2016) are excluded. Unmatched viewing has been reported by BARB since July 2013. Dotted line marks difference between BARB standard industry data and the 8-28 day time-shifted and unmatched viewing.

The five main PSB channels retained the majority of viewing at a stable share for a fifth consecutive year



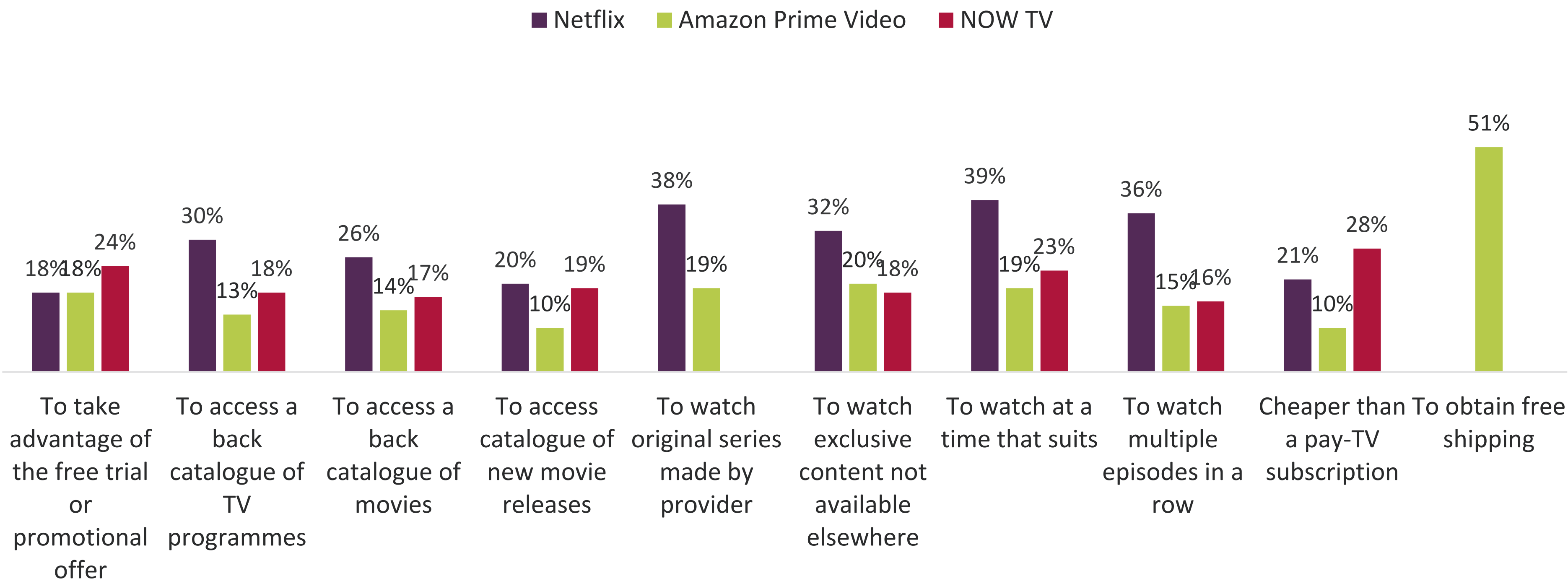
Source: BARB, TAM JICTAR and Ofcom estimates, individuals (4+). Network. New BARB panels introduced in 2002 and 2010, as a result, pre- and post-panel change data must be compared with caution (see dotted lines). Channel 4 includes S4C up to 2009. S4C share 2016 = 0.1%. The main five PSB channels include viewing to their HD channel variants but exclude viewing to their +1 channels.

Despite the 'Beast from the East', World Cup *and Love Island*, TV viewing has declined steeply in 2018 so far

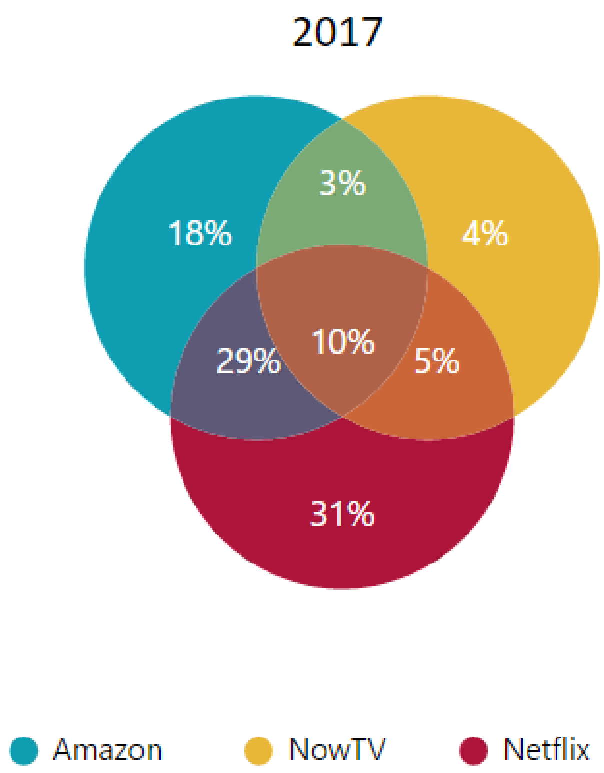


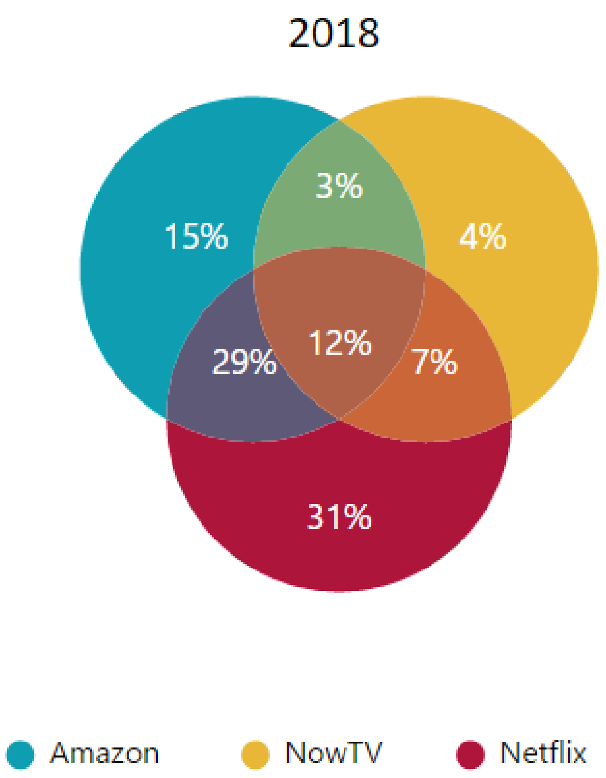
Source: BARB, total TV minutes, consolidated data (including live + 7 days playback on TV set)

Flexibility and content are now greater drivers of SVoD subscriptions, surpassing free trials and promotions



More than half of SVoD users subscribe to more than one service





Source: GfK SVoD Tracker, Q1 2017 and Q1 2018 January-March

Three of the top five shows viewed on SVoD services were original content

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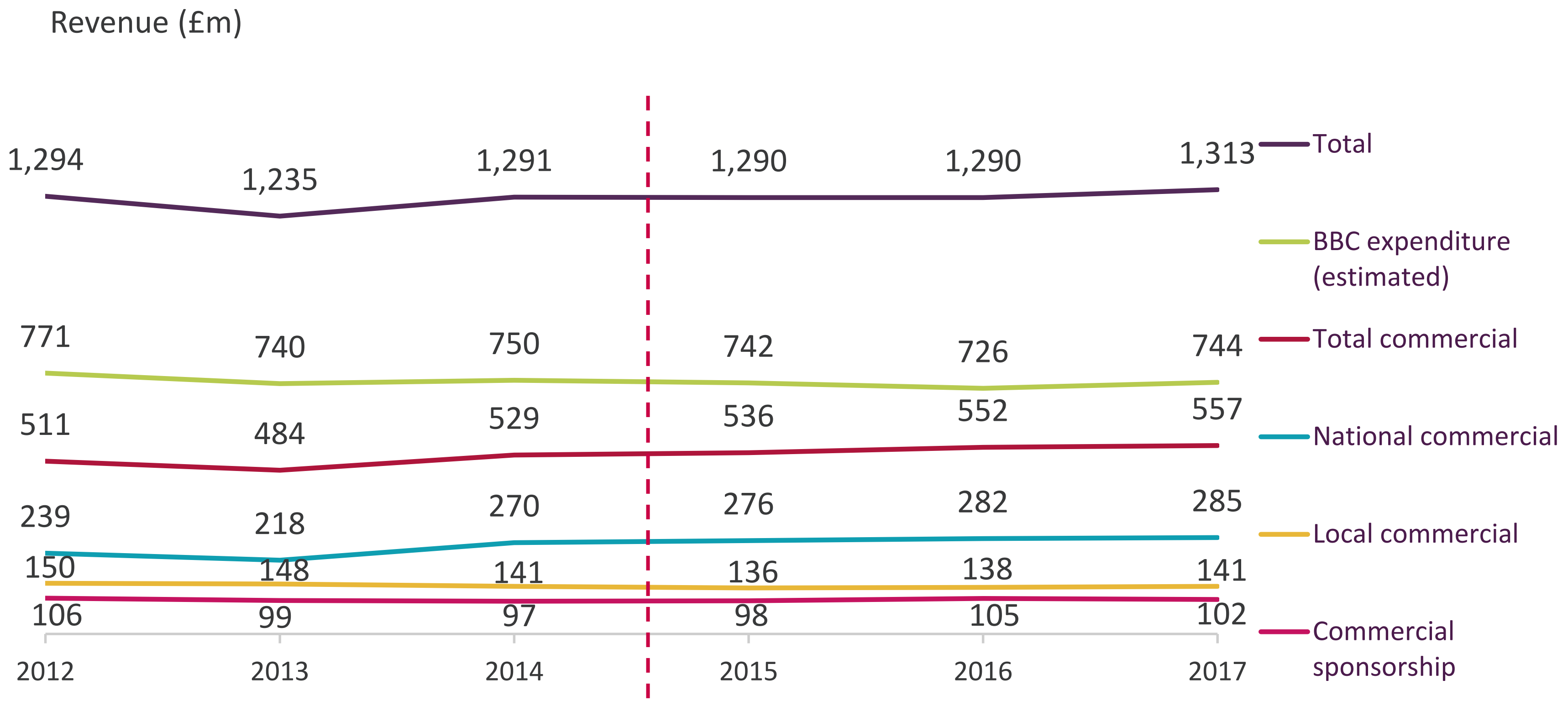
Rank	Programme	Genre	Sub Genre	Commission Type	Service	Origin	Total Streams
1	**Friends**	Comedy	Sitcom	Acquisition	Netflix	USA	1985
2	**The Grand Tour**	Entertainment	Magazine	Original	Amazon	UK	911
3	**The Crown**	Drama	History	Original	Netflix	UK	651
4	**Stranger Things**	Drama	Sci-Fi/Fantasy	Original	Netflix	USA	628
5	**Peaky Blinders**	Drama	Crime	Acquisition	Netflix	UK	519
6	**Black Mirror**	Drama	Sci-Fi/Fantasy	Original	Netflix	UK	504
7	**The Big Bang Theory**	Comedy	Sitcom	Acquisition	Netflix	USA	485
8	**Brooklyn Nine-Nine**	Comedy	Sitcom	Acquisition	Netflix	USA	369
9	**The Good Place**	Comedy	Sci-Fi/Fantasy	Original	Netflix	USA	343
10	**Vikings**	Drama	History & War	Acquisition	Amazon	Ireland/Canada	335
11	**Lucifer**	Drama	Sci-Fi/Fantasy	Acquisition	Amazon	USA	330
12	**Altered Carbon**	Drama	Sci-Fi/Fantasy	Original	Netflix	USA	312
13	**Orange is the New Black**	Drama	Comedy	Original	Netflix	USA	310
14	**Designated Survivor**	Drama	Thriller	Original	Netflix	USA	302
15	**Grey's Anatomy**	Drama	Medical	Acquisition	NOW TV	USA	298
16	**Breaking Bad**	Drama	Crime	Acquisition	Netflix	USA	290
17	**Homeland**	Drama	Crime	Acquisition	Netflix	USA	288
18	**Paw Patrol**	Animation	Children's	Acquisition	Netflix	Canada	278
19	**Riverdale**	Drama	Mystery	Acquisition	NOW TV	USA	256
20	**Peppa Pig**	Animation	Children's	Acquisition	Netflix/Amazon	UK	244

Source: GfK Programme data, Q1 2018 January – March

Notes: All users of Netflix, Amazon Prime Video and NOW TV at least once a fortnight. Rankings are based on total streams

Radio

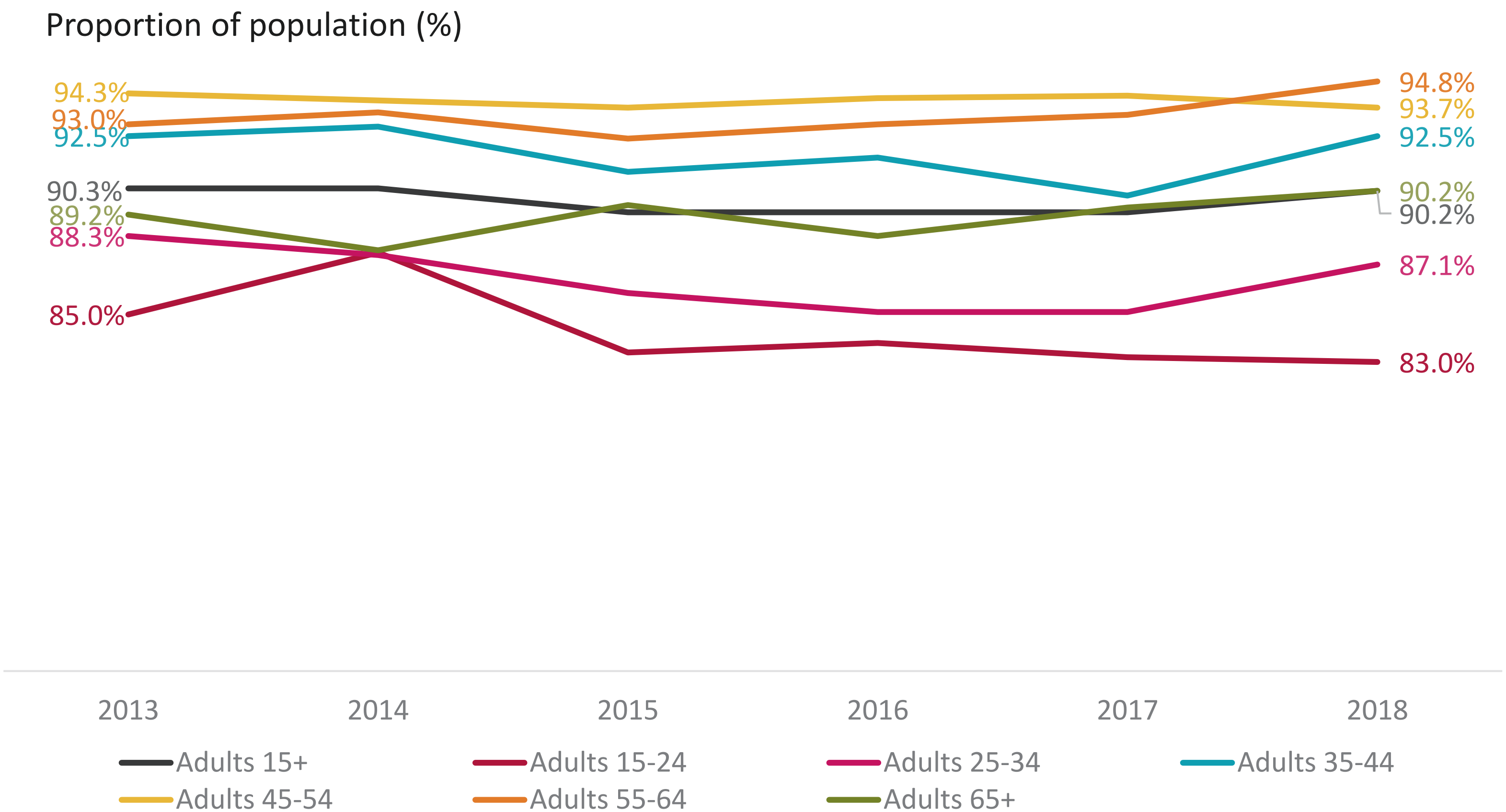
Radio revenue was up to £1.3bn



Source: Ofcom / operator data / BBC Annual Report 2012-2017

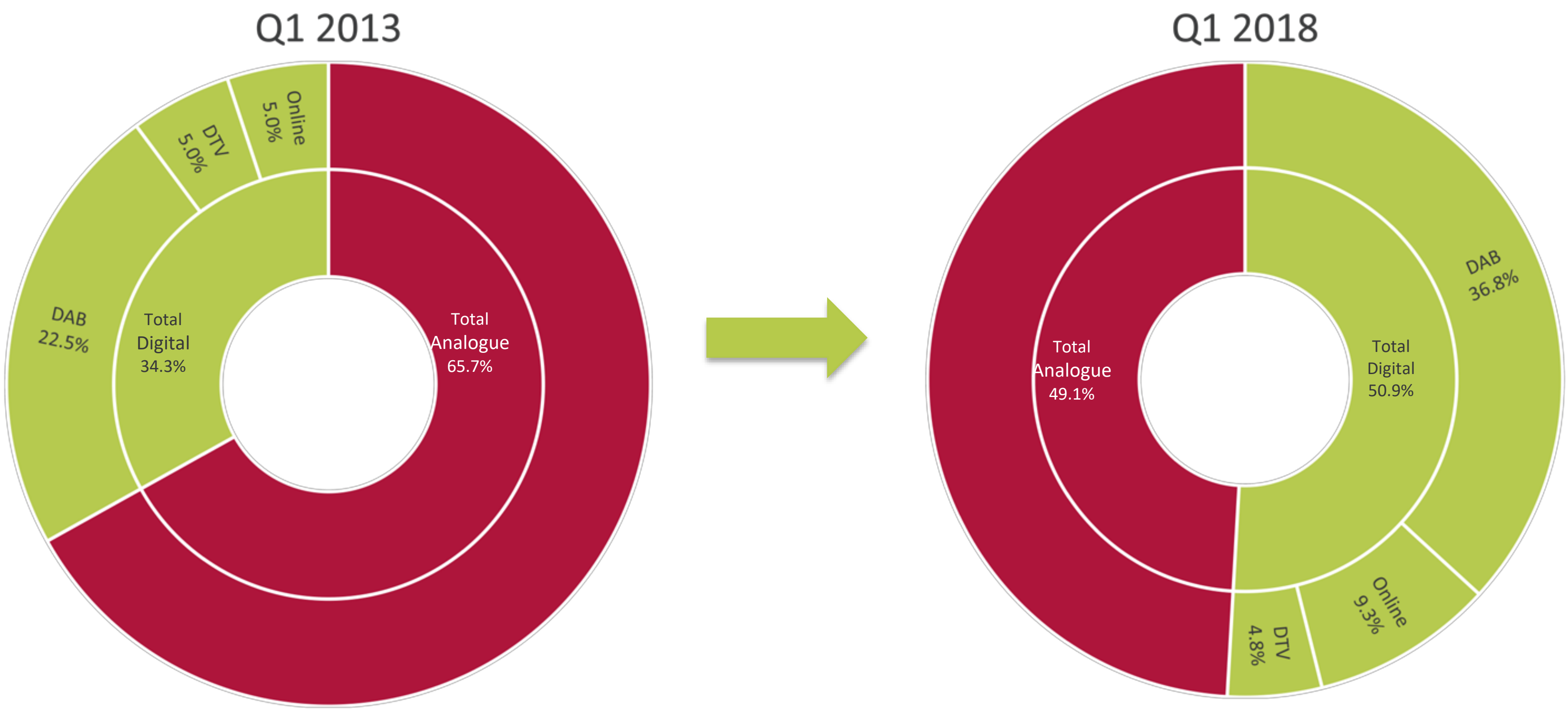
Note: BBC expenditure figures are estimated by Ofcom based on figures from the BBC Annual Report (www.bbc.co.uk/annualreport)

Reach of radio was stable again with nine out of ten people tuning in every week



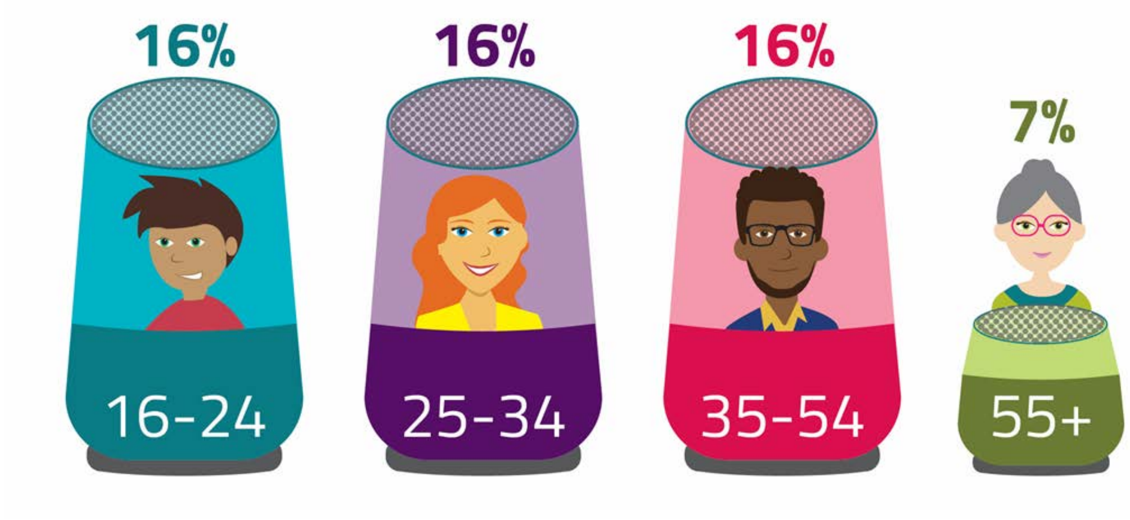
Source: RAJAR, All adults (15+), 12 months to Q1 of each year

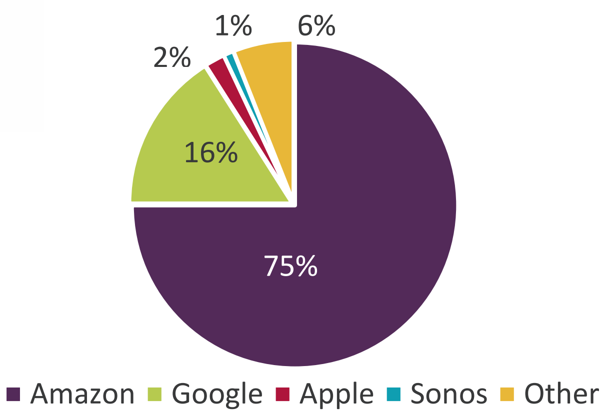
Digital accounted for the majority of radio listening for the first time in Q1 2018



Source: RAJAR; Share of total radio hours

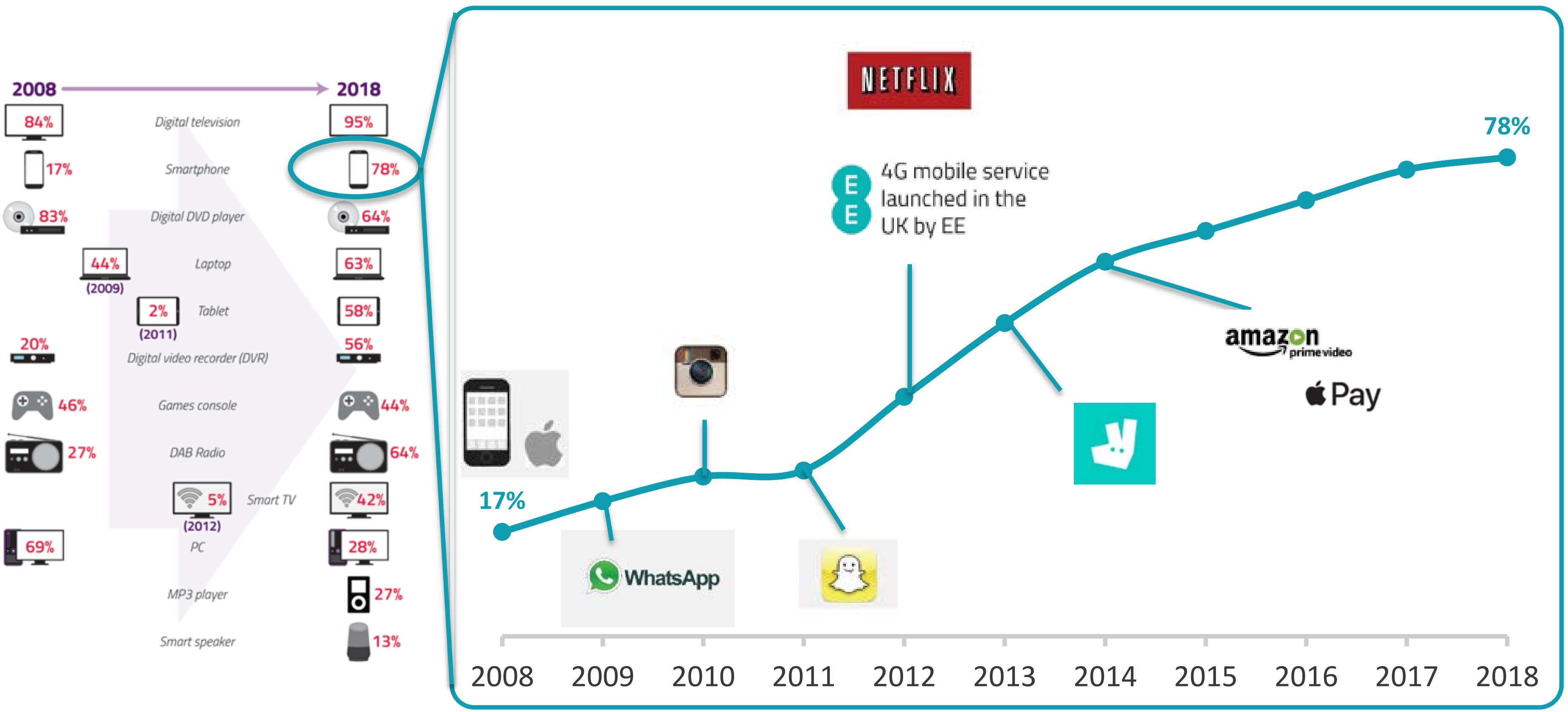
One in eight households had a smart speaker in 2018





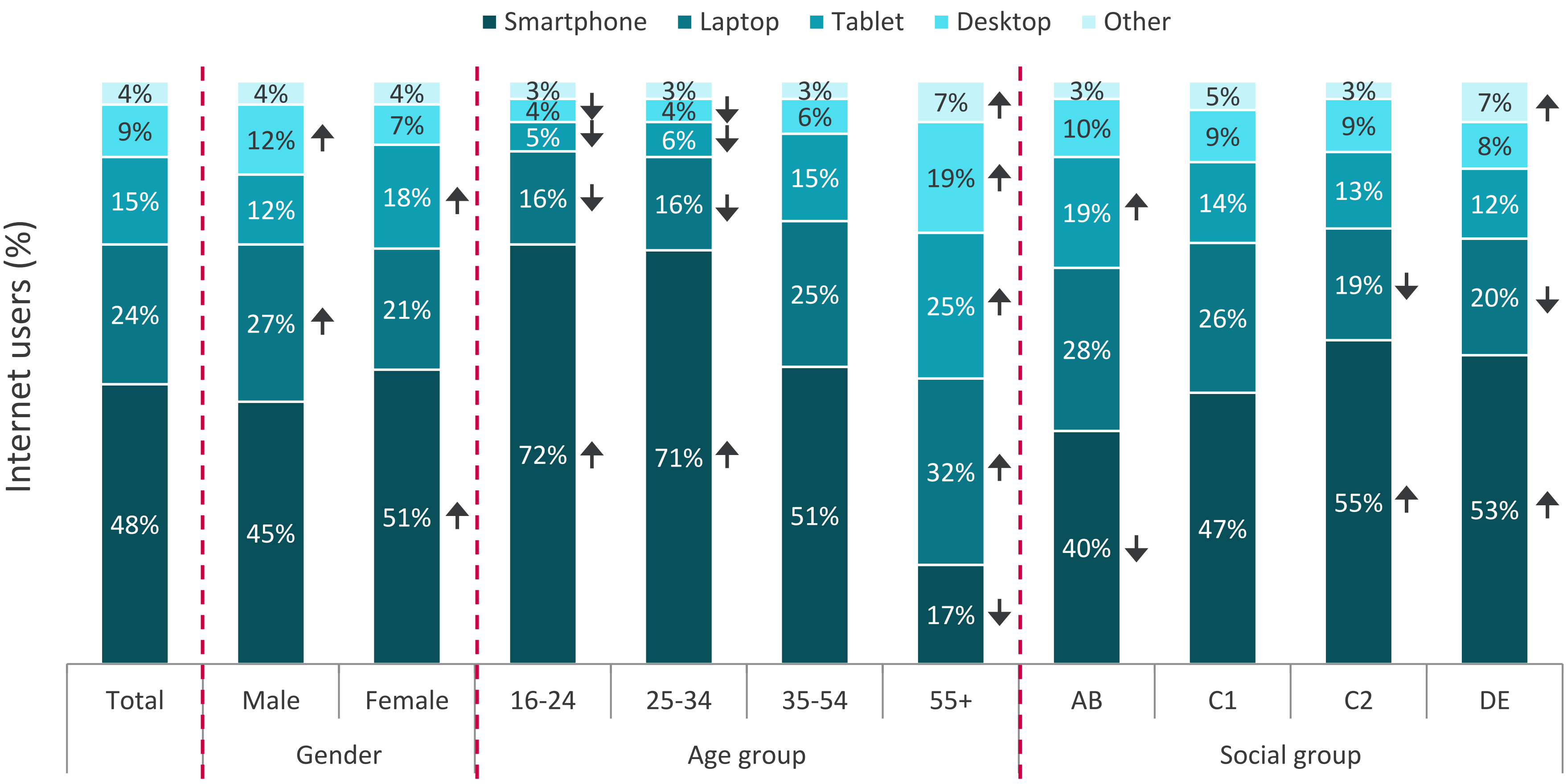
Internet and online content

The smartphone was most popular connected device in a transformative decade for the communications sector



Source: Ofcom Technology Tracker, H1 2018

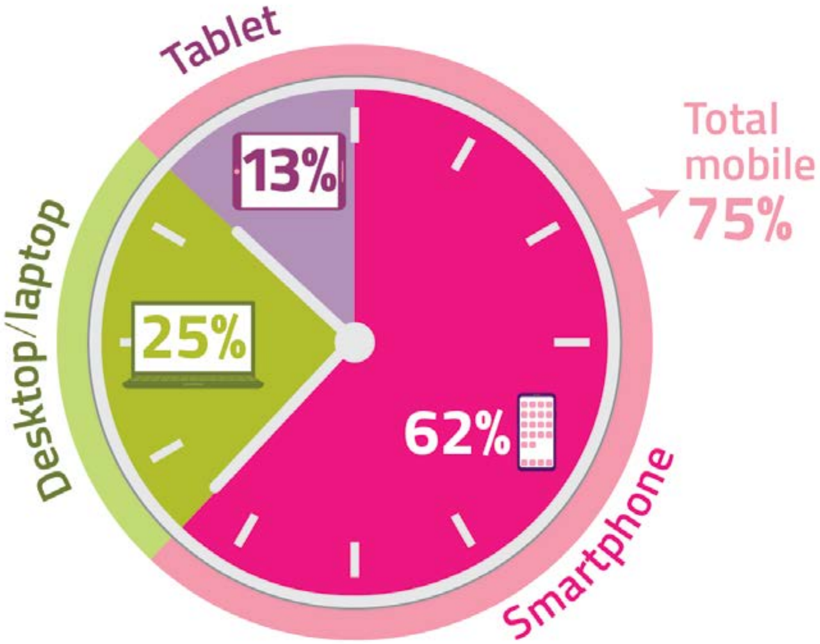
It was also the most important device for accessing the internet in 2018



Source: Ofcom Technology Tracker, Half 1 2018
Base: All adults aged 16+ who use the internet at home or elsewhere (n = 3280 UK).
Significance testing: Arrows indicate any significant differences at the 95% confidence level between males and females, between UK 2018 and each age group and between UK 2018 and each socio-economic group.
QE11 (QE40): Which is the most important device you use to connect to the internet, at home or elsewhere? “Other” responses include: “Netbook”, “Games console”, “E-reader”, “TV set”, “Smart watch”, “Other portable/handheld device”, “Other device”, “None” and “don’t know”.

The UK's digital audience spent 62% of total minutes online on their smartphone in 2018

Share of total minutes, 18+



Google and Facebook topped properties visited, but BBC claimed third spot for the first time in 2018

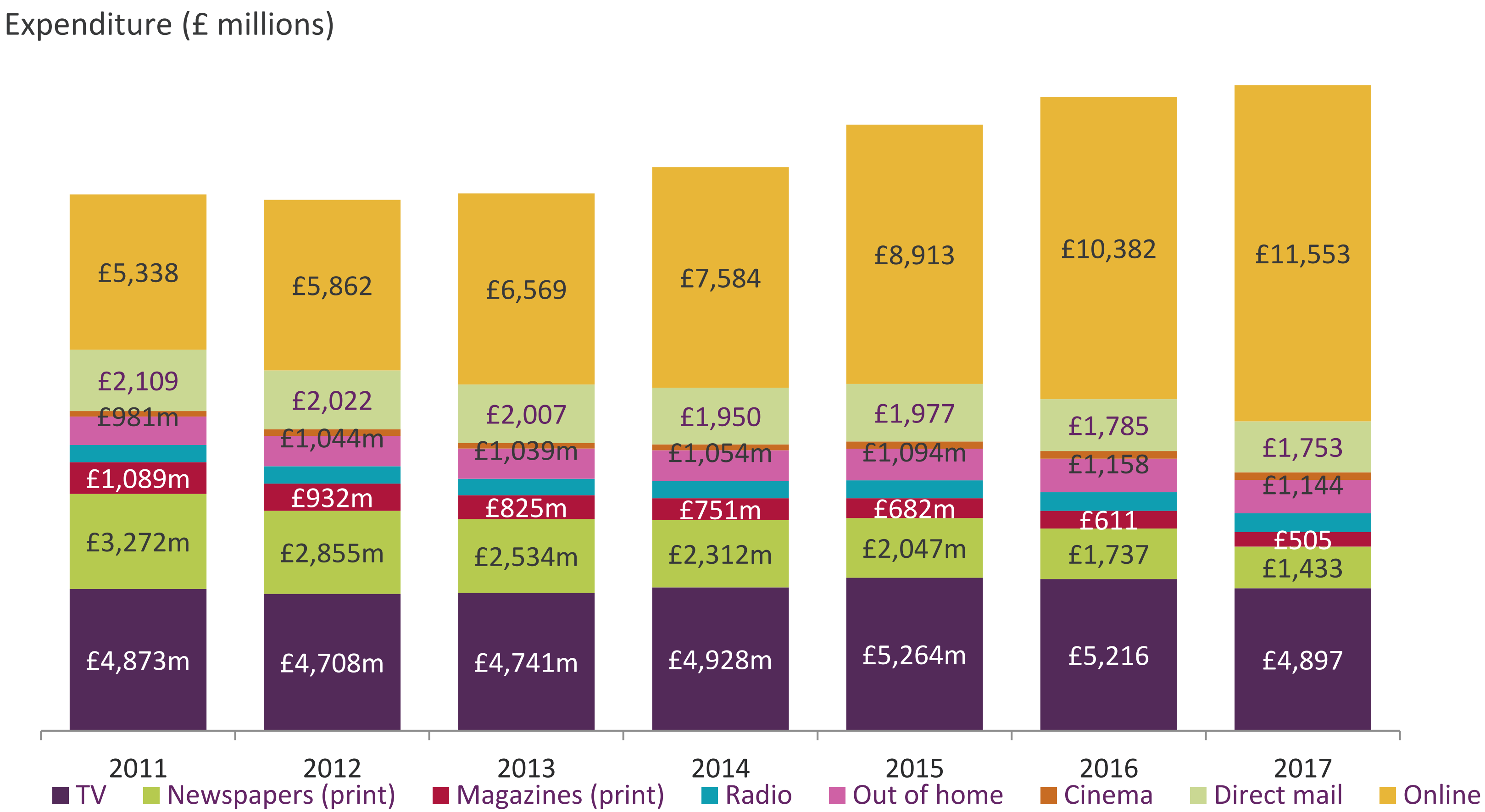
Average time spent per person per month

<100 mins | 100-300 mins | >300 mins

	2016		2017		2018	
Rank	Property	Reach	Property	Reach	Property	Reach
1	Google Sites	98%	Google Sites	98%	Google Sites	99%
2	Facebook	87%	Facebook	91%	Facebook	95%
3	Amazon Sites	82%	Microsoft Sites	87%	BBC Sites	93%
4	Microsoft Sites	82%	BBC Sites	87%	Amazon Sites	89%
5	BBC Sites	81%	Amazon Sites	85%	Microsoft Sites	87%
6	Yahoo Sites	72%	Trinity Mirror Group	73%	Oath	81%
7	eBay	69%	eBay	71%	Sky Sites	73%
8	Sky Sites	65%	Mail Online/Daily Mail	70%	Trinity Mirror Group	71%
9	Trinity Mirror Group	64%	Yahoo Sites	69%	News UK Sites	71%
10	Mail Online/Daily Mail	63%	Sky Sites	67%	eBay	69%

Source: comScore MMX, UK, Multi-Platform, desktop and mobile, Top ten properties [P], persons: 18+, March 2016-2018

Internet advertising spend was more than double that of TV in 2017



Source: AA/Warc Expenditure Report, April 2017 making communications work for everyone

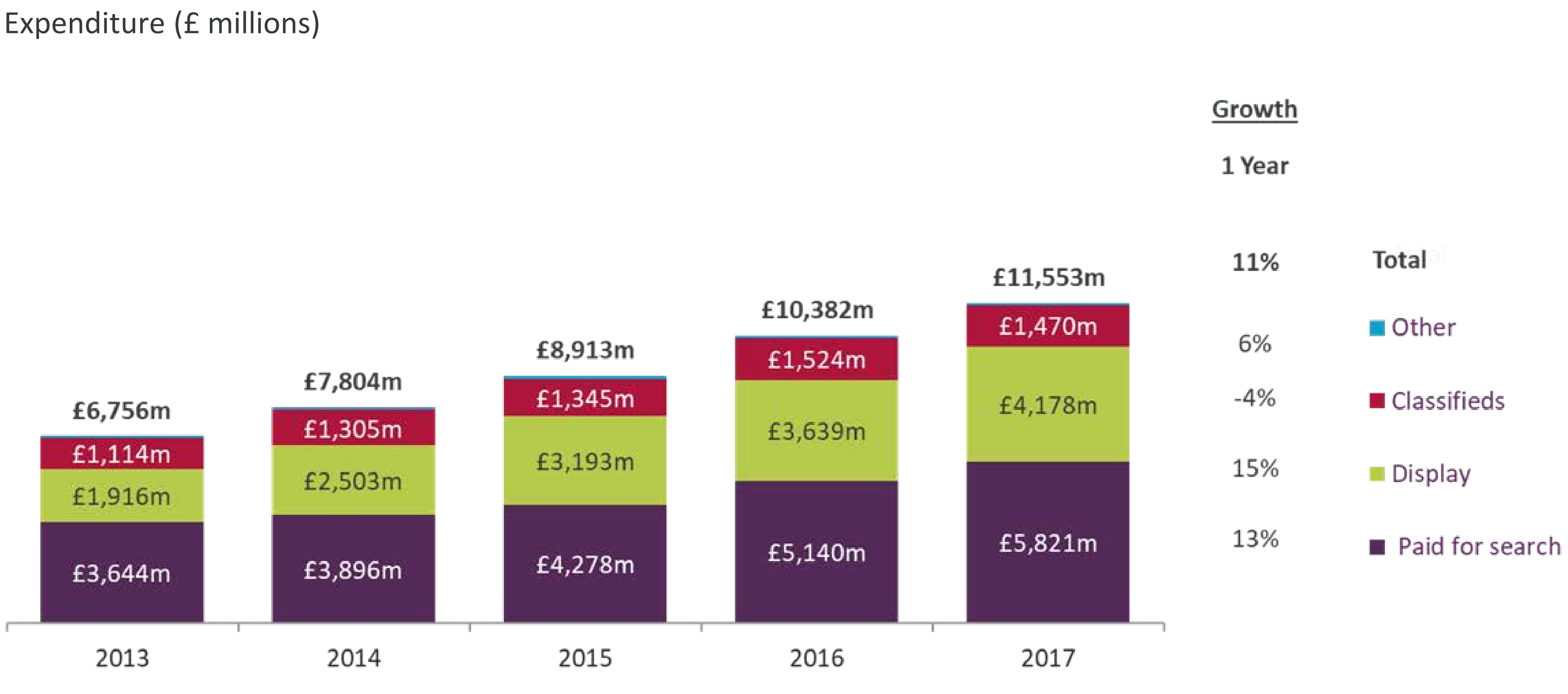
Mobile accounted for 45% of all digital advertising and drove all growth in 2017

Expenditure (£ billions)

	Annual change	5 year CAGR
Total	**11.3%**	**13.9%**
Mobile	33.8%	55.8%
Desktop	-2.2%	3.0%

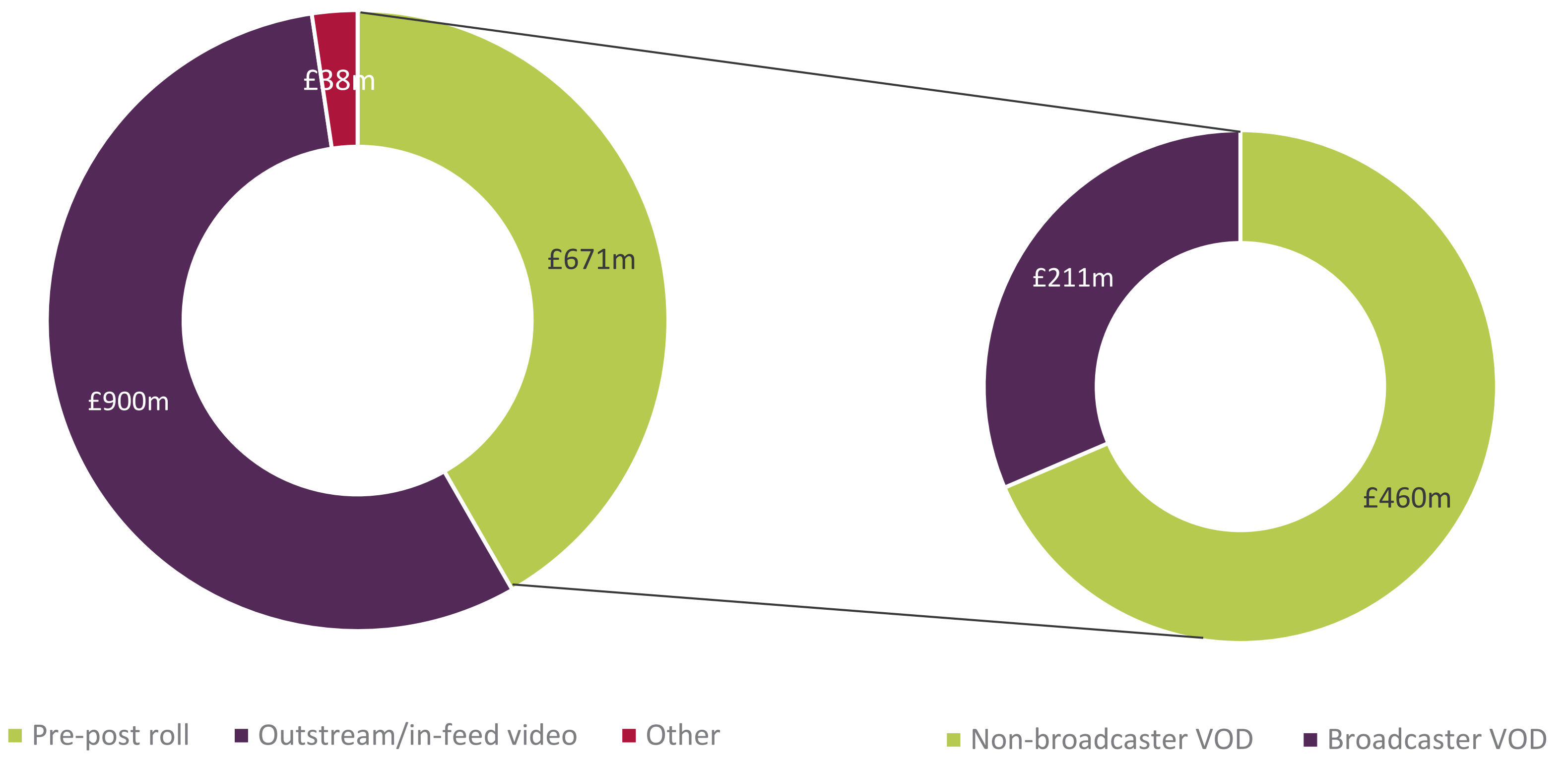
Source: IAB / PwC Digital Adspend Study 2017

Paid-for-search continued to be the largest format



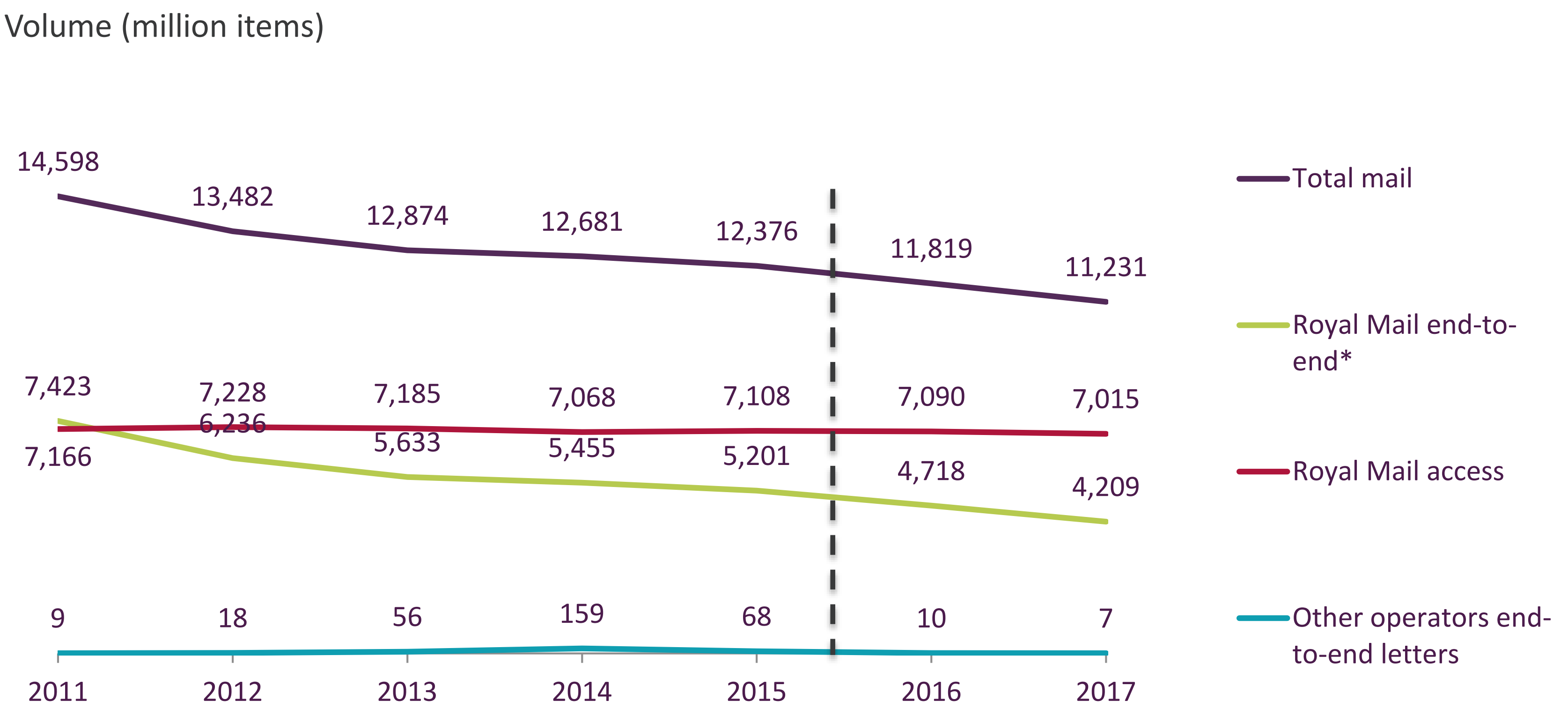
Source: IAB / PwC Digital Adspend Study 2017

Online video ad spend surged in 2017 with broadcasters claiming a 31% share of pre/post roll video



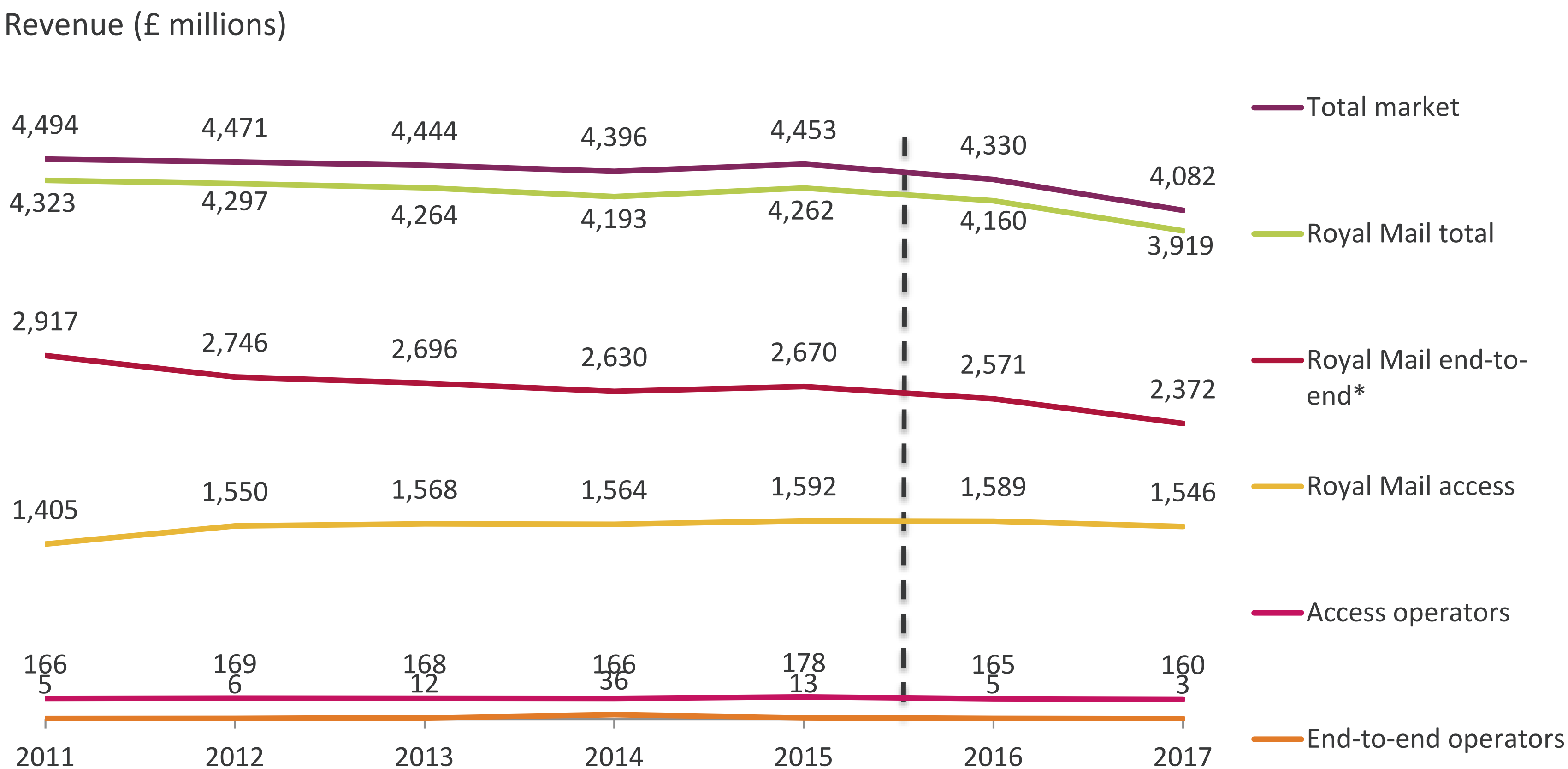
Post

Addressed letters volumes continue to decline due to falls in end-to-end



Source: Royal Mail Regulatory Financial Statements, operator returns to Ofcom, Ofcom estimates. *Royal Mail end-to-end is an Ofcom calculation and refers to Royal Mail total letters volumes excepting access.

Addressed letters revenues decline accelerated



Source: Royal Mail Regulatory Financial Statements, operator returns to Ofcom, Ofcom estimates. Figures are adjusted for CPI (2017 prices).

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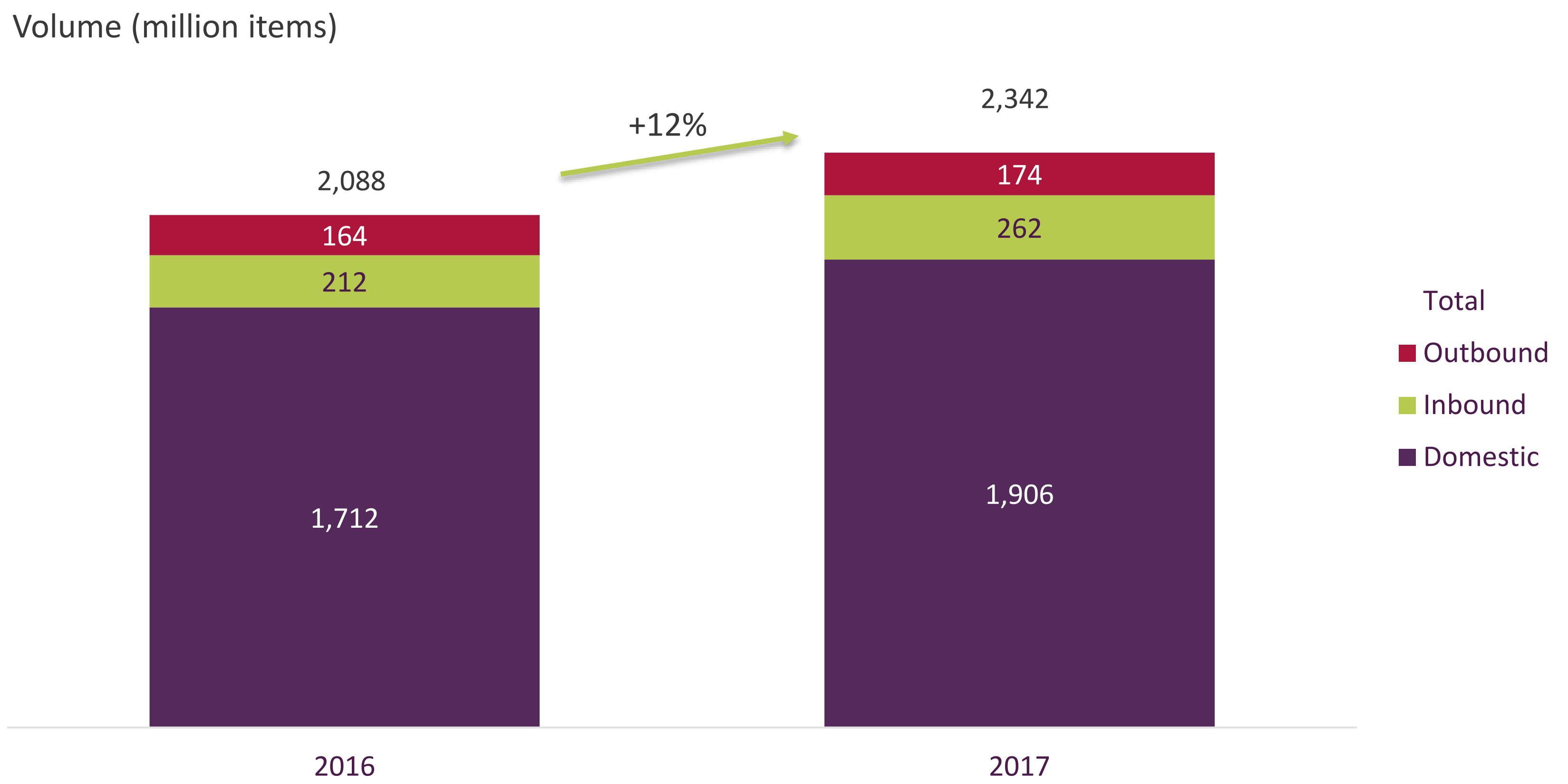
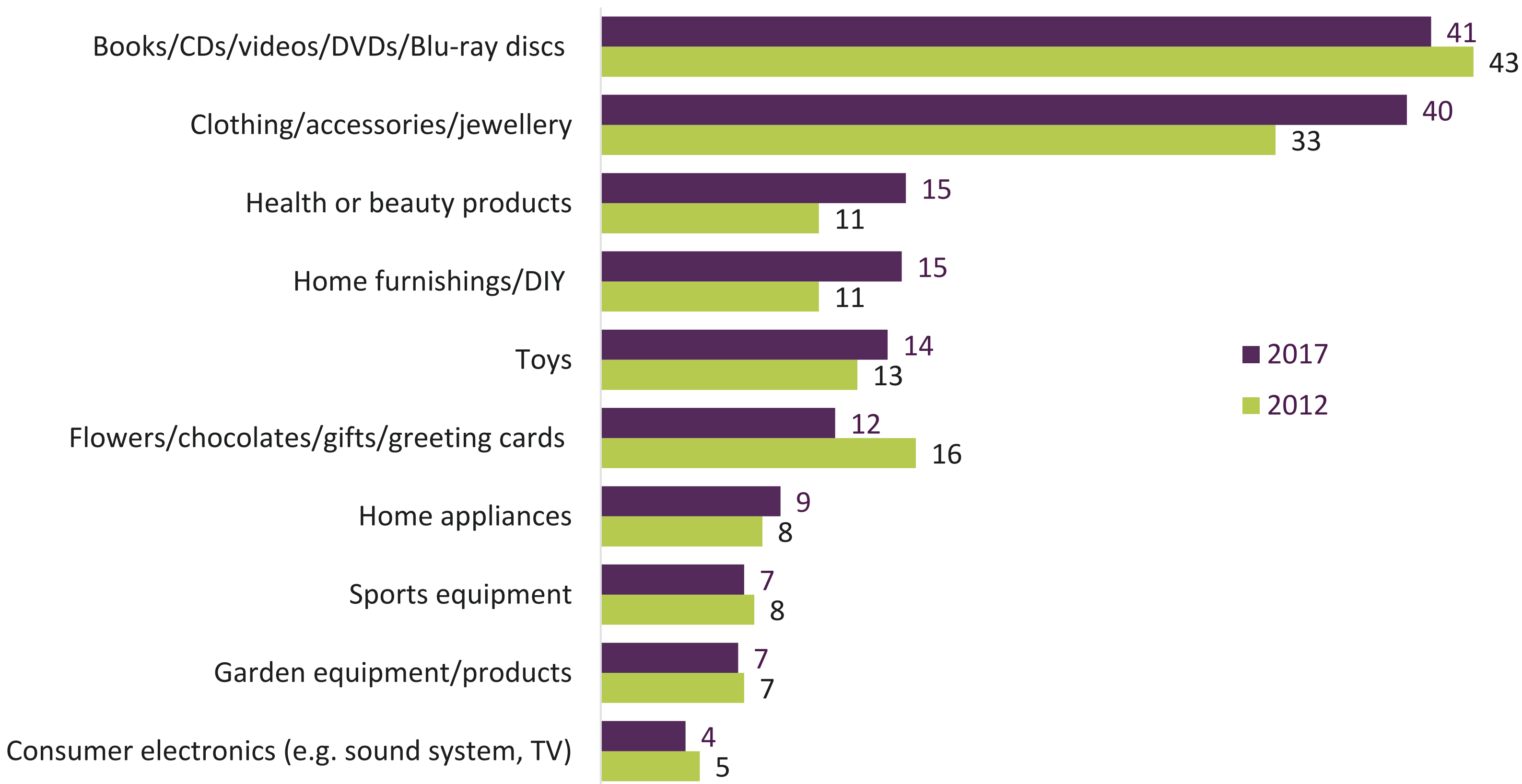
Parcel volumes were up 12% in 2017



Source: Operator returns / Ofcom estimates.

This was partly due to the rise in online purchases

GB adults (%)

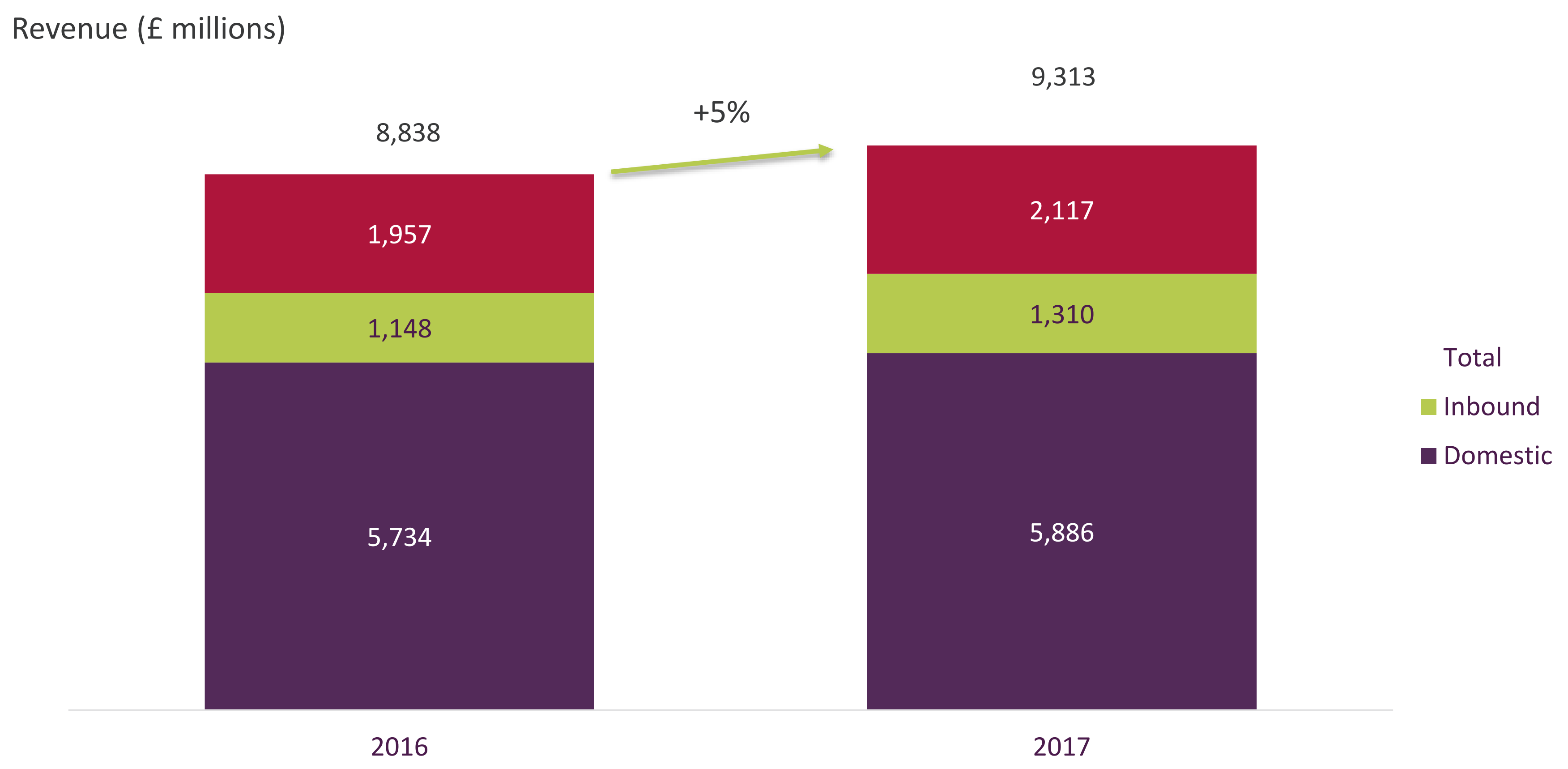


Source: IPA Touchpoints 4 (2012) and IPA Touchpoints 2017

Base: All GB adults

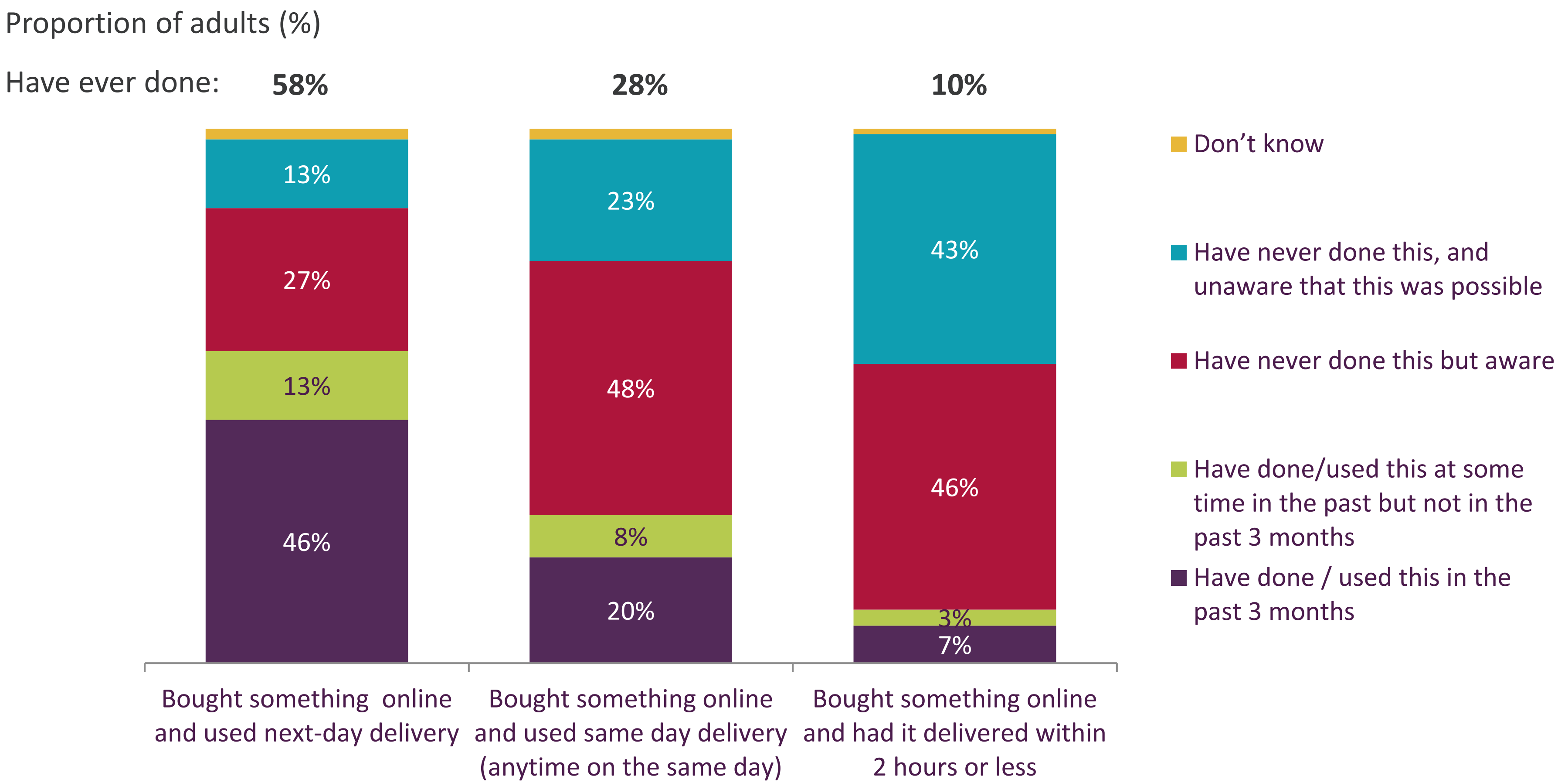
SH15b: Which of these items have you purchased online in the past 6 months?

Parcel revenues grew at a slower rate than volumes due to competitive pricing and mix of parcel sizes



Source: Operator returns / Ofcom estimates. Figures are in real terms, adjusted for CPI by Ofcom on 2017 prices.

More than half of UK consumers used next day delivery in 2018, with one in ten within 2 hour delivery



Source: Ofcom research, fieldwork May 2018

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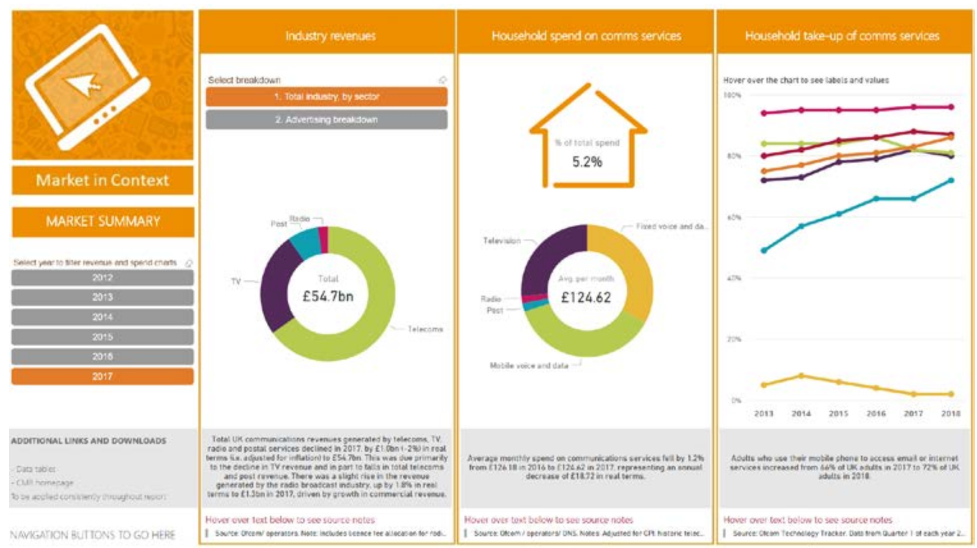
Interactive report – demo



A one-stop shop for key metrics from Ofcom's flagship publications including the *Media Nations Report, Connected Nations Report, Technology Tracker and Media Use and Attitudes*

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Questions?