



International Communications Market Report 2011

2 Comparative international pricing

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2.1 Comparative international pricing

2.1.1 Introduction

Elsewhere in this report we benchmark the UK against other countries in terms of the availability, take-up and use of services, and the revenue generated from these services. However, when comparing markets for communications services across the world, the metric that is most important to the largest number of consumers is price.

It is extremely difficult to provide meaningful international comparisons due to tariff complexity, the wide range of usage profiles across households within countries, large variation in 'average' use between countries, the increasing bundling of services (where more than one service is offered on a single bill from the same provider), and variations in installation and hardware costs.

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

2.1.2 Methodology

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

We constructed five 'typical' household types, which collectively may be seen as representative of the average population across our countries, and defined a basket of communications services (fixed-line voice and broadband, mobile voice, messaging, broadband and TV) appropriate for each household type (Figure 2.1).

In order to address potential bias arising because our baskets are more closely aligned with the usage profiles of some countries than of others, we have adjusted the overall average use, across the five baskets, to ensure that it closely matches average use across the six countries.

Figure 2.1 Summary of 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
5	An affluent two person household	Low	High	Medium	High	Medium	HD premium pay-TV

Source: Ofcom

- We included a wide range of components within the baskets to make them represent as accurately as possible the actual 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 by time of day (day, evening, weekend). Non-geographic calls were excluded from the analysis.
 - 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.
 - Broadband components were defined both by minimum headline speed and by minimum data/time online 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.
- The average monthly use across the baskets was adjusted to ensure that it was closely aligned with average use in households across the six countries.
- Mobile 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 wireless router), but seek to recoup the cost of these devices through subscriptions and service payments across the life of a contract. For similar reasons, we included connection and/or installation costs.
- In July 2011, 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 that were published on the websites of the operators were included (i.e. excluding bespoke tariffs that are offered only to certain customers).
- Across the six countries, the tariff data comprised:
 - fixed voice: 613 tariff options;
 - fixed broadband: 282 tariff options;
 - mobile: 3,475 tariff options;
 - mobile broadband: 347 tariff options;

- television: 367 tariff options; and
- multi-play bundles: 1,404 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 on 1 July 2011.

Analysis

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

The first ('average single service' pricing) illustrates the price of each individual service, as defined by the average of the lowest-price tariffs offered by the three largest operators that provide the service in each country, weighted by the market share of the service provider in order to ensure fair representation. Essentially, we assume that consumers have a restricted number of choices, and can only obtain their desired combination of services from stand-alone offers. This provides a useful comparison of the relative costs of communications services, although a limitation of this analysis is that some providers do not offer stand-alone services: for example, in the UK, TalkTalk markets broadband only to its fixed voice subscribers.

The second type of analysis ('best-offer' pricing) identifies the lowest price that a consumer could pay for this basket of services, including, where appropriate, purchasing 'bundled' services. Our view is that this type of analysis is essential in order to provide a true picture of the position of consumers in each market, since they increasingly buy multiple services from single operators. Examples in the UK are Sky's TV, broadband and talk 'triple-play' offer, and Virgin's 'quad-play' offer that includes TV, voice, broadband and mobile. 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 - which is only possible when looking at single-service pricing.

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 systematic and rational consumer who has a full understanding of his or her usage requirements and is prepared to shop around and undertake some often quite complex calculations to identify the tariff which offers the best value. In reality, few consumers act in this way and will 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. It should be noted, however, that alternative measures of consumer choice and the competitive

environment are the complexity of tariff structures (a large range of tariffs is generally beneficial to consumers as it indicates that consumers have choice and are more likely to find an option which meets their needs; but the complexity of tariffs may make it more difficult to compare prices and select the optimal tariff), and the ease of switching to an appropriate tariff.

- In looking only at tariffs offered by the largest operators in each country, lower prices which might be available from smaller operators seeking to disrupt markets are not included, purely for practical reasons. Nevertheless, we believe that using the prices of the largest operators is appropriate, both because they are the best reflection of the general consumer experience and because their pricing both defines and is defined by the competitive environment in which they operate.
- Although we have been as comprehensive as possible, tariffs are often highly complicated and there are some components that we have been unable to incorporate into our model; for example, benefits which are available only to certain types of consumers, such as *BT Basic* which offers lower-price line rental to consumers on income support, and levels of customer service.
- 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 are 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 a wide variation in the types of TV content.
- For television services in some countries there are only two operators (or only one, for some premium TV offerings) with nationwide coverage 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).
- 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 2011 and applied it to 2010 data. This means that there may be some distortions in the relative positions of countries compared to the findings in 2010. The prices quoted are in nominal terms.

Report structure

We start the analysis in this section of the report by summarising the ‘best offer’ pricing for our baskets across the six countries covered in this section of the report. This includes analysis of the lowest-cost pricing for single-service offers (where each service element of our baskets is purchased on a standalone basis) and also the ‘best prices’ available when ‘multi-play’ bundled tariffs are also considered.

We then go on to look 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 purchased on a standalone basis, and the ‘weighted average’ single-service cost across the largest operators in each market.

Finally, 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 Summary of ‘best price’ analysis’

Bundles usual provide the lowest prices when purchasing fixed broadband

In 2011 the least expensive option for purchasing Baskets 2, 4 and 5 (which all include a fixed broadband connection) involved purchasing multiple services in a ‘bundle’ (rather than buying each service on a standalone basis) in all of our comparator countries, the only exceptions being for Baskets 2 and 5 in the US (Figure 2.2).

For Baskets 1 and 3 (which do not include a fixed broadband connection) the ‘best offer’ combination of services to fulfil each basket involved purchasing stand-alone services except for Basket 1 in Germany and Italy, where the cheapest combination of services included buying a fixed voice and fixed broadband ‘dual-play’ bundle, even though this basket does not require a fixed broadband connection.

Prices in the UK are among the lowest across the six countries covered

Prices in the UK were among the lowest across the countries covered by the research: including the licence fee, the lowest ‘best-offer’ prices for three of our five baskets (Baskets 2, 3 and 5) were found in the UK, as were the second-lowest ‘best offer’ prices for the remaining two baskets.

The lowest price available in the UK for Basket 2 (which includes a basic broadband connection, a fixed voice line and two mobile phones with low use) was £42 (Figure 2.2) This involved purchasing a bundled tariff which includes ‘unlimited’ broadband access at a speed of ‘up to’ 20Mbit/s, line rental with inclusive anytime calls to UK geographic numbers at a price which can only be obtained when taking a mobile service from the same supplier, and an additional international call bolt-on. This combination of services cost more than £5 a month less than the lowest price achievable by purchasing all the services separately (see Figure 2.3), and the operator in question also offers discounts to broadband consumers taking a pay-monthly mobile contract, although the low use of the mobile in Basket 2 meant that there was no benefit to this, and the lowest price is achieved by purchasing separate pay-as-you-go mobile services.

For Basket 4, which includes basic pay-TV, the lowest price available in the UK involved purchasing a ‘fixed line and fixed broadband dual-play’ bundle (as was the case in Italy and the US) plus three call bolt-ons and separate pay-TV and mobile services. This was not the case in Germany and Spain, where the cheapest option was a triple-play of fixed line, fixed broadband and pay-TV, or in France where the lowest price was achieved by purchasing a quad-play service which also included mobile services. The greatest savings compared to purchasing the lowest price stand-alone services were in France, where consumers can save £72 a month by bundling services (in the UK, the saving was £4 a month).

Basket 5 includes HD premium pay-TV services (top-league domestic football and a top-price film/entertainment package). In the UK and Italy, the lowest price available for these was achieved by purchasing a ‘triple-play’ bundle, whereas in France, Germany and Spain the lowest prices were achieved by purchasing a ‘dual-play’ voice and broadband service, with television purchased separately from a different supplier.

The US is the only country where bundling fixed broadband did not lead to savings

In the US, for Baskets 2 and 5 there were no savings available by purchasing services in ‘bundles’ rather than purchasing the lowest-price single services (Figure 2.3). This is likely to be the consequence of less diversification in local markets, with the incumbent provider and the local cable operator typically competing in a duopoly to serve voice, broadband and TV services to customers. In this environment, the bundling of ‘free’ broadband with voice

and/or TV is value-destroying for operators who generally view voice, broadband and TV as three separate revenue streams.

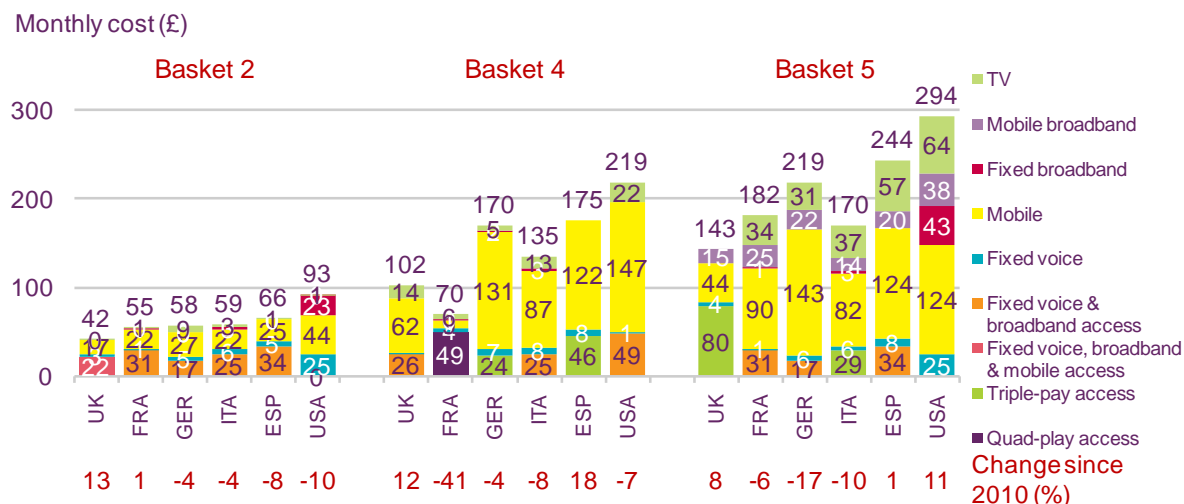
This is not the case in Europe, where local loop unbundling (LLU) and wholesale line rental (WLR) with regulated prices have led to competitive markets where alternative network operators attempt to gain market share by launching bundled services, and incumbents have responded by doing likewise.

There is evidence that ‘best prices’ in the UK are increasing

In France, Germany, Italy and the US, the best prices for most of these baskets have fallen since 2010. However, the lowest prices for all three baskets increased in the UK, with the greatest increase for the lowest-use basket, Basket 2.

For Baskets 2 and 4, among the European countries the UK has the smallest difference between the best prices available via bundled services and via stand-alone services, indicating that there are fewer potential savings from purchasing bundled services.

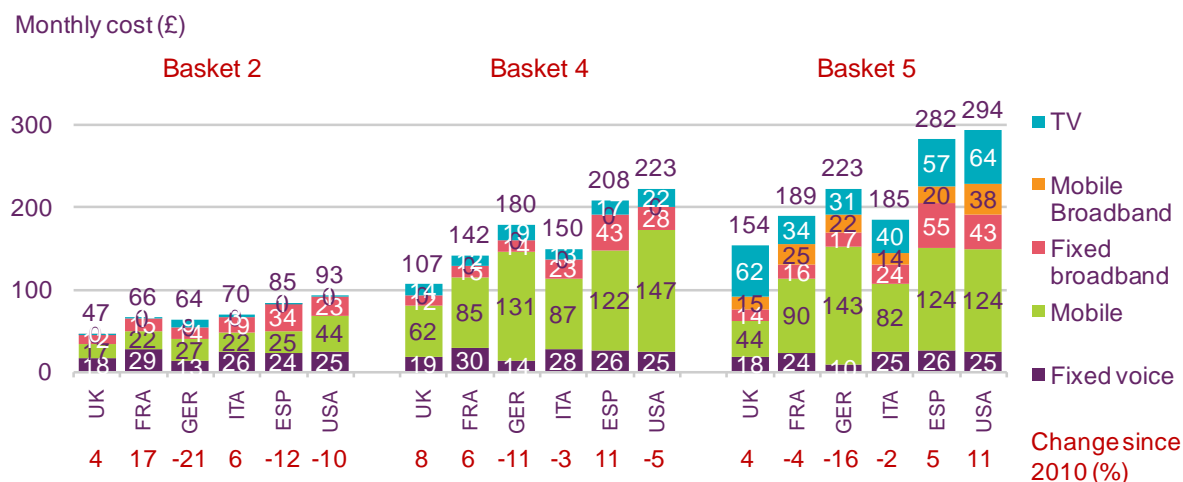
Figure 2.2 Best prices available for baskets with a fixed broadband connection, including multi-play offers



Source: Ofcom, using data supplied by Teligen

Note: Lowest tariffs available including multi-play from any of the three largest operators by market share for each service in each country, July 2010 and July 2011; PPP adjusted; TV excludes licence fee; where a service is included in a bundle any additional usage charges are recorded separately against the relevant service

Figure 2.3 Best stand-alone service prices available for baskets with a fixed broadband connection



Source: Ofcom, using data supplied by Teligen

Note: Lowest tariff available from any of the largest operators by market share for each service in each country, July 2010 and July 2011; PPP adjusted; TV excludes licence fee; where a service is included in a bundle any additional usage charges are recorded separately against the relevant service

2.1.4 Fixed voice summary

The UK has the lowest weighted average fixed voice prices for all four usage profiles

Figure 2.4 and Figure 2.5 below look at the costs of the fixed-line voice components of those baskets which include a fixed-line phone, based on the price of standalone services (i.e. not purchased in a bundle with other services).

In 2011 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 that include fixed voice services (Figure 2.4). However, part of the reason for this is the introduction of BT's *Line Rental Saver* product, which enables customers to make savings on their line rental by paying £120 a year upfront rather than the £13.90 a month fee; this results in a saving of £3.90 a month. The inclusion of this tariff means that average best-value tariffs fell for all four of these baskets in the UK between July 2010 and July 2011, by an average of 5%; if this tariff were excluded, the weighted average price would have increased by 7%, although the UK would still have lower prices for all baskets than any other country (BT has the most impact on the weighted average pricing, with a 57% market share).

The availability of call 'bolt-ons' is key in A feature of the UK (and other markets) is that even basic line rental usually includes some inclusive calls, and many consumers can further reduce their spend by purchasing 'add-ons' to basic line rental; these provide reduced or inclusive calls for certain call types in return for a fixed monthly payment. All UK operators included in the analysis follow a similar strategy, offering basic line rental prices at around £12-14 and a range of 'add-ons' comprising discounted or lower price calls for a fixed monthly payment. This results in a wide range of tariffs being available to UK consumers, but also increases complexity and the likelihood that consumers may select tariffs that are not the best match for their needs (our fixed voice analysis includes 176 tariff combinations in the UK, 155 in Germany, 117 in the US, 106 in Spain, 34 in Italy and 25 in France).

Weighted average prices fell for all four usage profiles in the UK and Germany

The UK and Germany were the only comparator countries where the weighted average of the fixed voice element of all four baskets fell in the year to July 2011; the opposite was true in France and the US, where they all increased. In the UK, the largest price fall came for Basket 4, which had the highest use at almost 600 minutes a month, and was as a result of a fall in the cost of BT's service as a result of the cheapest tariff taking the *Line Rental Saver* service (this cheapest service also included two *Friends and Family* bolt-ons).

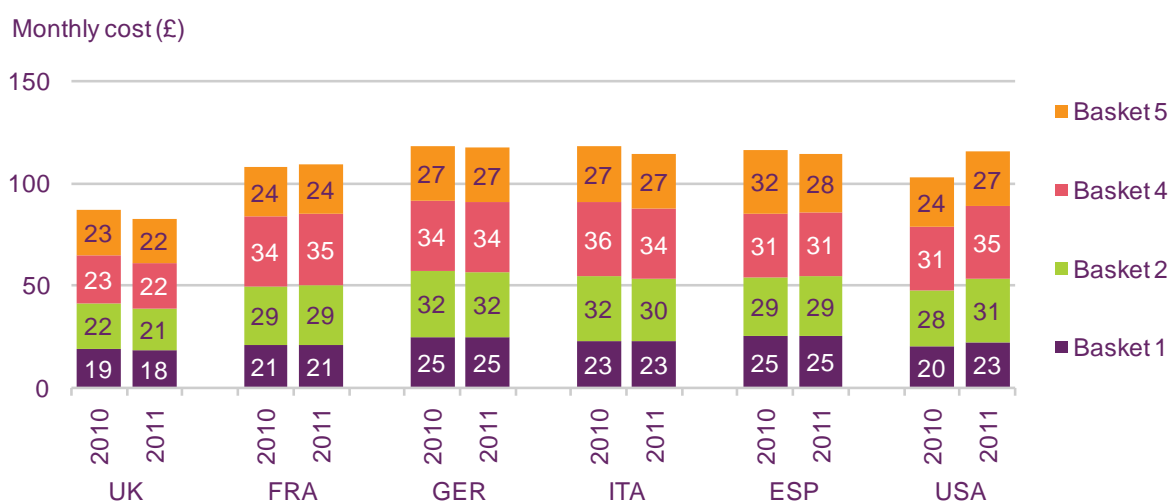
In France, the prices available from incumbent France Telecom (which has 74% market share and is therefore the major component of the weighted average pricing) were unchanged in the year to July 2011. However, Numericable (which had previously provided the cheapest basket costs) withdrew its standalone services, resulting in an increase in average best prices.

In the US, fixed voice tariffs have become less generous, and the cost of fulfilling all of the fixed voice elements of the four baskets that include landline services increased for both AT&T and Comcast, the two providers included in the calculation of the average best price.

In Germany the largest saving was for Basket 5, as Vodafone's standalone fixed voice service was withdrawn (meaning that the average best-value tariff calculation used two providers rather than three as previously) and there was a significant fall in the cost of Freenet's Voice over Internet Protocol (VoIP)-based service, as it no longer required an additional Deutsche Telekom fixed line (as had been the case in 2010).

Basket 5 also provided the only saving compared to 2010 in Spain, largely as a result of incumbent Telefonica's Movistar (market share 75% and the major component of the weighted average pricing) introducing a new, lower-cost, tariff. In Italy the only saving was for Basket 1 (which has low fixed-line use), largely due to Telecom Italia (which has a 52% market share) reducing the cost of out-of-bundle usage charges.

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



Source: Ofcom, using data supplied by Teligen

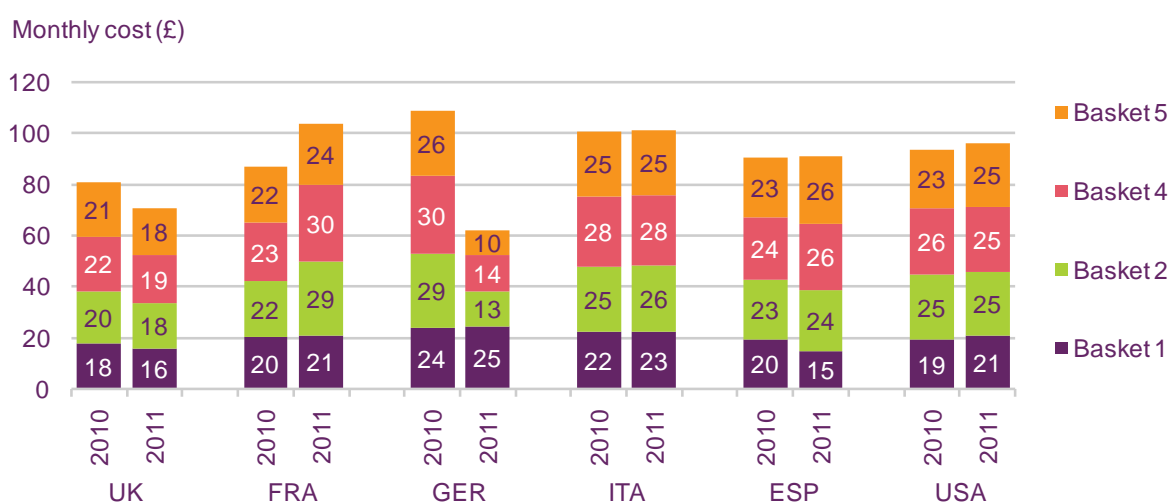
Note: Weighted average of best-value tariff from each of the three largest operators by market share in each country; July 2010 and July 2011; PPP adjusted

Germany has the lowest overall ‘best offer’ fixed voice prices

Unlike ‘weighted average’ analysis, which is to a considerable extent a reflection of incumbent pricing (incumbents have retail market share of over 50% of fixed lines in all our European comparator countries), the ‘best offer’ analysis gives prominence to tariffs from the largest alternative network (alt-net) operators, which typically undercut incumbent pricing as they look to gain market share. The exception is the UK, where BT offers the lowest pricing as a result of the inclusion of its Line Rental Saver product, which offers line rental at £10 a month to those paying 12 months in advance, compared to the £13.90 standard line rental (a similar product is now available from TalkTalk, which launched its Value Line Rental pre-payment product in September 2011, offering line rental at £9.50 a month to those paying 12 months in advance).

In looking at the best tariff available from the largest providers in each country, Germany offered the lowest overall fixed voice prices, because users of Fastweb’s VoIP-based service (which requires a separate fixed broadband connection that can be purchased from any provider) no longer need to pay line rental to Deutsche Telekom (Figure 2.5). As Basket 1 does not include a fixed broadband connection, there was no such price reduction for this basket in 2011.

Figure 2.5 Comparative single-service ‘best offer’ fixed-line voice pricing



Source: Ofcom, using data supplied by Teligon

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 2010 and July 2011; PPP adjusted.

2.1.5 Mobile summary

Across the five households we include in our analysis there were 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 connections are summarised in Figure 2.6 below. Connections also vary in terms of the distribution of call and messaging volumes (e.g. proportion of calls that are to national mobile, to national geographic numbers and to international numbers); full details are provided in the basket analysis later in this section.

Figure 2.6 Summary of mobile connections used in the analysis

	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

Mobile prices lowest in the UK, followed by France

Our analysis finds that overall, mobile pricing was significantly lower in the UK than in the other comparator countries: the UK offered the lowest ‘weighted average’ prices for each of the nine connections included within our baskets (Figure 2.7). Prices in France were second lowest; the total weighted average cost of fulfilling the nine different connection types included in our baskets fell below that in Italy in the year to July 2011.

Across all the European countries, prices for the lower-use connections are increasing, while the prices for higher-use connections are tending to decrease. There were differences in the extent of this change between countries: in France there were only small increases in the cost of the lower-use connections and proportionally larger falls in the cost of fulfilling the higher-use connections, while in Italy there were large increases in the average best-price cost of fulfilling the lower-use connections and relatively small reductions in those for the higher-use connections. This shift in pricing may be related to operator strategies to migrate customers from pre-pay to post-pay tariffs (for example, during 2010 the proportion of UK mobile connections that were post-pay increased from 41% to 46%¹³, while cuts in mobile termination rates may also be a driver for operators to increase the price of pre-pay mobile.¹⁴

The availability of ‘SIM-only’ tariffs is pushing down mobile prices

‘SIM-only’ tariffs have become increasingly popular over the last few years, whereby customers do not receive a new handset when signing up for a mobile contract, but are supplied with a SIM card which they can use in a handset they already own. In the UK around one in five new mobile contracts were SIM-only in Q1 2011¹⁵, and almost half (44%)

¹³ Ofcom *Communications Market Report 2011*, Figure 5.16, p260,

http://stakeholders.ofcom.org.uk/binaries/research/cmr/cmr11/UK_CM_R_2011_FINAL.pdf

¹⁴ <http://www.zdnet.co.uk/news/mobile-working/2011/07/04/orange-and-vodafone-go-it-alone-with-payg-price-hikes-40093300/>

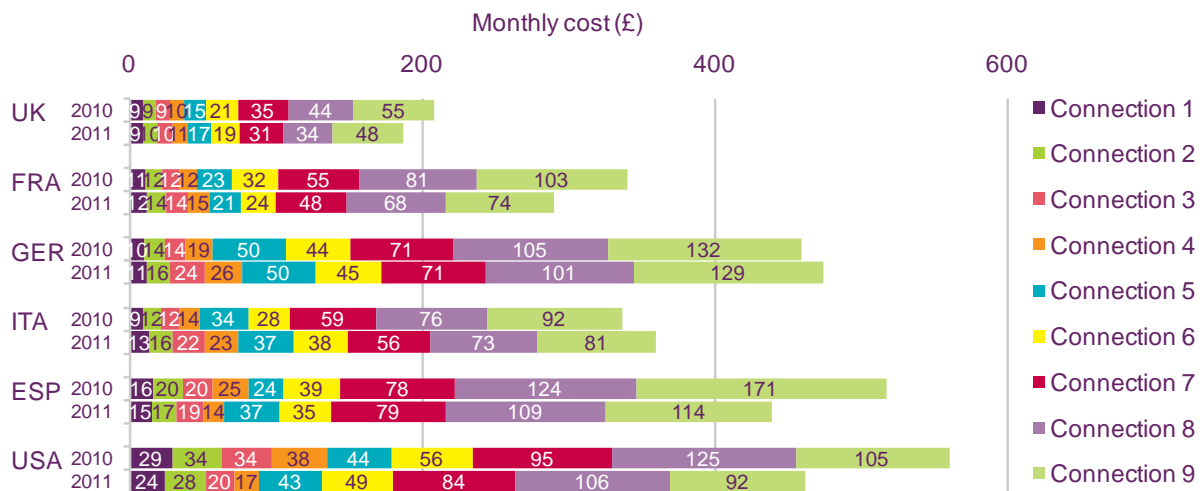
¹⁵ Point-of-sale data from GfK finds that in Q1 2011 19% of new mobile contracts were for one-month duration – these will all be SIM-only contracts. In addition, some SIM-only contracts are for longer

of the tariffs feeding into the UK average best-pricing analysis of our connections for July 2011 were SIM-only, up from 30% in July 2010. Only Germany had a higher proportion of SIM-only tariffs feeding into its July 2011 analysis (48%). Similarly, the proportion of operator best-price offers feeding into the UK connection analysis that were pay-as-you-go increased in the year to July 2011, more than doubling from 15% to 33% (the highest proportion was in the US at 37%).

Although prices in the UK are, overall, lower than in other countries, the gap is narrowing; overall prices for our nine connections fell by 10% between July 2010 and July 2011, compared to falls of 18% in the US, 15% in Spain and 15% in France. However, in Germany and Italy the total cost of fulfilling all nine of our mobile connections increased in the year to July 2011, and in both cases it was only the higher-use connections where the average best-price cost did not increase: in Italy only connections 7, 8 and 9 had a reduction in the cost of fulfilling the required usage, while in Germany it was only connections 8 and 9.

Typically, the best-value mobile contracts are those with a long minimum term, as providers offer lower monthly charges to incentivise consumers to sign up for longer. However, in May 2011 new EU regulations came into force that mandate mobile providers to offer 12-month contracts and place an upper limit of 24 months on new contract lengths. This is likely to have had an upward effect on prices; for example, in July 2010 the cheapest tariff for connections 2, 3 and 4 in the UK had a 36-month minimum term. The withdrawal of this service and its replacement with more expensive alternatives has contributed to the overall average best price of fulfilling these three connections increasing by 7%.

Figure 2.7 Comparative single-service ‘weighted average’ mobile pricing



Source: Ofcom, using data supplied by Teligon

Note: Weighted average of best-value tariff from each of the three largest operators by market share in each country; July 2010 and July 2011; PPP adjusted

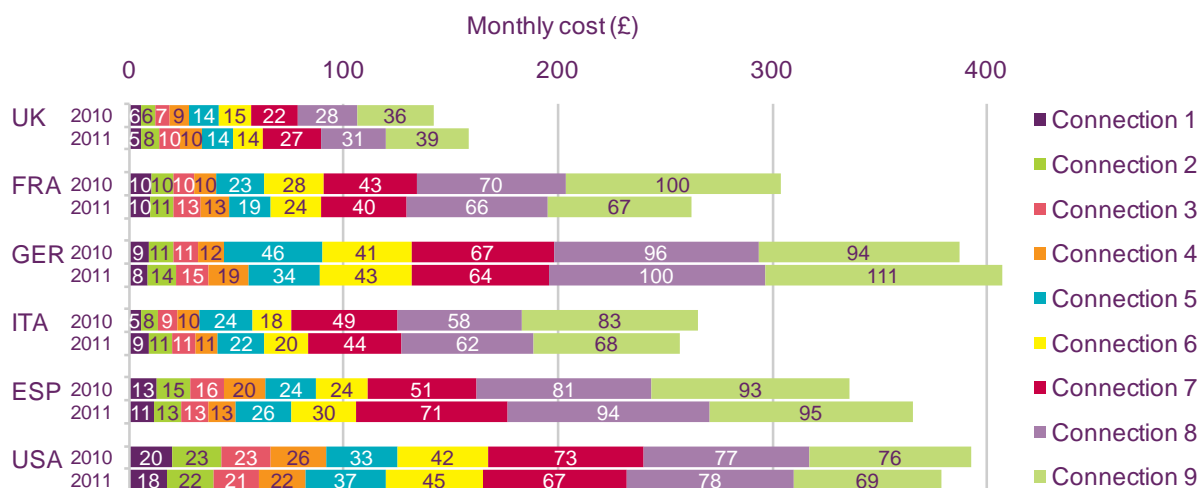
Smaller operators tend to provide the lowest standalone mobile prices

In looking at the lowest prices available for the mobile phone components of each basket, the pattern was broadly similar to the ‘weighted average’ analysis, although in this analysis Italy’s prices came out lower than those in France (Figure 2.8).

duration. See Ofcom *Communications Market Report 2011*, Figure 5.19, p263, http://stakeholders.ofcom.org.uk/binaries/research/cm11/UK_CM11_FINAL.pdf

The operators in our analysis with the lower market shares tended to offer the best single-service prices (even lower prices may be available from smaller operators, but these were not included in our analysis). In only four comparator countries outside the US did the operator with the largest market share have the cheapest prices. In the US, AT&T was the cheapest for six of our nine connections. In the UK, Orange offered the lowest price for four of the nine connections, while T-Mobile (which is also operated by Everything Everywhere) was cheapest for three (although it should again be emphasised that smaller operators including Three, and MVNOs, were not included in this analysis).

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



Source: Ofcom, using data supplied by Teligen

Note: Lowest tariff available for the mobile phone component of each basket from any of the three largest operators by market share in each country, July 2010 and July 2011; PPP adjusted.

Mobile tariffs in the US tend to bundle large numbers of call minutes

The US differs from our other countries, as its mobile interconnect regime results in mobile users being charged for incoming as well as outgoing calls, and this means that the call minutes bundled with mobile contracts in the US are inbound and outbound totals. As a result, mobile contracts in the US often include a large number of bundled minutes (in July 2011, 47 of the 232 US contract tariffs in our analysis included unlimited voice calls) and often have a high monthly line rental cost.

As a result of generous bundled call allowances, average mobile use in the US is much higher than in Europe, at 635 incoming and outgoing minutes per connection per month in 2010, compared to an average of 111 outgoing minutes per connection per month across the UK, France, Germany, Italy and Spain (average outbound call minutes in the UK in 2010 were 131, with an average of 212 minutes for post-pay connections and 61 minutes for pre-pay connections). Another consequence of this is that in the US there are few mobile contracts aimed at lower use (only 11 of the 232 US contract tariffs in our analysis included less than 450 bundled minutes a month) and pay-as-you-go take-up is relatively low (at 23% of total subscriptions). It is also worth noting that pay-as-you-go tariffs in the US differ from those in Europe, as top-ups typically provide a set number of inbound and outbound minutes to be used in a 30-day period, rather than credit from which per-minute call charges are deducted.

Consequently, although the connection profiles used in our baskets have been formulated to be representative of average use across the six countries included in the analysis, they collectively have a much lower usage profile than the US average, and are less

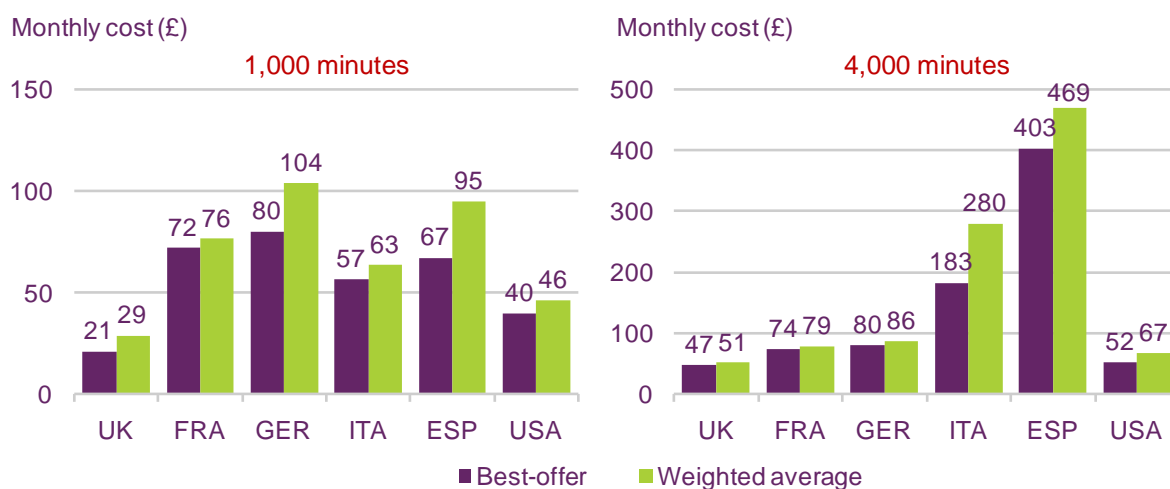
representative of the US market. Because of the high levels of use, prices in the US are relatively low on a per-minute basis (see Section 6.3.5 of this report). Similarly, because of the different tariff structures and the prevalence of ‘unlimited’ tariffs, if our baskets were to contain much higher mobile usage, the US would become relatively less expensive.¹⁶

The UK is cheapest for very high voice use mobile connections

In order to examine this, we also compared the best-offer and weighted average pricing for very high voice use connections, in this case defined as having 1,000 and 4,000 minutes of calls and no SMS or data use (Figure 2.9).

This found that the UK was again the cheapest for the basket of 1,000 minutes (where the lowest tariff was a SIM-only deal offering free on-net calls and 600 any-network minutes for £15 a month on a 12-month contract, and delivered an overall cost of £21 a month), and that the US offered the second-lowest pricing. Prices for the 4,000-minute basket should be treated cautiously as this is a highly theoretical basket that does not match any typical usage profile (indeed, it should be noted that some prices in Italy and Spain are more than four times as expensive as for the 1,000 minute basket). Nevertheless, at this extremely high usage level the UK was cheaper than the US, which again offered the second-lowest pricing (the lowest tariff in the UK was a SIM-only deal, offering unlimited any-network minutes for £41 a month on a 12-month contract, and delivering an overall monthly cost of £47 once the cost of the handset was included).

Figure 2.9 Comparative pricing for mobile tariffs with 1,000 minutes and 4,000 minutes, July 2011



Source: Ofcom, using data supplied by Teligen

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

¹⁶ Differences between the UK and the US markets, and the impact of the ‘receiving party pays’ interconnect regime, are discussed in detail in Ofcom’s consultation into mobile voice termination (May 2009), see: www.ofcom.org.uk/consult/condocs/mobilecallterm/annex9.pdf

2.1.6 Fixed-line broadband summary

The lowest weighted average fixed broadband prices were in the UK and France

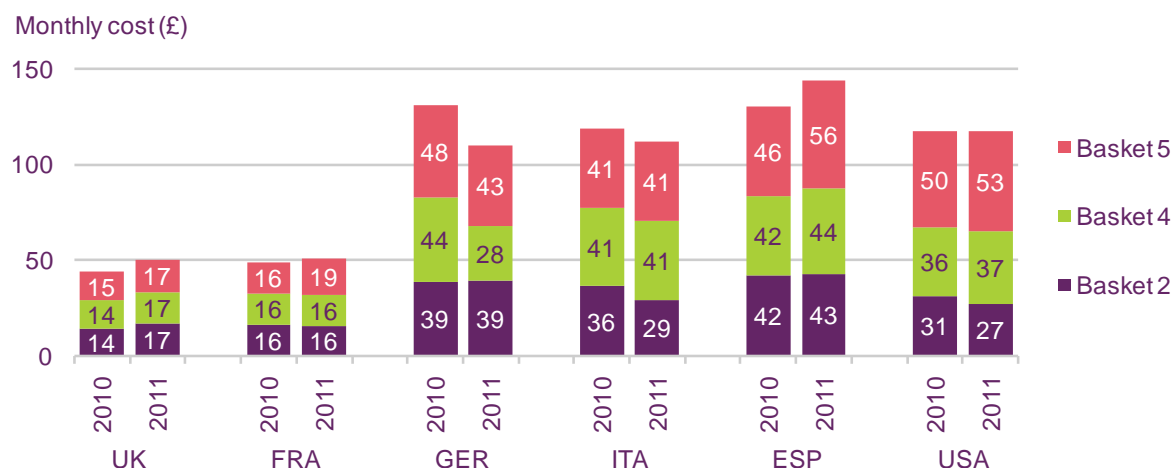
Fixed broadband connections are frequently bought as part of a bundle of communications services from the same supplier, meaning that comparisons of single-service broadband prices should be treated with some caution (in all of the countries, the majority of broadband tariffs included in the analysis were 'bundled' tariffs that included at least one other service, and in the UK, Spain and Italy some operators do not offer standalone fixed broadband services). It is also the case that for most broadband services a fixed-line voice service is also required (although this is not generally true for cable broadband and 'naked DSL'; a DSL-based broadband service with no 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 where this is required, and have included it in the fixed voice element of the basket in question (Figure 2.10). The inclusion of fixed voice 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 minimums of 4Mbit/s, 8Mbit/s and 16Mbit/s for Baskets 2, 4 and 5 respectively. As such, none of our baskets required a 'superfast' connection (i.e. with a headline download speed of 30Mbit/s or more) because take-up of these services is low in most of the countries covered in this section (it was highest in the US, where 7% of fixed broadband connections were superfast at the end of 2010). However, high-speed alternatives are available in these countries, often at no great incremental cost. It should also be noted that headline 'up to' speeds often do not accurately represent the speeds available to consumers.

The lowest standalone fixed broadband prices were in the UK

In July 2011 the lowest overall standalone fixed broadband prices were available in the UK and in France, where most of the basic packages from all the leading operators met the requirements of even the highest specification basket (Basket 5, with a minimum 'up to' 16Mbit/s connection and 5GB use per month). In both countries broadband competition is intense: in the UK this is as a result of an environment in which no provider has more than a 30% market share, and there is high availability of LLU (available to 89% of UK homes) and cable-based services (48% of homes), whereas in France broadband competition is particularly intense between incumbent France Telecom's Orange brand (with 46% market share) and alternative network providers SFR/Neuf and Free (both with shares of over 20%). However, it is notable that broadband prices increased in the UK between July 2010 and July 2011 by over £2 a month (on average a 15% increase).

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



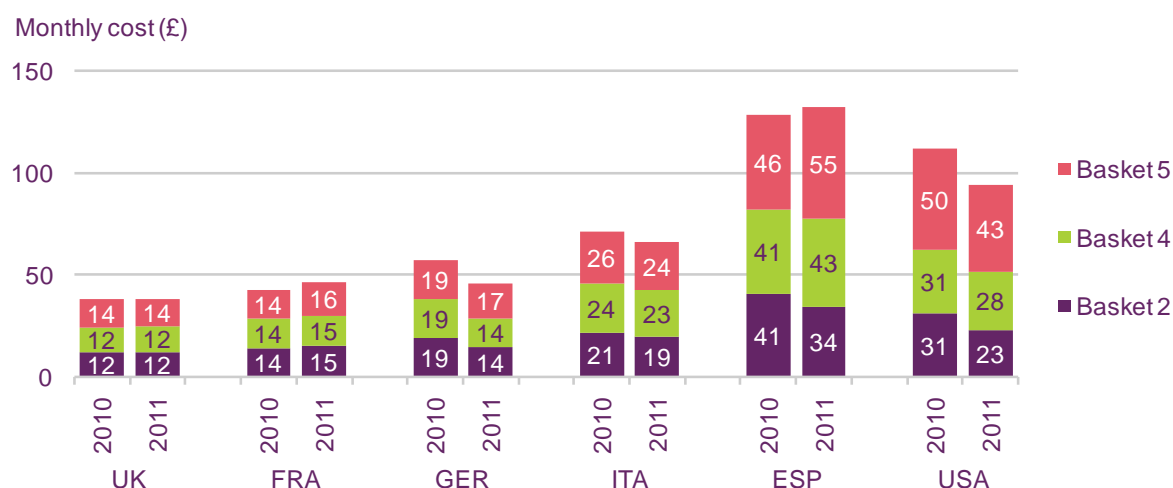
Source: Ofcom using data supplied by Teligen

Note: Weighted average of best-value tariff from each of the three largest operators by market share in each country; July 2010 and July 2011; PPP adjusted

A wide range of fixed broadband prices are available in most countries

In the UK, Germany, Italy and the US there were significant differences between the 'weighted average' and 'best offer' standalone service charges, suggesting that there are substantial differences between the prices offered by the three largest standalone fixed broadband providers (the lowest standalone prices in July 2011 were generally offered by providers with relatively low market share: AOL Broadband and O2 in the UK; Kabel BW and Unity Media in Germany; Wind and Tiscali in Italy; and Orange, Movistar and Jazztel in Spain). This was not the case in France and Spain, where there was little variation between the 'best offer' price and the 'weighted average' prices (Figure 2.11).

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



Source: Ofcom, using data supplied by Teligen

Note: Lowest tariff available for the fixed broadband component of each basket from any of the three largest operators by market share in each country, July 2010 and July 2011; PPP adjusted.

2.1.7 Mobile broadband summary

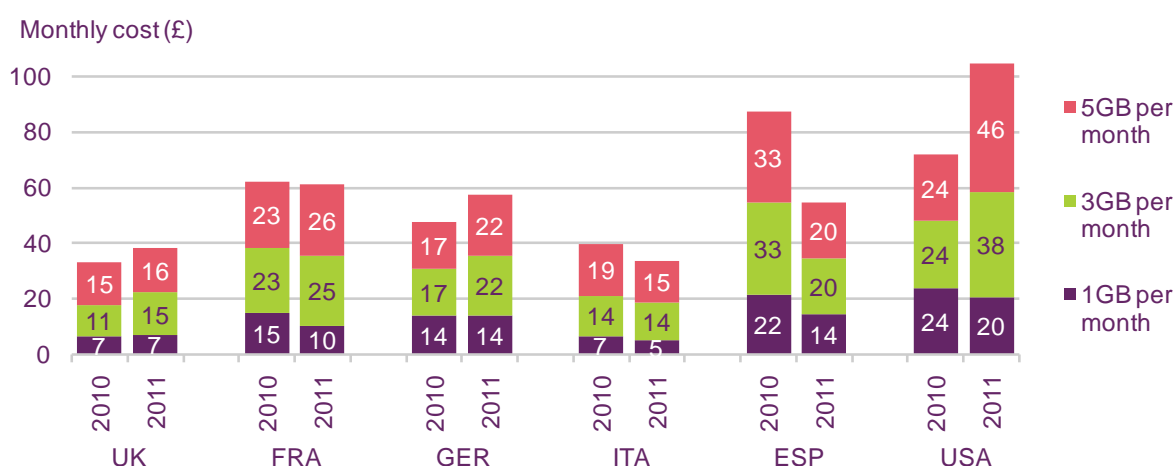
The lowest 'best offer' mobile broadband prices were in Italy

Our basket analysis included two mobile broadband connections (i.e. using a datacard or 'dongle'), one with high use (5GB of use over 30 days a month, in Basket 3) and the other with medium use (3GB of use over 25 days a month, in Basket 5). However, in order to compare the full range of mobile broadband usage types, we also looked at the cost of a low use connection (1GB of use over 10 days a month). The speed of connection, and whether the tariff in question included the use of public WiFi hotspots, was not taken into account. We also only considered the 'best offer' service available, as the relatively narrow range of tariffs available from operators in many countries makes it difficult to produce a meaningful 'weighted average' figure.

The lowest prices for mobile broadband were available in Italy, where the cost of fulfilling the requirements for each of the three connections fell in the year to July 2011 (Figure 2.12). The UK offered the second lowest prices overall, but the cost of each of the three defined connections increased, due to a mixture of price increases and the withdrawal of tariffs with the most generous inclusive data bundles (in July 2010 18 services included more than 3GB of bundled data, whereas this figure had fallen to 10 by July 2011).

Two factors differentiate the UK and Italy from the other countries covered by our analysis. Firstly, 3G networks launched relatively early in these countries, with three operators offering HSPA networks by the end of 2006, and by early 2008 mobile broadband had become a mass market proposition in both countries. A consequence is that mobile broadband markets are relatively mature compared to other countries, with all of the MNOs and some MVNOs competing to win market share. Secondly, new entrant 3G operator Three offers services in both countries and has used lower prices and mobile broadband to differentiate itself from existing services and gain market share (in the UK Three provided two of the lowest-cost services for our three connections, and in Italy it provided one of the lowest-cost connections).

Figure 2.12 Comparative 'best offer' single-service mobile broadband pricing



Source: Ofcom, using data supplied by Teligen

Note: Weighted average of best-value tariff from each of the three largest operators by market share in each country, July 2010 and July 2011; PPP adjusted

2.1.8 TV summary

Germany and the UK had the highest TV licence fees across our six countries

It is difficult to provide like-for-like comparisons for TV services, due to the wide variations in the numbers and types of channels to which different services provide access. However, we consider that it is important to include TV services, given the wide take-up of bundled services that include a television component, usually as triple-play (fixed voice, fixed broadband and TV) and sometimes as quad-play (the same services plus mobile).

For the purposes of this analysis we have defined basic pay-TV as the lowest subscription required to receive channels additional to those which are available on free-to-view television. We have defined HD premium pay-TV as 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.

The highest TV licence fees were in Germany and the UK (which also have the highest investment per head in public service broadcasting), while in Spain and the US there is no licence fee, and public funding for broadcast services is raised by alternative means.

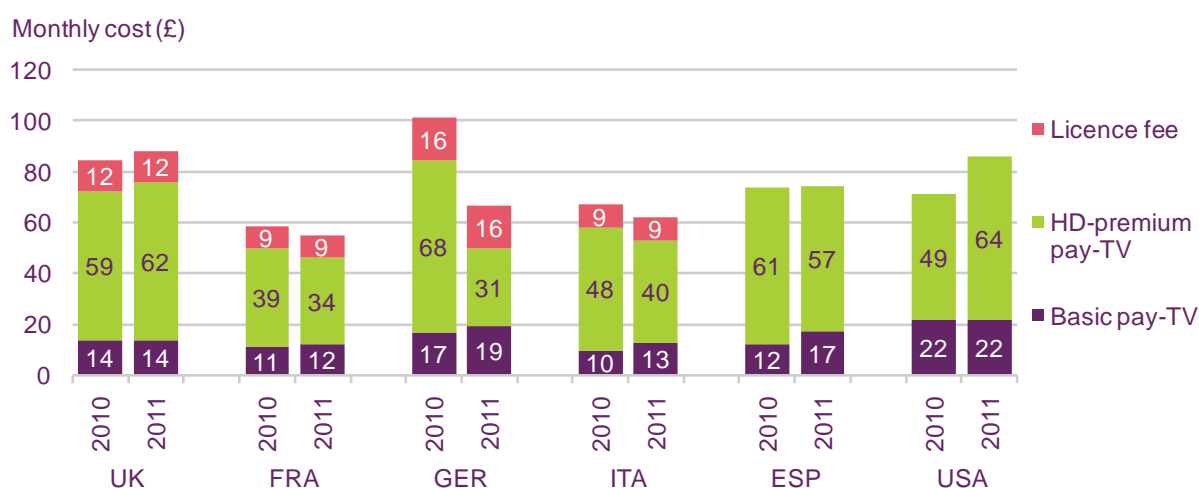
Single-service HD premium pay-TV prices in the UK are comparatively high

France, Italy and the UK offered the lowest costs for a basic pay-TV 'entry-level' service. In France, the cheapest service was a satellite service, which provided a total of 23 basic and premium channels for €12.90 (£12) a month (excluding the hardware cost). This was the same service that had proved cheapest in 2010, and the majority of the price increase in 2011 was due to the removal of a promotion which discounted the first three months' fees. In Italy, the cheapest standalone basic pay-TV service was a cable service offering 58 channels for €16 (£14) a month (plus installation and access fees) discounted to €4 (£4) for the first six months of the contract. This was more expensive than the cheapest service a year previously, which had a €10 (£9) a month fee and no set-up costs. The cheapest price in the UK in 2011, as in 2010, was Virgin Media's M+ with V HD cable service, offering 65 channels for £13 a month (plus installation costs), up from £12 in 2010 when total set-up costs were higher.

In Spain the lowest-cost service was a satellite service offering 38 channels for €15 (£14) a month. In Germany the lowest-price offer was a cable service offering 80 channels for €16.95 (£15) a month (plus hardware and installation costs), while in the US the best offer was a cable service offering 30 channels for \$25.49 (£16) a month.

It is more difficult to compare premium pay-TV packages due to the variation of content in these packages. The apparent changes in prices in France and the US, in the year to July 2010, are more likely to be the result of channel line-up changes than genuine movements in price. This basket now includes a requirement for high definition (HD) channels (at the end of 2010 an average of just under 40% of homes across our comparator countries took an HD television service). In most countries HD is now a standard element of these premium channel packages, although for the digital satellite single-service best-offer in the UK it costs an additional £10 a month.

Figure 2.13 Comparative single-service TV pricing



Source: Ofcom, using data supplied by Teligen

Note: Basic pay-TV is defined as the minimum price required to purchase a pay-TV 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 2010 and July 2011; 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.

2.1.9 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) and watch free-to-air multichannel digital television (available in all of our countries).

Figure 2.14 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 lowest weighted average pricing for Basket 1 was in the UK

Using a weighted average of the best-value tariffs from the three largest operators in each country, there is little variation between the prices of the fixed-voice component of this basket. The lowest fixed voice prices were available in the UK and the highest prices were in Spain and Germany (Figure 2.15).

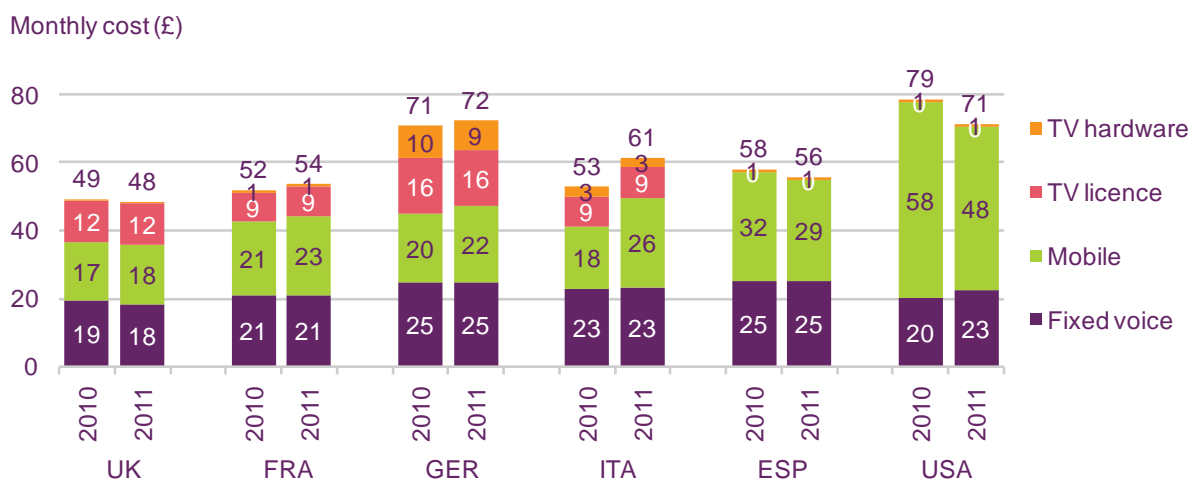
As these data represent an average of the lowest prices available from the largest operators, weighted by the market share of these operators, the fixed voice pricing, to a large extent, reflects the pricing of incumbent operators, which have over 50% retail market share in each of the European countries. The fall in voice pricing in the UK is as a result of BT launching the *Line Rental Saver* tariff, which enables customers to reduce their monthly line rental to £10 a month (it was £13.90 in July 2011) by paying a year's worth in advance (excluding this tariff, the weighted average monthly cost would be £21 rather than £18). The increased cost in the US was as a result of AT&T's cheapest service increasing its call charges to landlines and the line rental on Comcast's lowest cost service increasing from \$24.95 (£16) to \$34.95 (£22).

Upward trend in weighted average pricing for lower use mobile connections

There was evidence of rising mobile prices for the lower-usage connection included in this basket in the year to July 2011, with Spain and the US being the only countries where the cost of the mobile element of the basket fell. This fall was most pronounced in the US, where the average cost fell by 17% as a result of the monthly fees for AT&T and Verizon's cheapest tariffs falling significantly over the period.

The main driver of the cost of TV services in this basket is the TV licence fee (although not in Spain and the US where there is no licence fee). In fact, as Basket 1 does not include pay-TV services; the only other TV costs were for purchasing and installing the required hardware (we included the cost of a set-top box or decoder, but not the cost of the television). There was significant variation in the cost of the television licence across the six countries; it was most expensive in Germany and the UK (where investment per head in public service broadcasting is highest).

Figure 2.15 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 2010 and July 2011; PPP adjusted

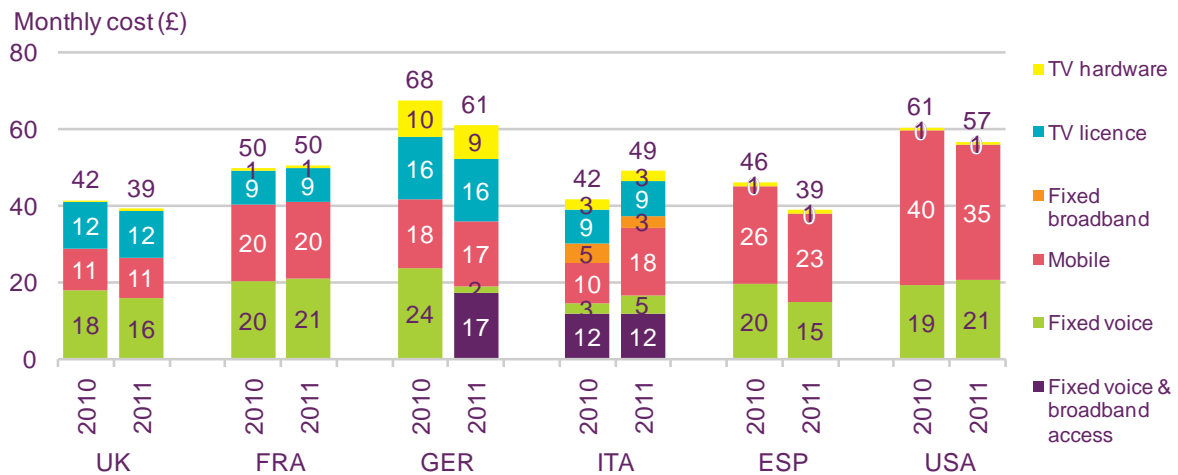
The lowest 'best offer' pricing for Basket 1 was in Spain

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

the three largest operators in 2011 was in Spain, where the lowest-price combination of services needed to fulfil the requirements of the basket cost 30% less than the weighted average best price (in the UK it cost 19% 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 6% cheaper than the weighted average.

It should be noted that in France and Italy the lowest-cost option that fulfilled Basket 1's use included a bundled fixed broadband connection, even though this was not required by the basket.

Figure 2.16 Basket 1: comparative 'best offer' pricing



Source: Ofcom, using data supplied by Teligen

Note: Lowest tariff available for each service type from any of the largest operators by market share in each country, July 2010 and July 2011; PPP adjusted; where a service is included in a bundle any additional usage charges are recorded separately against the relevant service

2.1.10 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 both have a mobile phone which they use occasionally for voice and SMS.

Figure 2.17 Composition of Basket 2

Fixed-line voice	Fixed broadband	Mobile	Mobile broadband	Television
428 call minutes	0.5GB 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 lowest weighted average pricing for Basket 2 was in the UK

The cheapest weighted average cost of fulfilling the requirements of Basket 2 was in the UK at £70 a month.

The fixed-line voice component of this basket consists mainly of calls to fixed-line phones within the same country, which are mostly made during the daytime, and the basket therefore favours tariffs that include these call types within a standard line rental package. This is the case with the BT, Virgin Media and TalkTalk tariffs, which feed into the UK weighted average price, the lowest among the countries in our analysis, at £21 a month. UK fixed voice costs for Basket 2 are just 15% higher than for Basket 1, despite this basket including almost twice as many outgoing call minutes (fixed-line voice prices in France, Germany and the US were more than 30% higher than for Basket 1). Weighted average best prices also fell by the greatest amount in the UK in the year to July 2011, again as a result of the launch of BT's *Line Rental Saver* scheme (excluding this tariff would mean that the weighted average price would increase from £21 to £23).

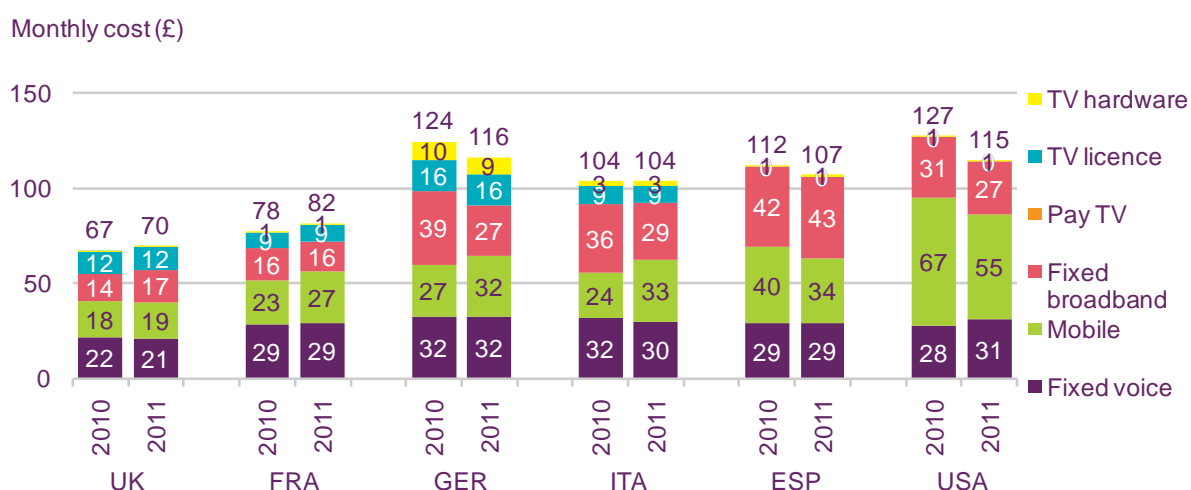
The low use of the mobile phones in this basket meant that most of the mobile tariffs (11 out of 18) feeding into the analysis were pay-as-you-go (with a further three being SIM-only contracts). While the lowest weighted average mobile costs for this basket were found in the UK and France, the highest were found in the US, where mobile users are charged for incoming calls in addition to outgoing calls. US contract mobile tariffs are generally expensive as they typically include a large number of bundled (incoming and outgoing) call minutes as operators incentivise customers to take contracts with large numbers of inclusive minutes. In the US, pre-pay is a less attractive proposition for mobile users as the top-ups required are generally of a higher value, and any credit typically expires after 30 days. As a result, pre-pay accounts for less than a quarter of total US mobile subscriptions, compared to an average of 55% across the other five countries covered in this section of the report.

Weighted average standalone fixed broadband prices increased in the UK and Spain

France and the UK offered the lowest pricing for the basic broadband requirements of this basket (it should, however, be noted that single-service broadband pricing comparisons should be treated with some caution, as broadband is very frequently bought as part of a multi-service bundle). Weighted average fixed broadband prices in the UK and Spain increased in the year to July 2011, in the UK largely as a result of the monthly cost price of Virgin Media's cheapest stand-alone fixed broadband service increasing from £15 (for a DSL service) to £19.75 (for a cable service) and in Spain largely as a result of Movistar increasing the monthly rental of its lowest-cost DSL service (and its headline speed from 'up to' 6Mbit/s to 'up to' 10Mbit/s).

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

Figure 2.18 Basket 2: ‘weighted average’ single-service pricing



Source: Ofcom, using data supplied by Teligon

Note: Weighted average of best-value tariff from each of the three largest operators by market share in each country; July 2010 and July 2011; PPP adjusted

The lowest ‘best offer’ pricing for Basket 2 was in the UK

The lowest prices available for this basket of services in all of the European countries covered in our research involved buying a fixed broadband connection in a bundle with fixed voice services (Figure 2.19). In the UK this was a combined voice and broadband service (including line rental) which was able to fulfil the basket’s requirements for £25 a month, 17% (£5 a month) less than the lowest cost of doing so using standalone services. The greatest difference between the cost of the basket’s fixed voice and fixed broadband requirements using standalone and bundled services was in Spain, where bundled services provided by Orange were £19 (33%) cheaper than the lowest-cost combination of standalone products. The lowest cost bundled fixed-line and fixed-broadband service was provided by Unity Media in Germany, and cost £22 a month to fulfil Basket 2’s requirements for these services.

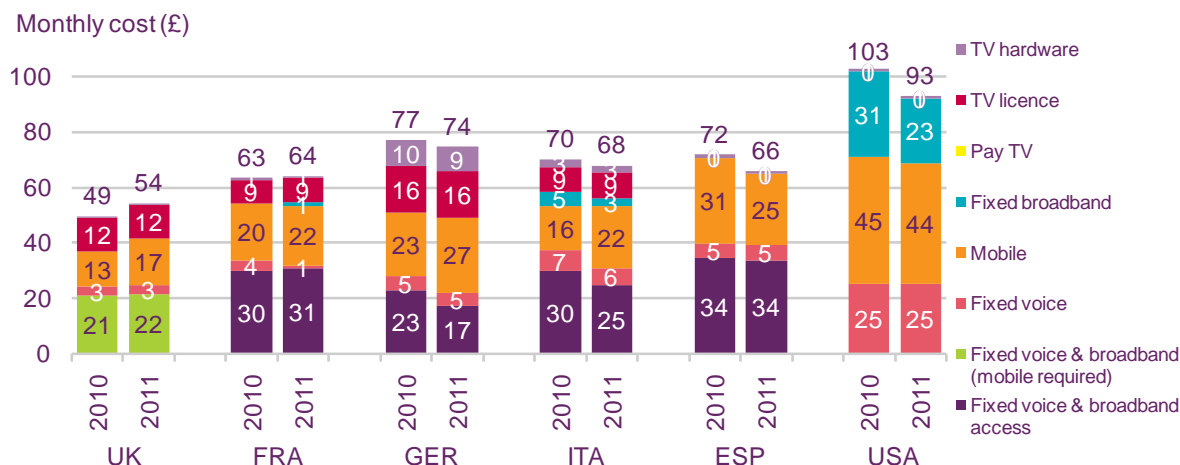
The US was the only country where the ‘best offer’ price was obtained using stand-alone services

The lowest price in the US was achieved by purchasing separate fixed broadband and voice services, reflecting that, in most areas, there is effectively a duopoly of the incumbent telecoms operator and a cable provider. Therefore price competition is less fierce in the US than in our other comparator countries, and as a result operators offer fewer discounts for purchasing services in a ‘multi-play’ bundle. This is not the case in Europe, where new entrants have used heavy bundle discounts to attract customers and gain market share.

Most of the fixed broadband services in our six countries were sufficient to fulfil the basic fixed broadband requirements of this basket (a connection with an ‘up to’ 4Mbit/s headline speed and 500MB of data use). In the US and Germany the fixed broadband connections in the ‘best-offer’ service combinations were provided using cable networks. 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, France and Italy, while the highest cost was (for the same reasons as detailed for Basket 1) in the US.

Figure 2.19 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 2010 and July 2011; PPP adjusted; where a service is included in a bundle any additional usage charges are recorded separately against the relevant service

2.1.11 Basket 3: A mobile ‘power user’

The third basket represents a single-person household typical of a young professional person living alone. This person lives in a mobile-only household and is a heavy user of both a mobile phone and mobile broadband (using a ‘dongle’ to connect to the internet on a laptop computer).

Figure 2.20 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 lowest weighted average pricing for Basket 3 was in the UK

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

There were larger variations between countries in the total cost of this basket than for any other basket, ranging from £94 in the UK to £193 in Germany, driven primarily by large variations in the cost of the mobile phone element, which was the largest component of total spend in all of our comparator countries (Figure 2.21).

The UK offered significantly lower weighted average mobile phone prices than any of the other five countries included in the analysis for the high usage required by this basket, with the weighted average price being 35% lower than in the next least-expensive country (France). In fact, all three of the best-offer UK largest operators' costs feeding into its weighted average were lower than the lowest in any other country. The US performed better here than it had done for the lower-use connections (when it was most expensive), again because US contract tariffs typically include a large 'bucket' of (incoming and outgoing) minutes; however, it remained the third most expensive country after Germany and Spain, in part because of comparatively high data charges.

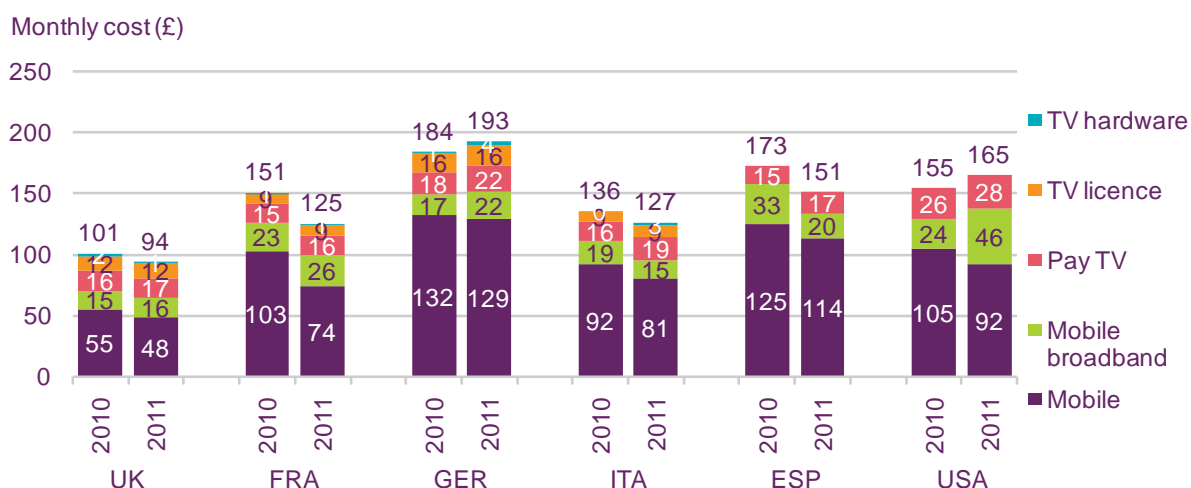
Prices for the mobile phone element of this basket fell by the greatest amount (£29 a month), in France in the year to July 2011 (equivalent to a 28% reduction in the cost of the basket) as new tariffs offering more inclusive calls, messages and data within line rental fees were introduced.

Wide variations in the cost of mobile broadband services exist between countries

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 £15 a month and highest in the US. Relatively low prices in Italy indicate that the competitive dynamics that are delivering lower prices for mobile phone tariffs are also reflected in mobile broadband (as is the case in the UK, which had the second lowest cost at £16 a month). Mobile broadband prices were highest in the US, where the cost of the 'best-offer' single mobile broadband service sufficient to fulfil the basket's requirement increased by 92% to £46 a month in the year to July 2011, as prices have increased and data allowances have become less generous as a result of providers attempting to monetise mobile broadband services.

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 the lowest prices were available in France, the UK and Spain. See Section 2.1.8 above for a discussion of TV pricing.

Figure 2.21 Basket 3: ‘weighted average’ single-service pricing



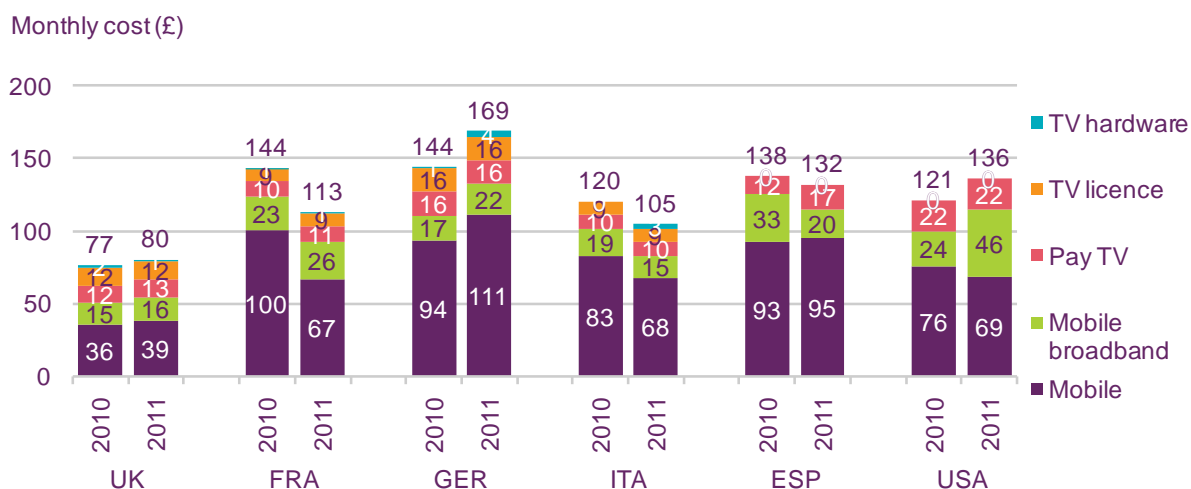
Source: Ofcom, using data supplied by Teligen

Note: Weighted average of best-value tariff from each of the three largest operators by market share in each country; July 2010 and July 2011; PPP adjusted; the figure for mobile broadband is the best-offer single service cost

The lowest ‘best offer’ pricing for Basket 3 was in the UK

In none of our countries did the best-offer combination of services to fulfil the requirements of Basket 3 involve buying bundled services, in effect meaning that Figure 2.22 compares the single-service best-offer tariffs discussed previously in this section. There was less variation between the weighted average best price and the best-offer combination than was the case for the other baskets included in this report – this is the result of the basket including a relatively low number of services, and because we have used ‘best offer’ single service broadband prices in the ‘weighted average’ data, for the reasons outlined previously.

Figure 2.22 Basket 3: comparative ‘best offer’ pricing



Source: Ofcom, using data supplied by Teligen

Note: Lowest tariff available for each service type from any of the largest operators by market share in each country, July 2010 and July 2011; PPP adjusted

2.1.12 Basket 4: A family household with multiple needs

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

Figure 2.23 Composition of Basket 4

Fixed-line voice	Fixed broadband	Mobile	Mobile broadband	Television
593 call minutes	5GB 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

Source: Ofcom

The lowest weighted average pricing for Basket 4 was in the UK

The UK had the lowest weighted average prices for this basket, while the highest prices were found in Germany. Variations in cost between countries are primarily driven by the mobile phone costs, which accounted for half of the total basket cost in the UK and an average of 60% across the other countries included in this section (Figure 2.24).

This basket has the highest fixed voice call use, at almost 600 minutes a month, and the UK had the lowest weighted average cost among our countries; a result of the fact that all three of the cheapest UK tariffs included bundled anytime calls to UK fixed lines, and additional bolt-ons that enabled savings on the cost of calls to mobile phones and international destinations. Surprisingly, despite the inclusion of these bundled calls and bolt-ons in the UK weighted average, the weighted average monthly line rental in the UK (£15) was not the highest among our comparator countries (this was in Germany at £22), while out-of-bundle usage charges were lowest in the UK at £4 a month.

As with all the fixed-line connections included in our baskets, UK pricing was lower in 2011 than in 2010, solely due to the inclusion of BT's new *Line Rental Saver* product, which offers a £3.90 a month discount to customers who pay for 12 months line rental in advance; the weighted average price of the fixed-line voice component for the UK for this basket was £22, whereas if this tariff were excluded, the weighted average price would be £24.

The UK was the only country where the 'best offer' tariff was not from an alt-net provider

In all countries the lowest prices tended to be from alt-net providers, although the 'weighted average', to a large extent, reflected the 'best value' tariffs available from the incumbent in

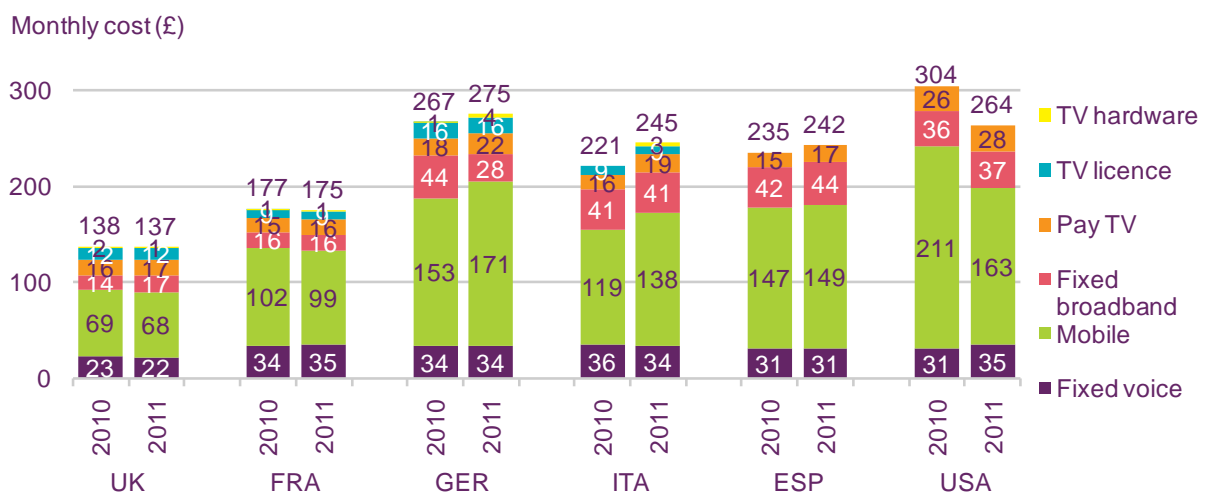
each country (each with a market share of over 50%). For Basket 4 the cheapest price available from BT (which included its *Line Rental Saver* pre-payment option) was 38% less than the next lowest-cost option from an incumbent (Movistar in Spain). The lowest-cost option from any provider was from Freenet in Germany, a VoIP-based service which does not require a fixed line and instead runs over the basket's fixed broadband connection.

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. In most countries the lowest prices were achieved using post-pay tariffs, even for the two connections with the lowest use, and the lowest 'weighted average' prices for all four of the connections included in the basket were found in the UK. The highest overall weighted average cost of fulfilling the mobile requirements of this basket was Germany, where the cost was over two-and-a-half times that in the UK.

The lowest broadband prices for this basket were found in France and the UK, 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 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 5GB data usage sufficient to satisfy the fixed broadband elements of both baskets. Prices for fixed broadband were highest in Germany, Italy and Spain, in each as a result of the incumbents' cheapest offer being relatively expensive, and in Spain as a result of there being a limited choice of standalone services.

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

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



Source: Ofcom, using data supplied by Teligen

Note: Weighted average of best-value tariff from each of the three largest operators by market share in each country; July 2010 and July 2011; PPP adjusted

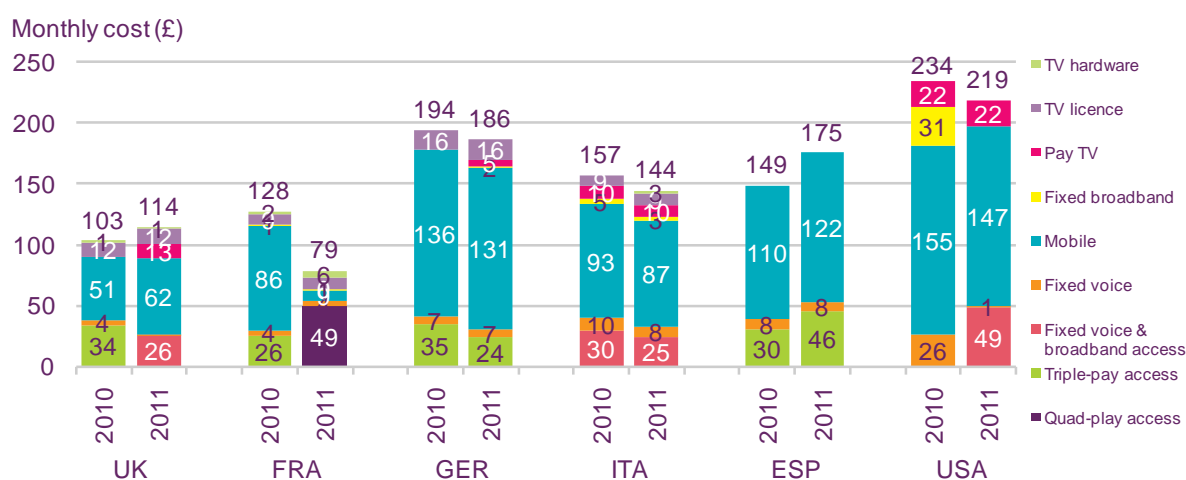
The lowest 'best offer' pricing for Basket 4 was in France

In common with Basket 2 (which also included a fixed voice line and fixed broadband connection), there were considerable savings to be made by purchasing the services required by Basket 4 within a bundle; unlike for Basket 2, this was also the case in the US (Figure 2.25). The lowest overall prices were available in France, where the least expensive way of fulfilling Basket 4's requirements involved purchasing a Bouygues Telecom quad-play bundle of fixed voice, fixed broadband, mobile and pay-TV. In the UK, Italy and the US the lowest-cost option included a fixed line and broadband dual-play offer, and stand-alone pay-

TV and mobile services. In Germany and Spain the cheapest available option included purchasing a ‘triple-play’ service incorporating fixed-line voice, broadband and basic pay-TV.

The savings available to consumers purchasing bundled services rather than the lowest price stand-alone services varied between countries. In the US, purchasing the bundled service reduced costs by 2% (£4 a month), whereas in France the quad-play service offered a 48% (£72 a month) saving compared to buying stand-alone services (in the UK the saving was 4% or £4 a month). 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 these bundled tariffs provide services in excess of the least expensive available on a stand-alone basis. For example, the quad-play offer in France includes 120 channels compared to 18 for the lowest-price stand-alone service, and the triple-play service in Spain includes 70 channels compared to 38 for the lowest-price stand-alone service.

Figure 2.25 Basket 4: Comparative ‘best-offer’ pricing including multi-play tariffs



Source: Ofcom, using data supplied by Teligen

Note: Lowest tariff available for each service type from any of the largest operators by market share in each country, July 2010 and July 2011; PPP adjusted; where a service is included in a bundle any additional usage charges are recorded separately against the relevant service

2.1.13 Basket 5: An affluent two-person household with high use of mobile, internet and 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 (to a lesser extent) SMS. They have a fixed line with relatively low use, are heavy internet users with a fast broadband connection and have a premium television package for watching HD sport and the latest films, and also a digital video recorder (DVR).

Figure 2.26 Composition of Basket 5

Fixed-line voice	Fixed broadband	Mobile	Mobile broadband	Television
246 call minutes	5GB per month minimum 16Mbit/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

The lowest weighted average pricing for Basket 5 was in the UK

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 £182 a month, with prices for all services being among the lowest in our comparator countries except for pay-TV, where it was the second highest (Figure 2.27).

Prices for the fixed voice component of Basket 5 were similar to those for Basket 1, as levels of use were similar (at 246 and 223 outgoing call minutes 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 to £4 in the US, and the overall cost of Basket 5’s fixed voice element ranging from £22 in the UK to £28 in Spain. France and the US were the only countries where the cost of the fixed voice element of the basket increased in the year to July 2011 (although in the UK the inclusion of BT’s *Line Rental Saver* product, offering line rental at £3.90 less a month to customers paying 12 months in advance was the driver of this price fall; without this tariff, weighted average prices would show an increase).

The UK had the lowest weighted average prices for both connections in the basket

The lowest average weighted cost of satisfying the mobile requirements of the basket (connection 1 with 376 minutes of outgoing calls, 80 SMS and 300MB of mobile data use and connection 2 with 188 outgoing call minutes, 20 SMS messages and lower mobile data use at 100MB) was in the UK, at £52 a month. In fact, the UK had the lowest weighted average prices for both connections; 51% and 23% respectively cheaper than the next-lowest cost option available among our comparator countries (both of which were in France). Prices for the mobile component of Basket 5 were highest in the US, where the cost of fulfilling connection 1 (£106 a month) was the second highest among our countries after Spain (£109), and that of connection 2 was greater than anywhere else, at £49 a month. As discussed in Section 2.1.5 above, the cost of our low-use voice mobile connections are comparatively high in the US as a result of the calling-party-pays charging regime, while data prices and international calling prices are also generally higher than in Europe (where calling prices between European countries are capped by EU regulation).

Basket 5 requires a fixed broadband connection with a minimum headline download speed of ‘up to’ 16Mbit/s (compared to 4Mbit/s for Basket 2 and 8Mbit/s for Basket 4) and 5GB of

usage. As with the prices for baskets 1 and 2, the weighted average cost of the fixed broadband element of Basket 5 was lowest in the UK and France.

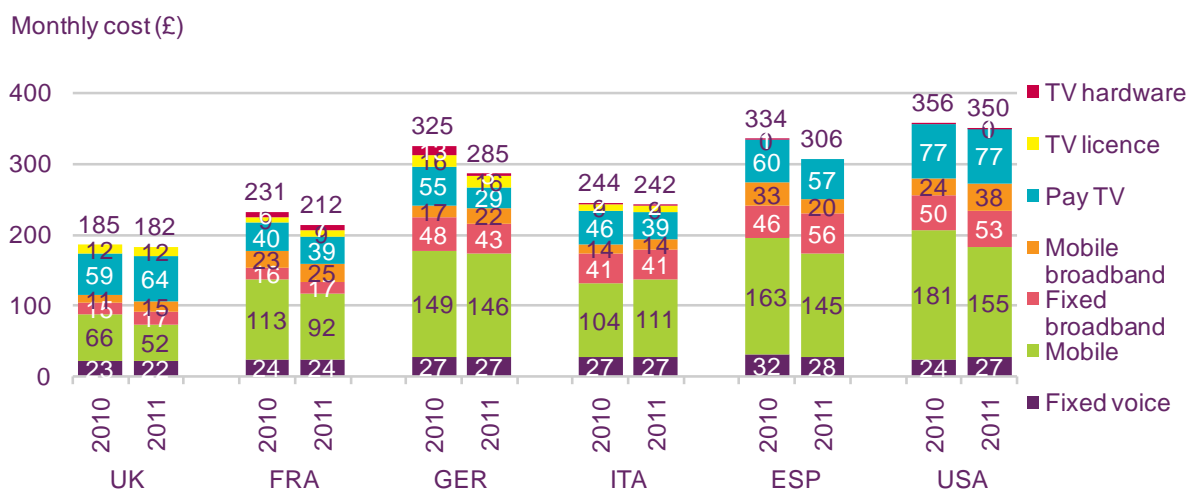
The medium-use mobile broadband connection included in this basket requires 3GB of data and use over 25 days a month. The lowest cost of providing this service was in Italy, at £14 a month, while it was second-lowest in the UK at £15 a month, an increase from £11 a month in 2010. The increase in the UK was as a result of O2 withdrawing the previous cheapest service and replacing it with a more expensive tariff that includes less bundled data, a trend among many of the larger UK mobile broadband providers, which has in part been driven by a perceived need to move to tiered data pricing in order to manage network capacity.

The lowest HD premium pay-TV single service pricing was in Germany

This basket 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 (£77 a month rental), the UK (£64 a month) and Spain (£57). This is related to how 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 £29 a month) consumers can purchase the top matches within a monthly football ‘bundle’, and in Italy (£39 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 requirement for HD services; in all other countries HD is standard within premium packages, whereas in the UK, Sky, the largest provider by market share, charges £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 2.27 Basket 5: ‘weighted average’ single-service pricing



Source: Ofcom, using data supplied by Teligen

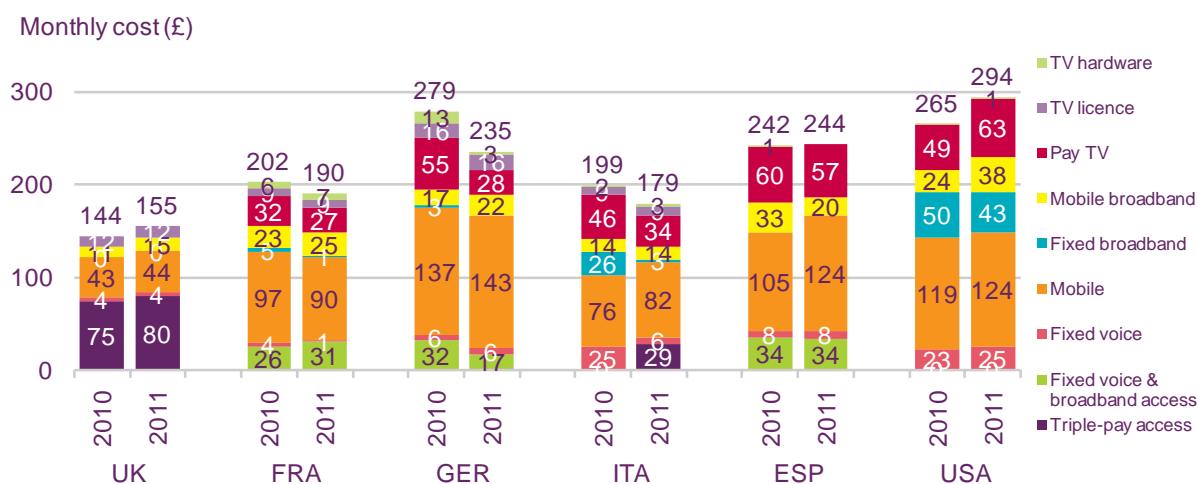
Note: Weighted average of best-value tariff from each of the three largest operators by market share in each country; July 2010 and July 2011; PPP adjusted; the figure for mobile broadband is the best-offer single service cost

The lowest 'best offer' pricing for Basket 5 was in the UK

The lowest best-offer pricing for this basket was in the UK, at £155 a month. The UK and Italy were the only countries where the lowest-cost combination of services for Basket 5 included a triple-play of fixed voice, fixed broadband and pay TV: in the US the cheapest option was to purchase standalone services, while in the other comparator countries it was a dual-play of fixed line and fixed broadband plus standalone pay-TV.

The largest savings, compared to purchasing services on a standalone basis, were found in Spain, where the cost of the cheapest bundle of services was 14% (£39 a month) less than the cheapest combination of standalone services. In the UK this saving was £10 a month (6%). The steepest fall in the best-offer prices for Basket 5 in the year to July 2011 was in Germany, where the best-offer price fell by 16% (£43 a month) with the largest fall in cost being for pay-TV services, as a result of the launch of a new Kabel Deutschland cable service.

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



Source: Ofcom, using data supplied by Teligen

Note: Lowest tariff available for each service type from any of the largest operators by market share in each country, July 2010 and July 2011; PPP adjusted; where a service is included in a bundle any additional usage charges are recorded separately against the relevant service

2.1.14 Conclusion

Prices in the UK are comparatively low

Prices in the UK compared favourably to those in the other five countries covered by our price benchmarking work. Including the TV licence fee, all five of the lowest 'weighted average' single service prices were found in the UK, as were the lowest 'best-offer', including multi-play, prices for three of our five baskets (Figure 2.29). France also performed well, providing the lowest 'best-offer' including multi-play price for Basket 4 and the second-lowest prices for all five baskets on a 'weighted average' basis.

In the UK the relatively low prices were largely due to 'weighted average' and 'best-offer' mobile prices being the lowest among our six countries (all of the five baskets include a mobile element, and the UK had the lowest prices for all nine mobile connections included in the analysis). However, the UK also benefited from comparatively low fixed voice, fixed broadband and mobile broadband prices (it had the lowest 'weighted average' and second

lowest 'best-offer' costs for fixed voice services, the lowest 'weighted average' and 'best-offer' costs for fixed broadband services and the second-lowest 'best-offer' single service mobile broadband prices).

The two baskets for which the UK did not have the lowest 'best-offer' prices were Baskets 1 and 4: Spain was cheaper than the UK for Basket 1, although this was only because there is no TV licence fee in Spain, whereas it is £12 a month in the UK. The Basket 4 '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.

HD premium pay-TV prices in the UK were high

The main area where the UK did not perform well was for HD premium pay-TV services, which were among the most expensive among our comparator countries, partly as a result of HD costing an additional £10 a month for UK Sky satellite TV customers.

Figure 2.29 Summary of 'weighted average' and 'best offer' basket pricing, including the TV licence fee

'Weighted average' single service pricing (£ per month)			'Best offer' pricing including multi-play (£ per month)			
Basket 1	1	UK	48	1	ESP	39
	2	FRA	54	2	UK	39
	3	ESP	56	3	ITA	49
	4	ITA	61	4	FRA	50
	5	USA	71	5	USA	57
	6	GER	72	6	GER	61
Basket 2	1	UK	70	1	UK	54
	2	FRA	82	2	FRA	64
	3	ITA	104	3	ESP	66
	4	ESP	107	4	ITA	68
	5	USA	115	5	GER	74
	6	GER	116	6	USA	93
Basket 3	1	UK	94	1	UK	80
	2	FRA	125	2	ITA	105
	3	ITA	127	3	FRA	113
	4	ESP	151	4	ESP	132
	5	USA	165	5	USA	136
	6	GER	193	6	GER	169
Basket 4	1	UK	137	1	FRA	79
	2	FRA	175	2	UK	114
	3	ESP	242	3	ITA	144
	4	ITA	245	4	ESP	175
	5	USA	264	5	GER	186
	6	GER	275	6	USA	219
Basket 5	1	UK	182	1	UK	155
	2	FRA	212	2	ITA	179
	3	ITA	242	3	FRA	190
	4	GER	285	4	GER	235
	5	ESP	306	5	ESP	244
	6	USA	350	6	USA	294

Source: Ofcom, using data supplied by Teligen

Notes: TV includes the licence fee

The difference between weighted average and 'best offer' prices was lowest in the UK

Figure 2.30, Figure 2.31 and Figure 2.32 summarise the pricing of each of our baskets, excluding the TV licence, in each comparator country. From these we are able to draw some general conclusions about the pricing of communications services in the six countries covered in this section:

In the UK the difference between the 'weighted average' and the 'best offer' pricing of the single services for our five baskets was the lowest across our six countries, with 'best offer' prices being, on average, 20% lower than the 'weighted average' for our six baskets, compared to a 29% average across all six countries. 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. The single-service offerings with the largest range of prices available in the UK were for mobile connections.

The difference between the 'weighted average' pricing of the fixed voice component and the best price available in the UK was never more than £4 a month (the greatest difference is in Basket 2, where the best available price was 15% lower than the 'weighted average' price, although in part this is the result of BT's *Line Rental Saver* product offering the lowest price and BT having 57% market share. By comparison, in Germany 'best-offer' prices for fixed-line voice were up to 63% cheaper than the weighted average. Similarly, in mobile the difference between the 'best offer' and the 'weighted average' pricing in the UK was one of the lowest among our comparator countries; the total difference between the 'weighted average' and 'best offer' pricing for the mobile element of all five baskets in the UK was £33, whereas the largest difference was in Italy at over £110.

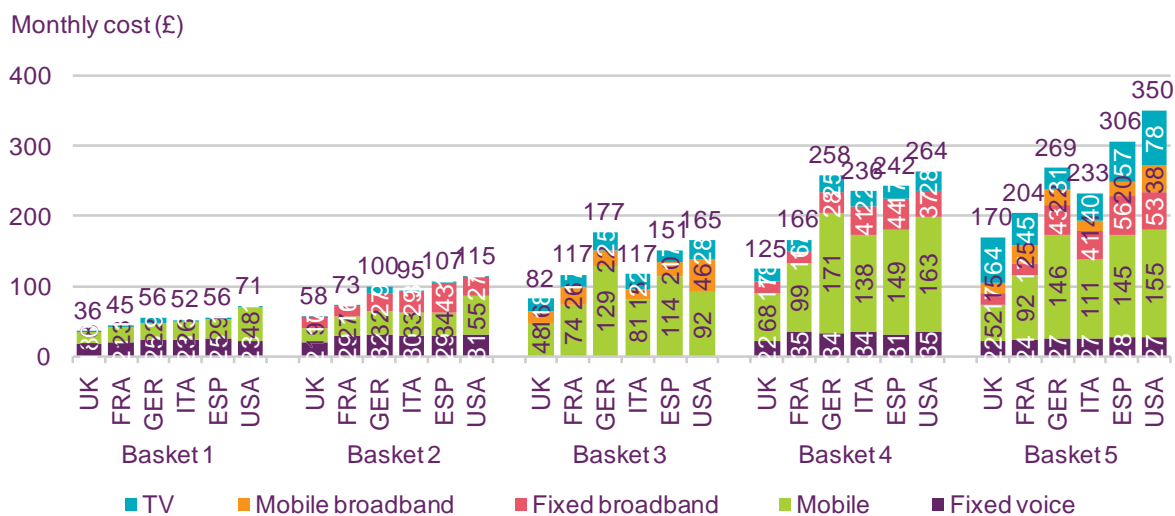
The potential savings from bundling are highest when fixed broadband is bought

Fixed broadband services are frequently bought in conjunction with other communications services, and consumers in all of our comparator countries can make significant savings by purchasing communications services in bundles, compared to purchasing the lowest-price single-service combination. However, the potential savings available by bundling the services required for Baskets 2, 4 and 5 (which all include a fixed-line broadband connection) varied from country to country. In the UK, the savings that consumers get from purchasing these baskets of services in a bundle ranged from 16% for Basket 4 to 29% for Basket 5, while among the other comparator countries it ranged from a 10% saving for Basket 5 in France to a 55% saving for Basket 4 (also in France).

The analysis in the report uses only the 'best offer' single-service cost of the mobile broadband element of the baskets, as the relatively narrow range of tariffs available in many countries make it difficult to produce meaningful 'weighted average' figures. On this basis the UK performed well, having the second-lowest 'best offer' single service prices for all three of the defined usage levels, in all three cases after Italy.

Differences in channel line-ups make it difficult to directly compare TV tariffs, although we included them in our analysis to enable us to include bundled tariffs. 'Triple-play' services delivered the lowest prices for Basket 4 (which includes a basic pay-TV service) in Germany and Spain, while the lowest-cost option in France was a quad-play that included mobile services, and in the UK, Italy and the US the lowest prices were achieved by purchasing fixed voice and fixed broadband dual-play offers. For Basket 5, which includes HD premium pay-TV, triple-play services provided the lowest possible prices in the UK and Italy.

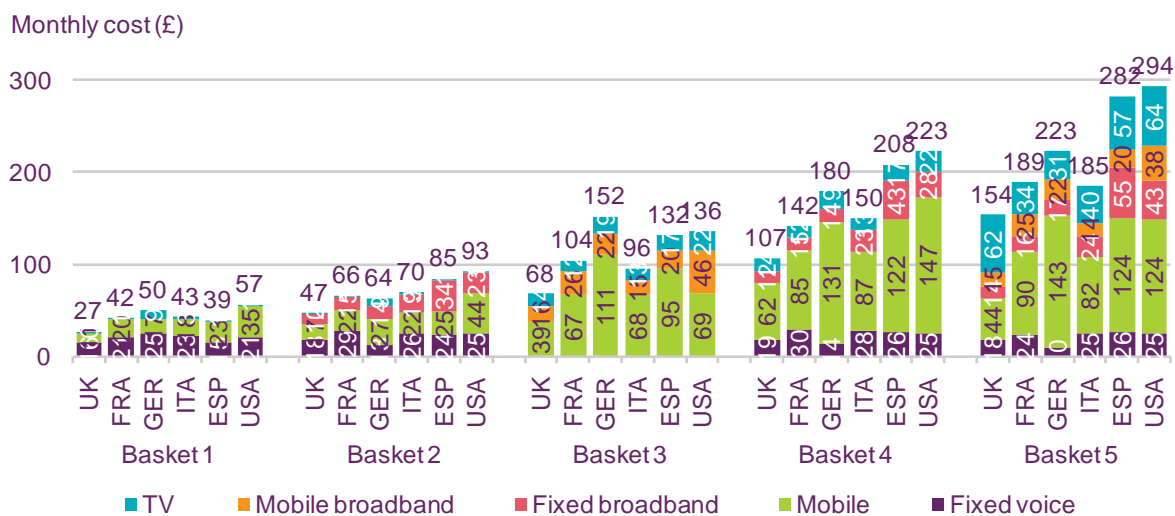
Figure 2.30 Comparative 'weighted average' pricing of 'single services' for all countries, excluding the TV licence fee



Source: Ofcom, using data supplied by Teligen

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

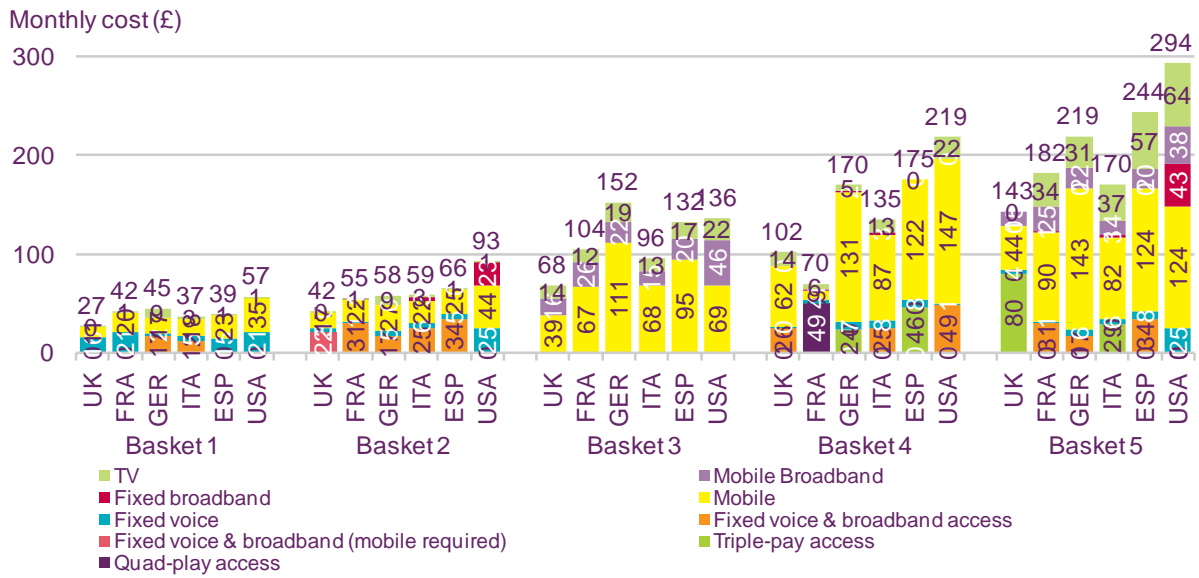
Figure 2.31 Comparative 'best offer' pricing of 'single services' for all countries, excluding the TV licence fee



Source: Ofcom, using data supplied by Teligen

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

Figure 2.32 Comparative cost of lowest price services, including multi-play, for all countries, excluding the TV licence fee



Source: Ofcom, using data supplied by Teligen

Note: Lowest cost tariff from each of the largest operators by market share in each country; July 2010; PPP adjusted; TV excludes licence fee; where a service is included in a bundle any additional usage charges are recorded separately against the relevant service