Section 7

Consumer choice and value

Introduction

In this section we look at purchasing choices and which service packages consumers are currently using. We provide an overview of the prices of communications services in the UK, how these have changed over time, and where possible, how they compare internationally.

Key trends

- **The increase in bundled purchasing continues.** The proportion of consumers who purchase service bundles has risen steadily over recent years, and by Q1 2013 60% of UK homes took more than one communications service from the same provider, up from 57% a year previously. Consumers aged over 75 (27%), and those in socio-economic group DE (45%) were the least likely to bundle any communications services.

- **Average UK household spend on communications services fell in real terms in 2012.** On average, UK households spent £113.61 per month on communications services in 2012, £1.55 (1.3%) less than in 2011 and £12.28 (9.8%) less than in 2007. This was equivalent to 5.4% of total household spend in 2012, slightly lower than in 2011 and unchanged from 2007.

- **The average revenue of residential broadband connections increased by 1.2% to £16.38 per connection in 2012, largely due to take up of superfast broadband.** Increasing average revenue per residential fixed broadband connection is to a large extent a result of consumers switching to superfast broadband services, (i.e. those with an advertised speed of 30Mbit/s or more), which typically command a price premium over standard broadband services. In the year to May 2013 the proportion of UK residential fixed broadband connections that were superfast increased from 8% to 19%.

- **The premium price for superfast broadband services is falling.** Our analysis shows that the lowest available prices for a basket of fixed voice services with a standard fixed broadband connection, and the price for the same fixed voice services with a superfast broadband connection, both continued to fall in the year to July 2013. The rate of decline in the price of the basket including superfast broadband (8.2%) was higher than that of the standard broadband basket (3.2%) in 2013, and the difference between the lowest price available for each of the baskets (i.e. the premium for superfast broadband services) was just over £8 per month, down from £10 per month in 2012 and £12 per month in 2010.

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43 Or 3.4% of average gross annual income.
45 Here we compare two service combinations: a fixed line with 400 minutes of outgoing voice calls along with a fixed broadband connection with a minimum headline speed of ‘up to’ 4Mbit/s and 15GB of data use per month, and a combination which is identical to the first in all respects other than that it requires a superfast broadband connection (i.e. one with a headline speed of at least ‘up to’ 30Mbit/s).
UK mobile prices fell for most of the usage profiles used in our analysis in 2013. Our analysis shows that the total 'weighted average'\textsuperscript{46} price of eight mobile connections with varying use of voice, SMS and data services fell by just under a quarter in real terms in the year to July 2013. The weighted average price of all but two of these connections fell during the year.

Stand-alone pay-TV prices increased in the year to July 2013. The lowest price available for a stand-alone basic pay-TV service increased by 7\% to £12 per month in 2013, although this was lower than the lowest price of a similar service in 2008 (£16 per month). The lowest price available for stand-alone HD premium pay-TV services was £66 per month in 2013, up from £55 in 2008 and an 8\% increase since 2012.

These trends are explored in more detail under the following sub-headings:

- Purchasing choices
- Billing preferences
- Spend and pricing of UK communications services
- International comparisons of the price of communications services

7.1 Purchasing choices

7.1.1 Increase in bundling as triple-play fixed-line, broadband and multichannel TV bundles continue to rise

Since 2005, and the start of LLU, there has been an increase in the number of ‘bundles’ or packages of communications services offered to consumers. This was particularly evident throughout 2006 with the launch of bundled offers, particularly in the areas of fixed line and broadband, with discounts for taking two services together. In 2008 triple-play bundles (fixed-line, broadband and multichannel TV) were introduced; this had a major impact on switching levels\textsuperscript{47}.

Figure 95 illustrates the trend in bundled purchasing. The number of consumers with bundled services rose from 57\% in 2012 to 60\% in 2013. As seen in previous years, both dual-play fixed-line and broadband, and triple-play fixed-line, broadband and multichannel TV bundles remain the most popular bundled packages among consumers.

Dual-play fixed-line and broadband bundling levels have remained unchanged in 2013, following the increases between 2011 and 2012. Triple-play fixed line, broadband and multichannel TV bundles continued their increase in 2013 (21\%, up from 19\%).

\textsuperscript{46} The weighted average is calculated using the lowest available prices available among tariffs offered by the UK’s three largest mobile providers (EE, O2 and Vodafone), weighted by their market shares.

\textsuperscript{47} Providers no longer tend to market bundles as ‘discounted’, or do not offer the services individually. We therefore no longer report on the basis of ‘discounted bundles’. The following data are based on participants purchasing more than one service from any given provider, which they consider a ‘package’.
Figure 95 Trends in purchasing multiple communications services from a single supplier

Source: Ofcom communications tracking survey
Base: All adults 16+ (Q1 2008, 5812) (Q1 2009, 6090) (Q1 2010, 9103) (Q1 2011, 3474) (Q1 2012, 3772) (Q1 2013, 3750)
QG1. Do you receive more than one of these services as part of an overall deal or package from the same supplier? / QG3. Do you receive a discount or special deal for subscribing to this package of services?

Among the different age groups there have been no significant increases in the number of consumers with a bundled service (Figure 96). Consumers aged over 75 (27%), and those in socio-economic group DE (45%) remain the least likely to bundle any communications services.

Figure 96 Age, gender and socio-economic profile of consumers with a bundled service

Any bundled services (%)

Source: Ofcom research, Quarter 1 2013
QG1. Do you receive any of these services as part of an overall deal or package from the same supplier?
7.1.2 Older bundlers and those in rural areas are more likely to purchase dual-play fixed-line and broadband bundles

Figure 97 shows that across all age groups and both genders, dual-play fixed-line and broadband bundles are the most popular, followed by triple-play fixed-line, broadband and multichannel TV. Dual-play fixed-line and broadband are most common among older age groups; over half of 45-64s (52%) and 65+ (54%) have this type of bundle. This compares to younger consumers, who are as likely to have a triple-play fixed-line, broadband and multichannel TV bundle, with around four in ten of those aged between 16 and 44 purchasing these types of bundles.

Dual-play fixed-line and broadband bundles account for a large proportion of bundling in rural areas (66%); this compares to 43% of those in urban areas with this type of bundle. Triple-play fixed-line, broadband and multichannel TV is more popular in urban areas, at just over one in three (37%), compared to 21% in rural areas. The lower level of triple-play in rural areas is likely to be linked to the lower cable availability.

Figure 97 Trends in purchasing multiple communications services, by age, gender, socio-economic group and urbanity

Source: Ofcom communication tracking survey
Base: All adults 16+ who bundle at least two services (Q1 2013, 2104)
QG1. Do you receive more than one of these services as part of an overall deal or package from the same supplier? / QG3. Do you receive a discount or special deal for subscribing to this package of services?

7.1.3 Over half of consumers bundle fixed line and fixed broadband services

There are differences in purchasing behaviour across the communications markets. In the fixed-line market just over half (55%) of adults purchase this service as part of a bundle – up from 52% in 2012 (Figure 98). This equates to two-thirds of fixed-line customers who purchase this service as part of a bundle. Those over 65 are the most likely to purchase this service as a standalone.

In the fixed broadband market, similarly, just over half (54%) of adults purchase the service as part of a bundle, in line with 2012. This equates to three-quarters of fixed broadband customers who purchase this service as part of a bundle. Those aged between 16-24 are the most likely to purchase fixed broadband as a single service.
In the mobile market the majority of consumers still purchase mobile as a single service (86% of adults, 94% of mobile customers). Within pay TV almost identical proportions of adults purchase this service as part of a bundle (28%) and take the service as a single purchase (29%).

**Figure 98 Trend in purchasing behaviour, by communications market**

![Graph showing trend in purchasing behaviour by communications market](image)

Source: Ofcom communications tracking survey (Q1 and Q3 rolled data from 2010), Q1 2011, Q1 2012, Q1 2013

### 7.1.4 Over half of all mobile customers are now on at least a 12-month contract

Figure 99 illustrates the proportion of consumers using each of the mobile packages on offer.

The proportion of mobile customers opting for contract packages has been increasing year on year since 2005, and now over three in five (62%) mobile users have a contract service, with the majority (54%) on at least a 12-month contract. Although there has been an increase in contracts of 12 months or over, the SIM-only option has doubled since 2010 (8% vs. 4%) which has contributed to the rise in contract packages in the past 12 months.

This continued rise in the take-up of pay-monthly, and longer contracts, can be attributed to the growth in the take-up of smartphones, as users repay much of the cost of an expensive handset over a number of months, rather than upfront. In Q2 2013, 83% of adults with a smartphone were on a monthly contract.

In addition, as internet access on mobile phones becomes more widespread, pay-monthly tariffs may be more attractive than pre-pay tariffs, as the majority of post-pay tariffs now include an element of bundled data use.

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48 Please note that “other contract” and “SIM-only contract” figures are rounded to calculate the percentage of mobile customers with a contract service.
7.1.5 Younger consumers and ABC1s driving shift towards contracts

This shift in mobile payment choices is across all except the oldest age group (75+). Both the 16-24 and the 25-44 age groups continue to move to mobile contracts, with those aged 45-64 showing slower levels of movement than in 2012. Consumers aged between 65 and 74 continue to predominantly have a pre-pay contract (68%), although just under one in three (32%) now have a contract, an increase on 2012 (25%). Those aged 75 or older continue to be most likely to have a pre-pay contract, with just under nine in ten (88%) favouring this type of payment (Figure 100).

Figure 100 Pre-pay and contract users, by age

Source: Ofcom communications tracking survey
Base: Adults 16+ who personally use a mobile phone (Q2 2008, 1699) (Q2 2009, 1835) (Q2 2010, 1892) (Q2 2011, 2543) (Q2 2012, 2582) (Q2 2013, 2595) * Small base size; treat as indicative only.
All socio-economic groups experienced a decline in use of pre-pay mobiles (Figure 101), although use continues to remain highest among DEs. The level of change among those in both AB (29% vs. 31%) and C1 (33% vs. 36%) was less pronounced in 2013 than in previous years.

**Figure 101  Socio-economic profile of pre-pay and contract users**

Source: Ofcom communications tracking survey  
Base: Adults 16+ who personally use a mobile phone (Q2 2008, 1699) (Q2 2009, 1835) (Q2 2010, 1892) (Q2 2011, 2543) (Q2 2012, 2582) (Q2 2013, 2595)

### 7.1.6 Two-thirds of new mobile contracts had a minimum period of 24 months in Q1 2013

GfK sales data shows (Figure 102) that two-thirds of new pay-monthly mobile sales in Q1 2013 had a minimum contract period of 24 months, unchanged from 2012. However, 18-month contracts, which accounted for almost three-quarters of contract sales five years ago, had all but disappeared by Q1 2013, partly due to increasing smartphone take-up (as longer contracts enable consumers to spread the cost of the handset, which can be hundreds of pounds, across more monthly payments, therefore keeping monthly rental fees down).

In total, 32% of new mobile contracts had a minimum term of 12 months or less in Q1 2013, up two percentage points compared to Q1 2012. All of the 14% of new connections that were one-month contracts, and many of those with a 12-month minimum term, are likely to be SIM-only contracts, under which the user receives a new SIM to be used in a mobile handset that they already own. These have proved to be popular with consumers, as SIM-only contracts are usually much cheaper than those which include a new handset.
### 7.2 Billing preferences

#### 7.2.1 Just under half of consumers receive their landline bill online

Among those who have a landline phone, just under half (48%) of adults receive their billing online only. The second most common method of receiving a bill is paper (37%), followed by 4% who receive both online and paper bills (Figure 103).

Within the different age groups, the levels of those who receive an online bill declines significantly for those aged over 65. Over half (51%) of those aged between 65 and 74 favour a paper bill, with the difference between online and paper bills even greater among those aged over 75 years old. Younger landline users were the most likely to state that they don’t know how they receive their bill.

About half of those in the AB (55%) and C1 (54%) socio-economic groups use online billing, compared to just under four in ten (37%) of those in socio-economic group DE. Those in the DE socio-economic group are far more likely to favour paper billing (50%) than those in the AB (31%) and C1 (26%) groups.
7.3 Spend and pricing of UK communications services

7.3.1 Change in spend on residential communications services

Average UK household spend on communications services fell in real terms (i.e. adjusted for inflation) in 2012, the most recent year for which data were available (Figure 104). UK households spent an average of £113.61 per month on communications services in 2012, £1.55 (1.3%) less than in 2011 and £12.28 (9.8%) less than in 2007. This was equivalent to 5.4% of total household spend in 2012,\textsuperscript{49} slightly lower than in 2011 and unchanged from 2007. Average household spend fell for all services in 2012 except fixed internet services, where it increased by 5.8% to £11.92 as a result of growth in household take-up of fixed broadband services and consumers switching to superfast services (i.e. those with a headline speed of ‘up to’ 30Mbit/s or higher).

Average monthly household spend on mobile services fell by 1.0% to £46.12 during the year, despite the growing use of mobile data services that is attributable to increasing smartphone take-up. Average spend on fixed voice services fell by 4.0% to £21.83 in 2012, largely as a result of falling call volumes (which declined by 8% during the year), while average spend on TV services fell by 2.6% to £28.88, and average spend on radio (which is funded via the TV licence fee) declined by 1.3% to £2.69 per month. Average household spend on post was unchanged at £2.17 per month during the year.

\textsuperscript{49} Or 3.4% of average gross annual income.
7.3.2 Pricing of services

The pricing index, which includes telecom services, continued to increase faster than the overall consumer price index in 2013.

The Office for National Statistics tracks the prices of ‘baskets’ of services in order to monitor inflation levels. This analysis shows that for much of the period from 2009 onwards, the rate of increase in the price of the ‘telephone and telefax equipment and services’ basket (which includes telecoms services and hardware) was higher than the overall rate of inflation (Figure 105). Prices of telecoms services and equipment continued to increase into 2013, with the ONS ‘telephone and telefax equipment and services’ index increasing by 2.5% in the year to October 2013, higher than the overall increase in the consumer price index (2.2%).

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50 Fixed voice telephony, mobile telephony and internet services (including cable and bundled services) made up 94% of the ‘telephone and telefax equipment and services’ index in 2012.
7.3.3 Fixed voice pricing

Ofcom commissions pricing consultancy Teligen to collect data on all tariffs available from the largest retail providers, in July each year, in order to track the price of UK residential communications services. The pricing model then identifies the minimum price required to fulfil ‘baskets’ of communications services using each of these operators’ tariffs, these baskets being designed to be representative of the communications needs of five ‘typical’ households.\(^{51}\)

Although most UK consumers now purchase fixed voice services as part of a bundle (Figure 95 shows that the proportion of homes buying bundled communications services increased from 40% to 60% in the five years to Q1 2013), some consumers still purchase fixed voice services on a stand-alone basis. In order to monitor residential fixed voice service prices for consumers who purchase fixed voice telephony services on a stand-alone basis, we calculate a ‘weighted average’ price from the cheapest prices available to fulfil the fixed voice usage requirements across our household profiles, using the stand-alone tariffs offered by the three largest residential fixed telecoms providers, weighted by their retail market shares.\(^{52}\)

The analysis indicates that ‘weighted average’ stand-alone fixed voice prices increased for all but one of the household types (Household 1) between July 2012 and July 2013, and the overall price of fulfilling the usage requirements of all four baskets increased by 9.5% in nominal terms (and by 6.2% when inflation is taken into account) over the same period (Figure 106). However, Virgin Media withdrew its stand-alone fixed voice services between July 2012 and July 2013, and excluding Virgin Media from the weighted average in 2012 (to enable a like-for-like comparison of tariffs) shows that the cost of all four baskets increased in 2013, with the average increase across all four being 16.2% in nominal terms and 12.7% when inflation is taken into account.

\(^{51}\) These baskets allow the comparison of prices with those in previous years, but do not necessarily indicate the prices paid by average consumers as they may not reflect average consumers’ use, nor do they consider tariffs available from providers other than the largest three providers in each market. In addition, the weighted average the calculation assumes that stand-alone consumers are on the optimal tariff for their usage profile, which will seldom be the case.

\(^{52}\) ‘Fixed voice’ is taken to mean ‘calls plus access’ throughout this section of the report.
In is notable that there is little variation between the price of the baskets, with the monthly price of Household 3 (which has the highest use, at 500 minutes per month) being just £3.48 per month more than that of Household 4 (which has the lowest use, at 200 minutes per month). This suggests that the cost each of Household 3’s additional call minutes is low, at around 1.2 pence per minute, although it should be noted that these households have slightly different calling profiles. The low cost of each additional call minute is partly because many of the tariffs feeding into the weighted averages include a bundled call allowance (for example, ‘free’ evening and weekend calls), so consumers can make some types of call at no additional cost.

As shown previously in Figure 98, over half of all UK homes (55%, equating to almost two-thirds of homes with a landline service) purchased a fixed voice service along with other communication services as part of a bundle in Q1 2013. As a result, the analysis of stand-alone fixed voice telephony pricing is not relevant to the majority of UK fixed-line users (an analysis of bundled service pricing can be found later in this section). However, Figure 114, later in this section, shows that older and less affluent households are less likely to purchase bundled landline services, and stand-alone pricing is therefore likely to be more relevant to these consumers.

**Figure 106  Stand-alone fixed-line voice: weighted average prices for typical baskets of voice services: 2010 to 2013**

<table>
<thead>
<tr>
<th>‘Typical household type’</th>
<th>Household 1</th>
<th>Household 2</th>
<th>Household 3</th>
<th>Household 4</th>
</tr>
</thead>
<tbody>
<tr>
<td>A retired low-income couple</td>
<td>18.75</td>
<td>21.44</td>
<td>20.79</td>
<td>19.27</td>
</tr>
<tr>
<td>A couple of late adopters</td>
<td>18.01</td>
<td>21.38</td>
<td>20.63</td>
<td>18.76</td>
</tr>
<tr>
<td>A ‘networked’ family</td>
<td>18.71</td>
<td>20.01</td>
<td>19.30</td>
<td>20.45</td>
</tr>
<tr>
<td>Affluent couple with sophisticated use</td>
<td>19.78</td>
<td>23.26</td>
<td>22.68</td>
<td>23.84</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Type of calls</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>97% UK geographic, and 3% UK mobiles</td>
<td>n/a</td>
<td>-1.8%</td>
<td>-0.1%</td>
<td>9.5%</td>
</tr>
<tr>
<td>94% UK geographic, 3% UK mobiles and 3% international</td>
<td>n/a</td>
<td>-6.5%</td>
<td>-3.2%</td>
<td>6.2%</td>
</tr>
<tr>
<td>91% UK geographic, 2% UK mobiles and 7% international</td>
<td>18.75</td>
<td>18.01</td>
<td>18.71</td>
<td>19.78</td>
</tr>
<tr>
<td>80% UK geographic, 12% UK mobiles and 8% international</td>
<td>21.44</td>
<td>21.38</td>
<td>20.01</td>
<td>23.26</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Time of day</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>58% daytime, 25% evening and 17% weekend</td>
<td>n/a</td>
<td>-1.8%</td>
<td>-0.1%</td>
<td>9.5%</td>
</tr>
<tr>
<td>58% daytime, 25% evening and 17% weekend</td>
<td>n/a</td>
<td>-6.5%</td>
<td>-3.2%</td>
<td>6.2%</td>
</tr>
<tr>
<td>59% daytime, 25% evening and 16% weekend</td>
<td>18.75</td>
<td>18.01</td>
<td>18.71</td>
<td>19.78</td>
</tr>
<tr>
<td>59% daytime, 25% evening and 16% weekend</td>
<td>21.44</td>
<td>21.38</td>
<td>20.01</td>
<td>23.26</td>
</tr>
</tbody>
</table>

**Source:** Ofcom / Teligen

**Note:** Tariff data collected in July each year; nominal prices; includes VAT.
**Average calls to mobiles and international call charges are falling, although the average across all call types has increased**

We are able to calculate average residential per-minute fixed voice call charges, using revenue and call volume data provided to Ofcom by telecoms providers. These data include use by consumers buying landline services on both a stand-alone and a bundled basis (operators are asked to allocate a proportion of bundled service revenues to fixed voice services), and we include line rental fees in the calculation of the average price of calls to UK geographic numbers.

Our analysis shows that the average price of a residential fixed voice call minute increased by 6.2% in real terms in 2012 (Figure 107). This was largely the result of an increase in the average price per minute of calls to UK geographic numbers (which make up over 85% of total call volumes for the call types shown below); it increased by 9.4% during the year (again, in real terms) due to two main factors:

- **Increasing line rental fees**: the result of higher line rental prices (BT, TalkTalk, Virgin Media and Sky increased their standard line rental charges by an average of 6% in nominal terms in 2012) and increasing numbers of consumers buying line rental services that include additional ‘free’ bundled calls or reduced-rate calls in return for a higher monthly fee.

- **Falling call volumes per line**: average monthly outgoing call minutes to UK geographic numbers per residential fixed line fell by 9% in 2012, so a larger proportion of the line rental/call bundle fee has been allocated to each call minute when calculating an average pence-per-minute call charge.

The average price of a call from a UK fixed phone to an international destination fell by over 10% in real terms, to 4.8 pence per minute, in 2012. This was less than half the 10.5 pence-per-minute average in 2007, and was a result of traditional fixed-line operators having reduced prices in order to compete with low-priced international mobile call tariffs and those offered by voice over IP (VoIP) providers. Most major UK residential fixed-line operators now offer service ‘add-ons’ which give either discounted or ‘free’ international calls for consumers who pay an additional monthly fee: BT offered a number of international calling plans in January 2014, while TalkTalk customers were able to purchase a call ‘add-on’ offering 500 minutes of calls to certain international destinations for £5 per month.\(^\text{53}\)

The average pence-per-minute charge for residential fixed-to-mobile calls fell by 7.0% to 14.5 pence per minute in 2012, partly due to a reduction in mobile termination rates, which has enabled fixed providers to cut the price of calls and introduce ‘add-ons’ that include calls to mobiles.

\(^{53}\) [http://sales.talktalk.co.uk/product/boost/18213](http://sales.talktalk.co.uk/product/boost/18213)
Figure 107  Average per-minute residential fixed voice call charges

Source: Ofcom / operators
Note: Nominal prices; Includes estimates where Ofcom does not receive data from operators; calculation of total and UK geographic calls prices includes line rental revenues; excludes non-geographic voice calls; adjusted for RPI; excludes VAT.
7.3.4 Fixed broadband pricing

Average revenue per residential fixed broadband connection increased in 2012 as a result of growing take-up of superfast services

We are able to calculate the average price of a residential fixed broadband connection from connection and revenue data provided to Ofcom by ISPs (Figure 108). When compiling these figures, ISPs split revenues from bundled services across the services included in the bundle, so the figures below should be purely for the fixed broadband element of any bundled services, and are based on the accounting conventions used by the ISPs to allocate bundled revenues. Our figures indicate that the average price of a residential broadband connection increased by 1.2% to £16.38 in 2012, having been unchanged in 2011.

Increasing average revenue per residential fixed broadband connection is to a large extent a result of consumers switching to superfast broadband services, (i.e. those with an advertised speed of 30Mbit/s or more), which typically command a price premium of £5 to £10 a month over standard broadband services. Ofcom data show that in the year to May 2013 the proportion of UK residential fixed broadband connections that were superfast increased (from 8% to 19%), and this change in the mix of fixed broadband services (rather than increasing prices for either standard or superfast services) has resulted in increasing average revenues per connection, and faster average residential fixed broadband download speeds, which increased by from 9.0Mbit/s to 14.7Mbit/s over the same period.

Figure 108 Average monthly price of a residential broadband connection (excluding line rental)

<table>
<thead>
<tr>
<th>Year</th>
<th>Average price (£)</th>
<th>Annual change</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
<td>£21.17</td>
<td>-13.3%</td>
</tr>
<tr>
<td>2008</td>
<td>£18.73</td>
<td>-11.5%</td>
</tr>
<tr>
<td>2009</td>
<td>£17.77</td>
<td>-5.1%</td>
</tr>
<tr>
<td>2010</td>
<td>£16.19</td>
<td>-8.9%</td>
</tr>
<tr>
<td>2011</td>
<td>£16.19</td>
<td>0.0%</td>
</tr>
<tr>
<td>2012</td>
<td>£16.38</td>
<td>1.2%</td>
</tr>
</tbody>
</table>

Source: Ofcom / operators
Notes: Figures are adjusted for RPI; includes VAT; includes estimates where Ofcom does not receive data from operators; figures differ from those published in the 2013 Communications Market Report as they have been amended to reflect more accurate data.

54 http://stakeholders.ofcom.org.uk/market-data-research/other/telecoms-research/broadband-speeds/broadband-speeds-may2013/
55 http://stakeholders.ofcom.org.uk/market-data-research/other/telecoms-research/broadband-speeds/broadband-speeds-may2013/
The premium for superfast fixed broadband services is falling

Teligen’s communications service pricing model enables us to compare the lowest price available for a basket of fixed broadband and fixed voice services, using the tariffs provided by those operators that are included in the model. Here we compare two service combinations: a fixed line with 400 minutes of outgoing voice calls together with a fixed broadband connection with a minimum headline speed of ‘up to’ 4Mbit/s and 15GB of data use per month, and a combination which is identical to the first in all respects other than that it requires a superfast broadband connection (i.e. one with a headline speed of at least ‘up to’ 30Mbit/s).

This analysis shows that the lowest prices available for both service combinations continued to fall in nominal terms in the year to July 2013, when the rate of decline in the price of the basket that includes a superfast broadband service (8.2%) was higher than that of the standard broadband basket (3.2%). In 2013, the difference between the lowest price available for each of the baskets was just over £8 per month, down from £10 per month in 2012 and £12 per month in 2010 (Figure 109).

**Figure 109 Lowest price available for a basket of voice calls and a fixed broadband service**

![Graph showing monthly costs for superfast and standard broadband services from 2010 to 2013 with nominal annual changes.]

<table>
<thead>
<tr>
<th>Year</th>
<th>Superfast broadband</th>
<th>Standard broadband</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>39.33</td>
<td>27.78</td>
</tr>
<tr>
<td>2011</td>
<td>35.72</td>
<td>24.62</td>
</tr>
<tr>
<td>2012</td>
<td>32.73</td>
<td>22.73</td>
</tr>
<tr>
<td>2013</td>
<td>30.06</td>
<td>22.00</td>
</tr>
</tbody>
</table>

Nominal annual change:

Source: Ofcom / Teligen
Notes: Nominal prices; based on tariffs available in July each year; includes VAT; fixed voice basket includes 400 voice minutes (94% UK geographic, 3% to UK mobiles, 3% to international destinations), 58% of calls in daytime, 25% in evening, 17% at weekends; basket of services includes special offers available such as discounted line rental for an introductory period.

**7.3.5 Mobile pricing**

UK mobile prices fell for most of the usage profiles used in our analysis in 2013

Our annual analysis of the tariffs available from the largest retail communications service providers enables us to track the prices available for eight mobile connections of varying use in the same way that we track those of fixed voice services. Overall, we find that the total ‘weighted average’ price of these eight connections, calculated using the tariffs available from the UK’s three largest mobile providers (EE, O2 and Vodafone) fell by just under a quarter (22.6%) in real terms in the year to July 2013, with the weighted average price of all but three of the connections used in our analysis having fallen during the year (Figure
Post-pay mobile services have proved popular with mobile users in the context of increasing smartphone take-up, as they enable consumers to spread the cost of the handset, which is often several hundred pounds, across the contract’s lifetime. As shown in Figure 99, 54% of mobile phone users said that they had a post-pay contract in Q2 2013, up from 51% a year previously.

‘SIM-only’ tariffs enable consumers to make savings on the cost of their mobile service in return for not receiving a new handset when they sign up to a new mobile service. Instead, they are supplied with a SIM card that they use in a handset they already own, and the mobile provider is able to pass on the lower costs associated with not having to subsidise a new handset, in the form of lower service prices. In the UK, 86% of the tariffs feeding into the UK average best-pricing analysis of our eight connections in July 2013 were SIM-only offers, up from 46% in July 2012 (where a tariff is SIM-only our model factors-in the cost of buying a mobile handset separately).

Figure 110 Composition of mobile phone baskets and weighted average stand-alone prices: 2010 to 2013

<table>
<thead>
<tr>
<th>Handset type</th>
<th>Outbound voice minutes per month</th>
<th>Outbound SMS per month</th>
<th>Data use per month</th>
</tr>
</thead>
<tbody>
<tr>
<td>Connection 1</td>
<td>Basic</td>
<td>50</td>
<td>None</td>
</tr>
<tr>
<td>Connection 2</td>
<td>Basic</td>
<td>50</td>
<td>25</td>
</tr>
<tr>
<td>Connection 3</td>
<td>Intermediate</td>
<td>150</td>
<td>250</td>
</tr>
<tr>
<td>Connection 4</td>
<td>Intermediate</td>
<td>200</td>
<td>50</td>
</tr>
<tr>
<td>Connection 5</td>
<td>Intermediate</td>
<td>100</td>
<td>300</td>
</tr>
<tr>
<td>Connection 6</td>
<td>Advanced</td>
<td>250</td>
<td>100</td>
</tr>
<tr>
<td>Connection 7</td>
<td>Advanced</td>
<td>300</td>
<td>150</td>
</tr>
<tr>
<td>Connection 8</td>
<td>Advanced</td>
<td>500</td>
<td>200</td>
</tr>
</tbody>
</table>

Monthly cost (£)

<table>
<thead>
<tr>
<th>Year</th>
<th>Connection 1</th>
<th>Connection 2</th>
<th>Connection 3</th>
<th>Connection 4</th>
<th>Connection 5</th>
<th>Connection 6</th>
<th>Connection 7</th>
<th>Connection 8</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>59</td>
<td>48</td>
<td>55</td>
<td>41</td>
<td>41</td>
<td>n/a</td>
<td>n/a</td>
<td>n/a</td>
</tr>
<tr>
<td>2011</td>
<td>41</td>
<td>31</td>
<td>48</td>
<td>30</td>
<td>28</td>
<td>34</td>
<td>31</td>
<td>48</td>
</tr>
<tr>
<td>2012</td>
<td>34</td>
<td>29</td>
<td>39</td>
<td>17</td>
<td>17</td>
<td>34</td>
<td>29</td>
<td>39</td>
</tr>
<tr>
<td>2013</td>
<td>16</td>
<td>15</td>
<td>18</td>
<td>14</td>
<td>14</td>
<td>22</td>
<td>15</td>
<td>18</td>
</tr>
</tbody>
</table>

Source: Ofcom / Teligen
Note: Calculated from lowest tariff available from each of the three largest mobile operators, by retail market share, in July of each year; nominal prices; includes VAT.

It should be noted that the tariffs offered by the UK’s largest mobile providers are not necessarily the cheapest available to UK consumers. The total weighted average price of the eight connections, calculated using the prices of the three cheapest services offered by the mobile operators whose tariffs are included in Teligen’s pricing model, was 32% lower than that calculated using the three largest providers’ tariffs in 2013.

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56 It should be noted that the tariffs offered by the UK’s largest mobile providers are not necessarily the cheapest available to UK consumers. The total weighted average price of the eight connections, calculated using the prices of the three cheapest services offered by the mobile operators whose tariffs are included in Teligen’s pricing model, was 32% lower than that calculated using the three largest providers’ tariffs in 2013.
Three in ten new mobile pay-monthly mobile sales have a monthly rental under £15

Figure 111 uses GfK Retail and Technology sales data to show the monthly value of new post-pay mobile contract sales. In Q1 2013 30% of all new post-pay mobile services sold had a monthly rental fee of less than £15 a month, more than four times the 7% proportion recorded in Q1 2008. The increase in the proportion of new post-pay services with lower monthly fees is due to falling mobile prices, and operators trying to migrate pre-pay customers onto low-price post-pay monthly services, including SIM-only tariffs.

The low monthly price of many SIM-only services (SIM-only tariffs were available from as little as £5 a month in January 2014) and limited contractual commitment, make them attractive to users who continue to use their existing handsets, and in the growth areas of the SIM-only market there is a greying of the distinction between pre-pay and post-pay, so that the traditional definitions of these tariffs do not apply to some services.

Lower prices for pay-monthly services are also associated with longer minimum contract periods, and GfK data also show that in Q1 2013 67% of new mobile post-pay services had a minimum term of 24 months, up from 2% five years previously, and 32% of new post-pay services had a one- or 12-month minimum term, almost all of which will be SIM-only (see Figure 102).

**Figure 111 Monthly line rental prices for new post-pay mobile connections**

Source: GfK Retail and Technology UK Ltd, contract handset acquisitions: price segments.

Notes: England, Scotland and Wales only (excludes Northern Ireland); based on GfK’s coverage of 94% of the consumer market; based on new post-pay connections; excludes contract renewals; represents sales only through consumer channels (i.e. most business connections are excluded).

### 7.3.6 Pay-TV pricing

**Stand-alone pay-TV prices increased in the year to July 2013**

The TV licence fee was unchanged at £145.50 per year (£12.13 per month) for a colour licence in 2013, since the government froze it for six years in 2010. When comparing the price of pay-TV services we use two service tiers:

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57 Talkmobile’s lowest cost SIM-only service was £5 per month in January 2014, while Virgin Media offered a £5 per month SIM-only service to its broadband, TV and home phone customers (or £7 per month for those not taking any of these services). At the same time, Vodafone, O2, Orange, T-Mobile and Tesco Mobile’s lowest priced SIM-only services all cost between £7.50 and £9 per month.
- **basic pay TV**: a service that includes channels which are not available on free-to-air platforms; and
- **HD premium pay TV**: a package including live Premier League football, first-run Hollywood films, a top entertainment package and HD channels.

As is shown in Figure 112, the lowest price available for a stand-alone basic pay-TV service (including promotional discounts and the cost of hardware/installation, which is amortised over three years) increased by 7% to £12 per month in 2013, although this was lower than the lowest price of a similar service in 2008 (£16 per month). The increase in 2013 was the result of Virgin Media having increased the base monthly charge for its *TV Size M+ with V HD* service (the lowest priced service both in 2012 and 2013) from £13.00 per month to £14.00 per month (in both years a promotion offering half-price rental for six months was available).

The lowest available price for a stand-alone HD premium pay-TV service has increased since 2008, although the number of channels included (particularly the number of HD channels) has increased for these premium services, as has the range of additional services included in a subscription, such as on-demand and 'catch-up' programming. The lowest price available for HD premium pay-TV services was £66 per month in 2013, an 8% increase compared to 2012, as a result of Sky (which provided the lowest-cost services in both 2012 and 2013) withdrawing a promotional discount that had been available in 2012 and increasing the price of its HD premium pay-TV service. In 2012 its lowest-cost HD premium pay-TV service, *Sky World* and *Sky World + HD Mix*, required an additional £10.25 a month to receive channels in HD, giving a total monthly price of £63.25 per month (which was discounted by just over £5 per month for six months), while in 2013 the lowest-priced package, *Sky Entertainment Extra+ with Sky Sports & Movies + HD Mix*, included HD entertainment channels, and required an additional £5.25 per month to view the sports and movie channels in HD, giving a total price of £65.75 per month.

**Figure 112  Best price available for pay-TV services**

![Figure 112 Best price available for pay-TV services](image)

Source: Ofcom / Teligen
Note: Based on stand-alone television tariffs available from Virgin Media and Sky in July each year; includes hardware and installation costs; nominal prices; includes VAT.

### 7.3.7 Bundled service pricing

Ofcom’s *technology tracker* research identifies that 60% of UK households purchased two or more communications services from the same provider as part of a bundle in Q2 2013 (see
Figure 95). It is therefore necessary to consider bundled services as well as stand-alone services when looking at communications service pricing. Figure 113 shows the lowest prices available based on the stand-alone and bundled tariffs offered by the UK’s largest providers of residential communications services, for a household purchasing:

- a fixed voice service with above-average use (500 minutes of outgoing calls per month);
- a fixed broadband connection with an advertised speed higher than ‘up to’ 10Mbit/s and 50GB of data use per month;
- four mobile phones with varying use of voice calls, SMS messages and mobile data use; and
- a basic pay-TV subscription including HD channels and a DVR.

In all of the three years to 2013, the lowest-priced combination of services required to fulfil this household’s usage requirements involved purchasing some of the required services as part of a bundle, and in 2013 the difference between the lowest available monthly price including bundles (£92.31) and excluding bundles (£107.18) was £15 a month, a 14% saving. While in both 2011 and 2012 the lowest-priced combination of services had included a double-play bundle of fixed voice and fixed broadband services, the option in 2013 involved buying a triple-play bundle of fixed voice, fixed broadband and pay TV: TalkTalk’s Plus TV with Line Rental Saver + TV Starter Boost + 100 Mobile Minutes Boost service. This included TalkTalk’s newly-launched TV service, which is based around the YouView free-to-view TV platform, pre-payment of the fixed voice line rental, and a call add-on giving 100 minutes of calls to mobiles for £3 per month.

The household’s usage profile includes four mobile phones with varying use of voice, SMS and data services, and the lowest available price for fulfilling the requirements of these four connections fell by a third (33%) to £49.21 in the year to July 2013. The percentage fall in the lowest price available for the connections included in the household’s profile ranged from 23% for the connections used by the household’s teenage children (requiring an intermediate handset, 100 minutes of outgoing calls, 300 SMS messages and 400MB of data per month) to 45% for the highest-use handset (requiring an advanced handset, 250 call minutes, 100 SMS messages and 300MB of data) during the year.

The total price of the mobile element of the household’s usage was the major contributor to the 25% fall in the total lowest available price for the household’s usage profile in 2013, although the combined price for the household’s fixed voice, fixed broadband and pay-TV also fell, by 14%, during the year.
7.4 How consumers pay for communications services helps determine how much they pay

Landline users are able to make savings by purchasing bundled communications services and/or by paying their fixed-line rental in advance. Differing levels of take-up of these tariffs will affect the actual prices paid for a basket of fixed telephony, fixed broadband and pay-TV services, and we find that while there is some variation in the use of line rental pre-payment tariffs across age groups and socio-economic profiles, levels of service bundling differ significantly. By combining Ofcom research data and the outputs of Teligen’s residential pricing database, we conclude that, as a result of the payment choices that people are making, it is likely that certain types of consumer would pay more for this basket of services than others.

7.4.1 Many consumers are able to mitigate increasing residential stand-alone fixed telephony prices by purchasing bundled services and/or line rental pre-payment tariffs

As shown in Figure 106 and Figure 107 of this report, we have found evidence of increasing UK residential landline prices, particularly for those consumers who purchase landline services on a stand-alone basis. While the increase in stand-alone residential landline service prices, and in particular monthly line rental fees, has been notable, consumers are able to mitigate these price increases by altering the way in which they purchase communications services.

One way of doing this is to buy landline services in conjunction with other communications services from the same provider as part of a bundle, as doing so typically costs less than purchasing each service separately. Another way is by taking advantage of a recent development in residential fixed line tariffing, the introduction of line rental pre-payment tariffs. These are now offered by all of the UK’s largest residential landline providers, and enable consumers to make savings on the price of the line rental element of their service by...
paying an up-front amount (typically between £110 and £150 per year) instead of a monthly line rental fee of around £15 to £16 (£180 to £192 per year).

7.4.2 Seventeen per cent of landline users pre-paid their line rental in Q2 2013

Ofcom research suggests that in Q2 2013 69% of UK homes with a landline purchased a bundle of services from the same provider, and 17% took advantage of line rental pre-payment tariffs (Figure 114). Overall, almost three-quarters of homes with a landline (74%) bought a bundle and/or a line rental pre-payment tariff, with 12% taking both. There was significant variation in the take-up of bundles and line rental pre-payment tariffs across different age groups and socio-economic profiles. This was largely driven by differences in levels of bundling, with use of either or both of these tariff types being slightly lower than average among landline users aged 16 to 24 (59%), and highest (at over 80%) among the 25 to 34, 35 to 44 and 45 to 54 age groups, after which take-up declined with age (it was lowest among those aged 65+, at just 52%). There was less variation by socio-economic group, with use of either or both of these tariff types ranging from 66% among DE households to 78% among AB households.

Take-up of line rental pre-payment tariffs was lower than that of bundles, partly because these tariffs are a relatively recent development in residential fixed-line pricing and require an up-front fee of over £100. In Q2 2013 take-up of pre-payment tariffs ranged from 10% of landline users aged 16 to 24 to 22% among those aged 35 to 44, compared to bundle take-up, which ranged from 43% of those aged 65+ with a landline to 80% of those aged 25 to 34. There were relatively small differences in the use of line rental pre-payment services across different socio-economic groups, with take-up being highest among AB homes at 20% and lowest among C1 and DE homes at 16%.

7.4.3 A basket of services was used to see how bundle and pre-payment take-up might affect the prices paid by different consumer types

With levels of bundling and line rental pre-payment tariffs varying significantly among consumers, we undertook analysis to indicate how these differences might affect the price paid for a bundle of communication services by different demographic groups. In order to do this, we used a model provided by pricing consultancy Teligen, and constructed a basket of
fixed telecoms and TV services based on average UK use, as indicated by Ofcom consumer research and data provided by telecoms providers.

This basket comprises a landline with residential use of UK geographic calls, outgoing international calls and calls to mobiles, based on 2012 averages, a fixed broadband connection and a basic pay-TV service with a PVR, and is detailed in Figure 115 below.

**Figure 115 Basket of ‘average’ residential fixed telecoms and TV services**

<table>
<thead>
<tr>
<th>Service</th>
<th>Basket requirement</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fixed telecoms</td>
<td>Landline with 207 minutes of outgoing calls per month:</td>
</tr>
<tr>
<td></td>
<td>• 58% local calls</td>
</tr>
<tr>
<td></td>
<td>• 28% national calls</td>
</tr>
<tr>
<td></td>
<td>• 7% calls to mobiles</td>
</tr>
<tr>
<td></td>
<td>• 7% outgoing international calls</td>
</tr>
<tr>
<td>Fixed broadband</td>
<td>Fixed broadband connection with a headline speed of above 10Mbit/s and 30GB of data use per month</td>
</tr>
<tr>
<td>Pay-TV</td>
<td>A basic pay-TV service (i.e. without Premier League football and first-run Hollywood films) with a PVR</td>
</tr>
</tbody>
</table>

Source: Ofcom

### 7.4.4 Savings related to bundling are greater than those from line rental pre-payment

We then calculated the average prices of fulfilling the requirements of this basket of fixed voice, fixed broadband and pay-TV services, using the different combinations of bundled and line rental pre-payment tariffs that were offered by the providers whose July 2013 tariffs were included in Teligen’s pricing model. These averages were calculated using the lowest prices available to fulfil the requirements of the basket, from three different providers (or fewer, if there were fewer than three suitable tariffs).

For stand-alone services, the average price was calculated from these three prices, weighted by the market shares of the providers of each service. For bundled services, we used a simple average of the lowest total prices available, using bundles, as bundled service market shares are not available. When calculating average bundled service prices, the bundle did not have to include all three services, and could be a dual-play bundle of two services, with the third being purchased on a stand-alone basis. The results of this analysis are shown in Figure 116 below. This shows that average basket prices were £15 per month lower when the services required by the basket were purchased as, or as part of, a bundle, rather than on a stand-alone basis, while line rental pre-payment enabled a further saving of around £4 per month.
Figure 116  Average price of different tariff combinations for a basket of residential fixed voice, fixed broadband and pay-TV services

<table>
<thead>
<tr>
<th></th>
<th>£ per month</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Stand-alone services</td>
</tr>
<tr>
<td>TV licence</td>
<td>12</td>
</tr>
<tr>
<td>Pay-TV</td>
<td>20</td>
</tr>
<tr>
<td>Fixed broadband</td>
<td>8</td>
</tr>
<tr>
<td>Fixed voice</td>
<td>27</td>
</tr>
<tr>
<td>Bundle</td>
<td>63</td>
</tr>
<tr>
<td>Without pre-payment</td>
<td>67</td>
</tr>
<tr>
<td>With pre-payment</td>
<td>63</td>
</tr>
</tbody>
</table>

Source: Ofcom  
Note: Includes the TV licence fee; includes VAT.

7.4.5 Lower levels of bundling and pre-payment may mean that older and less affluent consumers pay more for their services

In order to estimate an indicative price paid for this UK average bundle of fixed telecoms and pay-TV services, by different types of consumer, we calculated an average price for each age and socio-economic group. In order to do this we used the bundle and the line rental pre-payment take-up figures in Figure 114, and the tariff combination pricing data shown in Figure 116. This enabled us to assess which groups may be benefiting most (and least) from the availability of bundled and line rental pre-payment tariffs.

The methodology used to calculate the price-paid estimates shown below means that the figures below can be considered as indicative only, as they do not take into account a number of factors which are important when comparing spend levels among different types of consumer. For example, as the basket is designed to represent ‘average’ UK use, it does not take into account variations in levels of service take-up and use among different demographics (for example, older consumers are less likely to have a home broadband connection, average monthly minutes of outgoing fixed voice calls will vary among consumers, and take-up of superfast broadband services will be higher among some demographics than others).

The basket also excludes mobile handset and dedicated mobile broadband services, and the tariff combination prices which feature in the calculation do not include bundles that include mobile services (although the bundle take-up figures do). Similarly, the model does not include reduced-cost landline services that are aimed at those on low incomes, such as BT Basic, and our analysis does not take into account the different bundle combinations that are available to consumers, or their take-up.

The indicative price of fulfilling the basket’s requirements, across all consumers, was £56.12 per month (Figure 117). Our analysis suggests that there were three age groups which may have paid more than this average for the basket of services: those aged 16 to 24 (whose indicative price paid was £2.20 per month above the average), those aged 55 to 64 (23 pence above the average) and those aged 65+ (f £3.78 above the average). Similarly, C2 and DE households were the only socio-economic groups whose estimated monthly prices were above the UK average, by 15 pence and £1.66 per month respectively. All of the other age and socio-economic groups’ estimated prices paid were below the UK average, with the
savings ranging from 25 pence per month among C1 households to £1.68 per month for those aged 35 to 44.

**Figure 117** Variation from the UK average in estimated prices paid for a bundle of residential fixed telecoms and TV services, by age and socio-economic group

<table>
<thead>
<tr>
<th>Age Group</th>
<th>Comparison to UK Average</th>
</tr>
</thead>
<tbody>
<tr>
<td>16-24</td>
<td>-1.53</td>
</tr>
<tr>
<td>25-34</td>
<td>-1.68</td>
</tr>
<tr>
<td>35-44</td>
<td>-1.55</td>
</tr>
<tr>
<td>45-54</td>
<td>+0.23</td>
</tr>
<tr>
<td>55-64</td>
<td>+3.78</td>
</tr>
<tr>
<td>65+</td>
<td>-0.86</td>
</tr>
<tr>
<td>AB</td>
<td>-0.25</td>
</tr>
<tr>
<td>C1</td>
<td>+0.15</td>
</tr>
<tr>
<td>C2</td>
<td>+1.66</td>
</tr>
</tbody>
</table>

Source: Ofcom, using data provided by Teligen; includes VAT.

### 7.5 International comparisons of the price of communications services

#### 7.5.1 UK communications service prices compare favourably with those in other countries

In Ofcom’s *International Communications Market* reports, we compare the prices available to UK consumers with those available in France, Germany, Italy, Spain and the US. This analysis defines communications service usage profiles for five ‘typical household’ types: a retired low-income couple with basic communications service needs, a couple of ‘late adopters’, a mobile-only ‘power user’, a ‘networked family’, and an affluent couple with sophisticated use. In Figure 118 below we consider the prices available to these households on a stand-alone basis (i.e. excluding bundles) by calculating a weighted average price for each service (the average of the lowest prices from the three largest operators for each service, weighted by their retail market shares).

In 2013, the UK had the lowest weighted average prices for three households (the ‘late adopter’, ‘mobile power user’ and ‘connected family’ households) and the second lowest prices for the remaining two household profiles. Comparatively low stand-alone prices in the UK are to a large extent driven by lower prices for mobile phone services in the UK (the UK had the lowest weighted average prices for four of the eight mobile connections across our households, and the lowest total weighted average across all eight connections), although the UK also had the lowest weighted average stand-alone prices for fixed voice and fixed broadband services.

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[58](http://stakeholders.ofcom.org.uk/market-data-research/market-data/communications-market-reports/)
7.5.2 Two of the five lowest basket prices were found in the UK in 2012

The pricing model also enables comparison of the lowest household prices available from the largest operators in each country, including when this is achieved by buying some or all of the required services in a bundle (Figure 119). Again, UK prices compared favourably with those available in other countries in 2013. Overall prices in the UK were lowest for two of the five households (the ‘late adopter’ and ‘mobile power user’ households) and second lowest for the ‘basic needs’ and ‘connected family’ households. The UK had the third highest prices for the ‘sophisticated couple’ household, largely because it had comparatively higher prices for HD premium pay-TV services. However, this is partly due to the way in which TV content is bundled in the UK (the lowest-priced UK HD premium pay-TV service included over 400 channels, while the average across the lowest-priced services in the other five countries was 111 channels).
7.6 International stamp price comparison

7.6.1 The UK is among the cheapest countries in Europe to send a standard sized (C5) letter

This section looks at domestic stamp prices and compares them with those in a range of other countries. In each case, we have considered the fastest letter mail product, which most commonly has a next day (D+1) delivery target; although, as Figure 120 shows, there is some variance by country. The products that we have looked at are all single-piece, domestic tariffs, available to all consumers. The prices of the products are compared as they were published on the operators’ websites on 31 October 2013, and have not been adjusted for purchasing power parity. Where we look at previous years’ prices, these are the prices on 31 December of each year.

Source: WIK
Note: Delivery targets in Canada, Japan, Australia, Brazil, Russia, India and China are dependent on the point of origin and destination.

We have looked at the prices for three mailings with different characteristics, based on typical envelope sizes. These are:

- a small letter – based on a DL envelope, 110mm by 220mm by 5mm, weighing 20g or less;
• **a standard letter** – based on a C5 envelope, 229mm by 162mm by 5mm, weighing 100g or less;\(^{59}\) and

• **a large letter** – based on a C4 envelope, 324mm by 224mm by 25mm, weighing 101-150g.

In those countries where a Second Class product is available, we have also looked at those prices. However, these products are available to consumers only in the UK, France, Sweden, Poland and Russia.

### 7.6.2 Japan and the UK are the most expensive countries in which to send a small letter

At 63p, Japan is the most expensive country in which to send a small letter, followed closely by the UK (60p). Among the European comparators, the UK is the most expensive country, followed by Italy (57p) and Sweden (56p). The cheapest country in which to send a small letter is India, where it costs 6p, followed by China (12p).

Outside the BRIC countries, the US has the lowest price for sending a small letter (29p), closely followed by Spain (30p). As shown in Figure 120, both of these countries have a D+3 delivery standard for their fastest available letter product.

**Figure 121  Stamp prices for small (DL) letters**

<table>
<thead>
<tr>
<th>Country</th>
<th>Stamp Price (£)</th>
</tr>
</thead>
<tbody>
<tr>
<td>UK</td>
<td>0.60</td>
</tr>
<tr>
<td>FRA</td>
<td>0.57</td>
</tr>
<tr>
<td>GER</td>
<td>0.51</td>
</tr>
<tr>
<td>ITA</td>
<td>0.47</td>
</tr>
<tr>
<td>USA</td>
<td>0.29</td>
</tr>
<tr>
<td>CAN</td>
<td>0.40</td>
</tr>
<tr>
<td>JPN</td>
<td>0.26</td>
</tr>
<tr>
<td>AUS</td>
<td>0.49</td>
</tr>
<tr>
<td>ESP</td>
<td>0.49</td>
</tr>
<tr>
<td>NED</td>
<td>0.49</td>
</tr>
<tr>
<td>SWE</td>
<td>0.46</td>
</tr>
<tr>
<td>IRL</td>
<td>0.46</td>
</tr>
<tr>
<td>POL</td>
<td>0.46</td>
</tr>
<tr>
<td>BRA</td>
<td>0.46</td>
</tr>
<tr>
<td>RUS</td>
<td>0.51</td>
</tr>
<tr>
<td>IND</td>
<td>0.06</td>
</tr>
<tr>
<td>CHN</td>
<td>0.12</td>
</tr>
</tbody>
</table>

**Source:** WIK / Ofcom analysis

**Note:** Small letter is based on DL envelope, 110x220x5 <=20g;


### 7.6.3 The UK is one of the cheapest countries in Europe in which to send a domestic standard sized letter

It costs 60p to send a First Class standard sized letter in the UK, the same price as in China. Among our European comparators, it is cheaper to send a letter with the same dimensions only in Ireland (49p) and Poland (46p). In the majority of our European comparator countries,

\(^{59}\) Most greetings cards in the UK are no larger than a C5 envelope
it costs more than £1 to send a standard sized letter. The most expensive country is Italy (£1.71) where the price increased by 40% in 2013, followed by the Netherlands (£1.46).

The reason that the UK is more expensive for a small letter and cheaper for a standard sized letter is due to the different tariff structures that are used in each country. Most postal operators in Europe have a lower price for small letters and postcards weighing 20g or less, and a higher price is charged for items that weigh more than 20g or exceed the dimensions of a DL envelope. In the UK, there is not a separate price for a small letter, so the price is the same for a small or a standard sized letter.

Figure 122 Stamp prices for standard (C5) letters

Source: WIK / Ofcom analysis
Note: Standard letter is based on C5 envelope, 229x162x5 <=100g

Figure 123 shows the nominal trend in the price to send a standard sized letter since 2010. Current and previous years are indexed to 2010 prices in each of the comparator countries where prices have increased.

The largest proportional increase has been in the UK, where the price of a First Class stamp is 46% more expensive than in 2010. Prices in the UK have risen every year except 2013, with the largest and most recent increase taking place in April 2012.

In the Netherlands, the price to send a standard letter has increased each year, with the most recent increase being the largest. The price to send a standard letter in the Netherlands is 36% higher than in 2010. Prices have increased on an annual basis in both Canada and Spain, while prices increased in 2013 for the first time for a number of years in Germany, Italy, Ireland and Poland.
Figure 123 Increase in stamp price for the fastest available standard sized (C5) letter (2010-2013)

Source: WIK / Ofcom analysis.
Note: Figures are nominal. See Figure 120 for delivery specification.
Note: Standard letter is based on C5 envelope, 229x162x5 <=100g

7.6.5 Poland is the cheapest country in Europe to send a large letter (99p), followed by the UK (£1.20)

The price to send a large letter in the UK (£1.20) is similar to the price in the US and Ireland, where it costs £1.22. The lowest price overall is India (47p), followed by Brazil (70p). The most expensive overall is Australia (£4.56). This is because the maximum thickness of a large letter in Australia is 20mm, and as this analysis is based on the prices for letters which are up to 25mm thick, this price represents the ‘small parcel’ price offered by Australia Post.

Excepting Australia, Sweden is the most expensive country in which to send a large letter (£2.24).
Figure 124 Scrump prices for large domestic letters

Source: WIK / Ofcom analysis
Note: 'Large letter' is based on C4 envelope, 324*224*25 101g-150g
Values converted from the local currency unit to British Sterling (£1 = €1.229 / US$1.580 / CAN$1.578

7.6.6 Among our comparator countries which offer Second Class equivalent products, Poland is among the cheapest to send almost all sizes of letter

Not all of our comparator countries offer a lower-priced product with a slower delivery standard in the same way that First and Second Class are available in the UK. Alongside the UK, this choice is available only to consumers in France, Sweden, Poland and Russia. These are almost all D+3 products, with the exception of France and Russia, as shown in Figure 125.

Figure 125 Delivery specifications for the Second Class equivalent letter product

Source: WIK
Note: Delivery targets in Russia are dependent on the point of origin and destination.

As Figure 126 shows, the UK is the second most expensive place to send a Second Class small letter (50p); only 1p less than in Sweden. As is the case with First Class stamp prices by format, the UK is among the cheapest for sending standard and large letters. Again, this is due to tariff structures, with the price threshold beginning at a higher-weight step in the UK when compared to other countries.
Figure 126  Stamp prices for Second Class domestic letters

Source: WIK / Ofcom analysis
Note: ‘Small letter’ is based on DL envelope, 110x220x5 <=20g; Standard letter is based on C5 envelope, 229x162x5 <=100g; Large letter is based on C4 envelope, 324*224*25 101g-150g

Of our comparator countries which offer Second Class products, the UK, Russia and France have all increased prices since 2010. As with First Class, the largest proportional price increase was in the UK, where the Second Class standard letter price increased by 67% between 2010 and 2013, with the largest increase taking place in April 2012. Prices in Russia have increased by 27% over the same period, and have risen by 18% in France.

Despite the large proportional price increase, in 2013 it was still cheaper to send a Second Class standard letter in the UK than in France.

Figure 127  Increase in Second Class stamp price for a standard sized (C5) letter since 2010

Source: WIK / Ofcom analysis.
Note: Figures are nominal. See Figure 125 for delivery specification.
7.6.7 Awareness of the cost of both First and Second Class stamps has increased

The prices for sending individual letters and postcards increased in April 2012; First Class rose by 14p and Second Class stamps rose by 15p, to 60p and 50p respectively. A consequence of these price increases has been increased price awareness. The proportion of consumers who were able to correctly state the price of First and Second Class stamps rose significantly in the past year (Figure 128). Research participants stating the correct price of a First Class stamp rose from 9% in December 2011 to 30% in June 2013 and from 6% in 2011 to 18% for Second Class stamps.

Royal Mail did not increase the stamp prices for letters or large letters in April 2013.

Source: Postcomm customer survey 2009 (1116)
Ofcom postal omnibus 2011 (3621)
Ofcom post tracking survey (4844)