The telecommunications industry in the UK is growing exponentially

** there is massive overall sector growth, and*

**key growth trends in niche subsets.*

1. Key developments:

- In 2005 total telecoms revenue reached £46.6 billion, of which £38.3 billion was retail revenue (i.e. revenue from end-users, ordinary consumers and businesses). Retail revenue rose by 5.5% compared to 2004.

- In residential telecoms, average household spend fell slightly during 2005, to just under £61 per month – this was in part due to falling prices: the real price of a typical 'basket' of residential telecoms services fell from £80/month to £76/month during the year.

- in 2005; internet (including broadband) showed the highest revenue growth of the major telecoms platforms – up by 17% to £3.4bn.

- Average mobile terminations rates (the wholesale charge paid by operators to terminate a call on a mobile network) fell by 24% during 2005, to stand at 5.9 pence per minute by the end of the year; this compares to an average rate of over 14 pence per minute in 2002.

- By the end of March 2006, 6.1 million of BT's fixed exchange lines took some or all of their voice services from another operator using carrier pre-selection (CPS) – 1.2 million more lines than a year previously.

- By the end of March 2006, 11.1 million of the UK's homes and small businesses had broadband internet connections; over eight million of these connections were via DSL, compared with five million a year previously.

- Average broadband speeds rose during 2005, prices continued to fall, and choice increased. However consumers may not be fully aware of all the factors affecting the actual speed and cost of the service they

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receive such as: their distance from the exchange; the quality of their phone; the fact that they might be subject to usage caps and may be sharing elements of their broadband connection with other users

2. Mobile

- Some 31% of UK call volumes in 2005 were from mobiles – a rise of three percentage points from 2004, and 11 percentage points higher than in 2001.

- Mobile telecoms comprised £13.1 billion (34%) of total retail telecoms revenue – up from £12.0 billion in 2004 – and fixed line revenue fell from £10.9 billion in 2004 to £10.1 billion

3. Social Networking/ Blogging Sites

Rapid growth has taken place in the reach and usage of social networking websites (such as MySpace, Friends Reunited and Bebo), which allow users to create online profiles and connect with friends or others with similar interests.

Over 40% of adults with internet access have used social networking sites; that figure rises to 70% among 16-24 year-olds, with over half in this age group using them at least weekly.

These types of site fall into two broad categories:

- Weblogs (which are essentially online journals or photo albums, where readers are often invited to make comments), and
- social networking sites (where users create a homepage and link to existing friends or to others with similar interests).
- The social networking site MySpace was the most popular such site in the UK in May 2006, according to Nielsen/Netratings' statistics
- This site grew from less than 0.5% reach in mid-2005 to 8.7% reach in March 2006.
- Sites which allow users to keep up existing contacts or re-establish old acquaintances are the most popular type of social networking site:
- 41% of UK adults with internet at home say they have used them, with around half of those doing so on a weekly basis
- Nearly one third use social networking websites for discussing hobbies and interests, and a further 26% discuss work-related topics online.
- Fewer internet users take advantage of websites for discussing personal issues (17%) or meeting new people (15%).
- Portals allowing people to keep in touch are particularly popular with the young:
- seven in ten online 16-24 year olds have used sites for keeping up contacts, with over half doing so at least weekly.

- Nearly half of 25-34 year old internet users and around a third of those aged over 35 are also using these sites

4. Bundling

Bundling sales – combined service packages have seen excellent growth The year 2005 and early 2006 saw a marked increase in the types of bundled services that were both offered and taken up in the UK. This was mainly due to the increased number of operators that developed the facility to offer bundles for the first time, particularly in the area of broadband/fixed-line bundling.

Consumer benefits of bundling

Bundled offers can be attractive to consumers, not only from a cost perspective, but also because of other issues such as increased ease of use and single point of contact.

The main consumer benefits are outlined below:

- **Price:** the combined cost of procuring the three services from one provider is often more economical than buying from two or three different service providers.
- **Single point of contact:** the ability to have contact with only one provider in terms of billing, payment, and customer service can be of great benefit to many consumers.
- **Simplification:** bundling removes the need to choose between service providers and product combinations.
- **New services:** some new services only become possible by buying bundled packages (for example, converged fixed/mobile telephony) However, bundled services can sometimes be a disadvantage for consumers:
- **Switching:** consumers cannot easily move or change services. In addition, there are not yet many multi-play services available in the UK market, and each has different characteristics. This leads to a difficulty in comparing offerings.
- **Confusion:** consumers can be confused by the different varieties of bundles, leading to difficulty in choosing the products that best meet their needs.
- **Choice:** bundling can force consumers to buy elements that either they do not need, or do not match their desired specifications (e.g. broadband speed).
- **Lack of redundancy:** If all services are delivered on the same platform, then the consumer does not have any alternative if the platform goes down.

The following developments have either stimulated the provision and take-up of bundled services, or are forecast to have an increasing influence over the next 18 months:

- **IP Multimedia Subsystem (IMS):** IMS is a standardised Next Generation Networking (NGN) architecture for telecom operators that want to provide mobile and fixed multimedia services. Although converged service provision over IMS is not likely to materialise for a few years, industry players are building momentum to put themselves in a favourable position to use IMS for multi-play services.
- **High-speed mobile:** Increased bandwidth availability on all platforms (including mobile) presents a great opportunity for content and service providers to expand their content and service offerings onto more platforms.
- **Unlicensed Mobile Access (UMA):** this is seen as an interim solution for provision of fixed-mobile convergence services such as BT's Fusion.
- **LLU:** Proliferation of LLU has enabled alternative service providers to reach more homes directly (rather than by using BT's wholesale product set), and to provide a different product and price offering than BT.
- **VoIP:** IP voice provision allows service providers to compete with traditional voice service providers such as BT, without any requirement for physical asset investment.

5. Music

Latest data released by the British Phonographic Institute (BPI) shows that the number of legal music downloads in the UK grew rapidly throughout 2005 and early 2006 This is attributable in part to the growth in legal download sites (led by Apple's iTunes store) coupled with the reduction in copyright files available on general file-sharing sites such as Kazaa.

- In April 2006, the single Crazy by Gnarls Barkley became the first number one best-seller purely on the strength of paid-for downloads.
- According to Nielsen/Netratings, the google.co.uk site had the most unique hits in April 2006, with over 19 million unique visitors during the month (Figure 3.68).
- The Microsoft site was the second most popular (17.5m), followed by MSN (16.8m);
- The number of portals and ISP homepages (e.g. AOL UK, Wanadoo, Tiscali) in the list might have been artificially boosted by the fact that many users still use these sites as their default homepage.
- Among the top 20 sites, the BBC was the only traditional broadcaster whose online presence competes on a par with top new media and technology companies.

6. BT Services

- BT's share of all voice calls fell to 56.3% in Q4 2005, compared to 61.9% a year previously.

- Most of this reduction came in the geographic calls area (i.e. calls to 01-and 02- numbers), where BT’s share fell by nearly six percentage points, followed by calls to mobile, with a five percentage point drop.
- BT’s share of international calls decreased at a slower pace, however its share of such calls is already much lower than for other call types
- Evidence suggests that the main reason for the continued decline in BT’s share of call volumes is the fact that fewer consumers are using BT as their main call provider (rather than BT subscribers making fewer calls).
- consumer research shows that there was a further significant reduction in the number of residential consumers using BT for fixed line access or calls – from 82% in 2004 to 68% in Q1 2006.
- Over the same period, the proportion of households which are BT-only (i.e. homes that do not use indirect access or cable operators to make fixed calls) fell to 61% in the first quarter of the year.