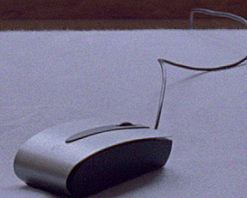
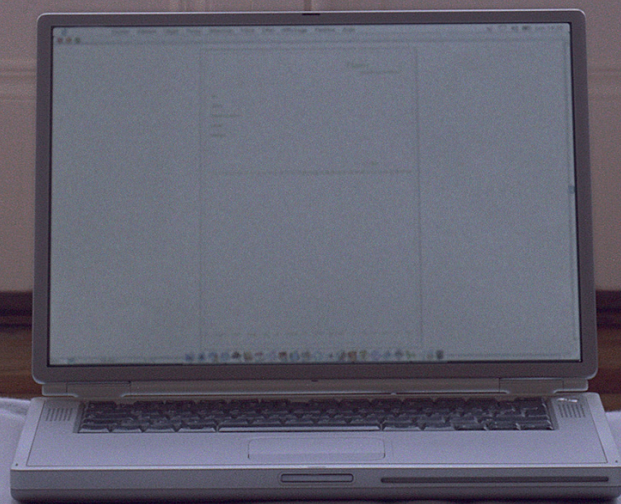


Industry views
From product to service

Who is looking after your customer?

Eight out of ten customers value having a single price and a single bill from their communications provider.

Stay ahead.



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Introduction

Bundled services are fast becoming the most popular way for consumers to buy their communications services.

For providers, bundled services offer a number of key advantages, not the least of which is the ability to address customer churn in a communications market in which loyalty has proved elusive.

But the constituent elements of bundles are subject to considerable variation – with some services proving far ‘stickier’ than others.

This report is based on the findings of consumer research conducted across six countries and covering 2,889 consumers. It focuses on what customers look for in the bundles they choose and what drives their purchasing decisions.

Key highlights

01 Moving from product to service

Bundling services offers customers greater convenience and lower prices and offers providers a way to address churn and build market share. Customers are still willing to switch providers if they perceive greater value, better services or more relevant content elsewhere. But creating the right packages in the right markets at the right price remains a challenging prospect.

02 The price must be right

Price emerges as a key factor in influencing customers' choices about bundles. But it is far from the only consideration. Customer service and service quality are important, and each element can push customers towards one provider or another.

03 Broadband – a right, not a luxury

Customers increasingly expect to have broadband available in much the same way they expect to have access to utilities.

But there is a significant divide in what is available to rural and to urban customers, thus, in effect, creating two markets. This presents significant challenges for the incumbent provider in rural areas, particularly in view of a general push by governments for universal access to high-speed Internet connections.

04 TV set to drive multiplay adoption

Television – whether via satellite or via cable – is emerging as a major factor driving customers to embrace bundles. With the multiplay market set to grow considerably, companies may discover that finding ways to harness the power of television could be a differentiator.

05 No need for speed – yet

Customers appear indifferent to headline making speeds of much more than 8Mbps. The relative lack of current demand makes it difficult to see how – in the short to medium term – a robust business case can be developed for investment in fibre networks that will broaden access to ultra-high-speed broadband.

06 Stand-alone services vulnerable – except for mobile

Although stand-alone services look vulnerable in today's market, customers draw distinctions between mobile and other services. Combinations of fixed, mobile and broadband (and/or TV) have largely failed to capture customers' imagination, or a share of their wallets. Mobile-only providers are perhaps insulated from bundling, as customers continue to make discrete purchasing decisions about their mobile service.

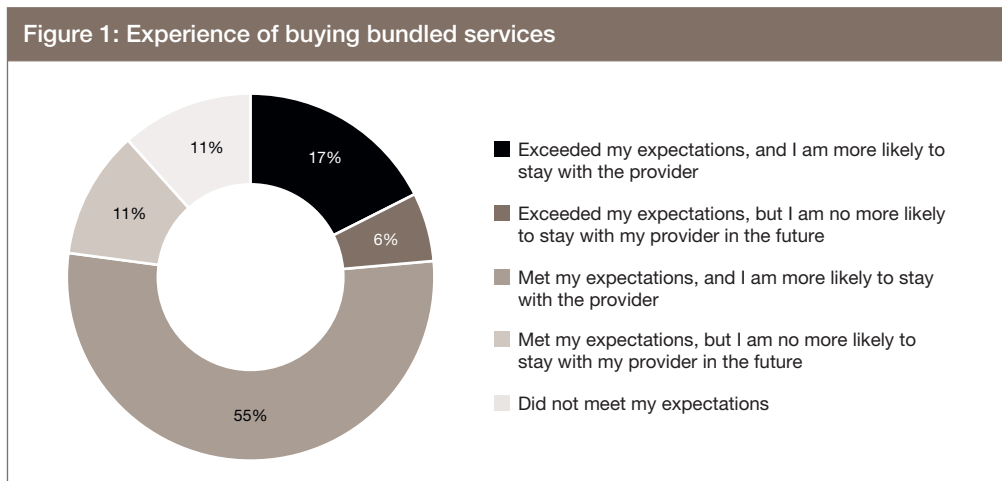
01 Moving from product to service

Bundling services offers customers greater convenience and lower prices and offers providers a way to address churn and build market share. Customers are still willing to switch providers if they perceive greater value, better services or more relevant content elsewhere. But creating the right packages in the right markets at the right price remains a challenging prospect.

Double-, triple- and, more rarely, quadruple-play bundled services combine their TV, fixed line, broadband Internet and mobile access in one package. The survey findings indicate that customers are more and more willing to and interested in buying a range of communications and media services from one single provider. Moreover, the findings suggest that bundled services can help retain customers, the majority of respondents (72%) who bought bundled services said that the service has met or exceeded their expectations, making it more likely that they will stay with their current provider (see **Figure 1**).

The buying conundrum

For providers to create and market the appropriate bundles, they need to consider a number of different factors and decisions that together create the impetus for customers to opt for one bundle of products over another. While price is universally a leading influence on customer choice, other issues such as perceived superior service from one



provider can also have a significant bearing on the buying decision. Reputation counts for a lot. Therefore, providers with a strong reputation in one service should therefore be able to leverage that status in order to sell other services in the bundles (see **Figure 2**).

Convenience and simplicity also are key drivers of the decision to buy multiple services from one vendor. Eight out of ten customers value having a single price that

covers the multiple services they use – and a similar number rate a single bill as important.

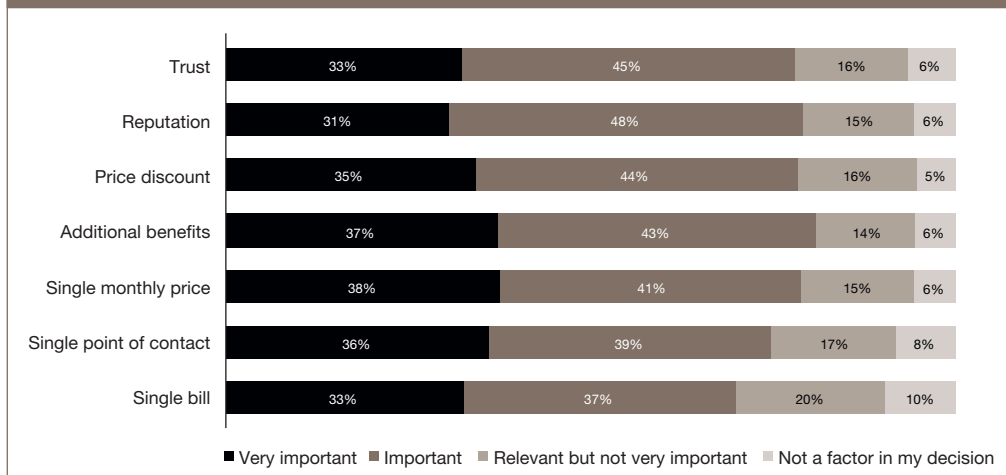
The premise remains true across borders (see **Figure 3**). The survey results show a marked degree of commonality in the qualities that all customers want from their service providers. While, naturally, each jurisdiction displays some variations, running across the wholemarket – and important

everywhere – are consistent themes: price, reputation, convenience and simplicity. (See Figure 3).

When customers buy a new service, the trust and reputation a provider has earned from a previous experience of a provider is important in all markets. Providers with a strong reputation in one service should therefore be able to leverage that status in order to sell other services in the bundles.

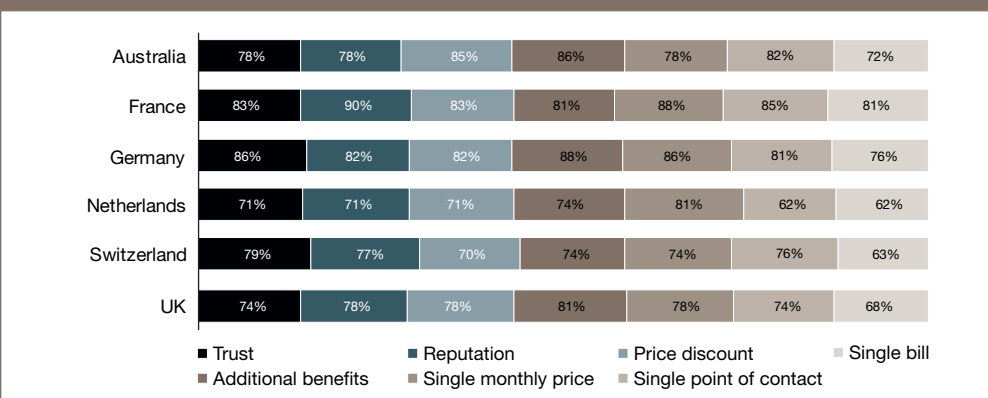
Bundling services is perceived to be an effective way for providers to reduce the amount of customer churn, from which, many providers of a single service suffer. Respondents across Europe highly rated the convenience of having a single point of contact to deal with on all services and were generally of the view that their experience of multiplay or bundled services had met – or had exceeded – their expectations.

Figure 2: Influencing factors in the buying decision



Bundling services is perceived to be an effective way for providers to reduce churn.

Figure 3: Cross border differences



Whether for cost, convenience or content and whether they buy two, three or even four services from the same provider, customers have embraced bundling. However, customers consider the trust and reputation of a service provider as critical factors when deciding to switch or buy additional services. Providers who meet those standards are likely to be better positioned to expand their offering.

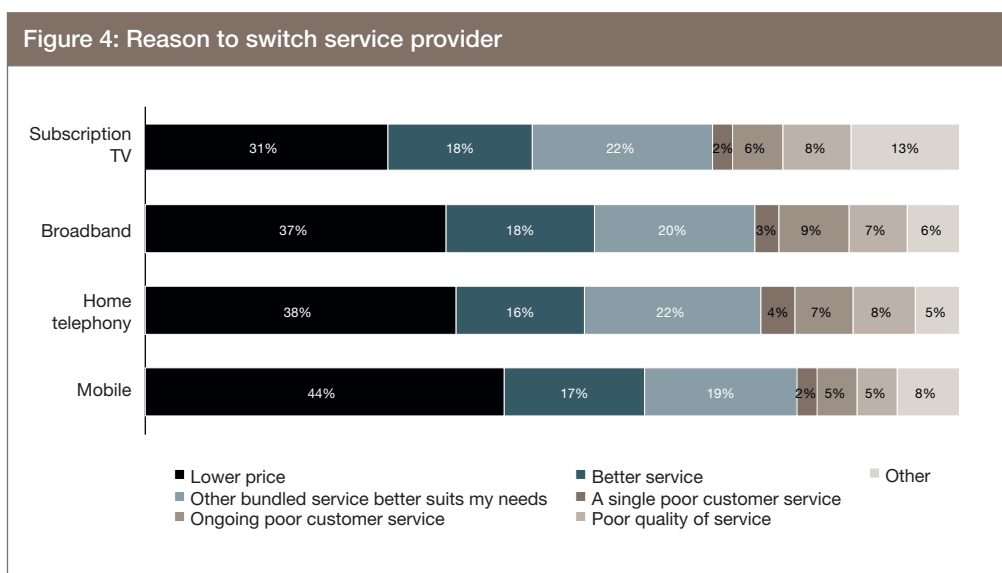
Customers continue to perceive the components of a bundle as separate products rather than an integrated communications experience or service. The survey findings suggest that they largely identify particular brands with one product. For providers, this suggests an opportunity to develop targeted brand messaging and services that aims to shift perception towards meeting communication and entertainment needs and wants rather than to simply supply a product. Bundling may well prove to be able to fulfil its promise of being greater than the sum of its parts.

02 The price must be right

When it comes to switching, price emerges as a key factor in influencing customers' choices about bundles. But it is far from the only consideration.

From those respondents who expressed the possibility of switching a service, the largest single reason given was price. Interestingly, though, when it comes to subscription TV, price appears to be much less of an issue. Perhaps this is a reflection of the clear product differentiation between different flavours of TV.

Other motivations were cited, including better service being available from other providers and bundled services that would more closely meet the needs of the individual (see Figure 4). Poor quality of service was less of an incentive to change provider, which suggests that customers will switch for a perceived better deal or service rather than through dissatisfaction with their current provider. Another interpretation is that expectations of service from providers are fairly low.

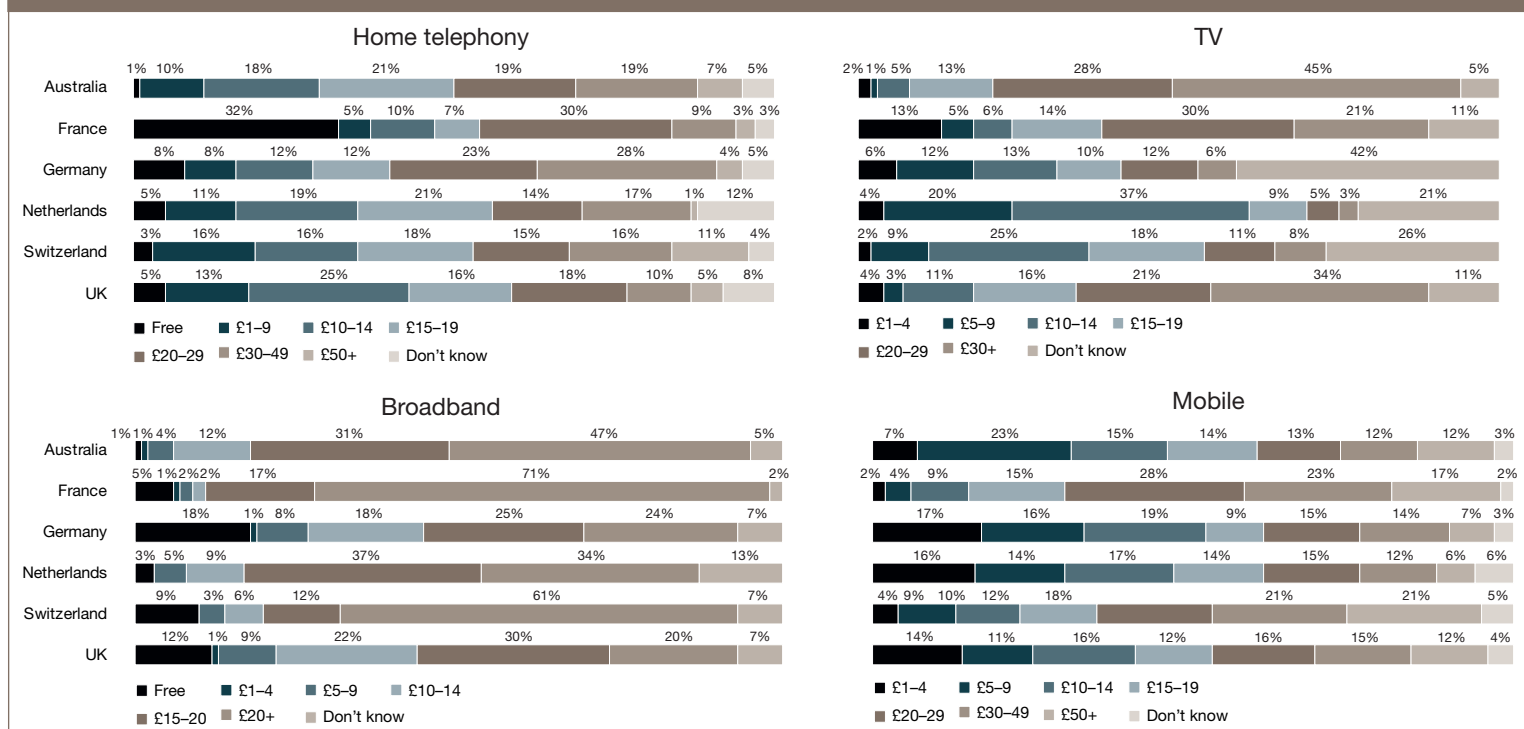


Share of wallet

In the countries we surveyed, customers spend similar amounts on their total bill but show differences in the amount of spend that they attribute to each service. For example, a relatively high proportion (over 30%) of French households say that their fixed line telephony is free – a far higher proportion than in other markets. The relative disparity in the prices that customers believe they pay for specific services suggests a lack of transparency in the pricing of each component of a bundle (see Figure 5).

In contrast, UK households pay the least overall for broadband, and the majority of French households – approximately two-thirds – say that they spend more than €26 per month; in comparison only one fifth of UK households spend this amount.

Figure 5: Cost of services



Pricing is becoming less transparent, and that may be evidence of the blurring of the boundaries between product prices. Customers know how much the bundle costs, and may have been up-sold onto it on the basis of a promotion, but they are becoming less aware of the prices of the constituent parts. This change, together with lower churn in TV and the perceived difficulty in switching providers, may signify higher future profits for the operators.

03 Broadband – a right, not a luxury

Customers expect to have broadband available in much the same way they expect to have access to utilities. They are highly unlikely to sacrifice their broadband access and will cut back on many other areas of consumption before severing their links with the Internet.

But there is a significant divide in what is available to rural and to urban customers, creating, in effect, two markets. This presents significant challenges for the incumbent provider in rural areas, particularly in view of a general push by governments for universal access to high-speed Internet connections.

The UK in focus: an increasingly divided market?

In the UK, the market is consolidating, with fewer, larger players now serving more customers with bundled offerings. And, crucially, the market is showing signs of a distinct split along an urban and rural divide.

The UK government's aim to ensure universal access to broadband - contained in the 2009 *Digital Britain* report and its recommendations - is particularly relevant here. Extending access to markets outside urban areas increasingly is the preserve of BT. BT seeing its share of the urban market decline as new market geographies emerge - with cable providers becoming the new incumbent in those exclusively urban cabled areas.

So while the UK government may quite rightly pursue digital inclusiveness as a spur to the economy and a vital part of playing a leading role in the 'new industrial revolution', it remains unclear how the business cases for developing the infrastructure to deliver universal high-speed access can be made to add up.

In areas with cable TV coverage, cable is the largest provider of broadband with BT relegated to 3rd or 4th place. In other urban areas, LLU operators are collectively the dominant players, leaving BT as the major player in rural areas only.

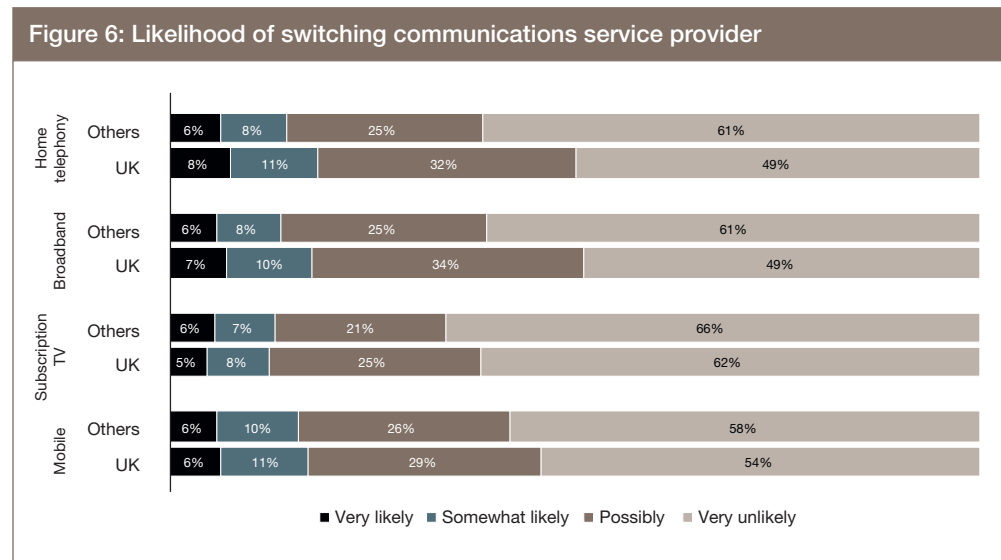
Operators' data shows the emergence of new market geographies. Sufficient competition in urban areas means that customers generally have a wide choice between providers of broadband and fixed line services.

The rural picture is quite different - and raises some major challenges, for government, regulators and providers. Creating the required infrastructure to develop genuinely high-speed access across the whole country is - with current technology - prohibitively expensive. While there may be some opportunities at the margin for mobile broadband providers to bridge the gap, it is unlikely that they will perceive sufficient demand to warrant developing, maintaining and supplying services to set up in direct competition with the incumbent provider. Of course, innovation may solve the problem. But at present this is a growing market feature to which there appears to be no obvious market solution.

04 TV set to drive multiplay adoption

Our survey shows that television – whether via satellite or via cable – is emerging as a major factor driving customers to embrace bundles. With the multiplay market set to grow considerably, companies may discover that finding ways to harness the power of television could be a major differentiator.

The ‘stickiest’ service across the board - i.e. exhibiting the lowest likelihood of customer churn – is subscription TV (see Figure 6). It is worth noting that subscription TV varies vastly from market to market. In some countries such as the Netherlands, cable TV has penetrated more heavily, while in the UK for example, it is clearly more of a premium offering.



While Sky has a strong presence in live sports and films, it remains to be seen whether a combination of regulatory action to correct perceived market imbalances could help open the market to more providers. The investment required to build market share is considerable. But if some operators believe that the benefits arising from TV are unavailable from any other service, they could make the required investment.

05 No need for speed – yet

Customers appear indifferent to headline making speeds of much more than 8Mbps, as the demand for greater bandwidth is limited to a minority of users who want to have access to media streaming and other high-bandwidth services.

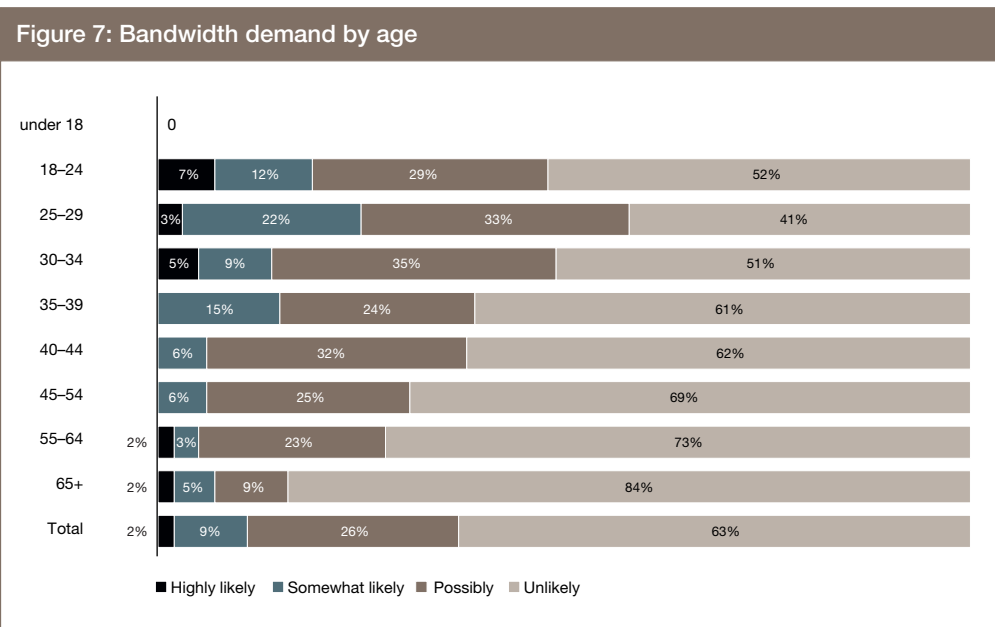
However, that demand is growing – and particularly among younger age groups. Roughly double the number of 18- to 24-year-olds and 25- to 29-year-olds is likely to use the Internet to download TV and films compared to older generations (see Figure 7).

Differing regulatory approaches

But the relative lack of current demand makes it difficult to see how – in the short to the medium term – a robust business case can be developed for investment in fibre networks that will

broaden access to ultra-high-speed broadband. Though this capability is seen as an essential building block of the new economy, incumbents are understandably reluctant to fund its development, as the returns that they would need to generate are simply unavailable under current market conditions and regulatory structures.

Experience in countries that have shown success in developing fibre infrastructure – notably in Asia and increasingly in the United States – suggests that a different approach to the relationship between providers and regulators may be required to accelerate the development of new, fibre infrastructure. Typically in these cases, the regulator, government and providers have worked closely together to build cable infrastructures. The current situation in the UK, and to some extent across the EU, precludes this option making it hard to see how a viable business case for the significant investment required can be developed by an incumbent or any other major provider.



The regulatory mantra of disaggregation and greater competition may now come back to haunt us. With governments worldwide espousing the wider economic benefits of universal ultra-high-bandwidth broadband, the European disaggregated model is not well placed to deliver it. Those best placed to make the necessary investments are not in a position to benefit from any such investments. Breaking this deadlock will require massive government intervention or a gentle retreat from the regulatory model, and will start to give monopoly power back to the incumbents.

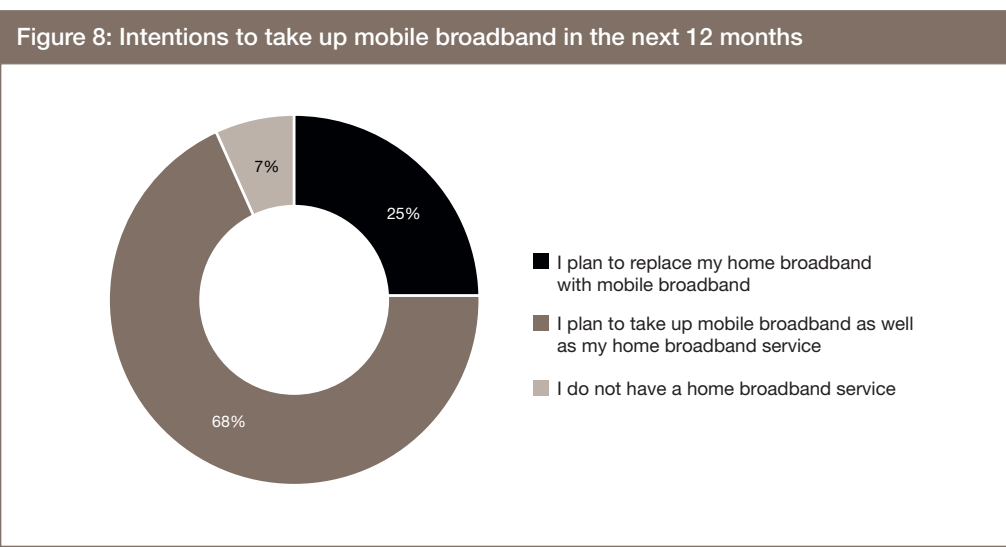
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Although stand-alone services look vulnerable in today's market, customers draw distinctions between mobile and other services. Combinations of fixed, mobile and broadband (and/or TV) have largely failed to capture customers' imagination, or a share of their wallets. Mobile-only providers are perhaps insulated from bundling, as customers continue to make discrete purchasing decisions about their mobile service.

Mobile providers have had some limited success in offering broadband, but customers are far less likely to buy bundled services from them than from either a pay-TV or fixed line provider. This may well be because the decision to buy mobile services from one provider or another is made largely by the individual,

whereas the household tends to be the focus of decision making for broadband and television services.

To an extent this tendency is borne out in the results of our survey, where roughly 70% of respondents said that they would be unlikely to buy broadband from a mobile provider, compared with 70% who already had or said they would buy broadband from a home telephony (fixed line) provider (see Figure 8). Mobile broadband as a standalone product is seen largely as an addition rather than a substitute for fixed line broadband access. Nearly 70% of respondents said that they would use mobile broadband as well as a home service.



From a consumer's perspective, mobile increasingly looks to be a separate market. Customers are much more likely to buy broadband from a provider of fixed telephony or from pay-TV than they are from a mobile operator. There seems to be a relatively weak connection in customers' minds between mobile providers and other services. However, mobile broadband is seen largely as a supplemental service to fixed line for mobile providers, therefore, the development of added value mobility services, content and applications may prove a more productive route to greater market share and lower churn.

Consolidation in the market means that providing bundled services is increasingly the preserve of larger players. Recent acquisitions have seen the number of standalone players in the UK decrease, with a consequent reallocation of market share between those fewer, larger providers. This may serve to erect barriers to new entrants. The experience of some smaller players on the margins of some markets – e.g. Setanta – highlights the level of significant investment required to achieve scale quickly.

About the survey

PricewaterhouseCoopers surveyed 2,889 consumers from six countries on their current use of fixed and mobile services and on their media consumption habits. We believe the trends the survey identified will provide insight into consumer preferences with regards to purchasing and churning from multiplay packages.

The survey represents the following countries Australia, France, Germany, the Netherlands, Switzerland and the UK.

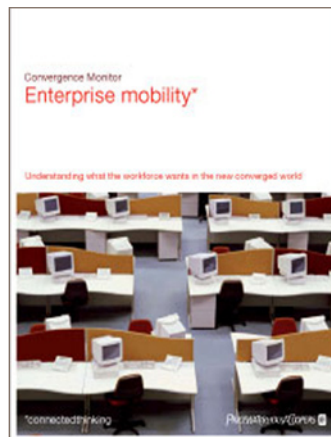
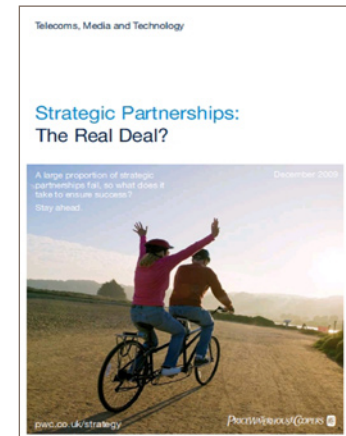
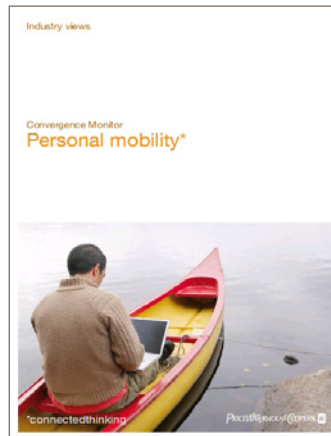
Figure 9: Survey respondents

	Australia	France	Germany	Netherlands	Switzerland	UK
Total	404	408	406	425	409	837
under 18	8	23	16	19	11	0
18-24	33	46	44	47	44	120
25-29	33	42	35	37	43	90
30-34	38	21	40	39	44	116
35-39	43	41	32	47	66	80
40-44	36	28	47	40	43	77
45-54	78	59	80	84	83	149
55-64	89	134	87	91	51	140
65+	46	14	25	21	24	65
Male	196	197	195	205	199	357
Female	208	211	211	220	210	480

Postscript

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