KPMG

The £1.65bn Opportunity

Digital Telco Survey

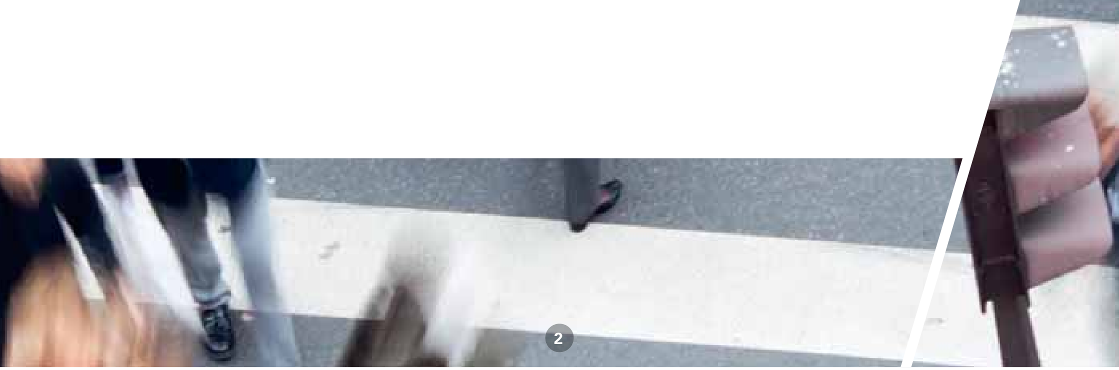
Capturing what the UK really thinks

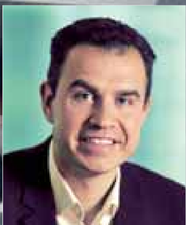
Edition One / October 2015

kpmg.com/uk/**telco**

KPMG conducted research among **2,000 UK adults** in summer 2015 to assess **views and perceptions of the fixed, mobile telephone, broadband and TV markets**.

This is the first of a regular survey – a comprehensive tracker on the digital pulse of the fast-evolving market.





Disconnect in the market presents opportunity for service providers

Mobile internet, broadband, digital TV: these things have become increasingly central to the modern way of life. Few of us could live without them. Most of us now feel distinctly uneasy if we don't have our phone with us or can't check our Facebook page or go on Twitter. At the same time, the market is fiercely competitive across services, with a steady slew of offers, counter-offers, launches and new products assailing us every week.

I expected a survey of consumers to return the finding that people are becoming increasingly demanding and high-maintenance around these services and quick to make their views known to their provider.

I also expected that, with product saturation levels high among consumers, new sales opportunities for the big telco and internet players would be hard to come by.

But our research found neither of these things to be entirely true...

Alex Holt
Partner, Head of Telco, KPMG

"With £1.65 billion on the table it's time to fix service, build trust and tap into the growing and insatiable demand for digital services."

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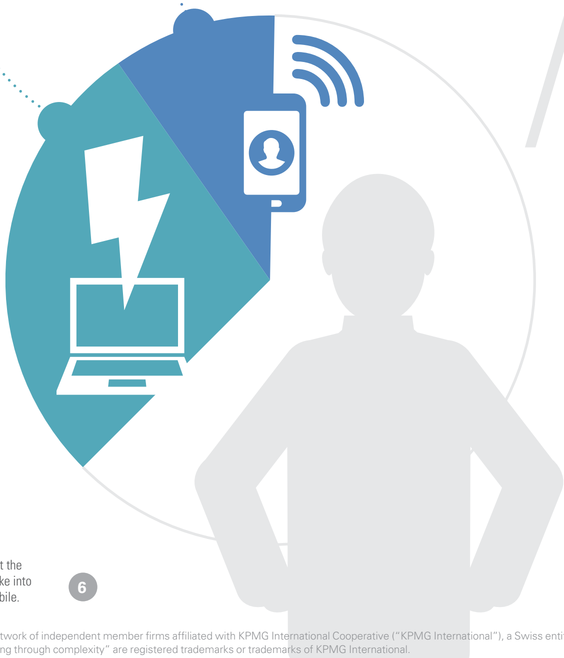
30% of people
said they would be willing to
pay more for faster and more reliable broadband =
up to
£930M
in potential revenue

10% of people
said they would be willing to
pay more for faster and more reliable mobile phone service =
up to
£720M
in potential revenue

The £1.65bn prize*



Source: KPMG & 3GEM Survey / June 2015

*This figure is the combined total from two separate questions asking about the value of better services for broadband and separately mobile. It does not take into account a reduction if there is a substitutional effect between fixed and mobile.

Leaving money on the table

Our research uncovered a large untapped market who would be willing to pay significantly more for their services.

Three in ten (30%) people said they would be willing to pay more for faster and more reliable broadband, 17% of respondents with broadband were willing to pay up to £10/month and a further 6% were willing to pay more than £10/month. Meanwhile, 10% of people would pay more for a faster and more reliable mobile phone service – 5% would pay up to £10 a month and 2% would pay more than that.

Based on these figures, KPMG estimates that there is a £750 - £930 million premium market to be accessed in broadband and £500 - £720 million in mobile phone services, resulting in an approximate £1.65bn* opportunity for those able to offer both fixed and mobile services to their customers.

Allied to this, there is an opportunity around so-called 'quad-play' – fixed line, mobile phone, broadband and digital TV all from one provider. 13% of survey participants said they are seriously considering this in the next six months, with this being most prevalent among Millennials[1].

This could prove a lucrative market for those players that can take the biggest share. At the same time, there is plenty more to aim for because the concept of quad-play has not yet entered the mainstream consciousness – half of participants hadn't thought or didn't know about it.

[1]Millennials defined as anyone aged 18-34

TWO

Satisfied customers

(perhaps with low expectations)

Our survey shows that most of us are happy with what we receive: 79% of us give a score of 7 or more out of 10 for mobile service reliability; 72% score broadband speed and reliability at 7 or more; and more than 80% give a similar score for their digital TV service.

These are indeed pretty impressive scores, from a group that we've heard are open to spending more to make the service they receive even better.

But rather than an industry high five, it should be noted that of this same group six out of ten of the people we surveyed have experienced service problems, and less than half of people have contacted their provider about new products.

If this customer base are pretty satisfied with the status quo, imagine how a provider offering a new and better level of experience could make huge inroads on their rivals and perhaps take the lion's share of the £1.65bn.

MOBILE SERVICE RELIABILITY

79% give a score

7/10

BROADBAND SPEED AND RELIABILITY

72% give a score of

7/10

DIGITAL TV SERVICE

MORE THAN 80% give a score of

7/10

Source: KPMG & 3GEM Survey / June 2015

Service issues

A significant proportion of users have experienced problems with their services in the last six months.

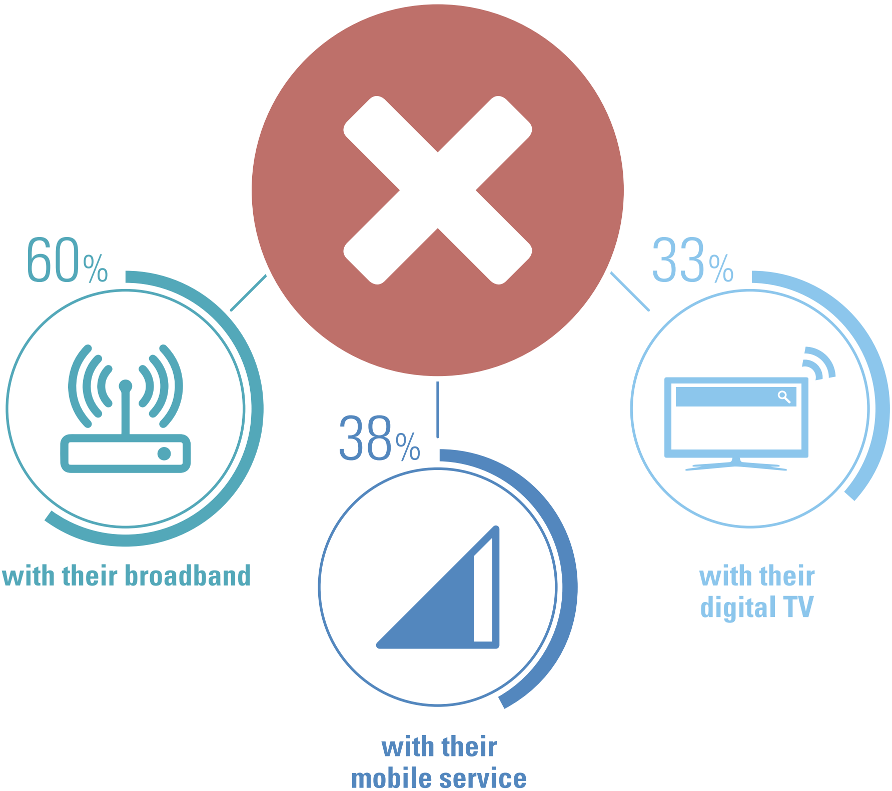
As many as six out of ten people say that they have had an issue with broadband connection or speed. Fewer people – although still a significant proportion – report having had problems with their mobile service (38%) or digital TV (33%).

Losing connectivity/dropping calls proved highest in the list of problems experienced in the last six months; almost half (45%) of respondents in the east of England reported such issues, closely followed by Wales and Yorkshire (43%).

Across all demographics broadband going down is considered as bad as stepping in dog poo.

In the last six months

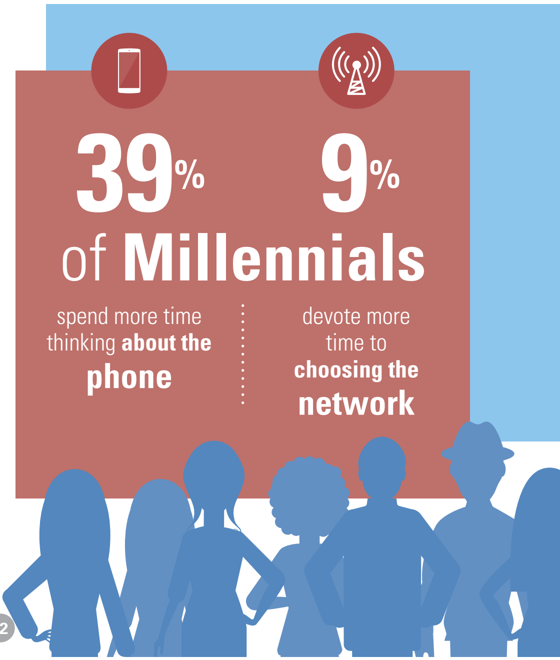
people reported issues



Source: KPMG & 3GEM Survey / June 2015

Millennials more demanding

Our research indicates that Millennials will change the game. They are more demanding than older generations and have different priorities. For them, it's all about the device not the network. They want the best – and they simply expect it to work.



Millennials tend to stick to the big phone companies rather than alternative players, and more than a third of them use Apple iPhones. They are more likely than other age groups to be considering 'quad-play' – buying all four key services from one provider.

Millennials are also very image-conscious. So it is perhaps not surprising that they in particular are more concerned about what handset they have than what network it operates over. About four in ten of them (39%) say they spend more time thinking about their handset and only 9% devote more time to choosing the network. This compares to 28% and 10% across age brackets as a whole (47% saying they spend equal amounts of time considering them).

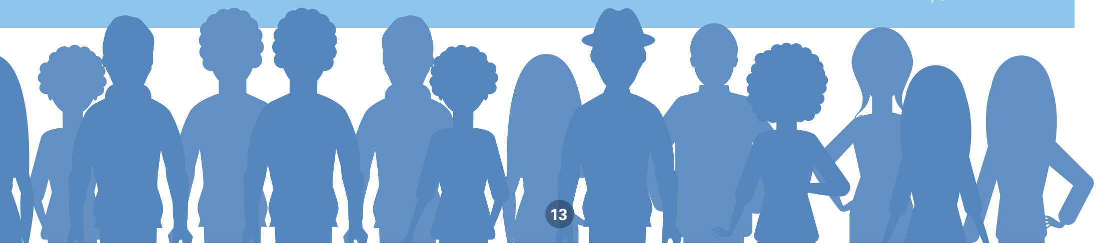
47%

of the **Overall Group**

care **equally about**

the network and **the phone**

Source: KPMG & 3GEM Survey / June 2015



FIVE

Who’s in charge?

Although the decision over which handset or mobile network is generally an individual one (78%), decisions over broadband internet and TV are more likely to be joint with a partner or household (about 50% of cases).

Men are more likely to be the sole decision maker than women: 60% of men take sole responsibility for broadband and 55% for digital TV, compared to 46% and 40% of women.

However, the signs are that women are more demanding over levels of customer service that they receive. When asked which things would make their top 5 most annoying things, 41% of women included poor customer service compared to 34% of men. Women are also slightly less tolerant of broadband going down – 35% ranking it as a top 5 issue compared to 32% of men. The number one annoying thing, for both sexes, was PPI callers – 46% of women and 40% of men made it a top 5 irritation factor.

SIX

Fixed lines hanging on

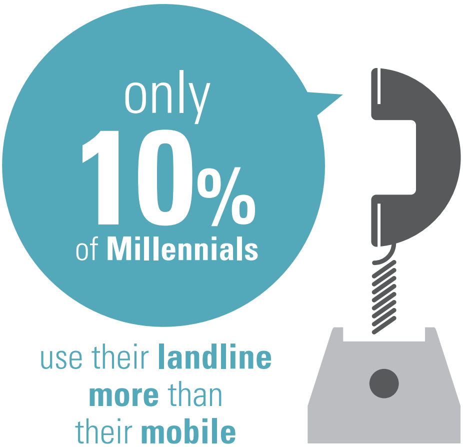
Meanwhile, reports of the death of the fixed line may have been exaggerated – for now.

90% of participants in the survey had a fixed line, with the main reason (54%) being in order to have a broadband service. Another common reason (38%) was because "older relatives prefer to call me on this".

Despite our mobile preoccupations, nearly a third (30%) of respondents say that they still use their landline more than their mobile – and of course this was particularly high among the over 55s.

But again, a change is in the wind as only 10% of Millennials say they use their landline more than their mobile, compared to 30% overall.

Millennials topped the charts across the age groups for not remembering their landline number; 14%, compared to 6% overall and 2% for the over 55s.

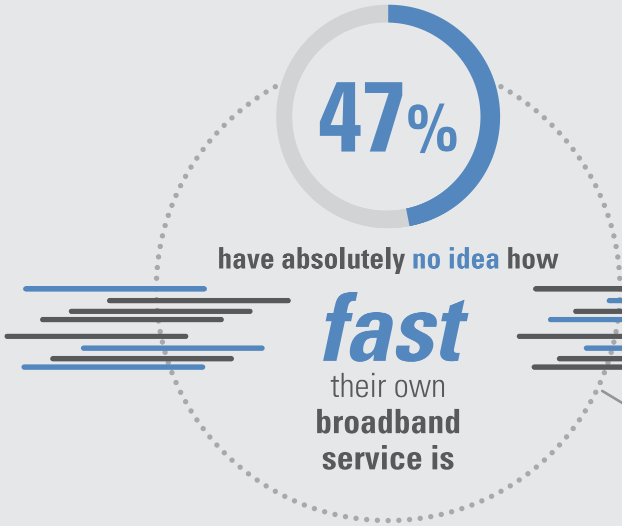


Source: KPMG & 3GEM Survey / June 2015

Nevertheless, the extent to which fixed lines are holding up is perhaps another of the surprises dished up by our research.

EIGHT

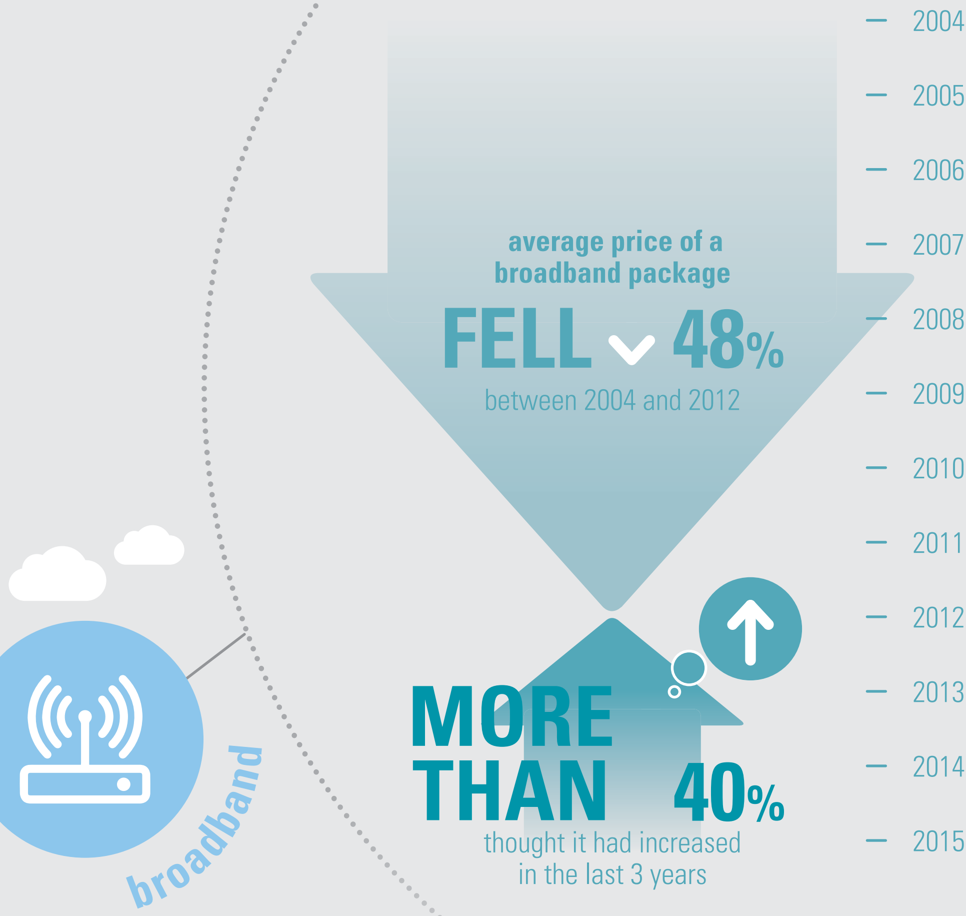
Consumer haze



Another eyebrow-raiser in our research was that, despite how dearly we hold all things mobile and internet, many people (47%) have absolutely no idea how fast their own broadband service is or what the UK average might be.

That said, men are much more likely to know their broadband speed (67%) than women (46%).

Despite how price conscious we all apparently are, there is a general haziness about the trend of broadband package prices too.



Source: KPMG & 3GEM Survey / June 2015

Although in fact the average price of a broadband package fell by 48% between 2004 and 2012, more than 40% of people thought it had increased in the last 3 years. More than a quarter (27%) simply said t shey didn't know.

There appears to be a major opportunity for the industry to communicate more clearly the improving speed, reliability and pricing of services so as to more positively shape consumer opinion and awareness.

EIGHT

Trust and data security

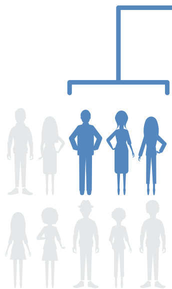
To fully exploit these opportunities, there are some issues that telephony and internet providers will need to address.

Firstly, they are ranked only middle of the pack in terms of trust. Consumers trust supermarkets and banks the most, whereas TV, mobile and broadband providers sit mid-table above utility providers – and several household-name tech giants – who ranked poorly.

They must also be vigilant about the use of personal data, as this proved to be an area of some worry and concern for many consumers. Nearly four in ten respondents (37%) said that they didn't trust any company with their personal data. Only about a fifth of people trust their broadband provider (22%) or mobile phone provider (20%) to securely collect and store their personal usage data. Interestingly, there was quite a high level of concern (50% of respondents) in this respect about wearable technology.

NEARLY

3/10

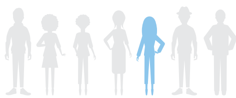


"kept up at night" worrying that someone might **steal their identity**

Overall, nearly three in ten (28%) people say they are "kept up at night" worrying that someone might steal their identity and 17% worry that their personal data could have been leaked. The Government also has work to do – almost one in seven (15%) people worry that the Government is secretly collecting their data...

ALMOST

1/7



worry the **Government** is **secretly collecting their data**

Source: KPMG & 3GEM Survey / June 2015

NINE

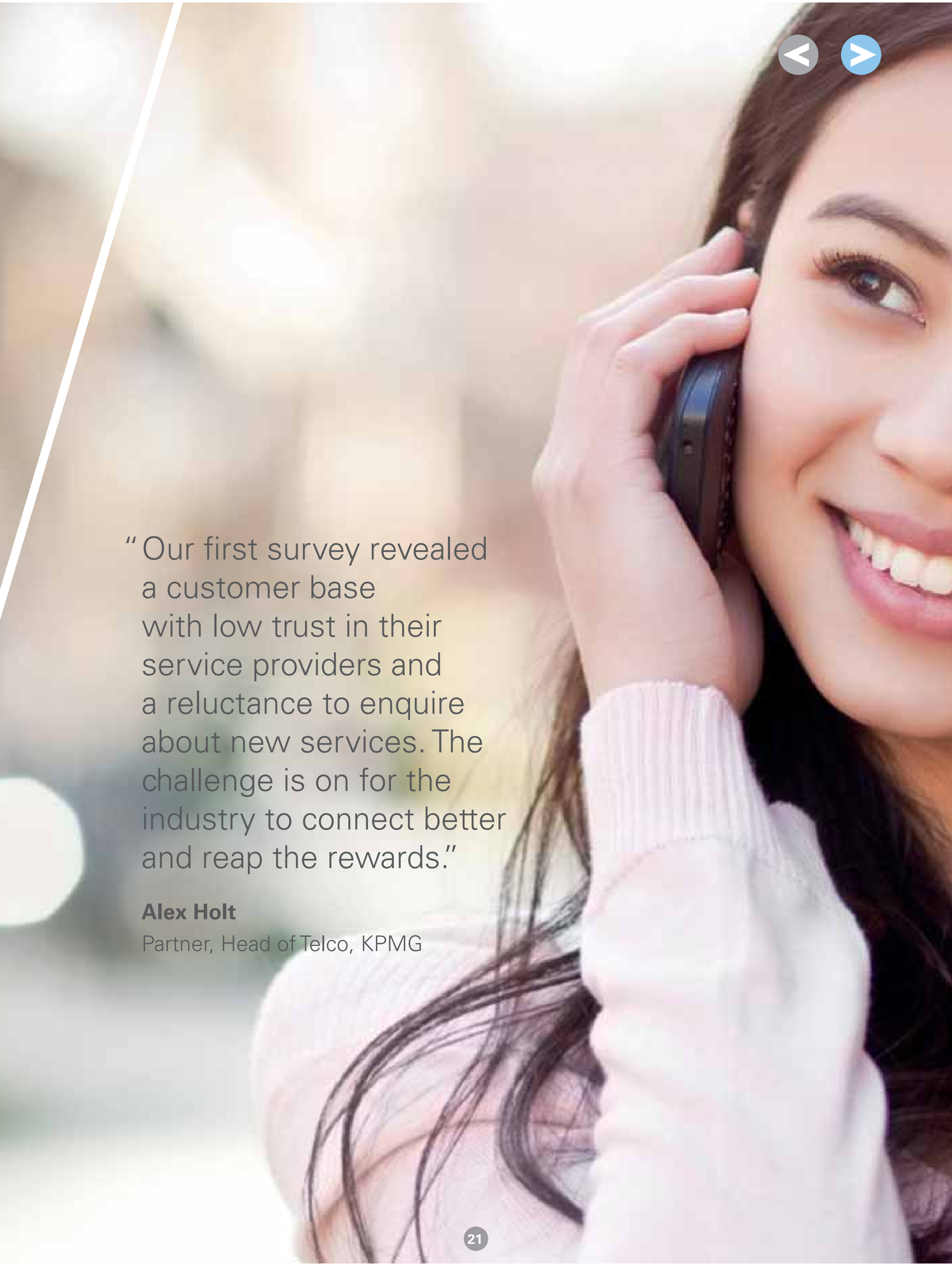
All to play for

Our survey finds that there are significant opportunities ahead for those providers who can transform the customer experience.

But the road ahead is not going to be easy. For example, many of those we surveyed had experienced service issues on the core elements of the potentially lucrative quad play bundle, we also found that trust in service providers was low. Unsurprisingly, the millennials expectations are higher, while their patience is lower.

The message is clear, providers who can deliver an excellent experience can hope to keep a faithful customer base, and tap into a large and potentially lucrative market in premium and quad-play services.

With £1.65 billion on the table it's time to fix service, build trust and tap into the growing and insatiable demand for digital services.



"Our first survey revealed a customer base with low trust in their service providers and a reluctance to enquire about new services. The challenge is on for the industry to connect better and reap the rewards."

Alex Holt

Partner, Head of Telco, KPMG

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3GEM undertook UK wide survey of broadband and phone customers in June 2015, in conjunction with KPMG.

OLIVER for KPMG | OM047554A | October 2015

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