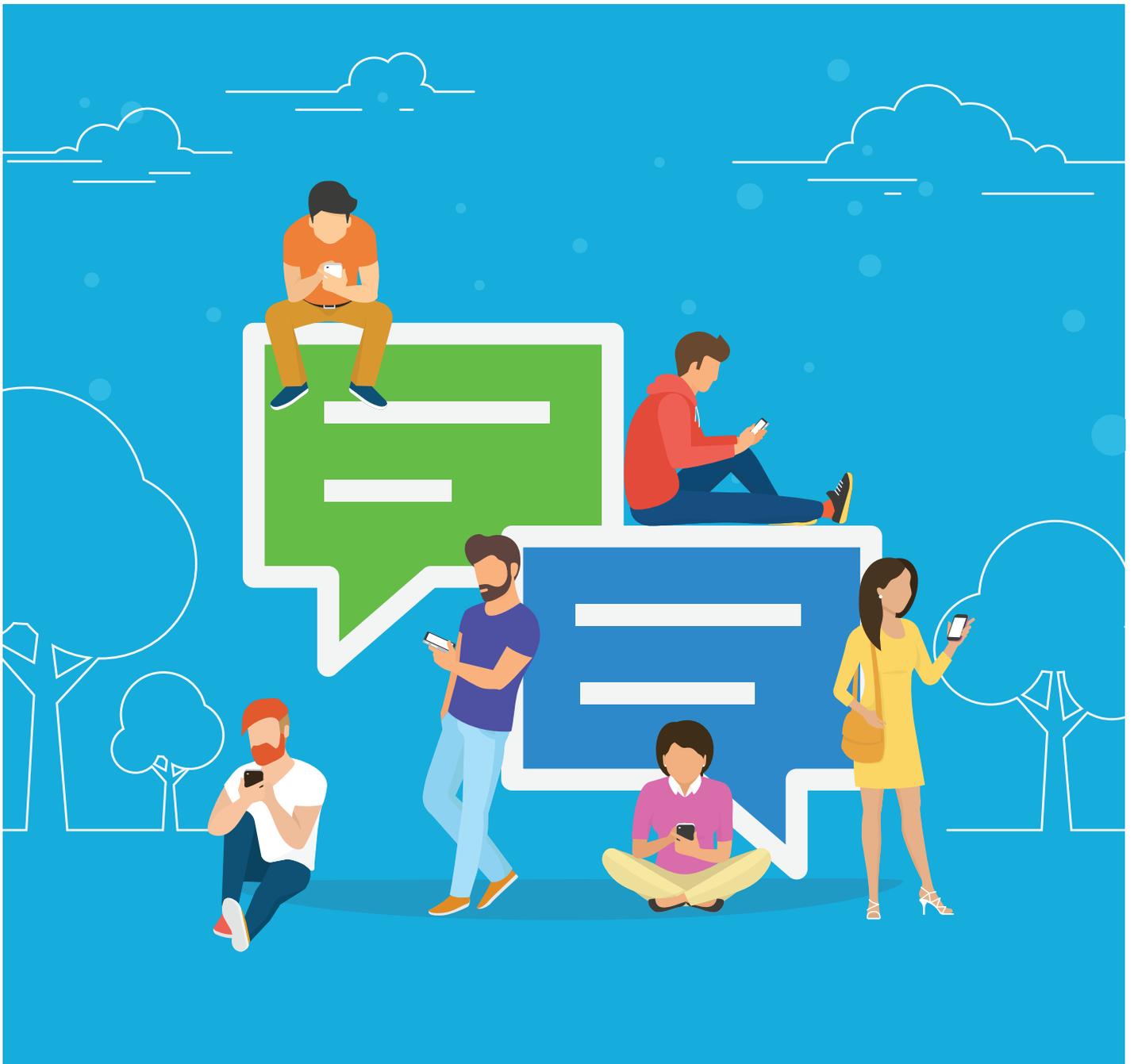


ANNUAL MARKET REVIEW 2017-18

Phone-paid services market outlook 2018-19

September 2018



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Introduction

In 2017 Mobilesquared was commissioned by the Phone-paid Services Authority (PSA) to conduct a thorough review of the service taxonomy used to assess the market for phone-paid services. This is the first Annual Market Review (AMR) to use the new taxonomy.

A full breakdown of the revised service taxonomy and service types can be found in the Methodology. For the purposes of this report, the 13 umbrella service categories will be used when discussing revenues and forecasts in Sections 1 and 2, respectively, unless stated otherwise.

New service categories

- Assistance services
- Betting, gambling, lotteries
- Charity donations
- Competitions & quizzes
- Device personalisation & security
- Digital payments
- Entertainment
- Games & content
- Information, news & education
- Lifestyle
- Personal & relationship services
- Sexual entertainment
- TV & radio engagement

Due to the changes made to the service taxonomy, it will not be possible to do a year-on-year revenue comparison (with financial year 2016-2017) for the majority of service categories, or individual service types.

Analysis of revenues by payment mechanism remains unchanged.

Executive Summary

(Nb all figures exclude VAT unless stated otherwise)

The Phone-paid Services Authority commissioned MobileSquared to conduct the Financial Year 2017-2018 (FY2017-18) Annual Market Review (AMR). The scope of this project is to examine and explore the phone-paid services market, provide in-depth analysis of its component parts, and outline the market prospects for the sector for the next financial year.

MobileSquared estimate that the phone-paid services market was worth £555.3 million in FY2017-18, including Charity donations, down 12.1% on the previous financial year¹. Excluding Charity donations, the phone-paid services market was worth £517.8 million, down 13%.

Mobile-based revenues accounted for 74% of total revenues. Operator billing & PayfortIt accounted for revenues of £200.4 million (36% share of total revenues), followed by Mobile (PSMS and voice shortcodes) with revenues of £170.2 million. Charity donations stood at £37.5 million². Voice PPS/09 and TV red button has now become the largest of the voice-based payment mechanics with revenues of £54.8 million, ahead of Directory Enquiries (DQ) on £46.9 million, and Voice 087 generating £45.4 million.

Only Operator billing & PayfortIt experienced year-on-year growth (19%), although this is significantly down on the year-on-year growth of 31.4% enjoyed in the previous financial year.

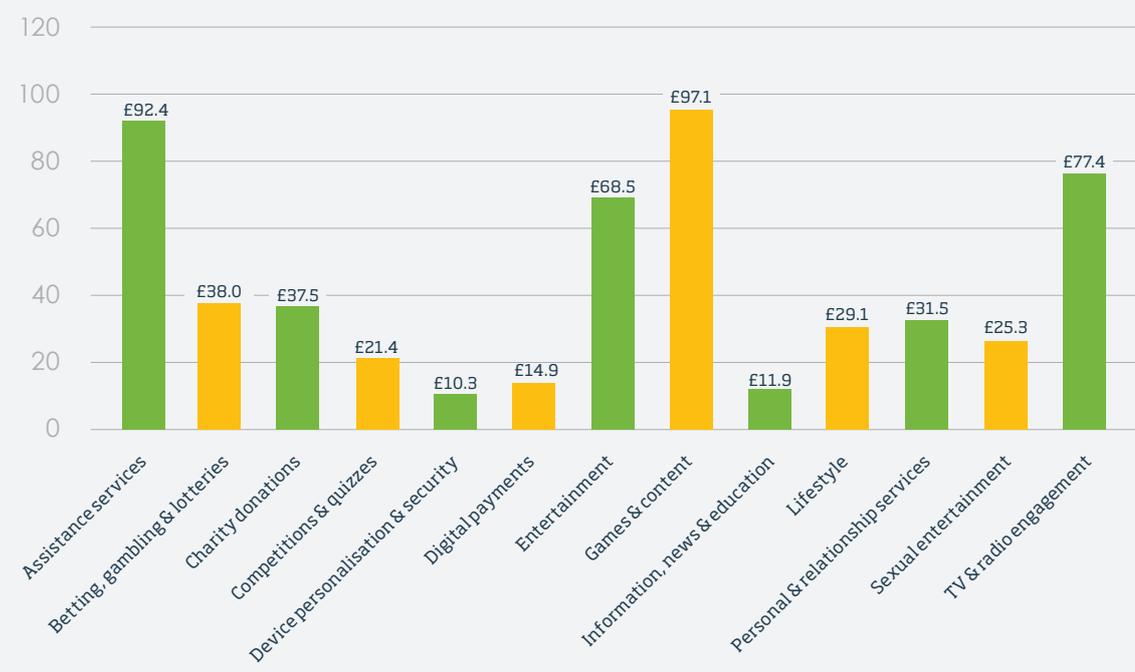
Under the updated service categorisation, Games & content has become the largest sector, generating revenues of £97.1 million (17.5% of total revenues), ahead of Assistance services on £92.4 million (16.6%). TV & radio engagement is the third largest sector, with revenues of £77.4 million (13.9%), followed by Entertainment generating £68.5 million (12.3%). The average

¹ Based on adjusted FY2016-17 revenues, see Methodology

² See Methodology for adjusted Charity pass-through

³ For example, the category of 'Digital payments' contains Vouchers, Virtual gifts, Gift cards, and Low-cost international or reverse charge calls. Therefore, the average revenue for the category is based on the average revenue across these four service types.

Fig.i Phone-paid services market revenues by category, FY2017-18 (£m excl. VAT)⁴



Source: Phone-paid services market sizing for Phone-paid Services Authority

revenue per service category in FY2017-18 was £42.7 million³. In total, there were an estimated 23.5 million users of phone-paid services in FY2017-18, which accounts for a 4% increase in the total user base compared to FY2016-17. This has been attributed to a broader range of content and services using phone-paid billing mechanics attracting new users into the market. The average number of users across the 13 main categories was 1.85 million. Across the 13 service categories, the Average Revenue Per User (ARPU) was £11.81.

Convenience (22%) continues to be the main driver for usage of phone-paid services, followed by useful content or service (19%), and impulsive purchases (18%). General consumer perception of the phone-paid service market has improved.

Almost two-thirds (65%) of users, on average, are satisfied or extremely satisfied with their phone-paid service — up 10 percentage points compared to the previous year. The number of users that claimed to have had their trust compromised has dropped from 32% to 21%. Combined, these factors have contributed to vastly improved Net Promoter Scores (NPS). The latest collective score for the phone-paid services industry was -12, up from the previous year's score of -31.

⁴ Charity donations are subject to 100% network pass through. That means all of the consumer's donation is received by the charity in question.

Problems do remain within the phone paid services market for 15% of users – down from 17% the previous year. Regardless of whether the phone-paid service user had experienced a problem or not, over the 12-month period, the consumer research reveals that the average phone-paid service will experience an 8% drop-off of users, while 22% will use it less. This is an improvement on the previous year, when 14% of users stopped using and 24% used less. The data suggests phone-paid services, on average, are becoming stickier and driving longer and more lasting engagement with the consumer.

Overall, consumer perception of phone-paid services has improved since the previous Annual Market Review 2016-17, but this is yet to materialise into a reversal of the declining revenues that have affected the industry since 2010. Part of this reason can be attributed to industry applying the necessary conditions to cleanse the ecosystem of services that led to complaints from a section of the customer base. But the job is only partially complete. Industry needs to maintain its current trajectory to ensure the market meets the necessary conditions to continue to roll out new services that consumers want that will engender confidence and lead to a sustainable future.

FY2018-19 projections

In FY2018-19, the market is expected to grow 4.6% to £580.7 million, including Charity donations, and £530.6 million excluding Charity donations.

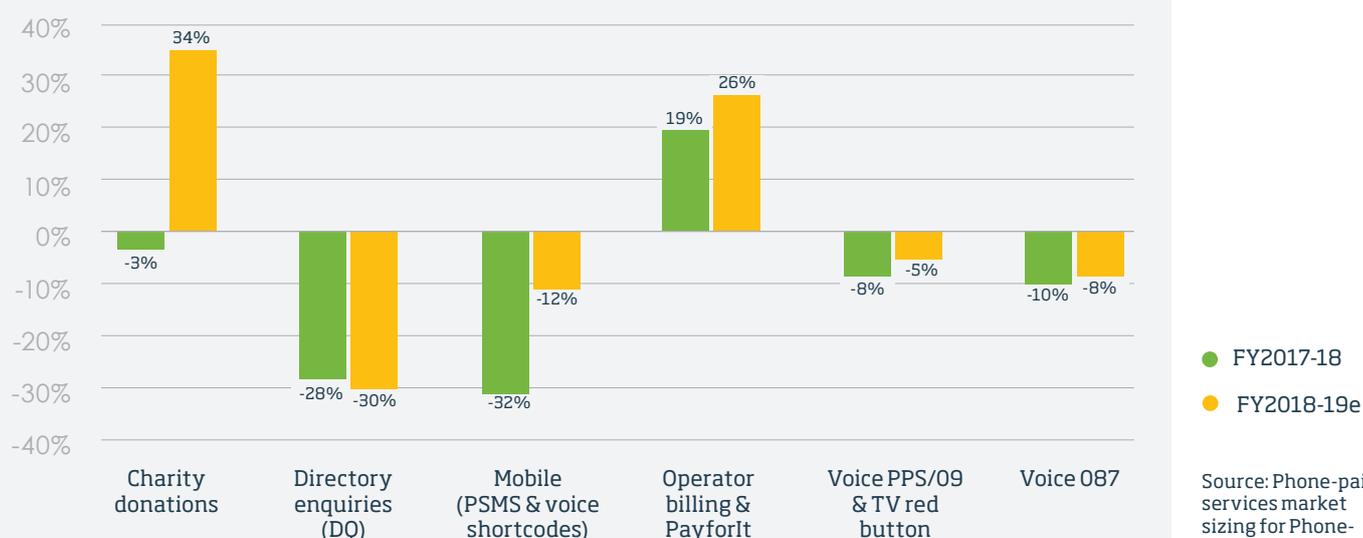
Operator billing & Payfortl is forecast to generate revenues of £253.5 million and a 43.7% share of total revenues, followed by Mobile (PSMS & voice shortcodes) with revenues of £150.3 million. Charity donations are estimated to generate a network pass-through of £50.1 million. Voice PPS/09 & TV red button is expected to maintain its position as the largest of the voice-based payment mechanics with projected revenues of £52.5 million, followed by Voice 087 on £41.6 million, and ahead of Directory enquiries (DQ) on £32.8 million.

Charity donations is expected to experience the most growth year-on-year (34%)⁵ as key telethon events return, coupled with growth in the percentage of users giving regularly (i.e. on a monthly subscription). Operator billing & Payfortl is projected to grow (26%) in FY2018-19, driven by growth in new and emerging services, and the boost of Apple, Amazon and Microsoft all adopting the payment mechanic. Overall, mobile-based revenues as a proportion of total revenues are expected to account for 78% of the market.

⁵ Based on adjusted pass-throughs. See Methodology: Charity donations

Voice-based services are expected to continue their annual decline, with DQ hardest hit (expected to drop 30%), Voice 087 falling 8%, and Voice PPS/09 & TV red button down 5%. A diminishing user base, and the impact of proposed changes to the regulation of DQ is expected to have negative connotations for the sector (see Section 4, DQ).

Fig. ii Year-on-year revenue change by payment type



Source: Phone-paid services market sizing for Phone-paid Services Authority, industry research

Strong year-on-year revenue growth for seven of the 13 categories will reaffirm the belief that phone-paid services have turned a corner and have the potential to deliver a sustained period of growth.

Section 1: The Market

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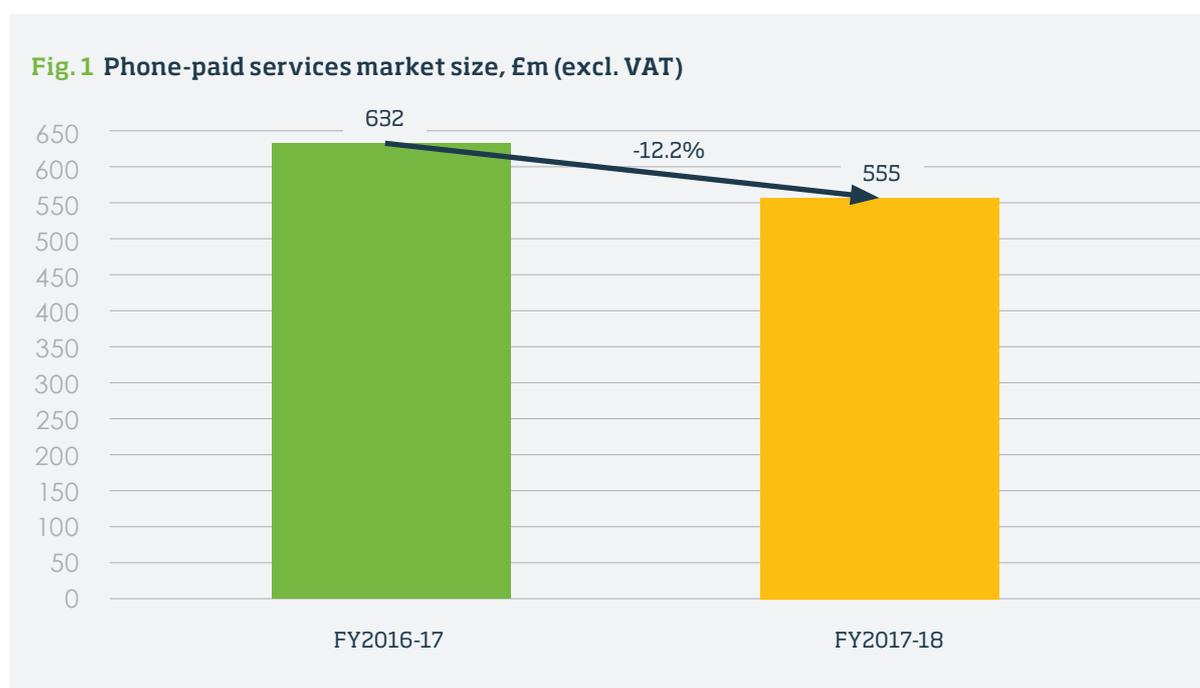
Revenues

(Nb all figures exclude VAT unless stated otherwise)

The phone-paid services market was worth £555.3 million in Financial Year 2017-2018 (FY2017-18) including Charity donations, a drop of 12.1% on the previous financial year⁶. Excluding Charity donations, the phone-paid services market was worth £517.8 million, down 13%.

This represents the biggest year-on-year decline in revenues since the market decline commenced in 2010. The accelerated decline can largely be attributed to the artificial high revenues in FY2016-17 caused by the surge in promotions and sales of (the then called) Non-broadcaster competitions and quizzes, now referred to as Online competitions & quizzes. Without this artificial high, the market would have dropped approximately 8%.

Regardless, the decline can also be attributed to the year-on-year decline in voice-based services, coupled with a slowdown in the growth of operator billing revenues.

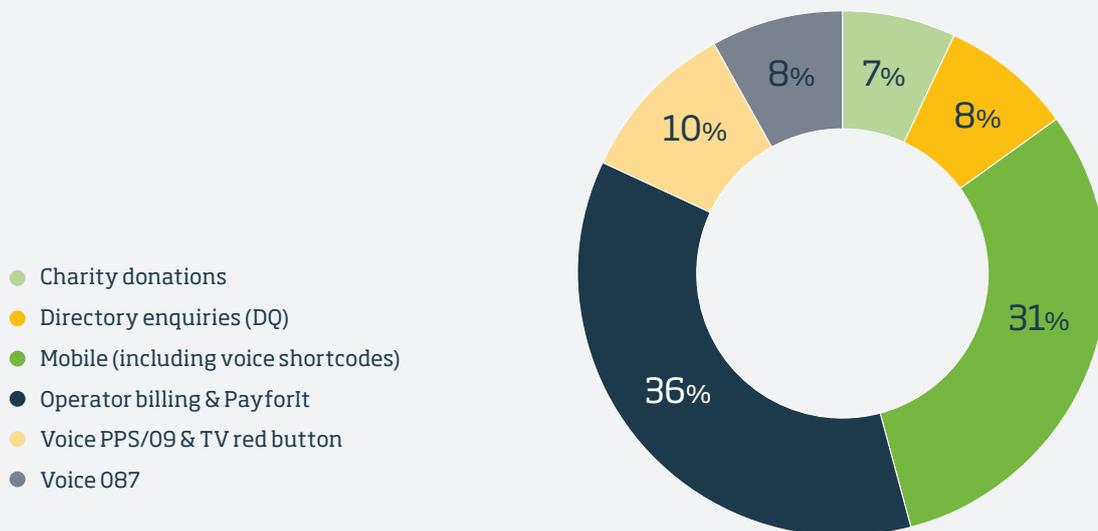


Operator billing & PayforIt accounted for revenues of £200.4 million and a 36% share of total revenues, followed by Mobile (PSMS and voice shortcodes) with revenues of £170.2 million. Charity donations stood at £37.5 million⁷. Voice PPS/09 and TV red button has now become the largest of the voice-based payment mechanics with revenues of £54.8 million, ahead of Directory Enquiries (DQ) on £46.9 million, and Voice 087 generating £45.4 million.

⁶ Based on adjusted FY2016-17 revenues, see Methodology

⁷ See Methodology for adjusted Charity pass-through

Fig. 2 FY2017-18 market revenues by %



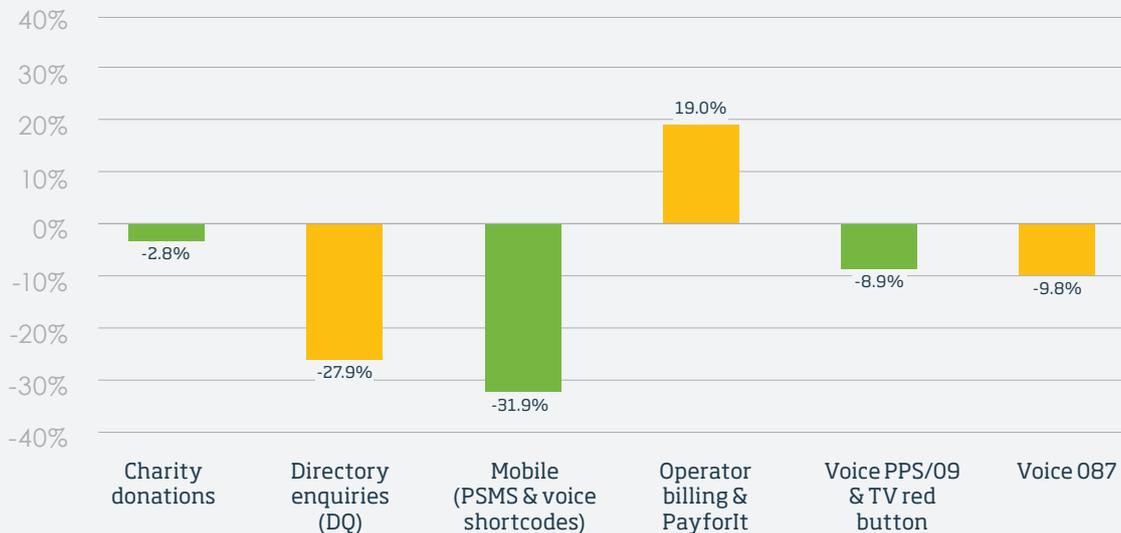
Source: Phone-paid services market sizing for Phone-paid Services Authority

Of the six phone-paid services payment mechanics included in this report, only Operator billing & PayforIt experienced year-on-year growth (19%), although this is significantly down on the year-on-year growth of 31.4% enjoyed in the previous financial year.

Charity donations fell 2.8%, while Voice 087 and Voice PPS/09 and TV red button fell 8.9% and 9.8%, respectively, as the substitution effect of the Internet continues to drive revenues down. This was once again accentuated by the dramatic drop in DQ revenues of 27.8%.

The biggest year-on-year drop in revenues was Mobile (PSMS and voice shortcodes), which fell 31.9%, as services such as adult video and online competitions have effectively stopped, with revenues for these services now just coming from residual users of the remaining services. In addition, the on-going migration of services from PSMS onto Operator billing & PayforIt has contributed significantly to the decline and is expected to accelerate as other existing services, such as Broadcaster competitions & quizzes, and Charity donations consider moving to Operator billing & PayforIt.

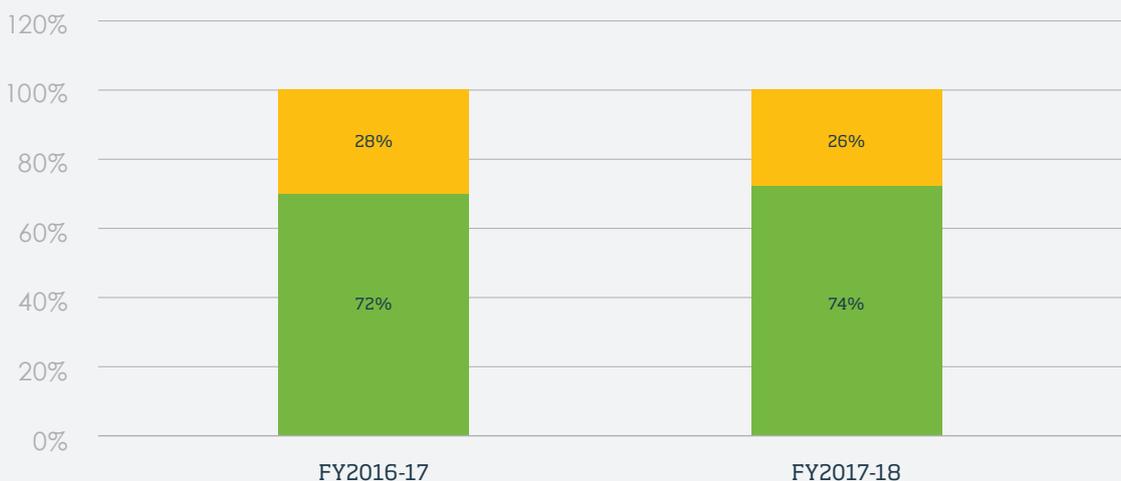
Fig.3 FY2016-17 / FY2017-18 phone-paid services revenue % change by payment type



Source: Phone-paid services market sizing for Phone-paid Services Authority, industry research

Due to the steep decline in year-on-year revenues for Mobile, there is a small increase in mobile-based revenues as a percentage of total revenues compared to voice-based. Between FY2016-17 and FY2017-18, mobile-based revenues have only increased two percentage points.

Fig.4 Mobile-based revenues vs voice-based revenues



● Mobile-based
● Voice-based

Source: Phone-paid services market sizing for Phone-paid Services Authority, industry research

Revenues by service categories

Under the updated service categorisation, Games & content has become the largest sector, generating revenues of £97.1 million (17.5% of total revenues), ahead of Assistance services on £92.4 million (16.6%). TV & radio engagement is the third largest sector, with revenues of £77.4 million (13.9%), followed by Entertainment generating £68.5 million (12.3%).

The average revenue per service category in FY2017-18 was £42.7 million⁸. However, only four services were above average (Games & content, Assistance services, TV & radio engagement, and Entertainment).

The categories generating the least revenues include Device personalisation and security (£10.3 million/1.9%), Information, news and education (£11.9 million/2.1%), and Digital payments (£14.9 million/2.7%).

The breakdown of revenues by service type can be found in Section 3 and in the Appendix.

Fig. 5 Phone-paid services market revenues by category, FY2017-18 (£m excl. VAT)



Source: Phone-paid services industry research, Phone-paid Services Authority quantitative consumer survey, March 2018, Q1: At the start of this survey you selected the following content/services. Based on your selection, we have now split out these services based on the different types of content and services found within this category. Please select which ones are relevant to you. Base=5,000.

⁸ For example, the category of 'Digital payments' contains Vouchers, Virtual gifts, Gift cards, and Low-cost international or reverse charge calls. Therefore, the average revenue for the category is based on the average revenue across these four service types.

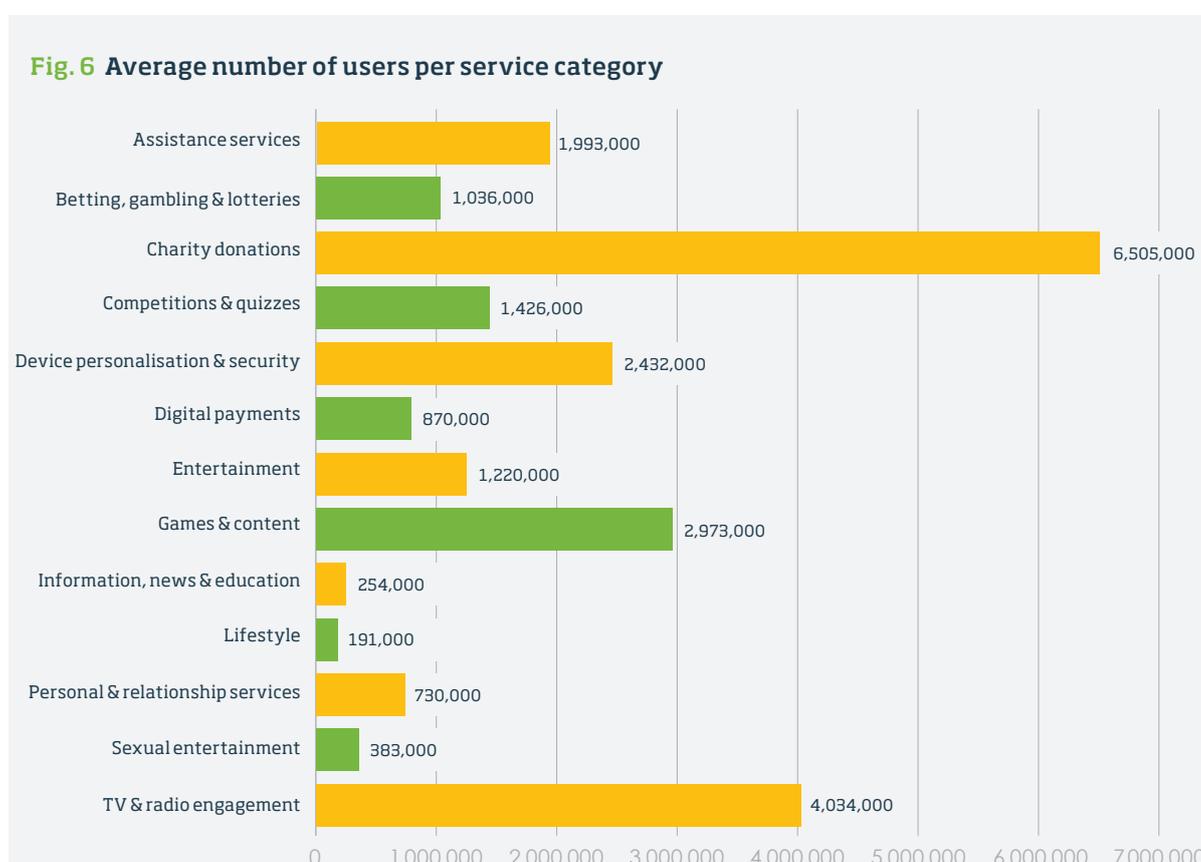
Users

In total, there were an estimated 23.5 million users of phone-paid services in FY2017-18, which accounts for a 4% increase in the total user base compared to FY2016-17. This has been attributed to a broader range of content and services using phone-paid billing mechanics attracting new users into the market.

The average number of users across the 13 main categories, was 1.85 million. The categories with above average user numbers (when averaged out by the total number of service types included within each of the 13 main categories), included Charity donations (6.5 million), TV and radio engagement (4 million), Games and content (3 million), and Device personalisation and security (2.4 million).

Lifestyle, one of the new and emerging categories, had the smallest average user base of 0.19 million, followed by Information, news and education (0.25 million), and Sexual entertainment (0.38).

The breakdown of users by service type can be found in Section 3 and in the Appendix.



Source: Phone-paid services market sizing for Phone-paid Services Authority, industry research, Phone-paid Services Authority quantitative consumer survey, March 2018. Q1: At the start of this survey you selected the following content/ services. Based on your selection, we have now split out these services based on the different types of content and services found within this category. Please select which ones are relevant to you. Base=5,000.

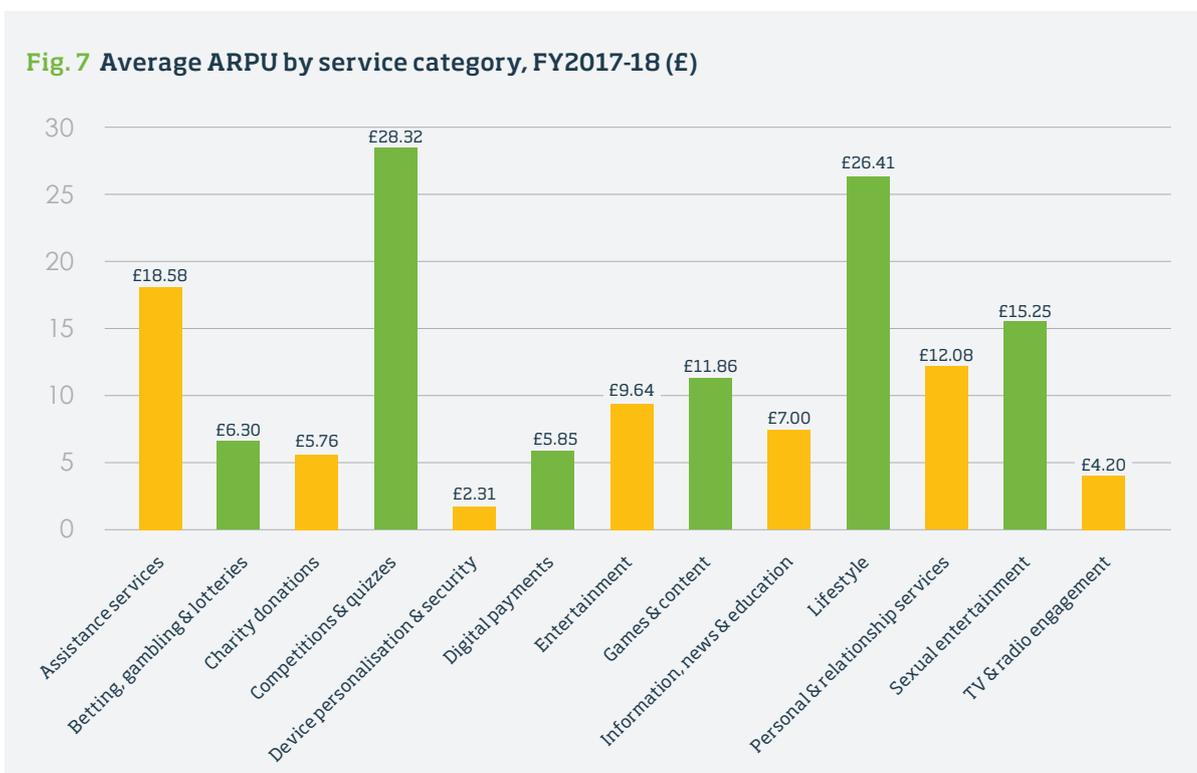
ARPU

Across the 13 service categories, the Average Revenue Per User (ARPU) is £11.81. The category with the highest average ARPU is Competitions and quizzes, although this is an artificially high rate as online competitions as a service is no longer available to new customers, leaving just the residual users that continue to pay their weekly subscription. With a month-on-month user drop-off rate of between 5-10%, online competition services will have all-but effectively ceased by the end of FY2018-19 (in their current guise).

Based on fully-functioning services, Lifestyle can be considered with the highest ARPU (£26.41), primarily attributable to Fitness, health & wellbeing services. Assistance services continue to boast a high ARPU of £18.58, but with a declining user base, and with the potential for future regulation to introduce price caps on services such as DQ, this is unlikely to be sustainable beyond the short-term. Sexual entertainment has an ARPU of £15.25, which is the result of a small, but loyal user base.

Device personalisation & security (£2.31), TV and radio engagement (£4.20), and Charity donations (£5.76) have the lowest ARPU.

The breakdown of ARPU by service type can be found in Section 3 and in the Appendix.



Source: Phone-paid services market sizing for Phone-paid Services Authority, industry research, Phone-paid Services Authority quantitative consumer survey, March 2018, Q1: At the start of this survey you selected the following content/ services. Based on your selection, we have now split out these services based on the different types of content and services found within this category. Please select which ones are relevant to you. Base=5,000.

Consumer Engagement

Why use phone-paid services?

Based on the findings from the consumer research, more than half of total users (52%) claim their usage of phone-paid services remained consistent over 12 months, with 25% stating that their usage increased, leaving 16% declaring their usage declined, and 7% stopped.

Fig. 8

Top 5 categories with the greatest percentage of users that have increased their usage or usage has remained consistent

Betting, gambling, lotteries	85%
Entertainment	84%
Charity donations	83%
Games	81%
Lifestyle	80%

Source: Phone-paid Services Authority quantitative consumer survey, March 2018. Q7: Do you use them more or less than you did 12 months ago? Base=5,000.

Fig. 9

Top 5 categories with the greatest percentage of users that have reduced their usage or stopped using

Assistance services	32%
Device personalisation & security	28%
Competitions & quizzes	27%
Personal & relationship services	27%
TV & radio engagement	27%

Source: Phone-paid Services Authority quantitative consumer survey, March 2018. Q7: Do you use them more or less than you did 12 months ago? Base=5,000.

Convenience (22%) continues to be the main driver for usage of phone paid services, followed by useful content or service (19%), and impulsive purchases (18%).

When the consumer research was split out by the individual service types, Directory enquiries, Charity donations, and Gift cards were driven by convenience, all competition types were driven by impulsive purchases, while Health, fitness & wellbeing, and Educational services are viewed as the most useful.

Fig. 10

Top 5 service types driven by convenience

Directory enquiries	40%
Charity donations	37%
Gift cards	31%
Customer service	28%
Vouchers	28%

Top 5 service type purchases driven by impulse

Broadcaster competitions	39%
Offline competitions	38%
Online competitions	37%
Texting in to show host	37%
Voting on a TV/radio show	36%

Top 5 most useful content and services by type

Health, fitness & wellbeing	32%
Educational services	30%
Stocks & shares	28%
ICSS	26%
Weather/travel	25%

Source: Phone-paid Services Authority quantitative consumer survey, March 2018. Q6: Why do you use the content/ these services? Base=5,000.

Engagement Indicators

The consumer research has revealed encouraging signs for the phone-paid services market, highlighting a more positive consumer outlook for the sector based on four key performance indicators of Problems, Trust, Satisfaction, and Net Promoter Score.

1. Problems remain, but market in recovery mode

Problems do remain within the phone paid services market, however, the results from the consumer research are encouraging and suggest that perception of the market is starting something of an upward trajectory. The percentage of users that said they had had a problem with at least one phone-paid service during the last 12 months had dropped from 17% the previous year to 15% in FY2017-18.

Of the 85% of phone-paid services users that said they had not experienced a problem with the service, the majority (44%) said it was “exactly what they were expecting”, followed by “I like the content or service”, and “a small worthwhile indulgence” (both 16%). However, 15.5% of these users have experienced an issue: 9.2% said it was not what they were expecting, while 6.3% have had an issue, but in both instances the consumers did not view these as problematic.

According to three-quarters of the users that had not experienced a problem, their usage of phone-paid services is unlikely to stop. But regardless of whether they have experienced a problem or not, the remaining quarter of these users stated that they will either use the service less or intend to stop using the service (16.3%), or have stopped using the service (7.4%, or 6.3% of total users).

I've had a problem

With 15% of phone-paid service users claiming to have experienced a problem with their service during the previous 12 months, the main issues involved “a higher-than-expected-price” (27.1%), “poor content or service” (20.1%), and “it was not what I was expecting” (19.4%).

The outcome of experiencing a problem is that 64% of these users will either reduce their usage of the service (38%) or stop using it (26%). The remaining 36% will continue to use the service.

The consumer research reveals that natural attrition remains the biggest threat to the longevity of a service. The phone-paid service users that experienced a problem and went on to reduce their usage or stop using the service accounted for 9.6% of total phone-paid service users. However, the 24% of phone-paid service users that had not experienced a problem and either reduced their usage or stopped using, accounted for 21.3% of total users.

Regardless of whether the phone-paid service user had experienced a problem or not, over the 12-month period, the consumer research reveals that the average phone-paid service will experience an 8% drop-off of users, while 22% will use it less. This represents considerable progress compared to last year, when the Annual Market Review 2016-17 revealed that 14% of users would stop using, and 24% of users would reduce their usage. The data suggests phone-paid services, on average, are becoming stickier and driving longer and more lasting engagement with the consumer.

A breakout of service types reveals that users of voice-based services are most likely to experience a problem. Based on the consumer research, eight of the top 10 services most likely to experience a problem were voice-based, with Adult cams and Games or content subscription services making up the top 10.

Fig. 11

Service types with the highest percentage of users experiencing a problem

Adult talk services	36%
ICSS - call an advisory service	31%
Low-cost international or reverse charge calls	30%
Customer services	28%
Tarot/astrology services	27%

Service types with the lowest percentage of users experiencing a problem

News	8%
Alerts	8%
Gift cards	8%
Books	6%
Charity Donations	6%

Source: Phone-paid Services Authority quantitative consumer survey, March 2018. Q11: Have you ever had a problem with the service? Base=5,000.

2. Trust

On average, 21% of phone-paid services users participating in the consumer research claimed to have had their trust compromised by at least one phone-paid service over the previous 12-month period. This presents a significant improvement on the 32% of users in the previous year that claimed to have had their trust compromised.

The role that trust plays in the consumers' decision-making process has diminished slightly year-on-year, with the latest consumer research revealing that 68% of phone-paid services users state trust does influence their decision-making, compared to 70% in the previous year.

Books is the most trusted service, followed by Charity donations, Music, and Gift cards. At the other end of the spectrum, the services where consumers believe their trust has been compromised the most, are Low-cost international or reverse charge calls, Adult talk services, Adult cams, Flirting chat services and ICSS.

All the services, except one (Adult cams) identified by consumers as their top 10 least trusted services are traditional phone-paid services, and primarily consist of voice or chat.

Although only 3 of the top 10 most trusted services would be considered emerging (i.e. services launched in the last 18 months, such as Books, Gift cards, and Films), all these services are mobile-based, with the majority-using operator billing or in the process of introducing operator billing.

Fig. 12

The most trusted service types

Books	89.5%
Charity Donations	88.5%
Music	87.9%
Gift cards	86.9%
News	86.0%

Source: Phone-paid Services Authority quantitative consumer survey, March 2018. Q17: Has your trust ever been compromised when using phone-paid services? Base=5,000.

Fig. 13

Proportion of users that have had their trust compromised, by service type

Low-cost international or reverse charge calls	38.9%
Adult talk services	37.3%
Adult cams	36.4%
Flirting chat services	35.3%
ICSS - call an advisory service	34.1%

Source: Phone-paid Services Authority quantitative consumer survey, March 2018. Q17: Has your trust ever been compromised when using phone-paid services? Base=5,000.

3. Satisfaction

Almost two-thirds (65%) of users, on average, are satisfied or extremely satisfied with their phone-paid service. That is an increase of 10 percentage points compared to the previous year. Clearly, there is a correlation between increasing trust levels and increasing satisfaction levels.

Furthermore, there is a similar trend emerging between the services achieving the highest levels of satisfaction, and those with the lowest.

As identified with Trust, it is the new guard of services that dominate the top 10 most satisfied services (Books, Film, TV, Educational services, Health, fitness & wellbeing, and Gift cards). However, it is Music that now provides users with the greatest satisfaction, ahead of Books, and Charity donations.

Customer services, Offline competitions, and Texting in to show host, delivers the lowest levels of satisfaction.

Fig. 14

Service types with the highest percentage of users experiencing satisfaction

Music	80%
Books	79%
Charity Donations	76%
Film	76%
TV	74%

Service types with the lowest percentage of users experiencing satisfaction

Customer services	51%
Offline competitions	48%
Broadcaster competitions	47%
Texting in to show host	47%
Chat services	46%

Source: Phone-paid Services Authority quantitative consumer survey, March 2018. Q10: Based on your experience using/purchasing the content or service, how satisfied were you? Base=5,000.

4. Net Promoter Score

The year-on-year leap in satisfaction ratings translates into vastly improved Net Promoter Scores (NPS). The latest collective score for the phone-paid services industry was -12, up from the previous year's score of -31 (minus 31).

In the Annual Market Review 2016-17, Charity donations was the only service to achieve a positive rating, with Music or video content the second best performing service with a score of -15.

With the revised service categorisation, six categories now have positive scores, with Music scoring the highest (17), Books (10), Charity donations and Film (both on 5), TV (3), and Adult cams (1).

The services with the lowest NPS are Customer services (-41), Offline competitions (-36), Broadcaster competitions (-35), Online competitions (-34), and Texting in to show host (-30).

Fig.15

Service types with the highest NPS

Music	17
Books	10
Charity Donations	5
Film	5
TV	3

Service types with the lowest NPS

Customer services	-41
Offline competitions	-36
Broadcaster competitions	-35
Online competitions	-34
Texting in to show host	-30

Source: Phone-paid Services Authority quantitative consumer survey, March 2018. Q10: Based on your experience using/purchasing the content or service, how satisfied were you? Base=5,000.

Engagement findings

Across the four engagement indicators of Problems, Trust, Satisfaction, and NPS, three service types have featured in the top 10 for each: Music, Books, and Charity donations. Five service types featured across three indicators: TV, Gift cards, Vouchers, Video, and Film. Three services types featured across 2 indicators, and six service types appeared once.

Conversely, two services featured in the bottom 10 for all four indicators: Flirting chat services, and Tarot/astrology services. Four services featured in three indicators: Chat services, Dating, Customer services and ICSS. Nine service types featured twice (Broadcaster competitions, Texting in to show host, Online competitions, Offline competitions, Bundled games/content as part of a week/monthly subscription, Adult chat (messaging), Adult cams, Low-cost international or reverse charge calls, and Adult talk services), while two featured once (Adult pics, and Voting on a TV/radio show).

There is a clear split between the services featuring in the Top 10, and those in the bottom 10. The former primarily consists of the new services entering the marketplace, while the latter are traditional phone-paid services.

In previous years, the phone-paid services sector has focused on Charity donations as the hero service to spearhead the migration from traditional services to the next generation of services. Although the total pass-throughs of Charity donations has been adjusted⁹, as a service it no longer stands alone as the flag-waver for phone-paid services, and is now accompanied by the likes of Music, Books, Film, and Video. These are the services that are expected to drive the phone-paid services market over the coming years.

Overall, consumer perception of phone-paid services has improved since the previous Annual Market Review 2016-17, but this is yet to materialise into a reversal of the declining revenues that have affected the industry since 2010. Part of this reason can be attributed to industry applying the necessary conditions to cleanse the ecosystem of services that led to complaints from a section of the customer base. But the job is only partially complete. Industry needs to maintain its current trajectory to ensure the market meets the necessary conditions to continue to roll out new services that consumers want that will engender confidence and lead to a sustainable future.

⁹ See Methodology: Charity donations

Section 2:
FY2018-19
phone-paid
services market
projections

Section 2: FY2018-19 phone-paid services market projections

The improved consumer perception of phone-paid services, coupled with the emergence of new services, is expected to contribute to delivering an increase on the projected revenues for FY2018-19. For FY2018-19, the market is expected to grow 4.6% to £580.7 million, including Charity donations, and £530.6 million excluding Charity donations.

Fig. 16 Phone-paid services market size, £m (excl. VAT)

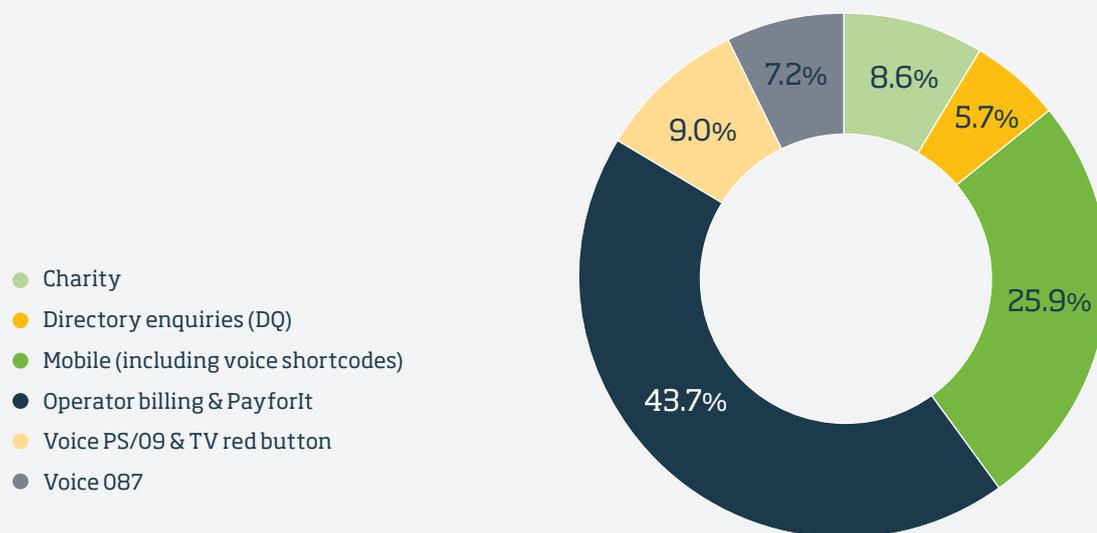


Source: Phone-paid services market sizing for Phone-paid Services Authority, industry research

Operator billing & Payfortl is forecast to generate revenues of £253.5 million and a 43.7% share of total revenues, followed by Mobile (PSMS & voice shortcodes) with revenues of £150.3 million. Charity donations are estimated to generate a network pass-through of £50.1 million¹⁰. Voice PPS/09 & TV red button is expected to maintain its position as the largest of the voice-based payment mechanics with projected revenues of £52.5 million, followed by Voice 087 on £41.6 million, and ahead of Directory enquiries (DQ) on £32.8 million.

¹⁰ See Methodology for adjusted Charity pass-through

Fig. 17 FY2018-19e market revenues by %



Source: Phone-paid services market sizing for Phone-paid Services Authority

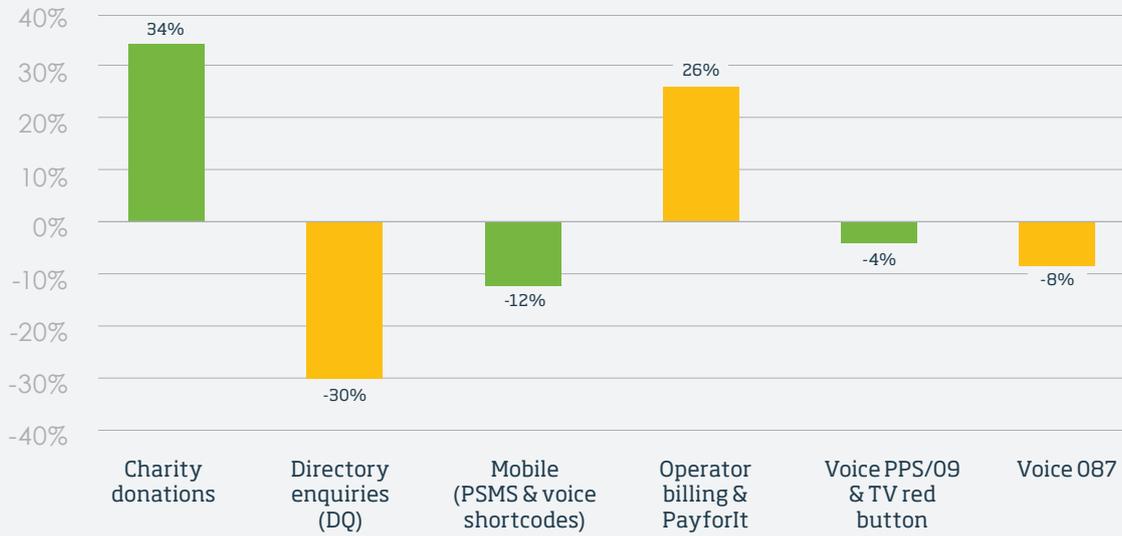
Charity donations is expected to experience the most growth year-on-year (34%)¹¹ as key telethon events return, coupled with growth in the percentage of users giving regularly (i.e. on a monthly subscription).

In terms of the remaining payment mechanisms, only Operator billing & PayforIt is projected to grow (26%) in FY2018-19, driven by growth in the new and emerging services (see Section 3). Traditional mobile-based services continue to decline, with services such as Broadcaster competitions & quizzes, and Charity donations, looking to use Operator billing & PayforIt payment mechanic as well as PSMS.

Voice-based services are forecast to continue their annual descent, with DQ hardest hit (expected to drop 30%), Voice 087 falling 8%, and Voice PPS/09 & TV red button down 4%. A diminishing user base, and the impact of proposed changes to the regulation of DQ are likely to have negative connotations for the service (see Section 4, DQ).

¹¹ Based on adjusted pass-throughs. See Methodology: Charity donations

Fig.18 FY2017-18 - FY2018-19e revenue change by payment type



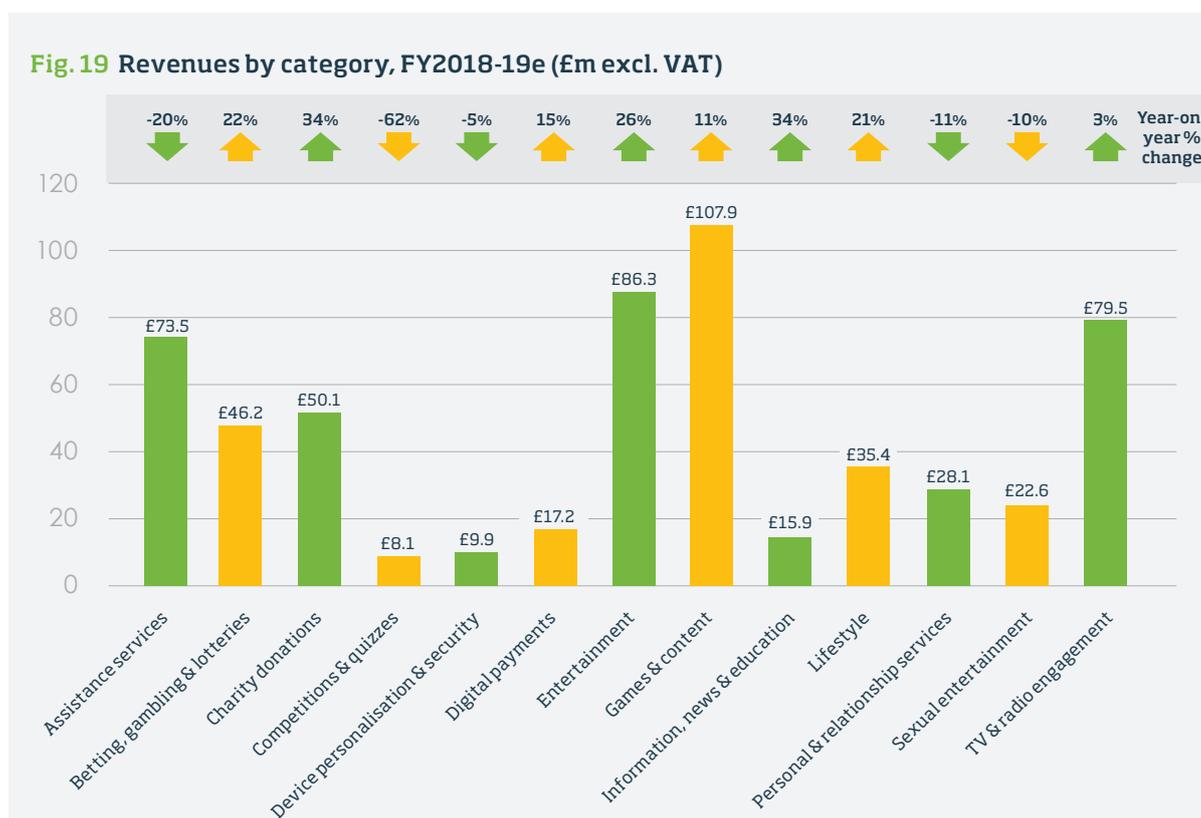
Source: Phone-paid services market sizing for Phone-paid Services Authority, industry research

Projected revenues by category

Games & content is expected to maintain its position as the largest category, with projected revenues of £107.9 million. Entertainment is expected to generate revenues of £86.3 million, followed by TV and radio engagement on £79.5 million.

Charity donations and Information, news & education are forecast to experience the biggest year-on-year increase (34%), ahead of Entertainment (26%), and Betting, gambling & lotteries (22%).

The categories that are projected to experience the greatest year-on-year decline are Competitions & quizzes (down 62%), Assistance services (down 20%), Personal & relationship services (down 11%) and Sexual entertainment (down 10%).



Our prediction of strong year-on-year revenue growth for seven of the 13 categories reaffirms the view that phone-paid services have turned a corner and have the potential to deliver a sustained period of growth. On average, each category are expected to experience year-on-year growth of 4%, with a blend of the new and emerging services¹² fuelling the growth.

¹² Emerging services are those services that have been using a phone-paid service mechanic for less than 18 months, such as Society lotteries, TV, Film, Educational services, and Health, fitness & wellbeing. Traditional services are those, which have been using the payment mechanic for more 18 months, such as voice services or Sexual entertainment, and Competitions and quizzes.

Charity donations and Information, news & education will both grow 34%, with emerging service types such as Film and Books, spearheading that growth.

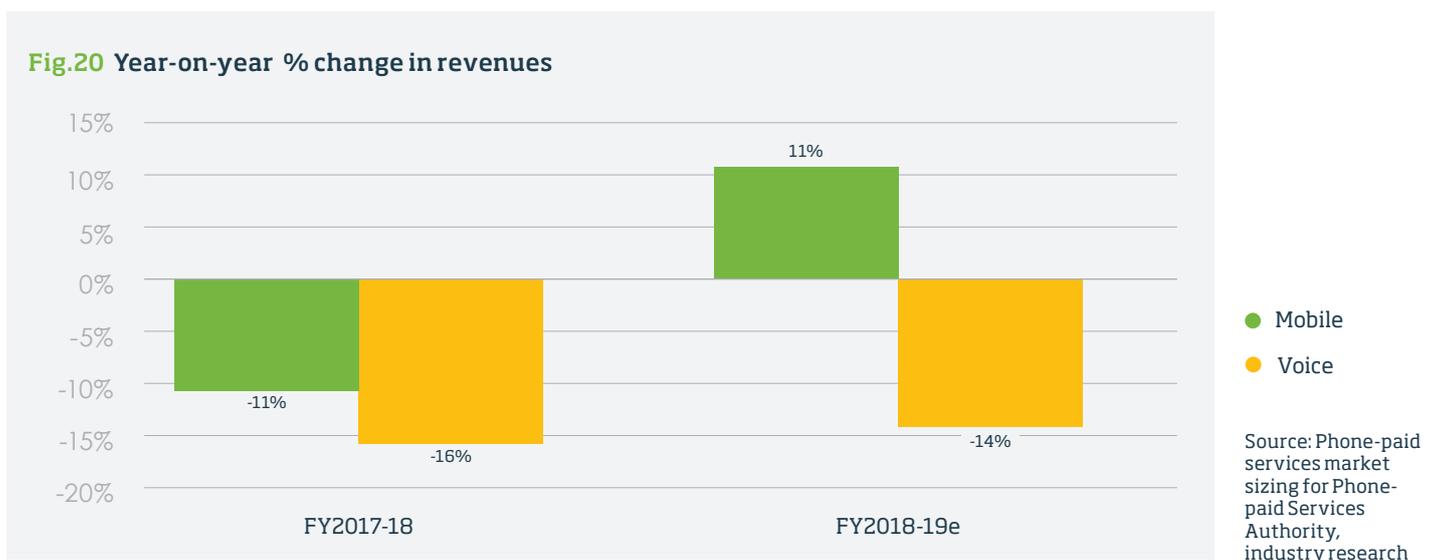
However, traditional services are predicted to continue to wane, with Competitions & quizzes the biggest casualty down 62%, followed by, Assistance services (down 20%), and Personal & relationship services (down 11%).

Section 3:

A market in transition

Section 3: A market in transition

The data indicate that financial year 2018-2019 (FY2018-19) could be an important year in the phone-paid services market. In FY2017-18, both Mobile (PSMS, voice short codes, Operator billing & Payfortl) and Voice experienced year-on-year declines in revenue, of 11% and 16% respectively. In FY2018-19, revenue from Mobile is expected to increase 11% year on year, while Voice maintains its downward spiral (falling 14%). New services that have come to market over the last 18 months are expected to drive this growth on Operator billing & Payfortl. This growth is expected to offset the decline in revenues from more legacy or traditional mobile-based services.



Voice

Voice-based services within the phone-paid market will continue to decline in revenue terms. Directory enquiries (DQ), so long the flagship service for the whole sector, will remain the biggest revenue generator in the Assistance services category in FY2018-19.

However, the year-on-year decline in DQ is by far the largest year-on-year revenue decline of any of the Voice service types. Chat services are forecast to drop 15%, while Customer services will fall 11%.

The decline in Voice services has also been attributed to consumer trends, and the implementation of PSD2 (Payment Service Directive 2), which places a single transaction limit of £40, below the existing cap of £45. This has affected Tarot/astrology services, and Adult talk services, and is further driving the high-spenders onto credit cards.

Mobile in FY2017-18

The year-on-year decline in revenues of 11% on Mobile can be attributed to regulatory changes and the enforcement of PayForIt (PFI) mandates, and a fall in Charity donations.

Firstly, there was an artificial high in FY2016-17 caused by a £30 million jump in Non-broadcaster (online) competitions & quizzes revenues during the first half of the financial year. In the second half of the financial year, the introduction of Special Conditions by the Phone-paid Services Authority, and the enforcement of PayFort (PFI) mandates by the mobile network operators caused revenues to drop significantly. And online competition revenues have continued to drop in FY2017-18.

The introduction of the Special Conditions and the enforcement of Payfort mandates received a mixed reaction from industry at the time, especially those companies operating within Non-broadcaster competitions and quizzes and Adult video. However, industry research has revealed a consensus among those companies interviewed, that the measures introduced in the second half of FY2016-17, were for the greater good of the industry. The marketplace has been “cleaned up” and has created a “stable and sustainable” environment ripe for investment in new services, and attractive to the Blue-Chip brands.

An additional upside from the regulator and mobile network operator action, is that the majority of affiliate marketing associated with Non-broadcaster competitions and quizzes and Adult services, has disappeared. Affiliate marketing has been largely replaced by Google display advertising, although this is not without risk. At the time of writing, industry personnel (including merchants, LIs, and regulator) were in discussions with Google to explore ways to use display advertising with confidence.

Secondly, following the revision to Charity donations¹³, the sector experienced a year-on-year decline in network pass-throughs due to the cyclical nature of telethons, with a number of big events not taking place in FY2017-18.

Although Operator billing & Payfort cannot be accountable for the overall drop in revenues, there is a sense among industry that increase in spend over the payment mechanic would offset the decline in Voice revenues. But the slower-than-expected revenue growth in FY2017-18 meant that this expectation failed to materialise.

Username/password

At the start of FY2018-19 EE introduced username and password to content and services within phone-paid services, as a strategy to reduce customer complaints, and to provide increased consumer protection. EE's strategy is to focus on services and content that do not cause complaints and provide the consumer with increased protection based on a model that has become the accepted norm for over-the-top (OTT) subscription services.

The addition of the username/password has reduced complaints, however, the industry research revealed that the introduction of this additional consumer step has prompted several merchants to actively avoid the mobile network operator.

EE's model reflects the desires of big brands seeking a long-term customer relationship through the creation of an account. Furthermore, this also provides user trackability across a multitude of devices.

¹³ See Methodology

Key developments in FY2018-19

Rich Communication Service (RCS) and ABC

Rich Communication Service (RCS) is viewed as an evolution of SMS (and ultimately apps) that will develop a richer and more engaging experience for customers interacting with businesses. Early RCS trials in the UK have revealed a 20-times increase in interactions.

Vodafone, at the time of writing, remains the only mobile network operator in the UK to have launched RCS, with Telefonica and Three expected to launch towards the end of FY2018-19.

Merchants are looking at RCS's potential to deliver rich engagement with consumers, but for the time being, RCS is limited to Android devices only. Apple's intention regarding RCS is unknown, although it is believed an interoperable solution with RCS will be made available in FY2019-20.

In the meantime, Apple is believed to be launching its own version of RCS, called ABC (Apple Business Chat), in the second half of FY2018-19. EE, which has a very high iOS share of smartphones on its network, is likely to be the flagship carrier for ABC.

Competition-based services and Chat services could potentially make the transition onto both RCS, and ABC. For the time being, the focus is on RCS, which is viewed by industry as potentially reinvigorating ailing traditional phone-paid services, both PSMS- and voice-based services. For RCS to become a viable channel for merchants it will need to achieve cross-network reach and include operator-billing functionality. Presently, payments can only be achieved through Google Wallet, although alternative payment mechanics are expected to be available within 12 months.

Refunds for mobile phone consumers

Service providers and consumers alike have reported that when a phone-paid services user is entitled to a refund, the process of refunding that money – particularly small sums – can be inconvenient for service provider and consumer.

A model emerged in 2016 that allows service providers to make instantaneous refunds of credits directly to a consumer's mobile bill. Upon receipt of the refund or credit, the consumer will receive an SMS confirmation. This model has since gained further traction when a similar service launched on one mobile network in Q1 FY2018-19. Initial industry reaction to the service has been positive.

The technology has been developed to make refunds easier for service providers and consumers by simplifying and reducing the cost of their refund process. It is applicable to all phone-paid service mechanisms (operator billing and Payfortl, PSMS and premium rate phone numbers).

Uncertainty surrounding GDPR

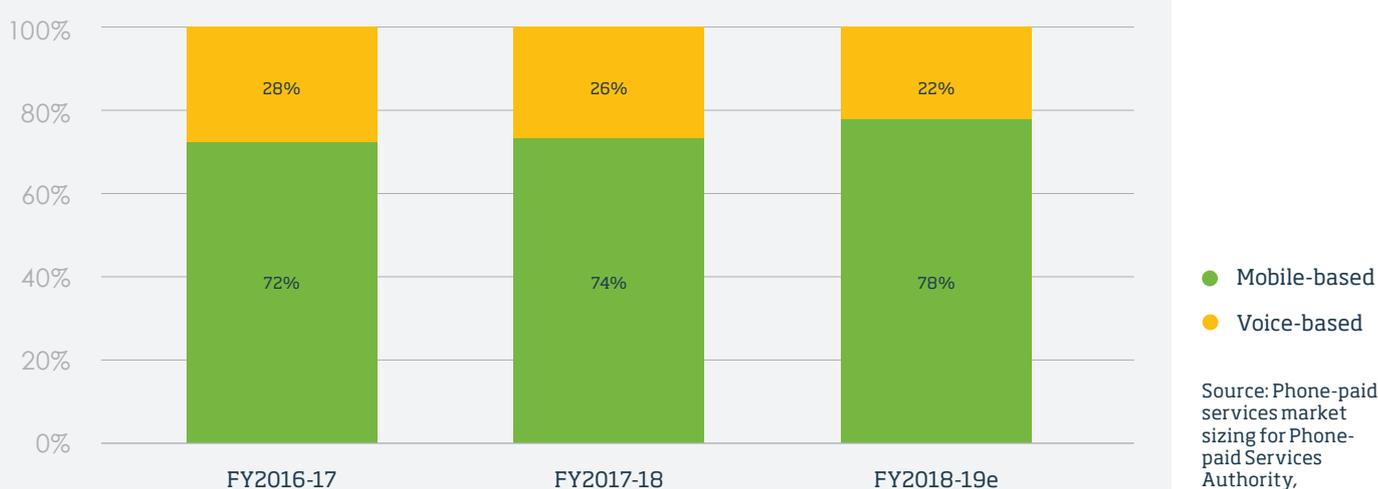
The introduction of General Data Protection Regulation in May 2018 has received a mixed reaction from industry. It is expected to have the most impact on Gambling and Charity donations service types, preventing companies from on-boarding new customers as a result of concerns regarding the validity of the original opt-in. For example, advertising campaigns by charities have focused on encouraging consumers to donate via PSMS, using the one-time donation as a soft opt-in to then contact the consumer and encourage either a repeat donation or regular donations via credit card. Charities now require a hard opt-in which means a one-off PSMS donation does not opt-in the consumer to follow-up activity.

Most companies interviewed believed that they had been following opt-in guidelines and that they would not have to change their existing marketing activity following the introduction of GDPR.

Operator billing gaining momentum in FY2018-19

Financial year 2018-19 (FY2018-19) projections expect a jump in mobile-based revenues as a proportion of total revenues, with mobile accounting for 78% of the market. To break that mobile figure down further, Operator billing & Payfort is expected to account for 56% of mobile revenues and nearly 45% of market revenues.

Fig.21 Mobile-based revenues vs voice-based revenues



For the last two Annual Market Review (AMR) reports, industry research has revealed a considerable optimism regarding Operator billing & PayforIt. Yet the payment mechanic has not yet met expectations in terms of attracting new brands, delivering new services, and ultimately, meeting revenue projections.

For example, in 2017 Operator billing & PayforIt revenues in FY2017-18 were projected to grow 27%, yet growth came in at 19%.

However, for FY2018-19, Operator billing & PayforIt is projected to grow 26%, and based on industry research this can be considered conservative. The optimism in hitting the actual growth target comes from a few factors.

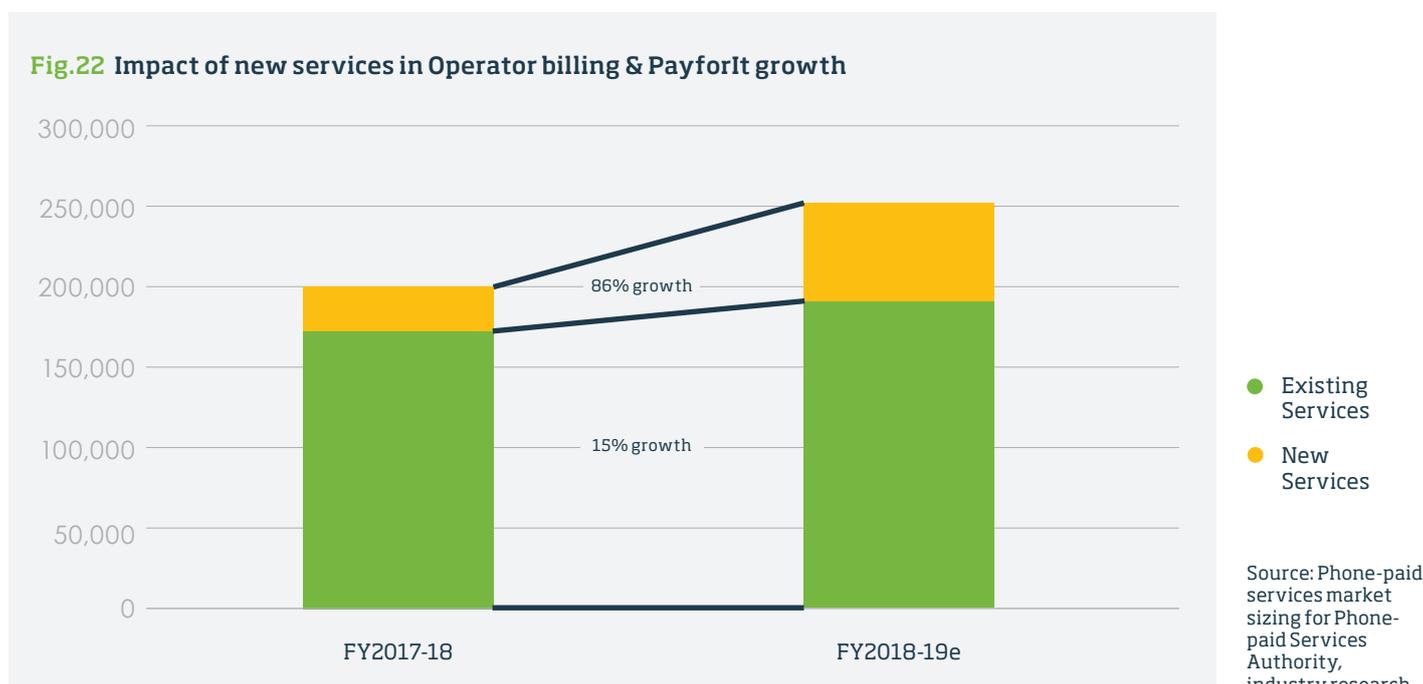
Firstly, much of the projected growth in Operator billing & PayforIt comes from new services (those launched in the last 12-18 months). In recent years, the AMR has pinpointed Music, Games, Betting and Gambling, as the services to drive the growth of Operator billing & PayforIt. While these services have created a platform generating revenues of £143.5 million in FY2017-18 and projected to grow 16% with revenues of £167 million in FY2018-19, it is the launch of the new service and content types adopting the Operator billing & PayforIt mechanic that will drive growth of phone-paid services in the coming years.

Content and service types, such as TV channels, Film channels, Books and magazine subscriptions, Educational services, Fitness, health & wellbeing, to name a few, have emerged in the last 12-18 months, and provided much-needed impetus to the sector. But that is not without its problems, with Fitness, health & wellbeing in particular attracting the attention of the regulator following an increasing number of user complaints.

While some of these emerging service and content types are based on established brands – something the industry has been targeting for a few years - it must be noted that not all the service and content types are from recognised brands. Providers of these latter services have identified consumer trends and developed content and service types accordingly, developing a price point that tallies with the Operator billing & PayforIt payment mechanic.

In FY2017-18, the new services (TV, Film, Books, Educational services, Fitness, health & Wellbeing, Food & recipes) generated revenues of £33.6 million, accounting for 17% of total Operator billing & PayforIt revenues. In FY2018-19, revenues from these new services (now including Society lotteries, Charity donations, and mTicketing also) are projected to jump 84.6% to £61.2 million and represent 26% of total Operator billing & PayforIt revenues. Importantly, the majority (but not all) of these growing services deliver content that consumers want and actively seek.

Fig.22 Impact of new services in Operator billing & PayforIt growth



The second factor for optimism in the sector is the arrival of Apple and Amazon into Operator billing in the UK. Apple has launched with two mobile network operators at the start of 2018 and is expected to significantly boost their phone-paid service revenues. While Amazon customers can now subscribe to the company's Prime Video service as part of their mobile plan.

Amazon's impact on the UK sector will be big, however, Apple's impact is likely to extend beyond simply driving mobile network operator revenues. Not only is it effectively endorsing Operator billing by adding it as a payment option, it is expected to influence and indoctrinate big brands and encourage them to follow suit.

Apple's arrival, coupled with the flurry of new content and service types, heralds a market that – after years of unfulfillment is finally in transition.

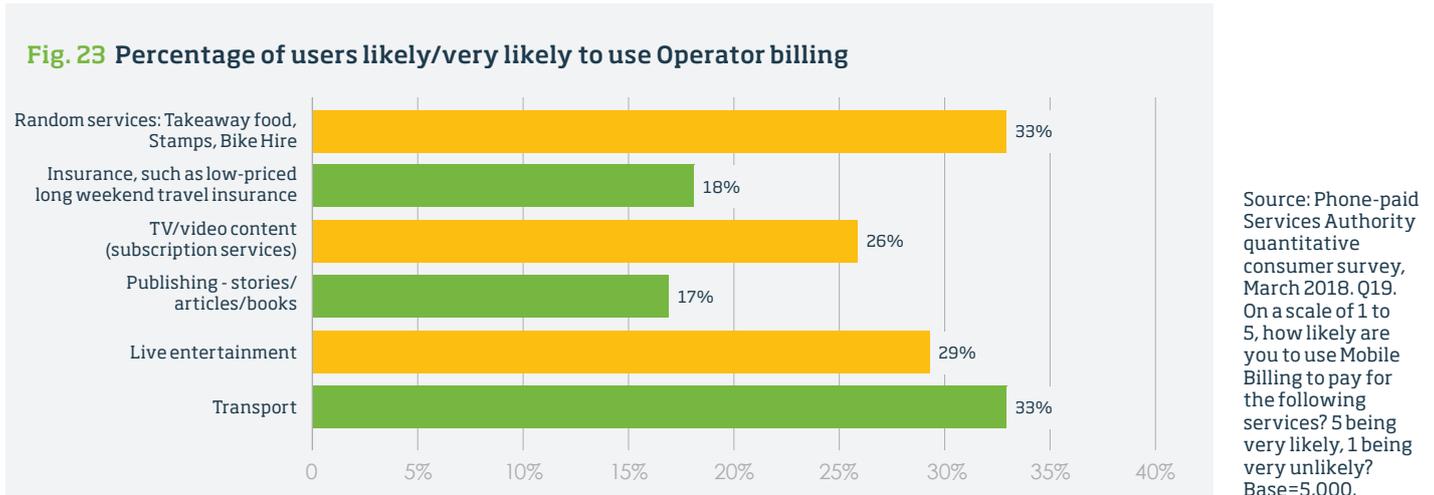
Operator billing

The consumer research reaffirmed the consumer appetite for Operator billing, with 26% of respondents stating they were likely or very likely to use the payment mechanic (up from 25% in last year's AMR), although when asked when they would be interested in starting to use it, the figure increased to 32% using it now, and a further 24% within 12 months.

Transport and Random services (such as takeaway food, stamps, bike hire) were the most popular categories with respondents (both 33%). This represents an increase on last year's research, where Transport appealed to 28%, and Random services 22%.

Live entertainment continues to appeal to consumers, with 29% stating their willingness to use Operator billing to purchase tickets, followed by TV/video content subscriptions (26%).

Convenience continues to be the standout driver (31%) for Operator billing adoption among consumers, followed by payment options (22%).



But old issues remain. Industry research revealed a belief that mobile network operators continue to command a high transactional fee for Operator billing. Industry believe the commercial model would need to see that figure drop to 5% based on volume.

mTicketing

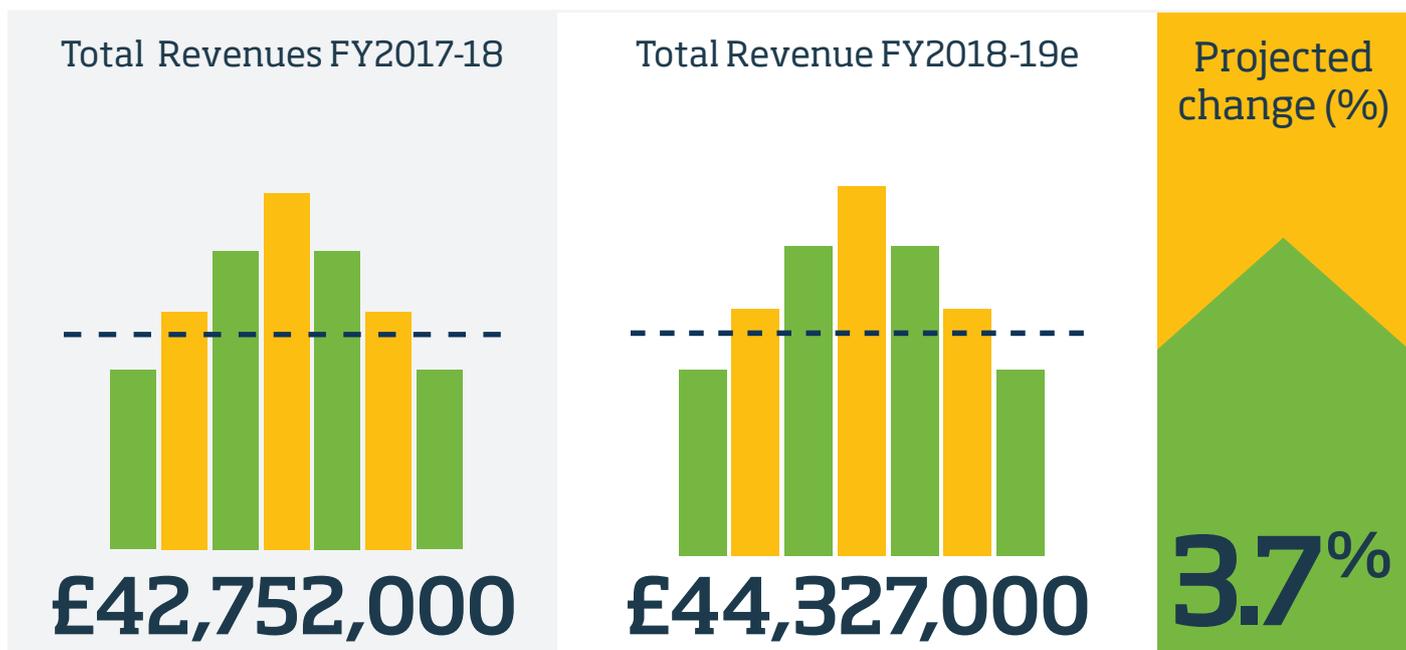
On-going research for the AMR in recent years has revealed that Mobile Ticketing (mTicketing) has been identified by mobile network operators and LIs alike as a likely launch service (beyond digital content and services) for post-PSD2 Operator billing in the UK.

The UK is expected to launch the first commercial mTicketing service in FY2018-19 within the transport sector. Other services are expected to launch in the same period, although specifics were not revealed as part of the industry research.

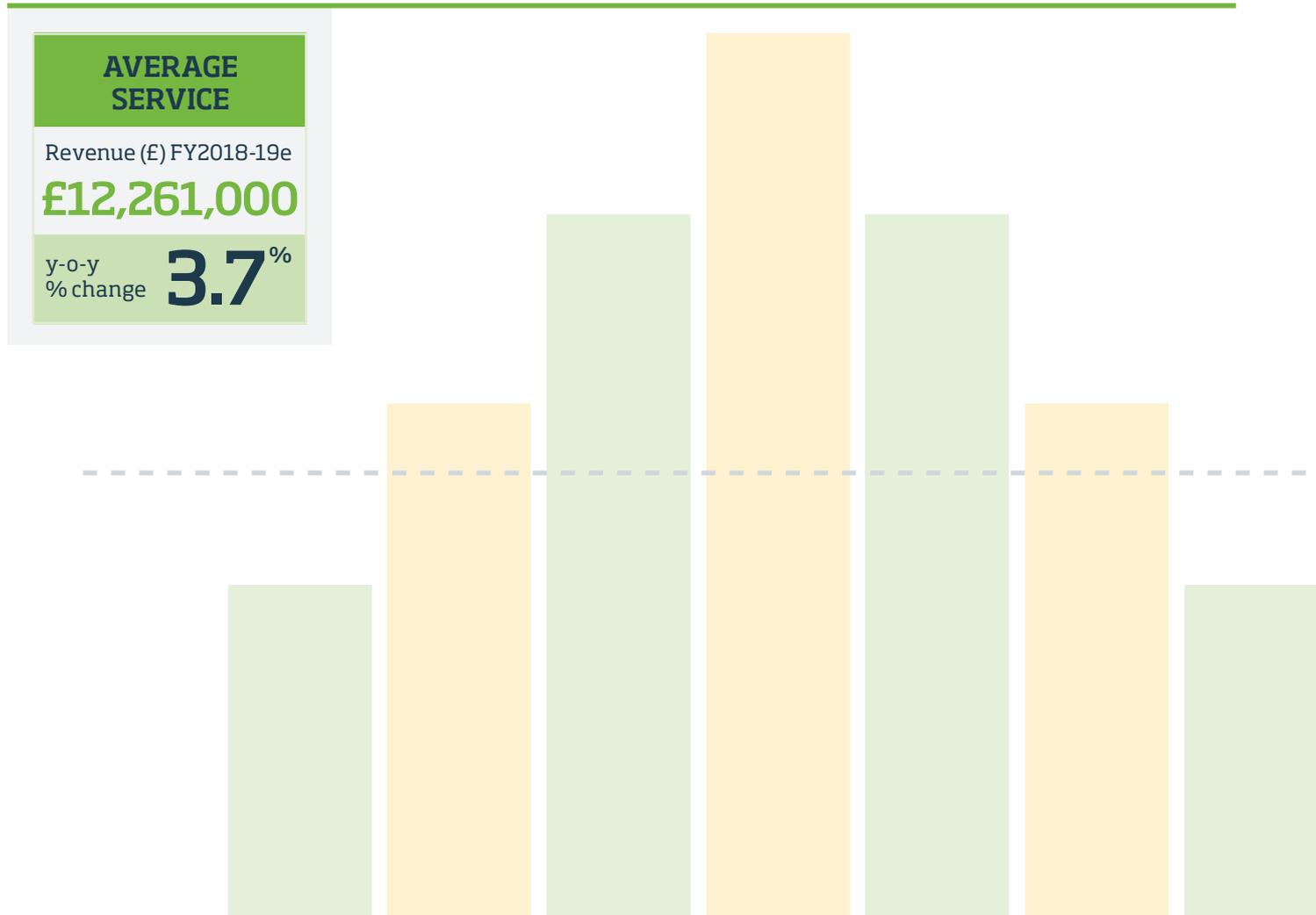
To this end, mTicketing is projected to generate revenues of £1 million in FY2018-19. However, if multiple services are launched in a timely sense to impact on the financial year, this figure could prove conservative.

Section 4: Service data

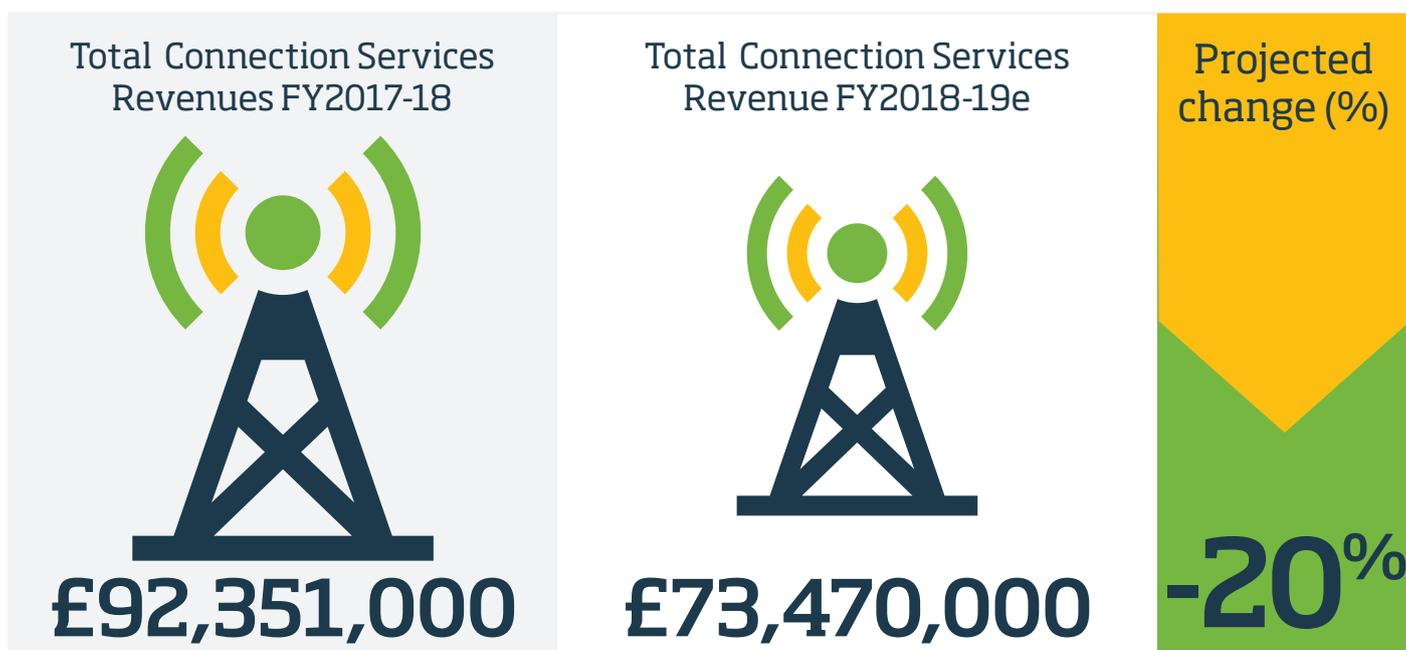
Average service



Revenue (£) FY2018-19e



Assistance services



Revenue (£) FY2018-19e

DIRECTORY ENQUIRIES	CUSTOMER SERVICES	ICSS - CONNECTION SERVICES
Revenue (£) FY2018-19e £32,830,000	Revenue (£) FY2018-19e £31,150,000	Revenue (£) FY2018-19e £9,490,000
y-o-y % change -30%	y-o-y % change -11%	y-o-y % change -9%

For notes see page 49



Betting, gambling & lotteries



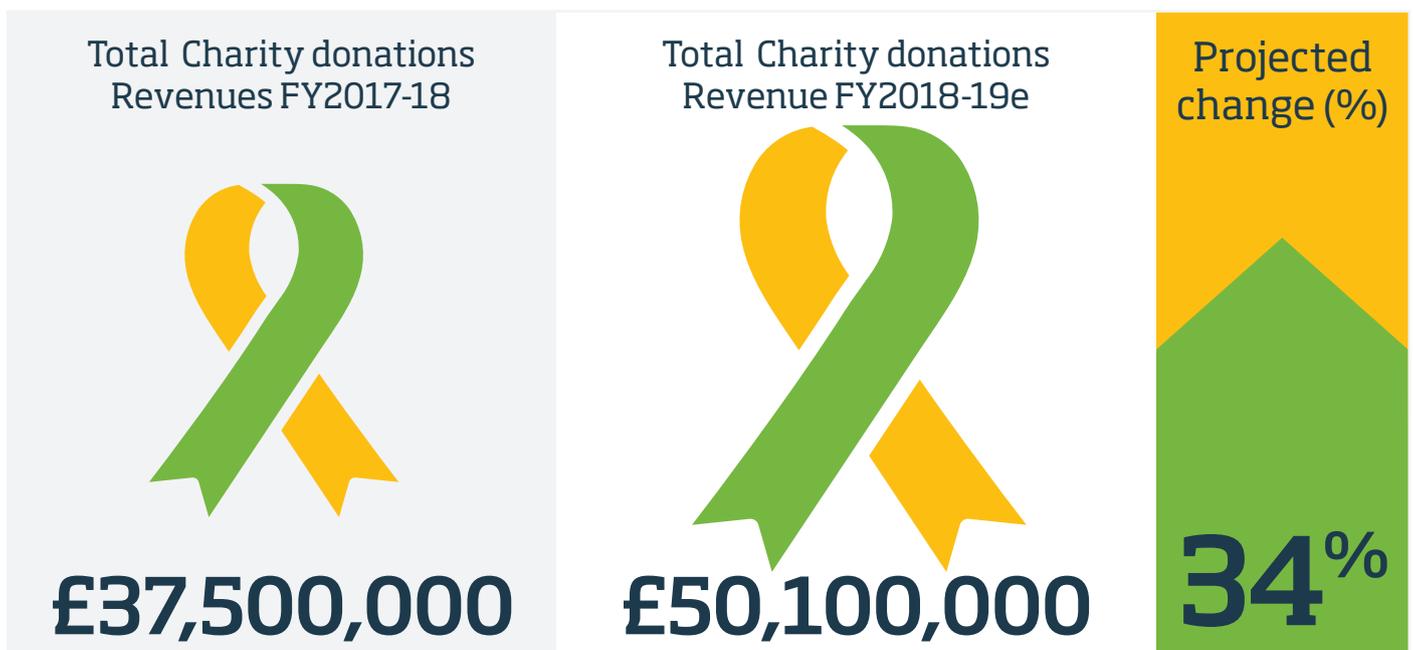
Revenue (£) FY2018-19e

BETTING	GAMBLING	SOCIETY LOTTERIES
Revenue (£) FY2018-19e £3,460,000	Revenue (£) FY2018-19e £39,750,000	Revenue (£) FY2018-19e £3,000,000
y-o-y % change 15%	y-o-y % change 14%	y-o-y % change N/A

For notes see page 49



Charity donations



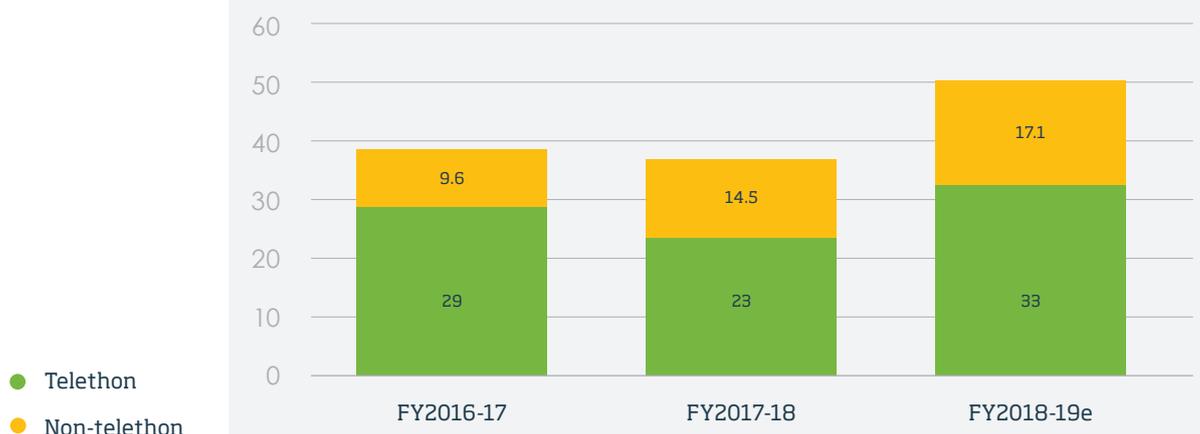
Revenue (£) FY2018-19e



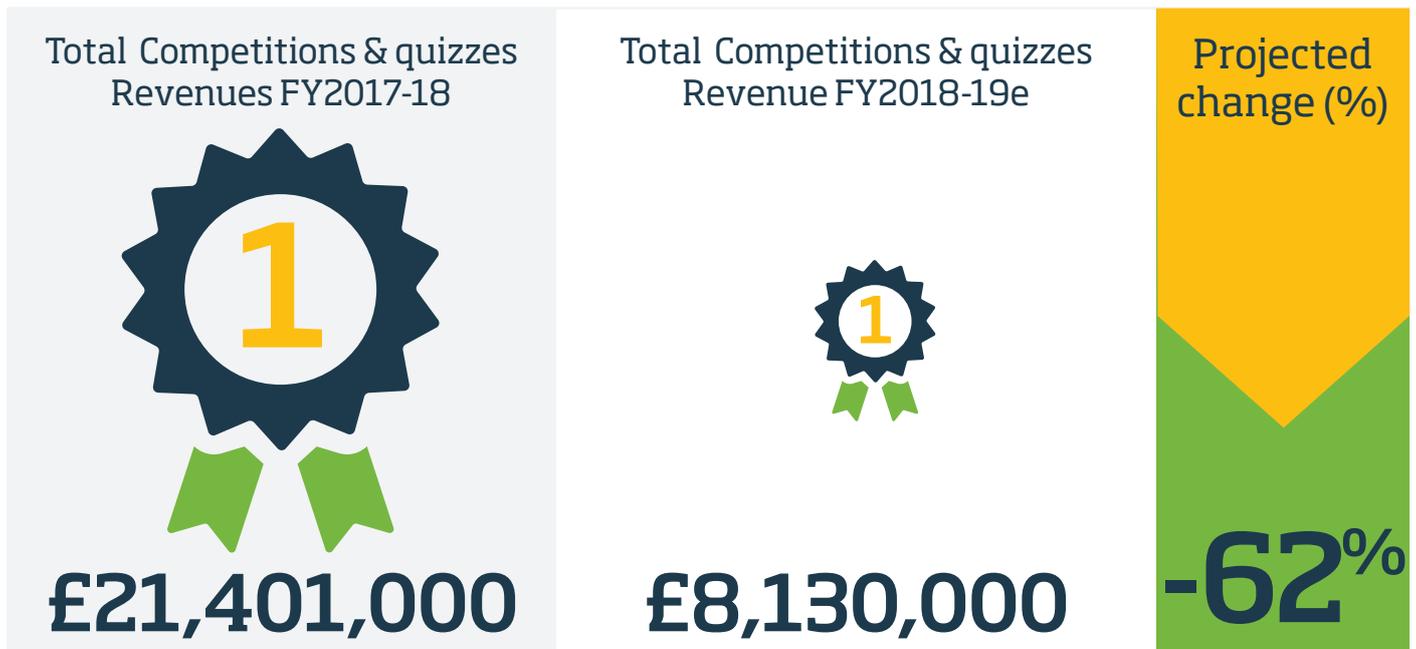
The majority of text donations are in response to telethons. Therefore, the number of telethons operating in a particular year, will have a big impact on total revenues. The introduction of the £20 donation has had a very positive effect on telethons, and this limit could be increased to £30.

In addition, non-telethon donations continue to increase. This can be attributed to not only more people donating via PSMS, but also down to the increase in the percentage of people giving regularly on a subscription basis. The sector is looking to expand regular donation mechanics beyond PSMS to Payfort, and will look to increase the regular giving cap to £10 per month.

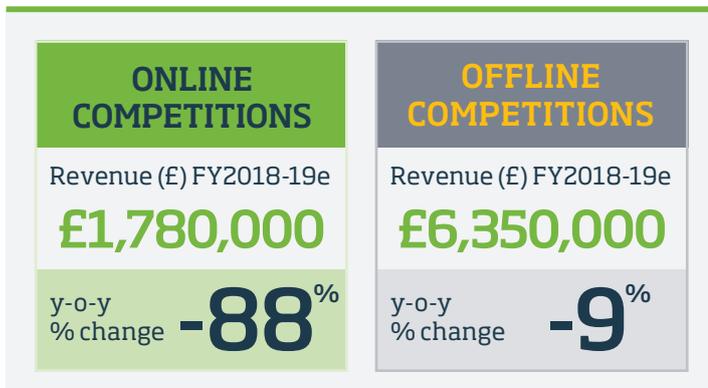
Charity donations breakout (£m)



Competitions & quizzes



Revenue (£) FY2018-19e



Online competitions

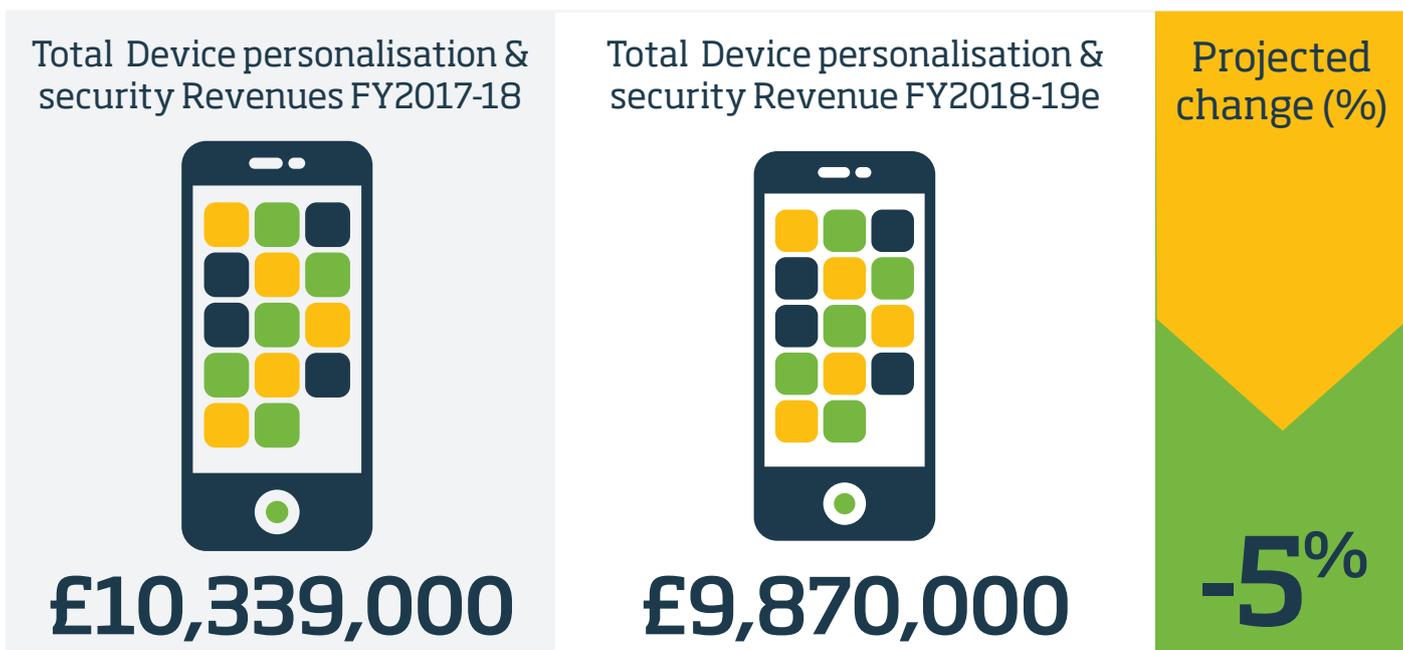
The sector is largely dormant with providers exploring other business models and adjacent sectors.

Offline competitions

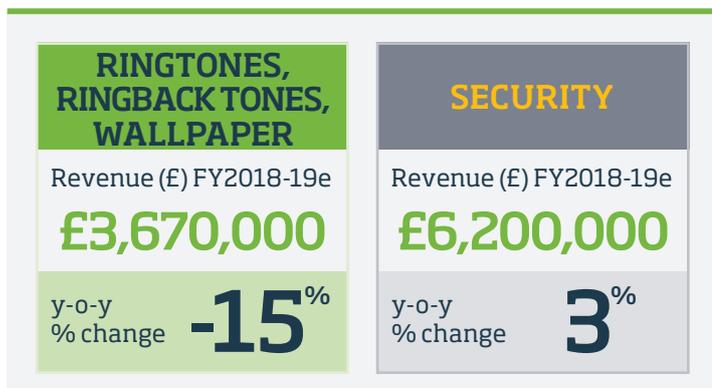
The market has stabilised, helped by the falling cost of advertising in the tabloid press and on TV. Providers operating in the sector are now better positioned to reach the target audience of Gen X and Baby Boomers.



Device personalisation & security



Revenue (£) FY2018-19e



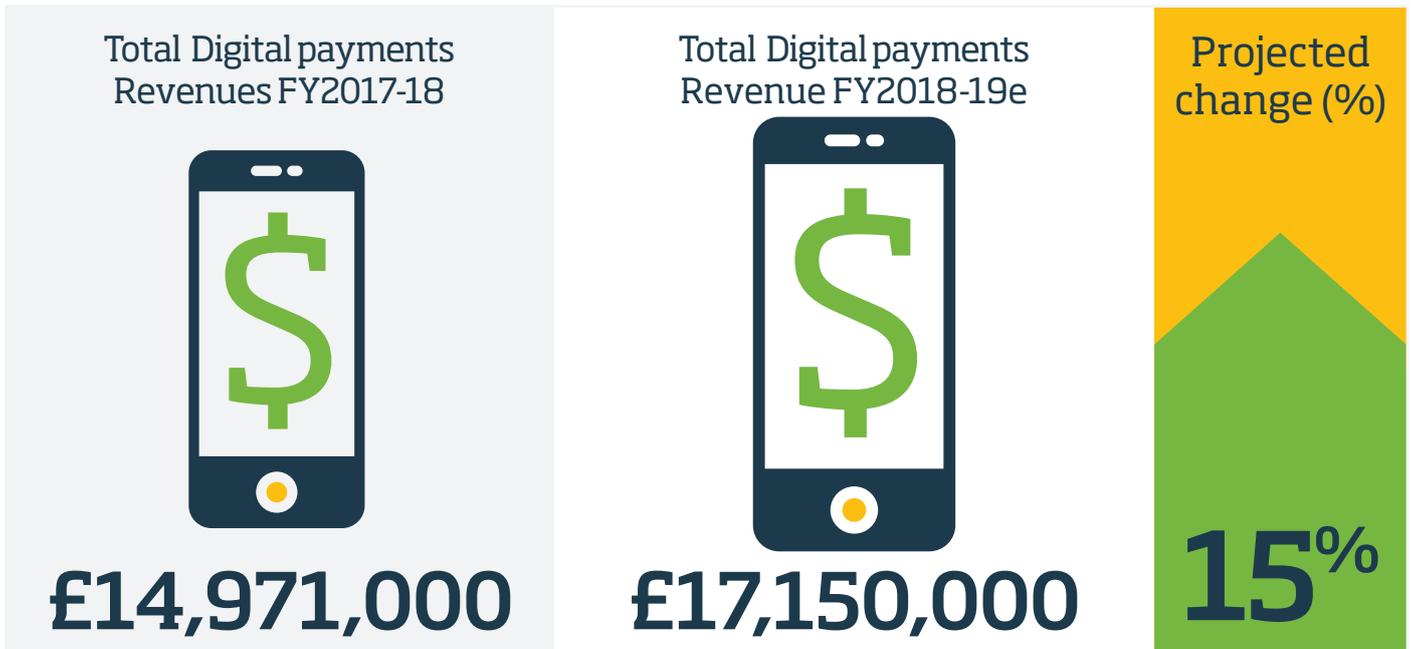
Security

Concerns about personal data and content on smartphones have seen consumers invest in security services, with the service type showing reasonable growth between FY2016-17 and FY2017-18, but this growth is not expected to be sustainable and projected to slow (to 3%) in FY2018-19.

Device Personalisation

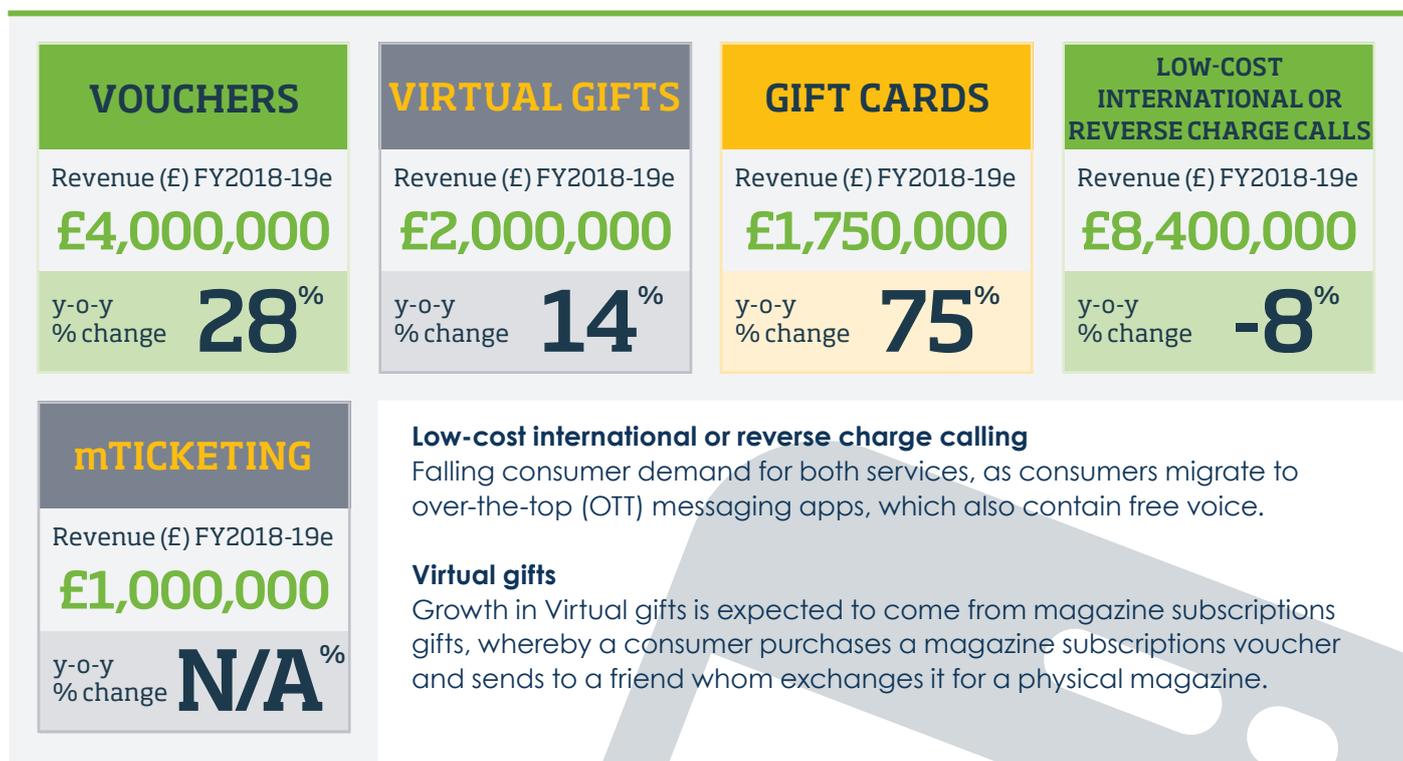
Although this made something of a comeback in FY2016-17, as companies looked to monetise past glories one more time, the consumer appetite for device personalisation is now on the wane.

Digital payments

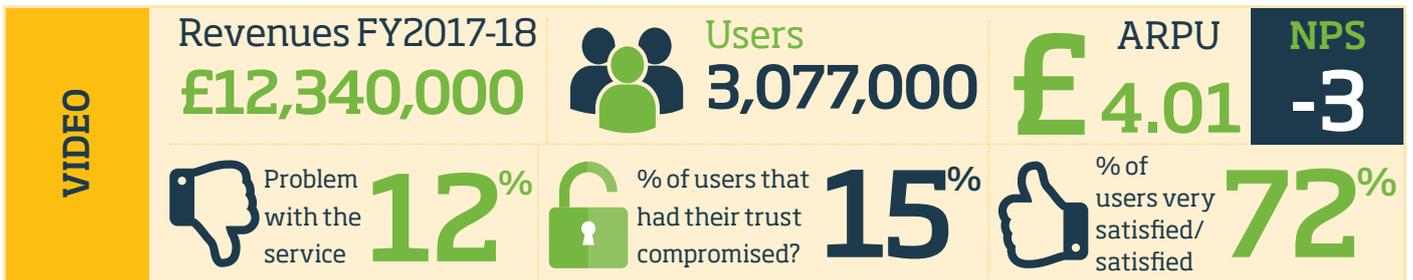
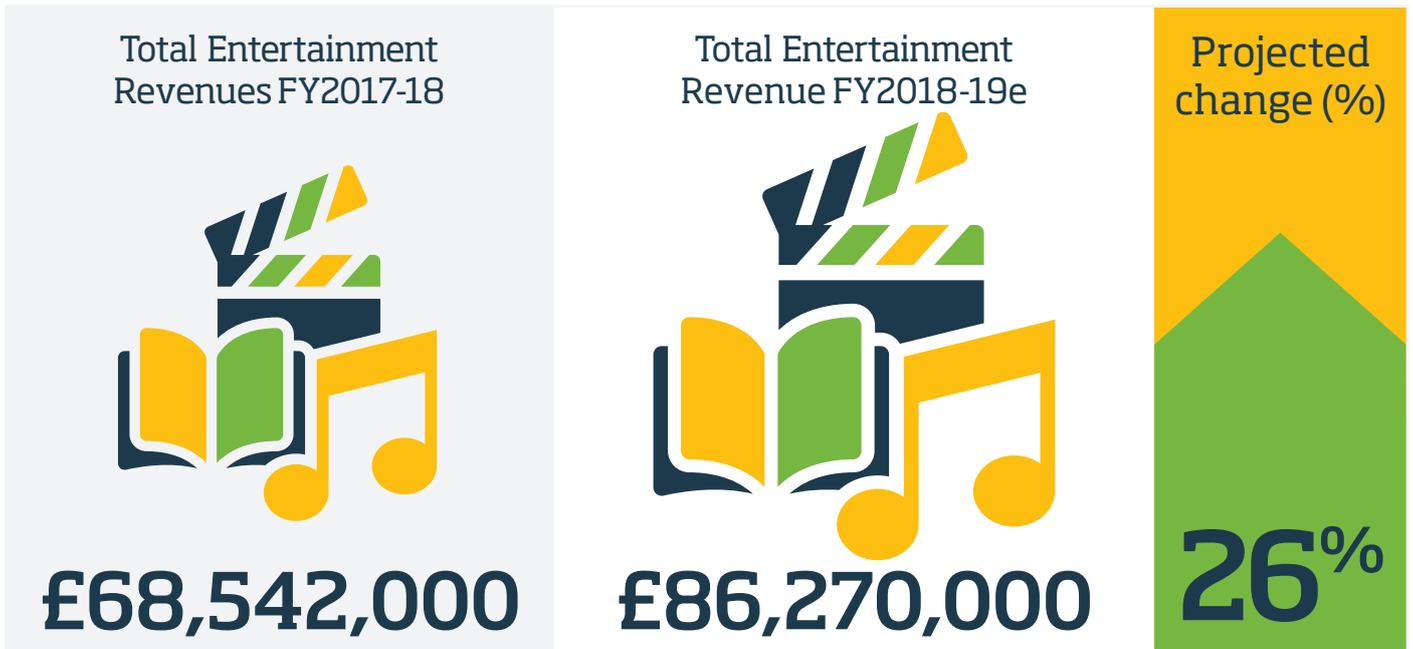




Revenue (£) FY2018-19e



Entertainment

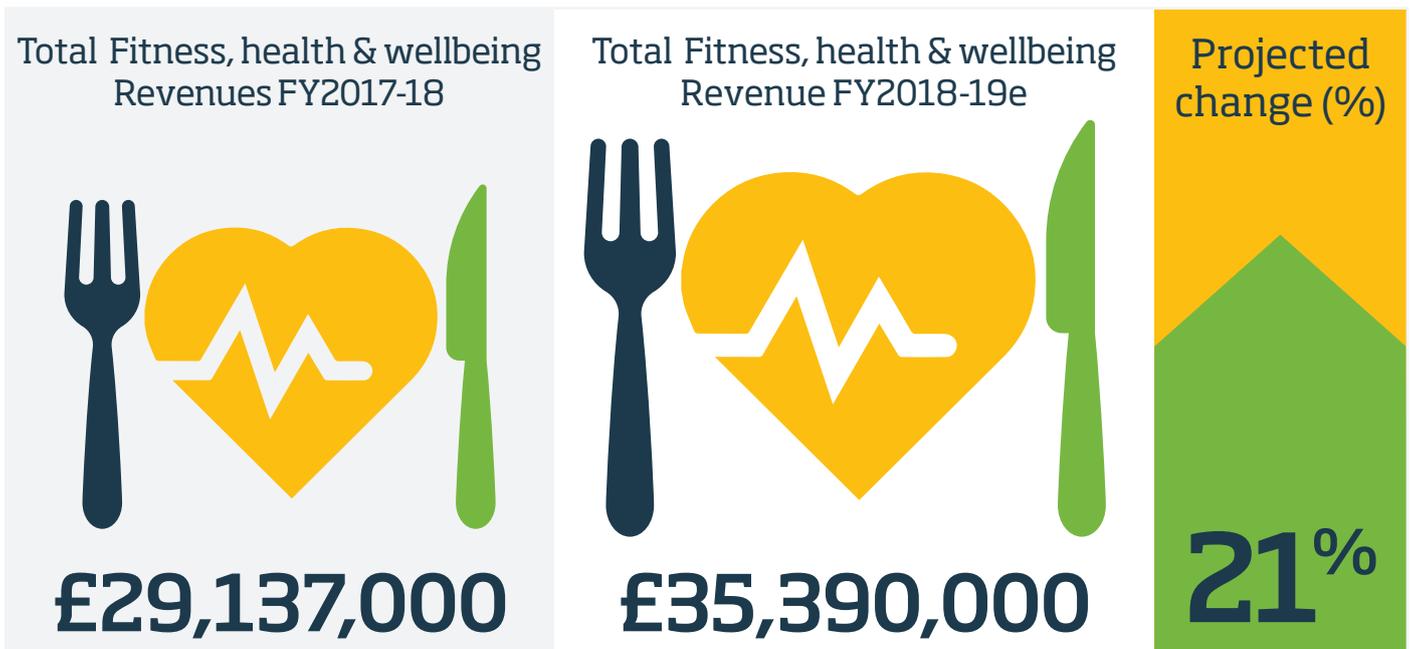




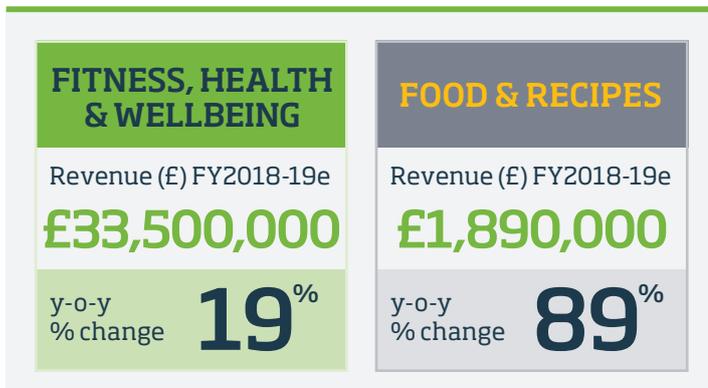
Revenue (£) FY2018-19e



Fitness, health & wellbeing



Revenue (£) FY2018-19e



The category has seen very strong growth in FY2017-18, as companies migrating from the online competitions sector develop fitness apps that massively undercut equivalent gym memberships and connect consumers with a personal trainer or celebrity sports person. Most services are charged at £3 per week, with many competitor services only available via credit card.

Section 4 - Notes

Assistance services

DQ

The decline in revenues in FY2017-18 is attributed to a decline in users, in part driven by the substitution effect of the internet. By the industry's own description, anyone that uses the service more than once a year is considered a frequent user. These users are also not price sensitive given the costs associated with using DQ.

According to Ofcom, prices for calls to DQ services have risen significantly in recent years, which resulted in the opening a Call Cost Review in May 2017 to examine the rising cost of calling DQ services.

In June 2018, Ofcom published its initial findings, which stated, "in view of the consumer harm we have found, we consider that it is necessary for Ofcom to intervene by imposing a cap on the price that DQ providers can charge for their services... We are therefore consulting on the introduction of a price cap on charges for DQ services of £3.10 per 90 seconds of a DQ call (including VAT)".

Ofcom's proposed intervention of a price cap — and the timing of its expected introduction within this financial year— are likely to increase year-on-year decline in revenues to 30%.

Betting, gambling & lotteries

Gambling

The bad debt issues affecting mobile network operators in FY2016-17 as a result of Gambling associated payments have been largely resolved. The market is now expected to grow as new companies sign-up to use Operator billing and attract new users. However, market growth will be restricted by PSD2 which has forced the high spenders to migrate onto credit card.

Society lotteries

Services are expected to be commercially rolled out in this financial year. Industry research reveals charities have expressed an interest in society lotteries, but the extent to which this will appeal remains unknown. There is an industry view that as more charities sign up for Charity donations, Society lotteries could become an extension of that.

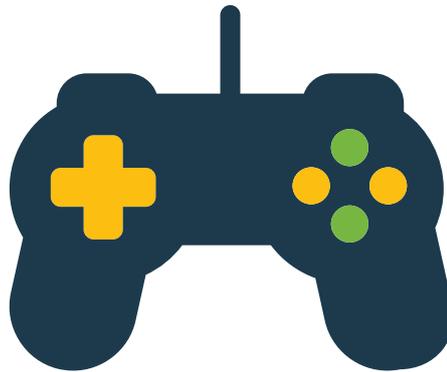
Games & content

Total Games & content Revenues FY2017-18



£97,058,000

Total Games & content Revenue FY2018-19e



£107,900,000

Projected change (%)

11%

DOWNLOADED FROM APP STORE

Revenues FY2017-18
£43,360,000



Users
5,924,000

ARPU
£ 7.32

NPS
-8



Problem with the service
13%



% of users that had their trust compromised?
16%



% of users very satisfied/satisfied
70%

PLAYED ON SOCIAL MEDIA

Revenues FY2017-18
£9,700,000



Users
2,861,000

ARPU
£ 3.39

NPS
-13



Problem with the service
15%



% of users that had their trust compromised?
18%



% of users very satisfied/satisfied
67%

BUNDLED AS PART OF MONTHLY SUBSCRIPTION

Revenues FY2017-18
£35,999,000



Users
802,000

ARPU
£ 44.89

NPS
-7



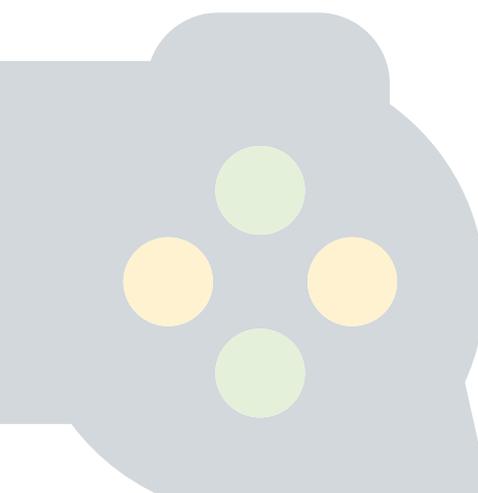
Problem with the service
22%



% of users that had their trust compromised?
29%



% of users very satisfied/satisfied
66%

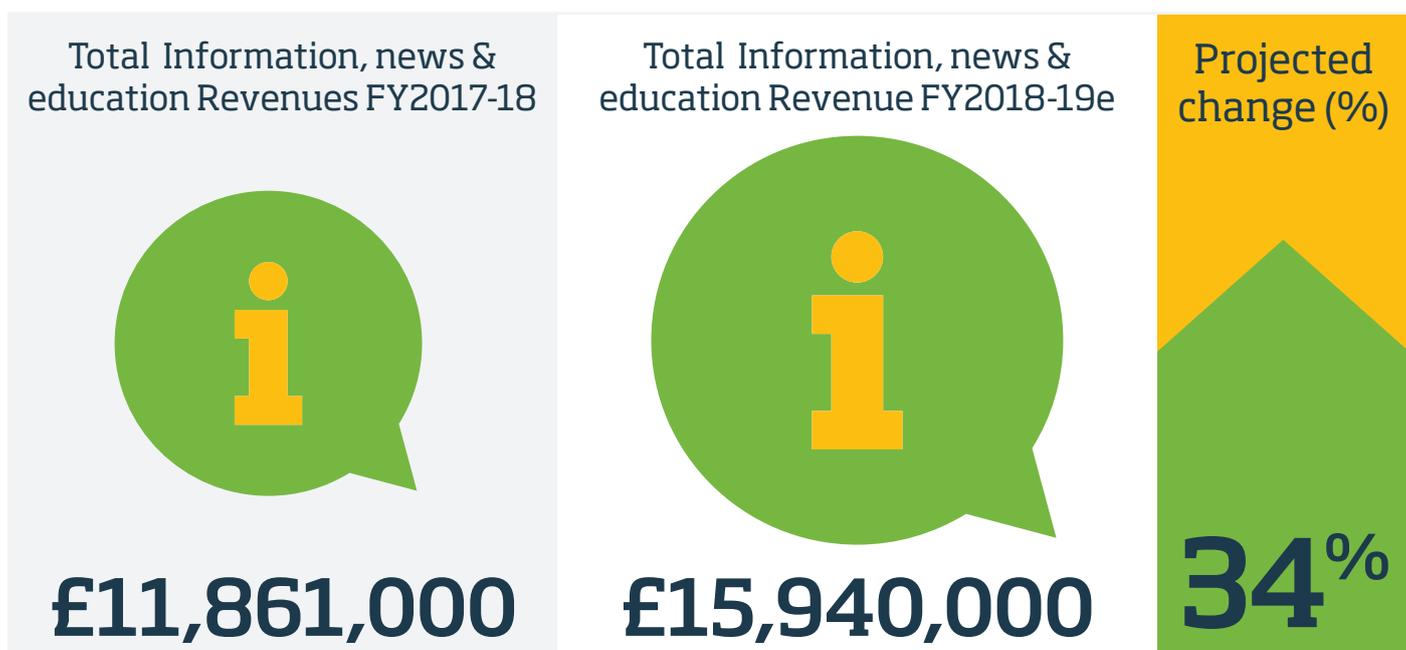




Revenue (£) FY2018-19e



Information, news & education

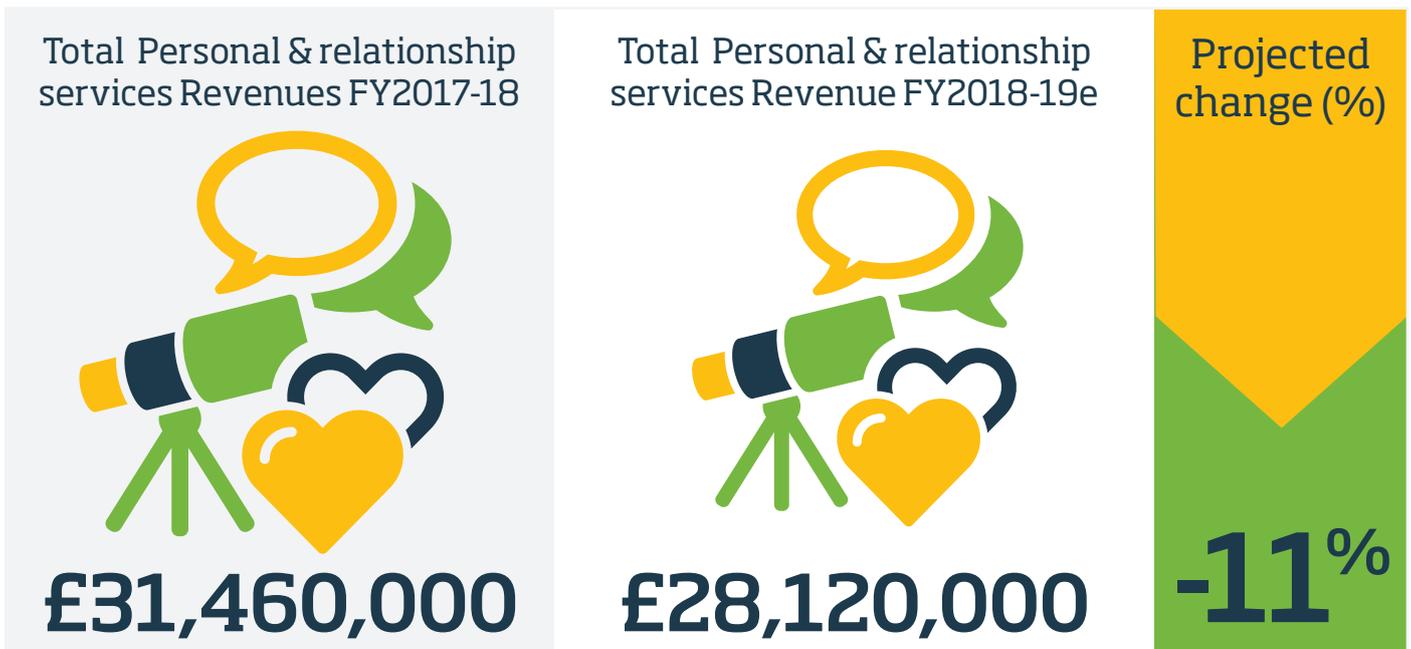




Revenue (£) FY2018-19e

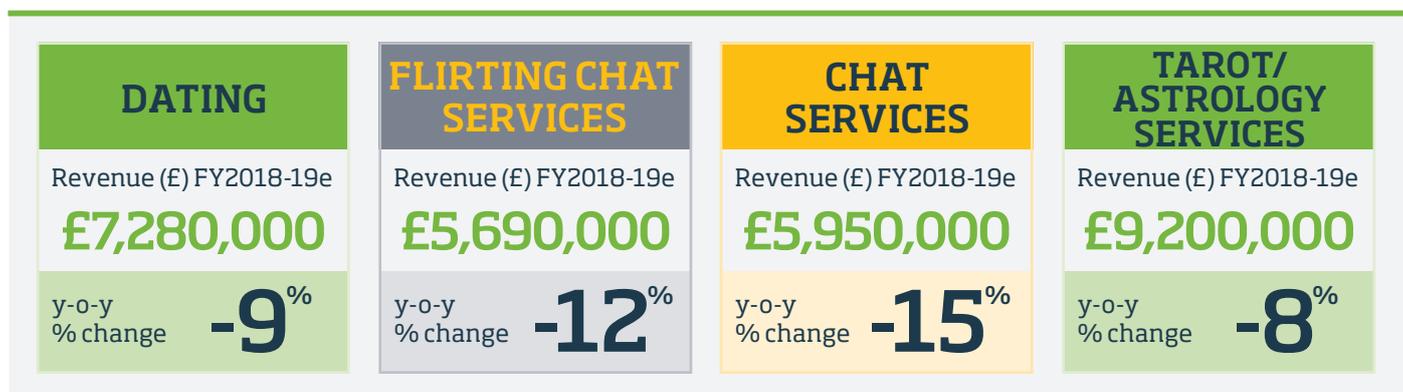


Personal & relationship services



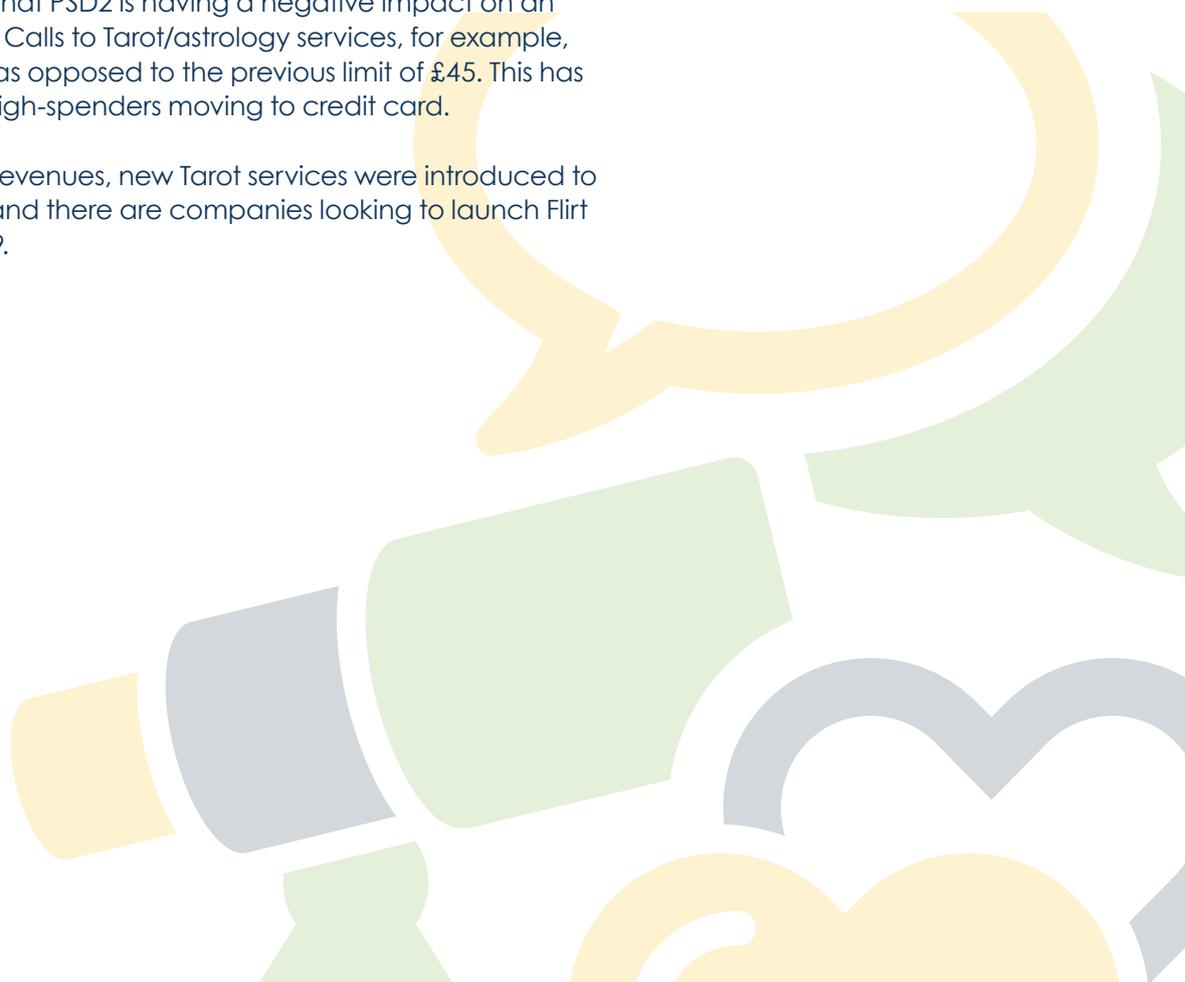


Revenue (£) FY2018-19e

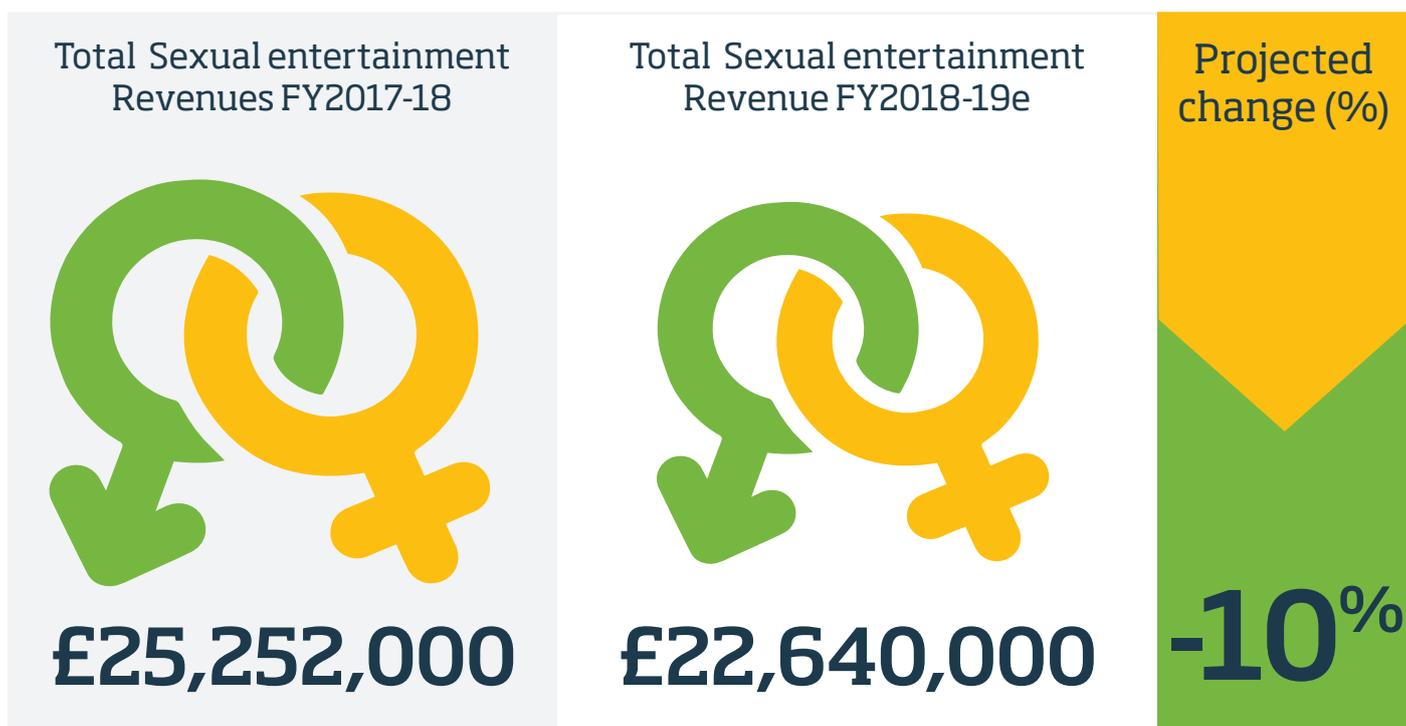


The view from industry is that PSD2 is having a negative impact on an already declining sector. Calls to Tarot/astrology services, for example, are now capped at £40 as opposed to the previous limit of £45. This has resulted in the services' high-spenders moving to credit card.

However, despite falling revenues, new Tarot services were introduced to the market in FY2017-18, and there are companies looking to launch Flirt chat services in FY2018-19.



Sexual entertainment



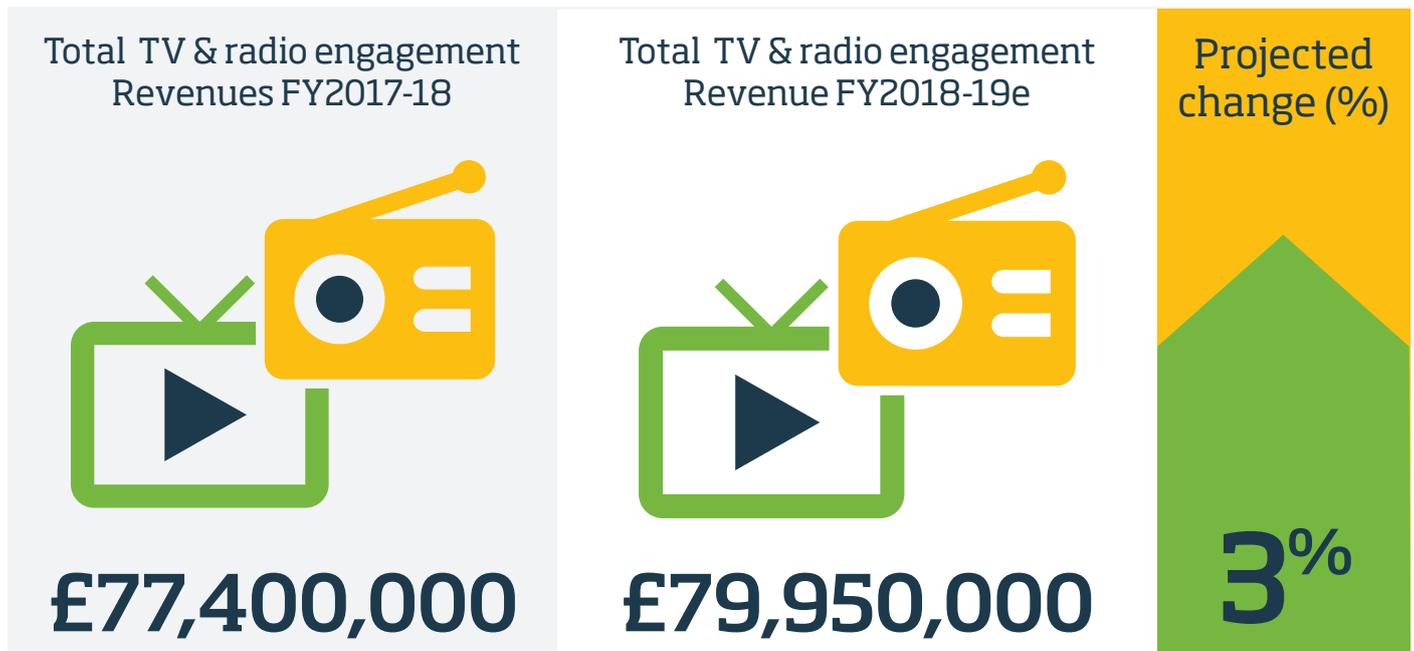
ADULT CAMS	Revenues FY2017-18 £3,000,000	 Users 360,000	£ ARPU 8.33	NPS 1
	 Problem with the service 24%	 % of users that had their trust compromised? 36%	 % of users very satisfied/satisfied 66%	
ADULT CHAT	Revenues FY2017-18 £4,000,000	 Users 405,000	£ ARPU 9.88	NPS -4
	 Problem with the service 23%	 % of users that had their trust compromised? 31%	 % of users very satisfied/satisfied 67%	
ADULT TALK SERVICES	Revenues FY2017-18 £14,001,000	 Users 364,000	£ ARPU 38.46	NPS -7
	 Problem with the service 36%	 % of users that had their trust compromised? 37%	 % of users very satisfied/satisfied 67%	

Revenue (£) FY2018-19e

GLAMOUR PICS	ADULT PICS	ADULT VIDEOS	ADULT CAMS
Revenue (£) FY2018-19e £1,300,000	Revenue (£) FY2018-19e £1,000,000	Revenue (£) FY2018-19e £0,000,000	Revenue (£) FY2018-19e £4,090,000
y-o-y % change -35%	y-o-y % change -50%	y-o-y % change -100%	y-o-y % change 36%
ADULT CHAT	ADULT TALK SERVICES	For notes see page 59	
Revenue (£) FY2018-19e £3,650,000	Revenue (£) FY2018-19e £12,600,000		
y-o-y % change -9%	y-o-y % change -10%		



TV & radio engagement



Revenue (£) FY2018-19e

BROADCASTER COMPETITIONS	VOTING ON A TV/RADIO SHOW	TEXTING IN TO SHOW HOST
Revenue (£) FY2018-19e	Revenue (£) FY2018-19e	Revenue (£) FY2018-19e
£75,500,000	£2,000,000	£2,000,000
y-o-y % change	y-o-y % change	y-o-y % change
3%	0%	0%

For notes see page 59

Section 4 - Notes

Information, news & education

Alert services (including Weather, News, Travel, Sport, Stocks & shares) are all on the decline, impacted greatly by the internet substitution effect. Education is the one service type in this category that is expected to grow. Identified as a new service type under the revised service categorisation, Education is projected to experience fourfold growth year-on-year, driven by learn-a-language based services.

Sexual entertainment

As already highlighted in Personal & relationship services, the view from industry is that the PSD2 transaction limit is having a negative impact on talk and chat services. Consumer spend on Adult chat and talk services is now capped at £40 per call or chat session, as opposed to the previous limit of £45. This has resulted in the services' high-spenders moving to credit card.

Adult cams is the one service type in this category that is experiencing growth, with consumers having to register to access the service - a trend that is emerging across the majority of the newer content and services.

TV & radio engagement

Broadcaster competitions is the one service type, within this category, projected to experience growth in FY2018-19, with Voting on a TV/radio show, and Texting in to show host believed to have bottomed-out. Growth in Broadcaster competitions attributed to the increase in radio broadcaster activity, with broadcasters believing broadcaster competitions have replaced the void left by the demise of the online competitions sector.

Methodology

Mobilesquared were commissioned by the Phone-paid Services Authority (PSA) to conduct the 2017-18 phone-paid services Annual Market Review. The Annual Market Review aims to:

- accurately size the market for phone-paid services and the sectors within it
- assess how consumers engage with phone-paid services
- assess year-on-year trends to date in the market, with an appraisal of the FY2018-19 outlook for the various sectors.

To maintain consistency, Mobilesquared has again adopted multi-layered approach to the research process used to complete the previous Annual Market Review, based on quantitative and qualitative research models that fed a market modelling exercise, followed by sense-checking with selected members of the industry.

Consumer: Quantitative research

The quantitative research was based on an online survey to a nationally representative sample in the UK aged 16+ years old. Questions in relation to Adult, Dating and Gambling did not go out to the under 18s. In total, 10,330 panellists started the survey, with 5,330 screened out after stating that they had not used at least one phone-paid service over the previous 12 months, leaving 5,000 panellists to complete the survey and share their phone-paid services habits, expenditure, emerging trends, and future requirements.

The consumer survey went live on the morning of 05/03/2018 and closed on the evening of 15/03/2018.

Qualitative research demographic breakdown

Base: All Respondents	Total	Male	Female
	5000	2453	2547
16 - 17	125	61	64
	3%	2%	3%
18 - 20	323	158	165
	6%	6%	6%
21 - 30	1181	580	601
	24%	24%	24%
31 - 40	1180	579	601
	24%	24%	24%
41 - 50	983	482	501
	20%	20%	20%
51 - 60	669	328	341
	13%	13%	13%
61+	539	265	274
	11%	11%	11%
Total respondents screened out	5,330		

The quantitative survey was conducted by Luc.id.

Industry: Qualitative research

Qualitative industry research was based on in-depth interviews of businesses operating within the phone-paid services market, and regulated by PSA. The research also included companies operating outside of the market to provide a more holistic overview of the telecommunication and content sectors, with a focus on mobile payments, and phone payment's role within that.

Mobilesquared conducted 37 in-depth interviews to provide a broad overview of every sector within the phone-paid services market in the UK, covering the past, present and future. In addition, Mobilesquared has attended multiple conferences covering phone-paid services and mobile payments, including World Telemedia, Mobile World Congress, Global Carrier Billing Summit, and AIMM Power 50, to gain additional insight and commentary.

As with the consumer survey, every effort was made to maintain the themes and questions included in previous rounds of the industry research survey to ensure continuity as specified by PSA, although changes in market trends and market developments were considered.

The interviews were used as background to provide market commentary throughout this report, and to provide data and input into the FY2017-18 market modelling process and FY2018-19 forecasting.

The research took place between 3 April 2018 and 21 June 2018.

Market modelling

The market-modelling exercise took summary data (revenue, excluding VAT) from the network returns submitted to PSA and combined this with survey data about stated use of different services by consumers. The subsequent model produced estimates of revenue for the 13 central categories, broken out into a total of 48 sub-categories, as redefined by the PSA in late 2017 (for more information please see "Service categories" section below).

These figures were later sense-checked with members of the industry that had participated in the qualitative research, and adjustments were made to account for over- or under-reported use of services.

Data from the nationally-representative consumer survey when applied to latest UK population data¹⁴ of residents aged 16 and over, was used to extrapolate a total phone-paid services user base for the UK, applicable to UK population statistics from 2014. This resulted in an estimated phone-paid services user base of 23.5 million people.

¹⁴ Source: 64.6 million. Office for National Statistics, National Records of Scotland, Northern Ireland Statistics and Research Agency, 2014

The total user base was then broken down by service by calculating the weightings for over- and under-stated use that have been applied to the rest of the model, supplemented by adjustments from industry data or total service revenue/cost of service, where applicable. All references to phone-paid services users or usage will be based on the consumer research findings, unless stated otherwise.

Forecasting

Sector-by-sector forecasting of FY2018-19 revenues has been undertaken for this report. The methodology employed in the forecasting was like that used for the FY2017-18 model. Forecast annual revenues for each payment platform were derived by taking the annual totals from 2014-2017 and extrapolating to 2018 using least-squares regression. This data was then modelled within the same method as above, and sense checking was applied according to industry forecasts for their sectors.

Updated service taxonomy

In 2017 Mobilesquared was commissioned by the Phone-paid Services Authority (PSA) to conduct a thorough review of the category titles used in the Annual Market Review (and the service registration process for merchants with the PSA), with a view to creating an accurate (and future-proofed) service taxonomy of the existing marketplace.

Mobilesquared interviewed 22 companies operating within the UK phone-paid services market, to understand their internal market categorisation and their entire product catalogue.

Based on these findings, and for the purposes of the AMR, Mobilesquared worked with PSA to identify 13 main categories, split out into 48 service types. These are:

Category	Service type	Previous category
Assistance services	Directory enquiries	Directory enquiries (e.g. numbers starting 118)
	Customer services	Customer service (e.g. advice, sales or support)
	ICSS - call an advisory service	
Betting, gambling, lotteries	Betting	Betting or gambling (e.g. betting, lottery, scratch cards)
	Gambling	
	Lotteries	
Charity donations	Charity Donations	Charity donations
Competitions and quizzes	Online competitions	Non-broadcaster competitions or quizzes
	Offline competitions	
Device personalisation & security	Ringtones, RBTs, wallpaper	Ringtones, ringback tones, wallpapers etc
	Security	

Category	Service type	Previous category
Digital payments	Vouchers	
	Virtual gifts	Virtual gifts in the social media space such as SwapIts
	Gift cards	
	Low-cost international or reverse charge calls	Low cost international or reverse charge calling
Entertainment (PFI)	Music	Music or video content
	TV	
	Video	
	Film	
	Books	Internet-based information services (books, magazines, newspapers)
Games (PFI)	Downloaded from app store	Games or apps charged to my bill (not on social networking sites)
	Played on social media	Games on social networks
	Bundled as part of monthly subscription	
	In-game purchases	
	in-game credit top-ups	
Information, news, and education	Weather	Voice-based information services (e.g. weather hotline, text alerts, etc.)
	News	
	Travel	
	Sport	
	Stocks and shares	
	Alerts	
	Educational services	
Lifestyle	Fitness	
	Food and recipes	
Personal and relationship services	Dating	
	Flirting chat services	Dating or flirt chat service
	Chat services	
	Tarot/astrology services	Tarot or astrology
Sexual entertainment	Glamour pics	
	Adult pics	Adult content (e.g. video clips, chat, images, off-handset purchases for adult-related content, e.g. DVD unlock)
	Adult videos	
	Adult cams	
	Adult chat (messaging)	
	Adult talk services	
TV and radio engagement	Broadcaster competitions	TV & Radio competitions or quizzes
	Voting on a TV/radio show	TV or radio show voting or interaction (e.g. X Factor voting)
	Texting in to show host	

Charity donations

Charity donations have become an important element of the phone-paid services market. However, it appears that previous estimates of the size of Charity donations paid via text may have been overestimated.

The original figure for Charity donations was an estimate based on data provided by industry in 2014. This figure of £120-125 million has formed the basis upon which subsequent growth or decline has been applied using data and trends supplied by industry as part of the on-going in-depth research carried out by Mobilesquared for PSA.

In 2017, Mobilesquared was commissioned by PSA to conduct a thorough analysis of the services and content now available via phone-paid services payment mechanics as outlined above.

This exercise has resulted in the deepest dive yet into the phone-paid services sector. Industry has provided Mobilesquared with greater transparency than ever before, regarding the breakdown of the revenues across the true extent of content and services now available. From here we have been able to attribute the split in revenues across the 48 service types.

This process has enabled us to challenge previous revenue figures across every sector, with two standout services requiring significant adjustment: Games on social media has been revised downwards. The other service is Charity donations, which has been significantly reduced based on complete visibility of pass-throughs provided by the mobile network operators. This has had an impact on the overall size of the market (see next section).

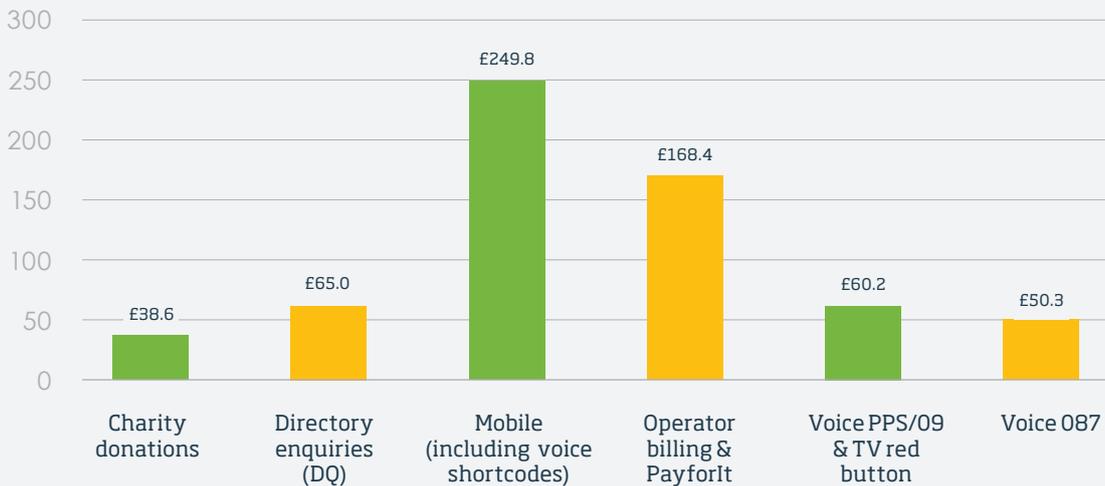
Financial Year 2016-17 adjustment

All values exclusive of VAT.

The phone-paid services market was initially thought to be worth £708.6 million in Financial Year 2016-17 (FY2016-17), based on Charity donations contributing £115 million. Based on the revised Charity donations figure of £38.6 million, total revenues have been adjusted accordingly.

The adjusted revenues for FY2016-17 were £632.3 million including Charity donations, and £593.7 million excluding Charity donations.

Fig.24 Adjusted FY2016-17 market revenues (£m)



About Phone-paid Services Authority

The PSA is the UK regulator for content, goods and services charged to a phone bill.

About Mobilesquared

Mobilesquared is a trusted research partner to some of the biggest companies in mobile, working with organisations including; Three UK, O2, Tesco Mobile, Nokia, Qualcomm, Mitel, Textlocal, OpenMarket, Nestle, Xerox, MEF and the Phone-paid Services Authority (PSA). We produce reports that create a buzz, and forecasts which shape the mobile industry, and are the company behind the most quoted stat in mobile marketing, "90% of SMSs are read within 3 minutes". The Mobilesquared team have been analysing the mobile industry since 1997, covering all areas of mobile including; mobile advertising, marketing, A2P messaging, OTT, RCS, LTE, broadband, 5G, unified communications, mobile payments, premium rate services and mobile technology. Mobilesquared Chief Analyst and Founder, Nick Lane, speaks regularly at international mobile conferences and is recognised as one of the leading analysts in the messaging space.

Find out more about Mobilesquared at
www.mobilesquared.co.uk