

ANNUAL MARKET REVIEW 2015-16

PRS market outlook 2016-17



Researched and written by



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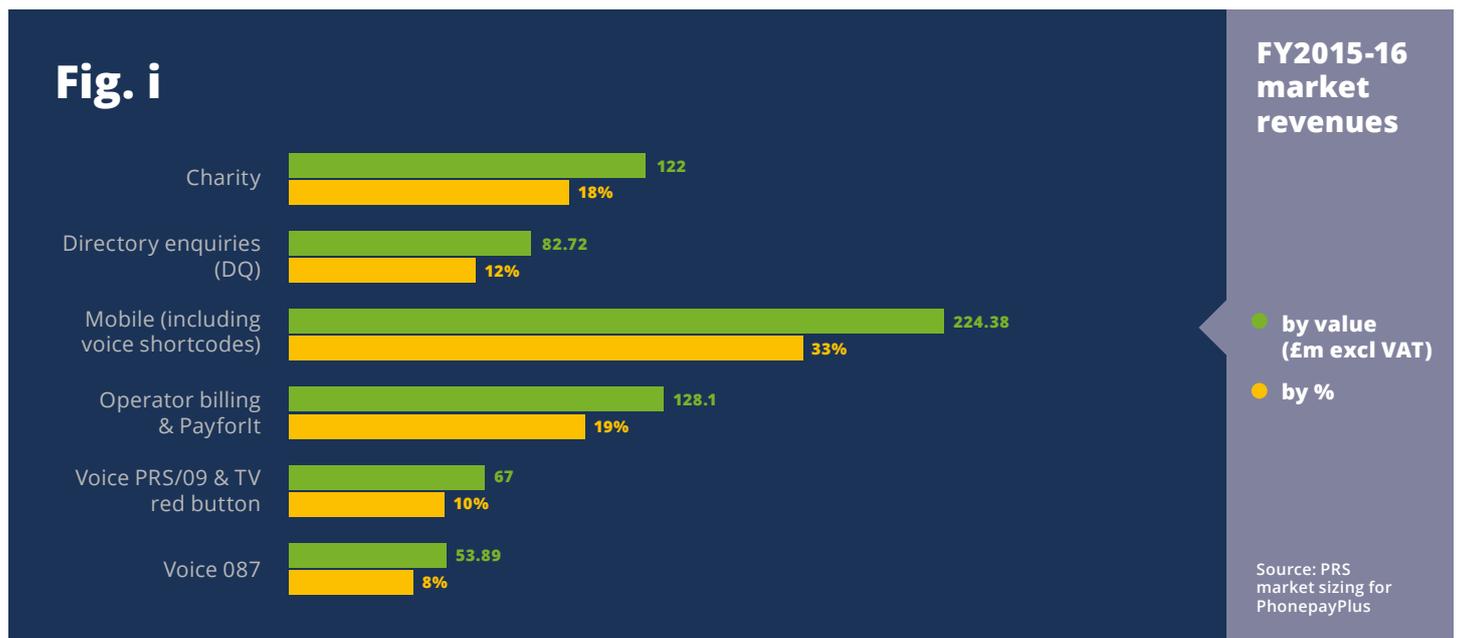
Executive summary

All values exclusive of VAT.

PhonepayPlus commissioned mobilesquared to conduct the 2015-16 premium rate services (PRS) annual market review. PhonepayPlus asked mobilesquared to examine the market for PRS, take an in-depth look at its component parts and assess the prospects for PRS in the near future.

The premium rate service (PRS) market in the UK was worth £678.1 million (excluding VAT) in FY2015-16¹. This represents a decrease of 0.26% on FY2014-15 revenues of £679.9 million, highlighting the market has stabilised during the last financial year (see Fig 1). This represents something of a mini recovery for the PRS market in terms of addressing the average annual decline since 2010.

It is consumer spend via operator billing that is contributing to this mini recovery and offsetting the continued decline in voice-based services. In FY2015-16, mobile (including voice short codes) generated revenues of £224.38 million, ahead of operator billing and Payfortl (£128.1 million) (see Fig iii). Mobile-based services² now represent 70% of the PRS market.



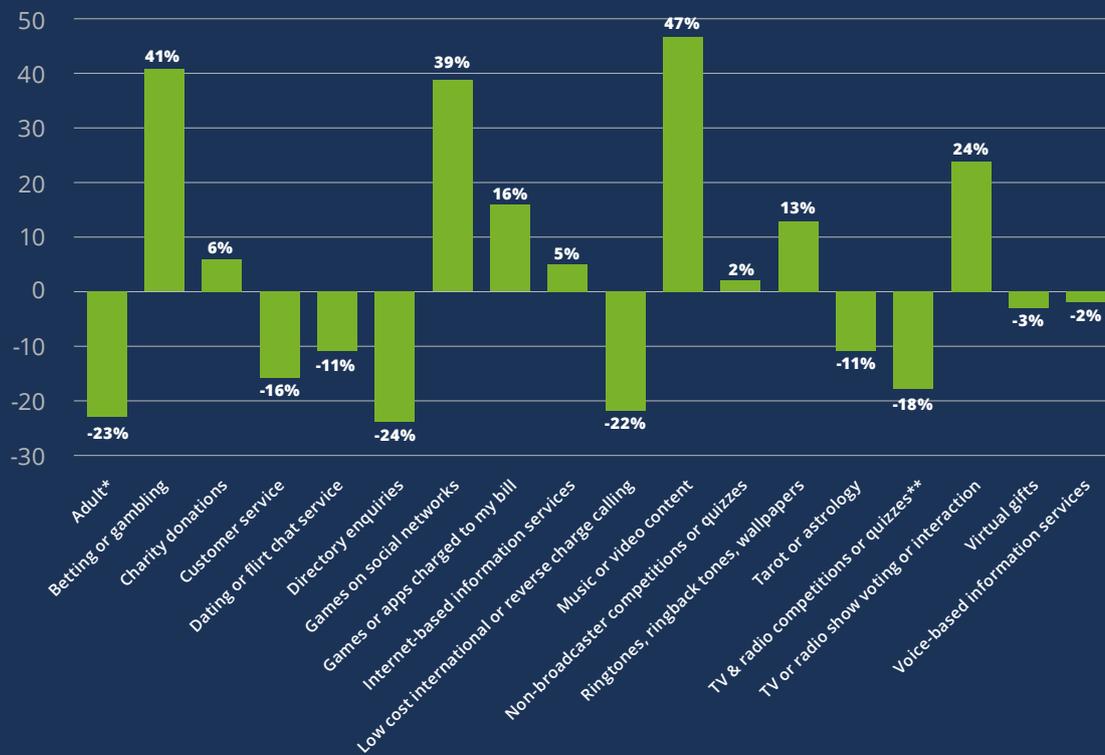
Charity has replaced directory enquiries as the single largest PRS in the UK, generating donations of £122 million in FY2015-16 and accounting for 18% of total consumer transactions for the period. Directory enquiries was the second largest service generating revenues of £82.7 million, and contributing 12% of total PRS spend, followed by games on social networks, with revenues of £60.5 million.

Across the 18 service types, nine categories contributed to the stabilisation of the PRS industry, by experiencing a year-on-year increase in revenues between FY2014-15 and FY2015-16, ranging from 2% (non-broadcast competitions) to 47% (music or video content) (see Fig iv).

¹ This figure is derived from network returns submitted to PhonepayPlus, combined with consumer survey data about stated use of different services, and on charity donations, which have zero-rated revenue shares. See Methodology for more information. All figures in the report are excluding VAT unless otherwise stated.

² Mobile-based services include mobile (including voice short codes), charity, and operator billing and Payfortl. voice-based services include directory enquiries, voice 087, and voice PRS/09 (and red button).

Fig. ii



% revenue change,
FY2014-15
- FY2015-
16

* & ** Based on the revised Service Taxonomy. See Methodology

Source: PRS market sizing for PhoneyPlus

Based on the findings from the consumer survey, at the start of FY2015-16, there were an estimated 22,959,000 million PRS users in the UK, representing 41% of the UK population aged 11 years and above. The average number of PRS users per service type is 3.8 million, of which six services have an above average user base, including charity, customer service, directory enquiries, games on social networks, games or apps charged to my bill, and TV and radio competitions.

However, 13% of total users stated that they stopped using PRS during FY2015-16, citing cost of the content or service as the main reason, followed by users accessing the content for free. Although the consumer research indicated that problems associated with premium rate services were limited to 3.3% of the total user base, issues associated with trust revealed an altogether deeper challenge for the industry, with 29% of total users claiming that their trust had been compromised when using a PRS. 46% of adult users claimed their trust had been compromised, followed by 43% of Non-broadcast competitions or quizzes, 43% of virtual gifts, and 42% of tarot or astrology users.

Throughout FY2015-16, the average monthly drop-off has been just under a quarter-of-a-million (246,000). On initial inspection, 27% of these users stopped using PRS because the content or service was considered expensive, or because 25% located the same content or service for free. But a deeper dive of the consumer research reveals that an undercurrent of mistrust permeates throughout PRS, with a total of 1.7 million people stopping using PRS because their trust was compromised. Trust-related issues accounted for 58% of the users that stopped using PRS in FY2015-16.



SECTION 1: THE MARKET

PRS market stabilises

The premium rate service (PRS) market in the UK was worth £678.1 million (excluding VAT) in FY2015-16³. This represents a decrease of 0.26% on FY2014-15 revenues of £679.9 million, highlighting the market has stabilised during the last financial year (see Fig 1). This represents something of a mini recovery for the PRS market in terms of addressing the average annual decline since 2010: The PRS industry had a Compound Annual Growth Rate (CAGR) of -4% between 2010 and 2014.



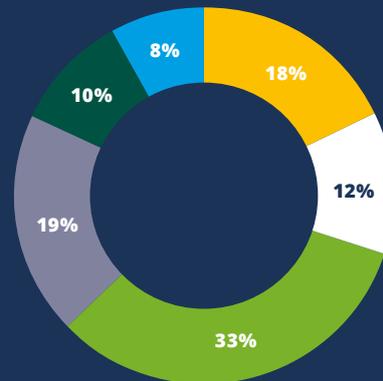
Mobile dominates revenues

It is consumer spend via operator billing that is contributing to this mini recovery and offsetting the continued decline in voice-based services. In FY2015-16, mobile (including voice short codes) generated revenues of £224.38 million, ahead of operator billing and PayforIt (£128.1 million) (see Fig 2). As a standalone service, charity generated donations of £122 million (VAT not applicable), significantly more than directory enquiries (£82.7 million), and Voice 087 (£53.9 million). voice PRS/09 and TV red button, accounted for the smallest percentage of revenues, generating (£67 million).

³ This figure is derived from network returns submitted to PhonepayPlus, combined with consumer survey data about stated use of different services, and on charity donations, which have zero-rated revenue shares. See Methodology for more information. All figures in the report are excluding VAT unless otherwise stated.

Fig. 2

- Charity
- Mobile (including voice shortcodes)
- Voice PRS/09 & TV red button
- Directory enquiries (DQ)
- Operator billing & PayforIt
- Voice 087



FY2015-16
market
revenues
by %

Source: PRS
market sizing for
PhonepayPlus

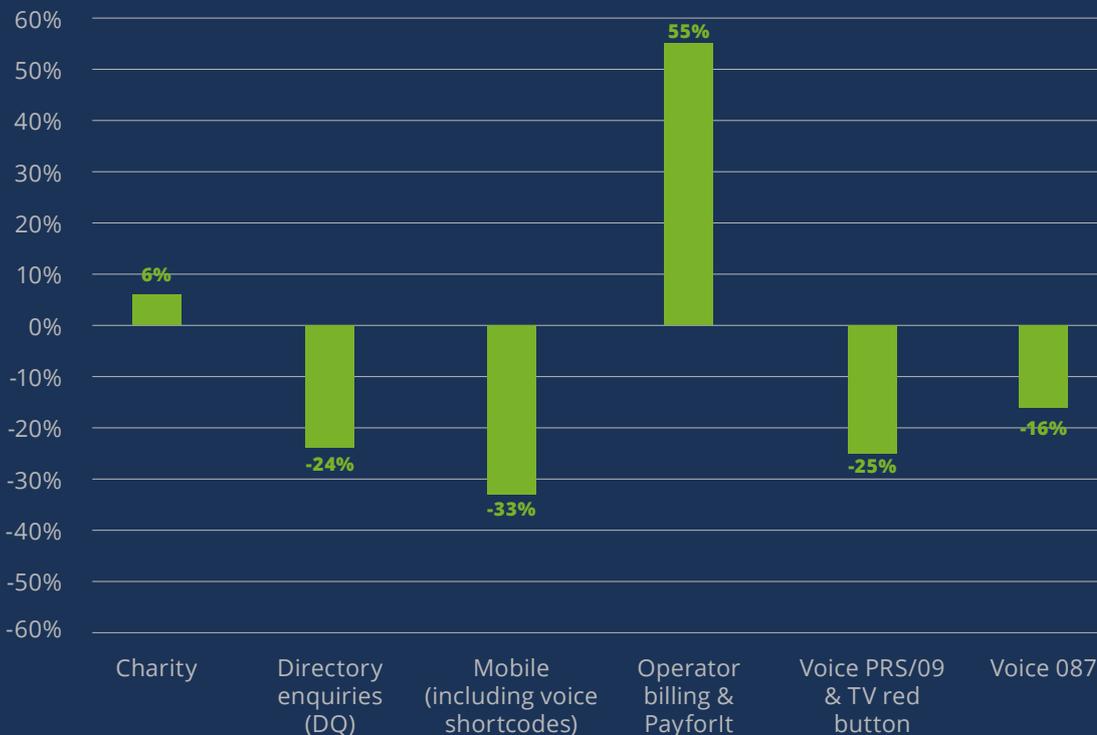
A deeper dive reveals that while mobile-based services⁴ represented 70% of revenues in FY2015-16, up from 61% in the previous financial year, it is operator billing and PayforIt, and charity donations, that have contributed to this growth. Operator billing and PayforIt has increased 55.3% between FY2014-15 and FY2015-16, while charity has risen 6.1%.

The growth in charity donations could be construed as underwhelming. However, the growth in the sector appears to be more organic and sustainable than in previous years. FY2014-15 was bolstered by an estimated £20 million from donations driven by viral campaigns on social media, such as the “Ice Bucket Challenge” and “No Make-Up Selfie”. These viral campaigns haven’t been repeated in FY2015-16, which means repeat charity donations have effectively increased from £95 million (VAT not applicable) to £122 million via charity-driven growth and not social media-driven activity, representing year-on-year growth of 28%.

In recent years, charity was hailed as one of the few hero services driving the PRS market, but that label could equally be transferred to operator billing as a hero payment mechanism for PRS. Consumers are becoming accustomed to purchasing digital goods not featured in an app store, also known as off-store⁵, via their mobile device with major brands such as Spotify and Sony Playstation. PayforIt has become the payment mechanic for most non-app store and off-store digital goods and services, such as adult content and online competitions. This also goes some way to explain the 33.1% year-on-year decline in revenues experienced by Mobile (including voice short codes) as services formerly on PSMS adopt PayforIt. In short, operator billing has emerged over the last 12 months as the mobile-based payment mechanism generating the most growth.

⁴ Mobile-based services include mobile (including voice short codes), charity, and operator billing and PayforIt. Voice-based services include directory enquiries, voice 087, and voice PRS/09 (and red button).

⁵ Off store phrase coined by Ovum referring to all digital content not featured within an app store.

Fig. 3

FY2014-15 / FY2015-16 PRS revenue % change by payment type

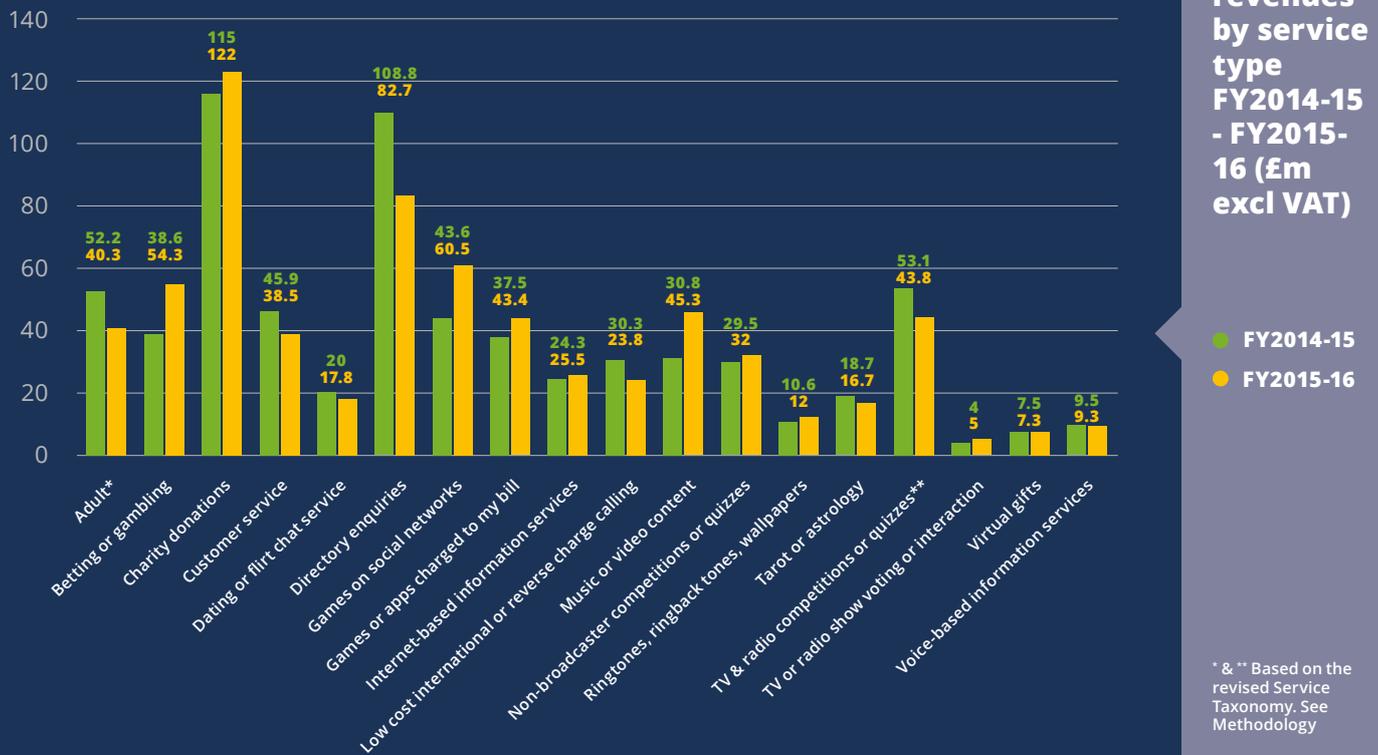
Source: PRS market sizing for PhonepayPlus

PRS revenues by service type

Charity has replaced directory enquiries as the single largest PRS in the UK, generating donations of £122 million in FY2015-16 and accounting for 18% of total consumer transactions for the period (see Fig 4). Directory enquiries was the second largest service generating revenues of £82.7 million, and contributing 12% of total PRS spend, followed by games on social networks, with revenues of £60.5 million.

The services generating the lowest revenues are TV or radio show voting or interaction (£5 million), virtual gifts (£7.3 million), and voice-based information services (£9.3 million).

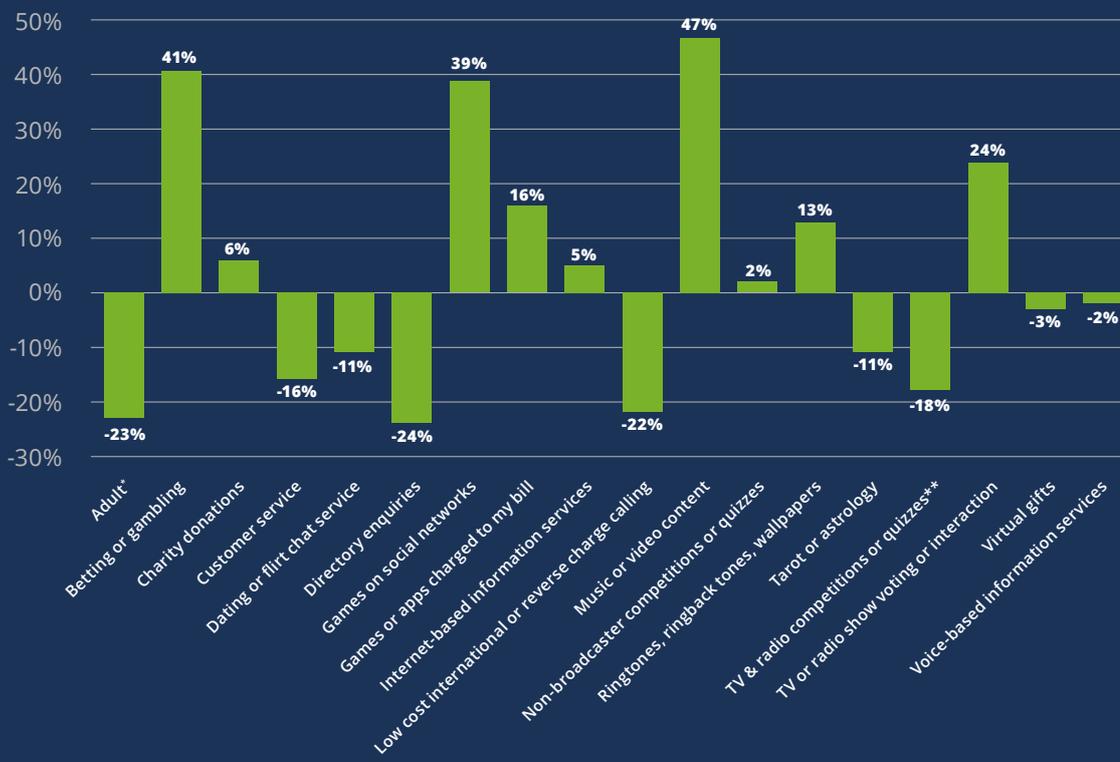
The average revenue for a PRS type is £37.7 million when charity revenues are included. Based on the charity-inclusive industry average, half of the service categories are generating above-average revenues.

Fig. 4

Across the 18 service types, nine categories contributed to the stabilisation of the PRS industry, by experiencing a year-on-year increase in revenues between FY2014-15 and FY2015-16, ranging from 2% (non-broadcaster competitions) to 47% (music or video content) (see Fig 5).

The service category that experienced the greatest fall in revenues year-on-year is directory enquiries (-24%), followed by adult (-23%), and low cost international or reverse charge calling (-22%).

Fig. 5



% revenue change, FY2014-15 - FY2015-16

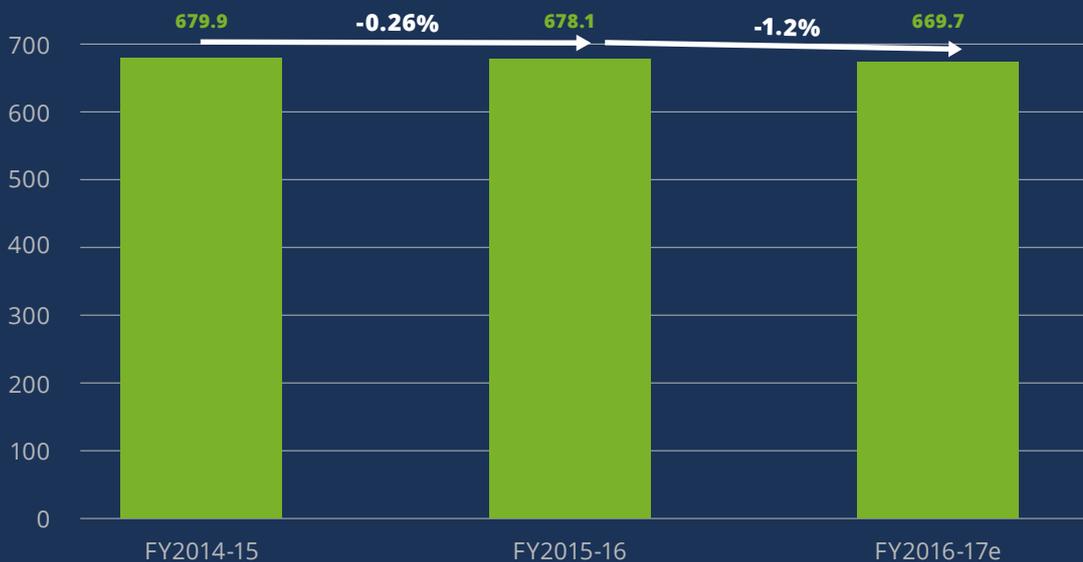
* & ** Based on the revised Service Taxonomy. See Methodology

Source: PRS market sizing for PhonepayPlus

Market forecasts FY2016-17e

The UK PRS market is projected to be worth £669.7 million in FY2016-17 (see Fig 6), a drop of 1.2% on FY2015-16. Nevertheless, the projected drop in revenues can still be viewed as encouraging, as the period of relative market stability looks set to continue. Indeed, from 2010 to 2014 the PRS market had a compound annual growth rate (CAGR) of -4%. Between FY2014-15 and the end of the forecast period, the CAGR is expected to be -1%.

Fig. 6



PRS market size, £m (excl. VAT)

Source: PRS market sizing for PhonepayPlus, industry research

However, by excluding charity from total revenues for FY2016-17 projections, the market will generate £540.7 million (excluding VAT), representing a slightly steeper decline of 2.8% on FY2015-16.

Payment-type revenues FY2016-17e

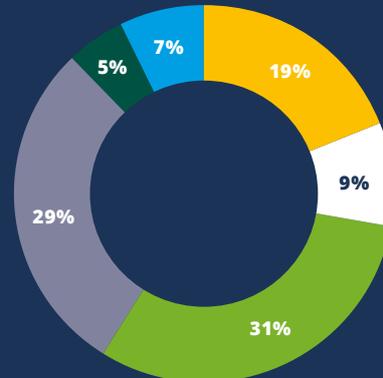
Operator billing and PayforIt is projected to be the standout payment mechanism in FY2016-17 with revenues set to grow by 51.2%, accounting for almost one-third of total PRS revenues (see Fig 7).

In FY2016-17, mobile will continue to be the largest payment mechanism for PRS, generating revenues of £204.8 million, ahead of operator billing and PayforIt on £193.6 million. Charity is projected to generate donations totalling £129 million (VAT not applicable), which is more than double directory enquiries (£61.3 million). Voice 087 is projected to transact £47.4 million and voice PRS/09 & TV red button £33.5 million in FY2016-17.

Directory enquiries revenues are expected to drop 25.9% between FY2015-16 and FY2016-17, by which point the service that has contributed the greatest percentage of revenues in PRS up until 2014, will account for just 9% of total revenues.

Fig. 7

- Charity
- Mobile (including voice shortcodes)
- Voice PRS/09 & TV red button
- Directory enquiries (DQ)
- Operator billing & PayforIt
- Voice 087

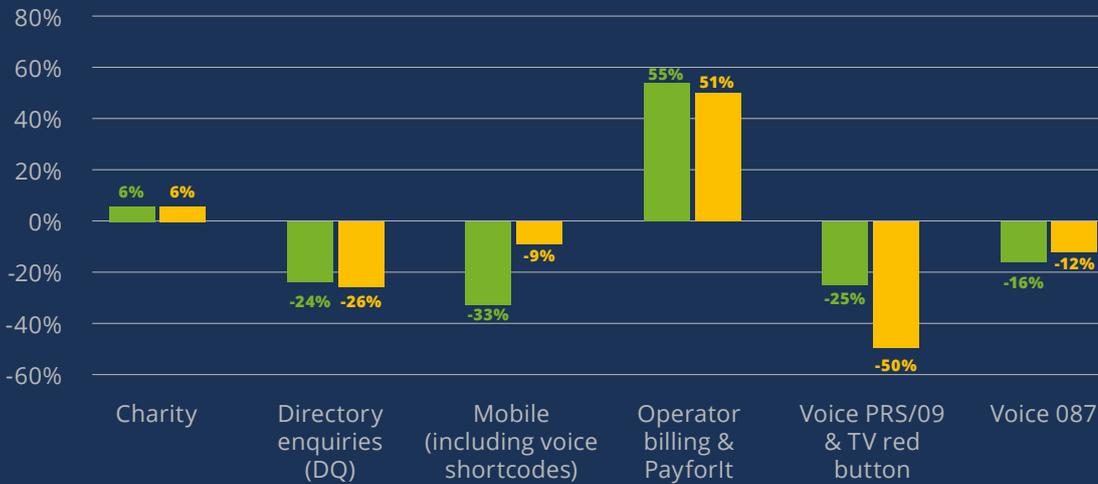


FY2016-17e market revenues by %

Source: PRS market sizing for PhonepayPlus, industry research

The stark revenue decline estimated for directory enquiries is consistent with voice-based PRS services in general. The percentage drop in directory enquiries of 25.9% is overshadowed by the projected 50% fall in revenues for voice PRS/09 & TV red button (see Fig 8). In comparison, this makes the projected 12% decrease in voice 087 revenues look almost positive given the overall decline in traditional voice-based services.

Fig. 8



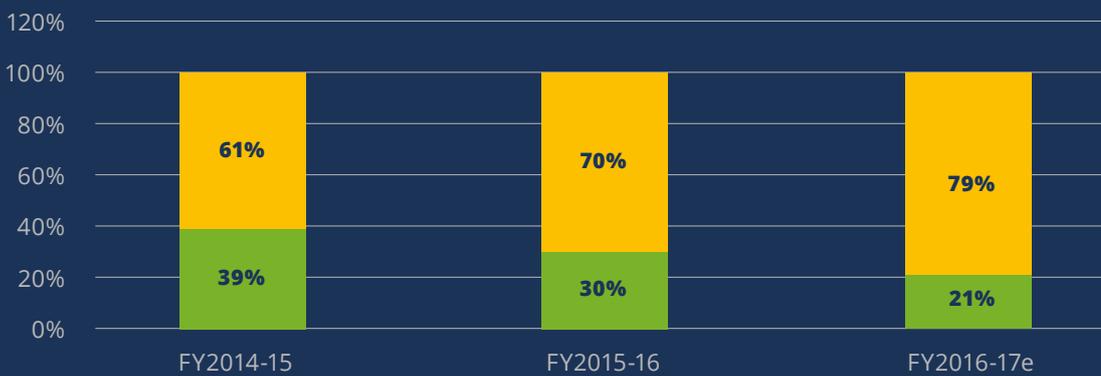
% revenue change by payment type, FY2015-16 / FY2016-17e

● FY2015-16
● FY2016-17e

Source: PRS market sizing for PhonepayPlus, industry research

By FY2016-17, mobile is predicted to account for 79% of total PRS revenues. Year-on-year, the rise of mobile coupled with the decline in voice service revenues, has contributed to an 9% annual swing in revenues from voice-based services to mobile-based services since FY2014-15 (see Fig 9).

Fig. 9



Mobile as a % of total PRS market revenues

● Mobile-based
● Voice-based

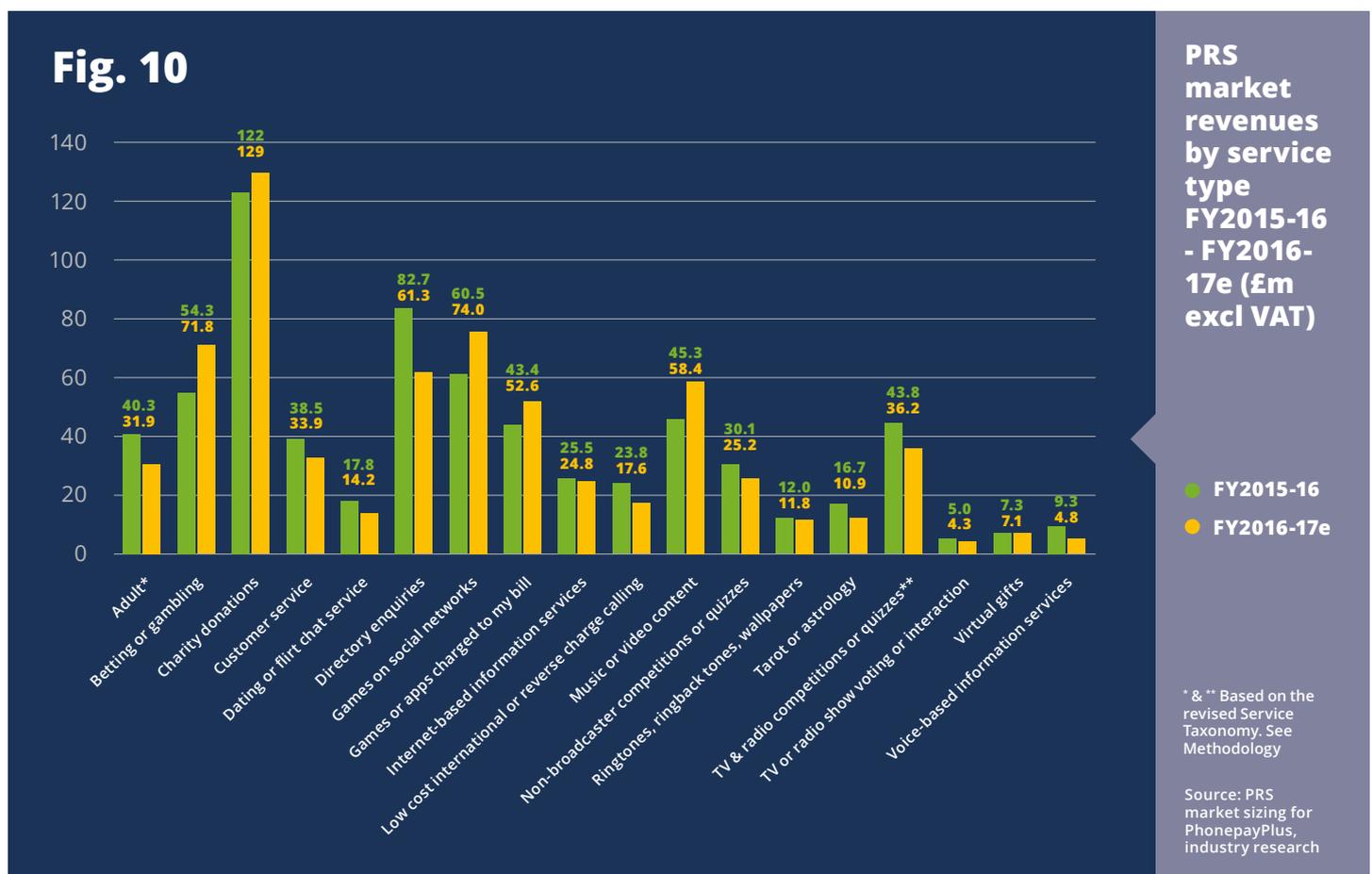
Source: PRS market sizing for PhonepayPlus, industry research

Projected PRS revenues by service type, FY2016-17e

In contrast to the previous financial year, the average revenue generated per PRS is forecast to drop from £37.7 million to £37.2 million in FY2016-17. Similarly, just five service types are predicted to experience an increase in revenues in FY2016-17.

Charity is expected to consolidate its position at the largest market sector with donations totalling £129 million (VAT not applicable), followed by games on social networks (£74 million), Betting or gambling (£71.8 million), and directory enquiries (£61.3 million).

PRS services projected to generate the lowest revenues in FY2016-17 consists of the same three services as FY2015-16, albeit in a different order: TV or radio show voting or interaction (£4.3 million), voice-based information services (£4.8 million), and virtual gifts (£7.1 million).

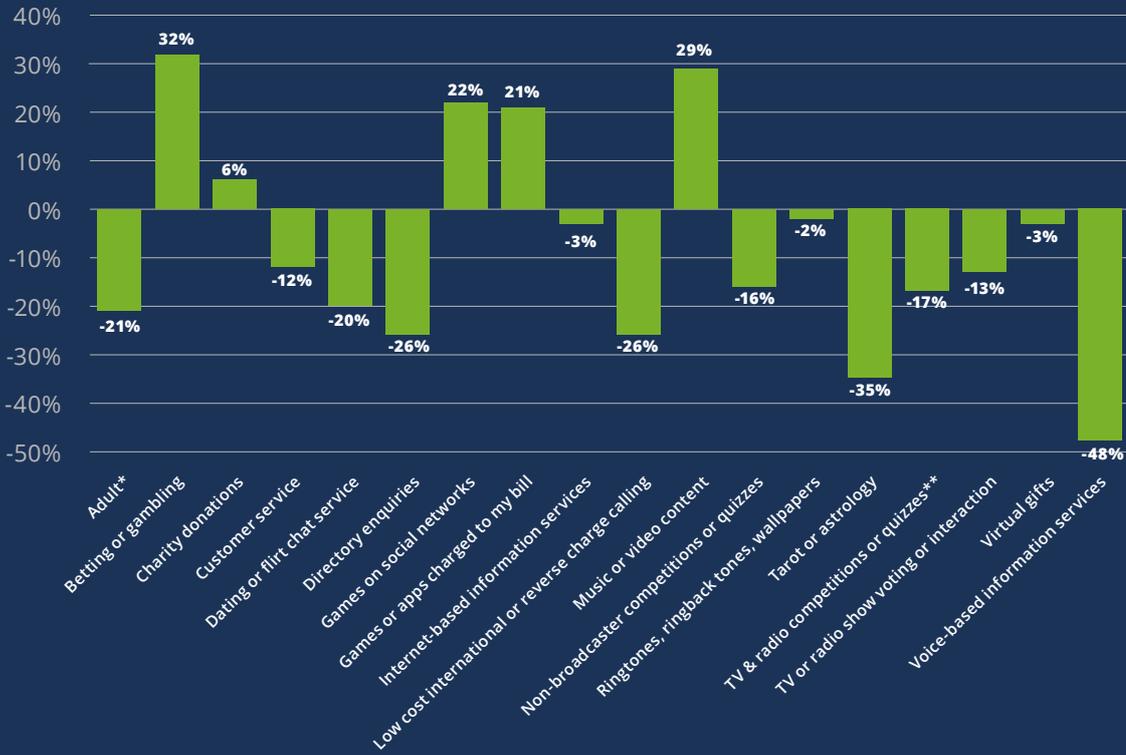


Charity is expected to increase its percentage share of total PRS revenues by 1% to 19% in FY2016-17, ahead of games on social networks (11%, up from 9%) and betting or gambling (11%, up from 8%) (see Fig 11). All three services are expected to generate more revenues than directory enquiries, as the former largest PRS service will fall to the fourth largest.

Betting or gambling is projected to experience the biggest increase in revenues (32%) year-on-year, followed by music or video content with an increase of 29%. The services forecast to experience the biggest declines are voice-based information

services (48%), tarot or astrology (35%), and both low cost international and reverse charge calling and directory enquiries falling 26%.

Fig. 11



% revenue change, FY2015-16 - FY2016-17e

* & ** Based on the revised Service Taxonomy. See Methodology

Source: PRS market sizing for PhonepayPlus, industry research



SECTION 2: THE PRS CONSUMER

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SECTION 2A: THE PRS CONSUMER

The PRS user

As with the previous annual market review⁶, the consumer survey identified PRS users and usage trends in the UK. The survey went out to a nationally representative online sample of 7,250 participants aged 11 and above in March 2016.

Consumers were asked to recall which premium rate services they had used over the last 12 months. Only those respondents that selected at least one premium rate service progressed to the main survey. A double screen-out process was used to confirm each respondent had selected the premium rate services relevant to them. In total 4,250 were screened out to provide a representative sample of 3,000 users of PRS. This section details the key findings from the consumer data across all services.

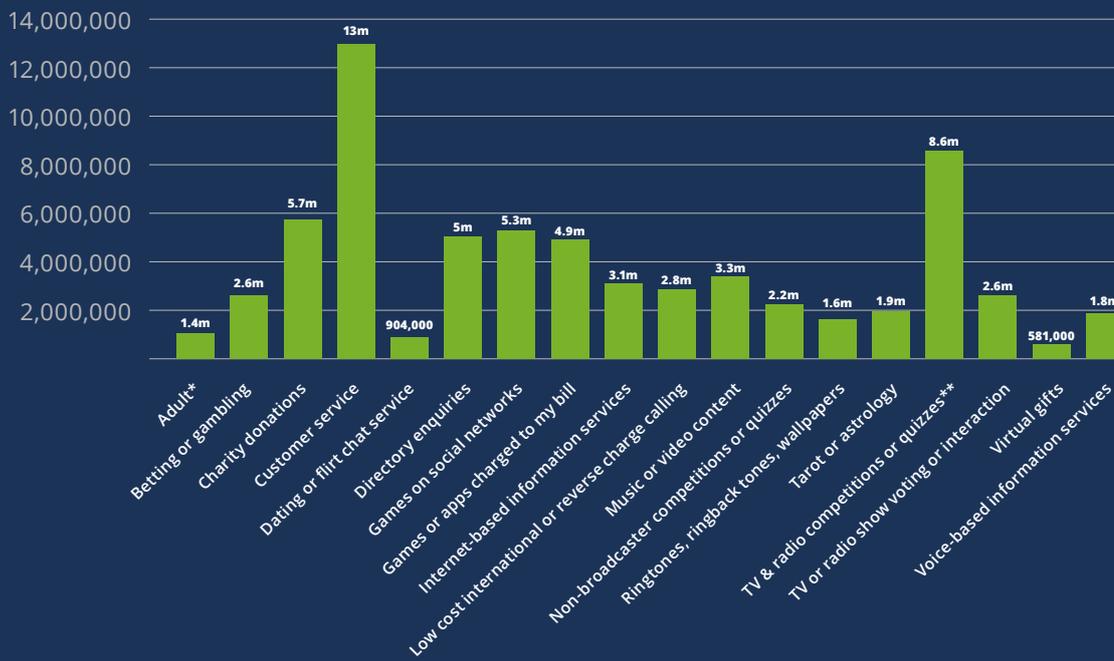
PRS users FY2015-16

At the start of FY2015-16, there were an estimated 22,959,000 million PRS users in the UK, representing 41% of the UK population aged 11 years and above. The average number of PRS users per service type is 3.8 million, of which six services have an above average user base. These services are charity, customer service, directory enquiries, games on social networks, games or apps charged to my bill, and TV and radio competitions.

Customer service is by a considerable margin the UK's largest premium rate service by user base, with 13.1 million users (see Fig 12). The second largest service is TV and radio competitions (8.6 million) users, followed by charity, with 5.8 million users, Games on social networks with 5.3 million, and games or apps charged to my bill (4.9 million).

The services with the smallest user base are virtual gifts, with 581,000, and dating or flirt chat service with 904,000, and adult with 1 million.

⁶ Annual market review 2014, PRS market outlook 2015

Fig. 12**PRS users
FY2015-16**

PhonepayPlus industry research, PhonepayPlus quantitative consumer survey, March 2016. Q1: Based on your understanding of what premium rate services are, which of the following services have you used on your mobile phone or fixed-line phone over the last 12 months? Multiple choice. Base n = 3,000.

* & ** Based on the revised Service Taxonomy. See Methodology

Average revenue per user (ARPU)

Across all 18 service types, the average revenue per user (ARPU) is £11.44 (excluding VAT)⁷. In total, eight services had higher-than-average ARPU: adult (£38.52), betting or gambling (£20.58), charity (£21.17), dating or flirt chat service (£19.74), directory enquiries (£16.35), music or video content (£13.35), and non-broadcast competitions (£13.38).

Industry research reveals that the majority of adult revenues are generated by video content and chat services. For adult users of video services, this indicates the average user remains subscribed for between four and five weeks, at a weekly cost of £9 (including VAT), although industry research did reveal content providers are now exploring cheaper subscription options priced between £1.50-£2.50 per week.

Charity has an ARPU of £21.17, which is the second highest across all PRS, and reveals that its users will donate between four and five times per year, based on the default value of £5 used by the majority of charities for text-based donations.

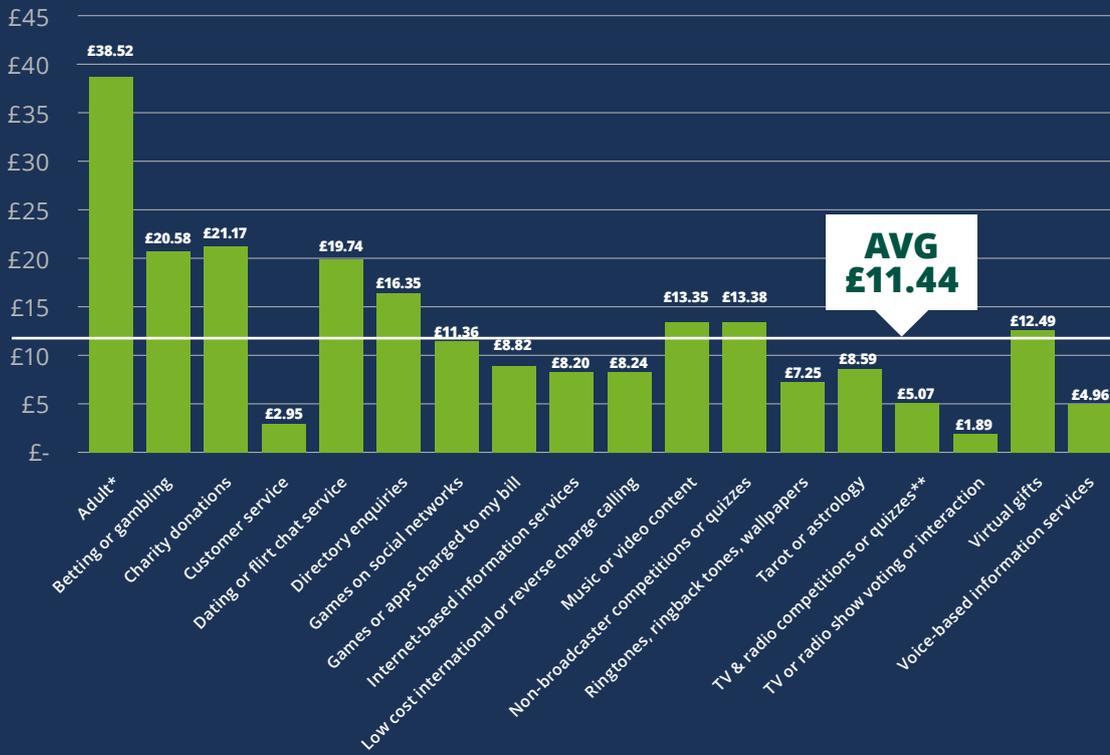
PRS users are least likely to spend with TV or radio show voting or interaction, as the ARPU figure of £1.89 (excluding VAT) indicates the average show will interact between three and four times per year at a cost of £0.50 per interaction.

Similarly, although customer service is the largest premium rate service, with an ARPU of £2.95 this suggests that on the whole the majority of users of this service type are occasional users, which is what you might expect to see given the nature of this service type.

⁷ Average revenue per user across all PRS is calculated by adding the total number of ARPU per service category and dividing by 18 (total service types).

Fig. 13

**ARPU,
FY2015-16**



* & ** Based on the revised Service Taxonomy. See Methodology

Source: PRS market sizing for PhonepayPlus, industry research



SECTION 2B: USAGE TRENDS

Why use PRS?

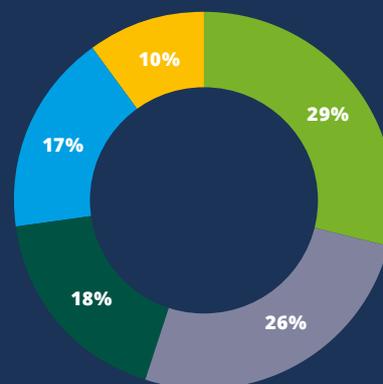
The consumer survey explored the reasons why consumers use PRS, both in isolation and when compared to alternatives. Across all services, the most common response to the question why do you use PRS was “convenience” (29% of PRS users), ahead of the 26% that selected “I use them occasionally”, the 18% that identified “I can’t get the content/service anywhere else”, 17% that simply “like” the content and service, and the 10% that recognised the content or service offers “good value for money” (see Fig 14).

For directory enquiries, voice-based information services, internet-based information services, and charity “convenience” is the main reason PRS users use the particular service. “I use them occasionally” is the main reason for users of low cost international or reverse charge calling, TV or radio voting or interaction, TV or radio competitions, non-broadcast competitions, adult (although users equally like the content), dating or flirt chat service, betting or gambling, virtual gifts, tarot or astrology, and ringtones, ringback tones and wallpaper.

Usage of Music or video content, Games on social networks, and Games or apps billed to my mobile are driven by the content, while Customer service is primarily used by users that cannot access the content elsewhere.

Fig. 14

- Convenience
- I can't get the content/service anywhere else
- It offers good value for money
- I use them on occasion
- I like the content/service



What is the reason you use PRS?

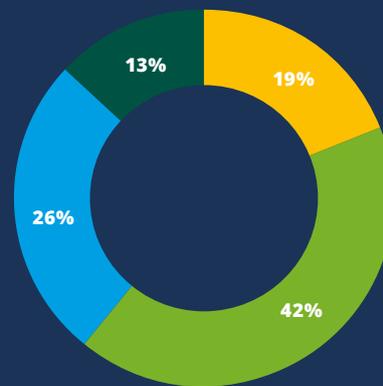
Source: PhonepayPlus quantitative consumer survey, March 2016. Q5: Why do you use these services? Multiple choice. Base n= 3,000.

How has your PRS usage changed over the last 12 months?

What is encouraging, and potentially linked to the PRS market stabilising in FY2015-16, is the finding that nearly two-thirds of users stated that their usage of PRS either increased (19%) or remained consistent (42%). Just over one-quarter of users (26%) claimed that their usage had reduced over the 12 months, while 13% said that they had stopped using PRS altogether (see Fig 15). Across every service, “my usage has remained consistent” was the top category selected by PRS users. These figures compare positively to the previous annual market review, where 41% of consumers stated that their usage had either increased or remained consistent, and 48% said they either used service less or stopped using them altogether.

Fig. 15

- I use these services more than I did 12 months ago
- I use these services less than I did 12 months ago
- My usage has remained consistent
- I no longer use these services



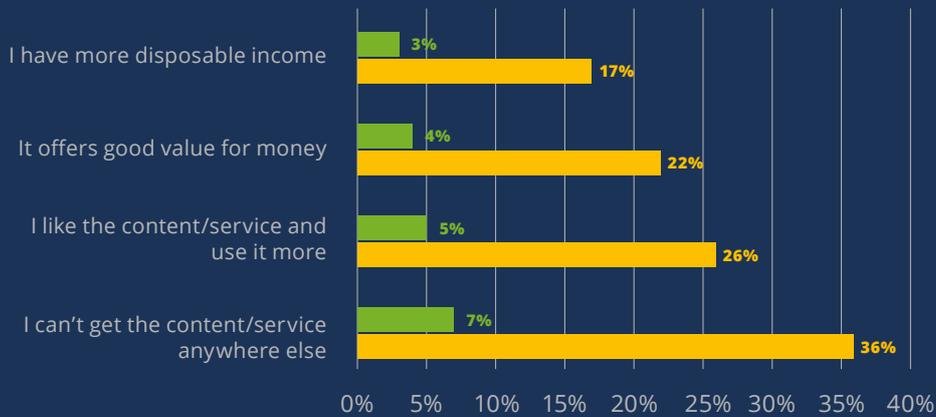
How has your PRS usage changed over the last 12 months?

Source: PhonepayPlus quantitative consumer survey, March 2016. Q6: Do you use them more or less than you did 12 months ago? Single choice. Base n= 3,000.

Increased usage

The survey asked those who stated that their usage of PRS had increased over the last 12 months to detail why their behaviour had changed. Content is the key consideration for PRS users who had increased their usage. For instance, 36% of users that said they had increased their usage over the last 12 months, claimed they could not access the content or service anywhere else, while 26% said they liked the content or service. Just under one-quarter (22%) said that the content or service offered good value for money. While an increase in disposable income was the main driver for 17% of users (see Fig 16).

For the majority of individual services, users increased their usage because they like the content. For low cost international or reverse charge calling, dating or flirt chat service, and tarot or astrology, “good value for money” has driven the increased usage. For directory enquiries and customer service, “I can’t get the content anywhere else” is the primary reason, which suggests circumstance would dictate usage, such as the user driving a car and unable to search the internet, or low data connectivity.

Fig. 16

Why do you use these services more?

● % of total PRS users
● Breakdown of PRS users that increased usage

Source: PhonepayPlus quantitative consumer survey, March 2016. Q7: Why do you use these services more? Multiple choice. Base n= 894

Consistent usage

Familiarity and content were key for users maintaining an existing usage level over the last 12 months. More than one-third (37%) of users that maintained an existing usage level, claimed they "have always used the service", ahead of 27% of users that like the content or service but also access similar content or service elsewhere. Just under one-quarter of these users (22%) like the content, leaving 14% to cite good value for money.

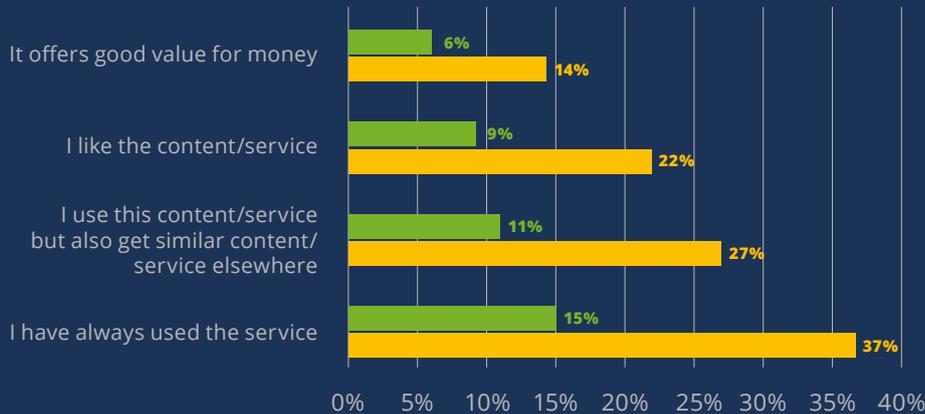
Users of voice-based information services, TV or radio competitions, non-broadcast competitions or quizzes, adult, internet-based information services, betting or gambling, games on social networks, music or video content, tarot or astrology, ringtones, ringback tones and wallpapers, and virtual gifts claim their liking for the content or service as the primary reason for their consistent usage. Familiarity is key for users of directory enquiries, customer service, TV or radio show voting or interaction, dating or flirt chat service, games or apps charged to my bill, and charity. Only users of low cost international or reverse charge calling cited good value for money as the main reason for maintaining their usage at a consistent level.

Fig. 17

Why do you use these services as regularly as you did 12 months ago?

● % of total PRS users
● Breakdown of PRS users that maintained consistent usage

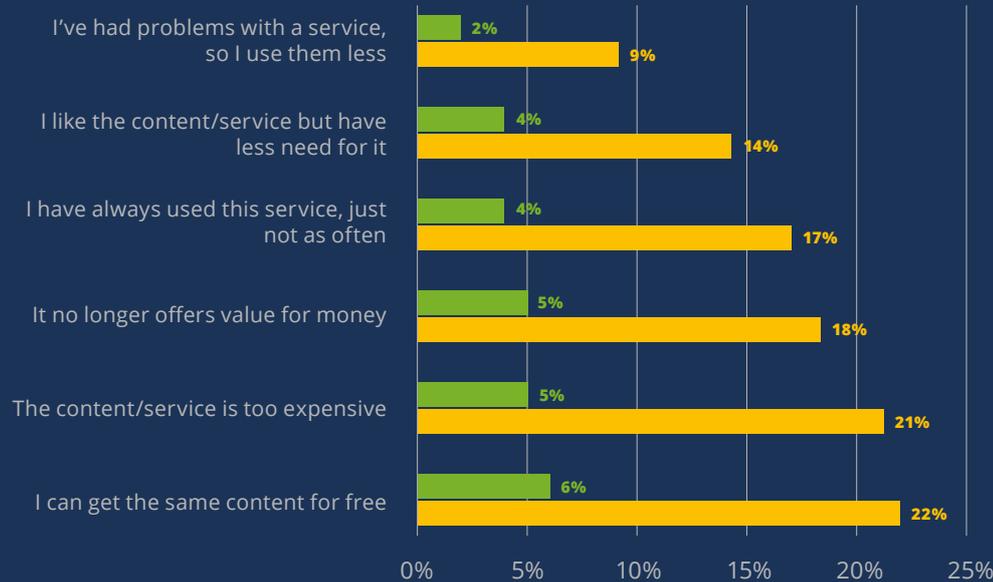
Source: PhonepayPlus quantitative consumer survey, March 2016. Q8: Why do you use these services as regularly as you did 12 months ago? Multiple choice. Base n= 1942



Reduced usage

Of the 26% of total users that stated that they had reduced their usage of PRS during FY2015-16, cost was a key factor. Almost one-quarter cited access to free content, one-fifth said the service was too expensive, while “no longer offers value for money” and “I have always used this service, just not as often” as reasons for reducing their usage (See Fig 18). Interestingly, 9% of these users (or 2% of total PRS users) said that they have experienced problems with a service, which had had a negative impact on their usage, though they continued to use that service.

Eleven of the 18 service types are losing out to free content. These services are directory enquiries, voice-based information services, customer service, adult, internet-based information services, games or apps charged to my bill, games on social networks, virtual gifts, music or video content, and ringtones, ringback tones and wallpapers. Users of charity and betting or gambling are reducing their usage primarily because of a desire to not use the service as much, while users of low cost international or reverse charge calling have less need for the service. The majority of dating or flirt chat service users reduced their usage because they had experienced problems with the service.

Fig. 18**Why do you use these services less?**

● % of total PRS users

● Breakdown of PRS users that reduced usage

Source: PhonepayPlus quantitative consumer survey, March 2016. Q9: Why do you use these services less? Multiple choice. Base n= 1,223.

Stopped using

Thirteen percent of total users stated that they stopped using PRS during FY2015-16. The cost of the content or service was the main reason, followed by users accessing the content for free.

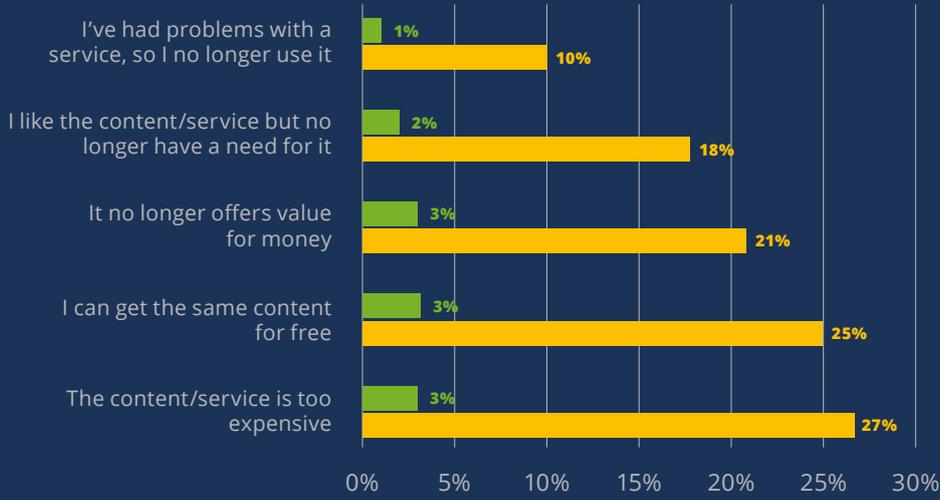
Cost was the main reason that users of directory enquiries, TV or radio competitions, non-broadcast competitions or quizzes, dating or flirt chat service, betting or gambling, games or apps charged to my bill, and charity stopped using the service altogether.

Free content was the driving force for users of voice-based information services, customer service, adult, internet-based information services, games on social networks, music or video content, and ringtones, ringback tones and wallpapers to stop using the service.

Low cost international or reverse charge calling and virtual gifts suffered from its users believing it no longer offered value for money, while the majority of TV or radio show voting or interaction no longer have a need for the service.

The majority of users that stopped using tarot or astrology was because they had experienced problems with the service.

Fig. 19



Why have you stopped using these services?

- % of total PRS users
- Breakdown of PRS users that stopped using PRS

Source: PhonepayPlus quantitative consumer survey, March 2016. Q10: Why have you stopped using these services? Multiple choice. Base n= 600.



SECTION 2C: CONSUMER PERCEPTIONS

Consumer perceptions

Trust emerged as one of the main reasons people stopped using PRS in the previous annual market review. To reflect this, this year's consumer research provided a deeper dive into users' perceived problems when using PRS, and how to address them.

Problems with PRS

User experiences or problems with PRS account for 3.3% of total users. Approximately two-thirds of these users continued to use it at a reduced capacity, while the remaining third stopped using the service altogether.

As already highlighted in this report, the cost of PRS remains one of the main issues for many consumers. Just under one quarter of the 3.3% of total users that had experienced a problem with a PRS stated that they "were not aware how much they were paying", with a similar figure citing the "price I expected to pay was higher on my bill". Just over one-fifth of users were disappointed with the content, and the same figure received "unwanted communications from the service provider", leaving a little over one-tenth of users claiming they had not signed up to the service.

"I wasn't aware how much I was paying" was the main issue identified by users of directory enquiries, customer service, TV or radio show voting or interaction, internet-based information services, games or apps charged to my bill, and games on social networks.

"The price I expected to pay was higher on my bill" was the main problem for users of voice-based information services, TV or radio competitions, adult, dating or flirt chat service, betting or gambling, virtual gifts, and music or video content.

While spam was identified by users of non-broadcast competitions or quizzes, tarot or astrology, ringtones, ringback tones, wallpapers, and charity, as the main problem.

Trust

The consumer survey also explored consumers' general perception of PRS and the services that they engage with. Although the consumer research indicated that problems associated with premium rate services were limited to 3.3% of the total user base, issues associated with trust revealed an altogether deeper challenge for the industry.

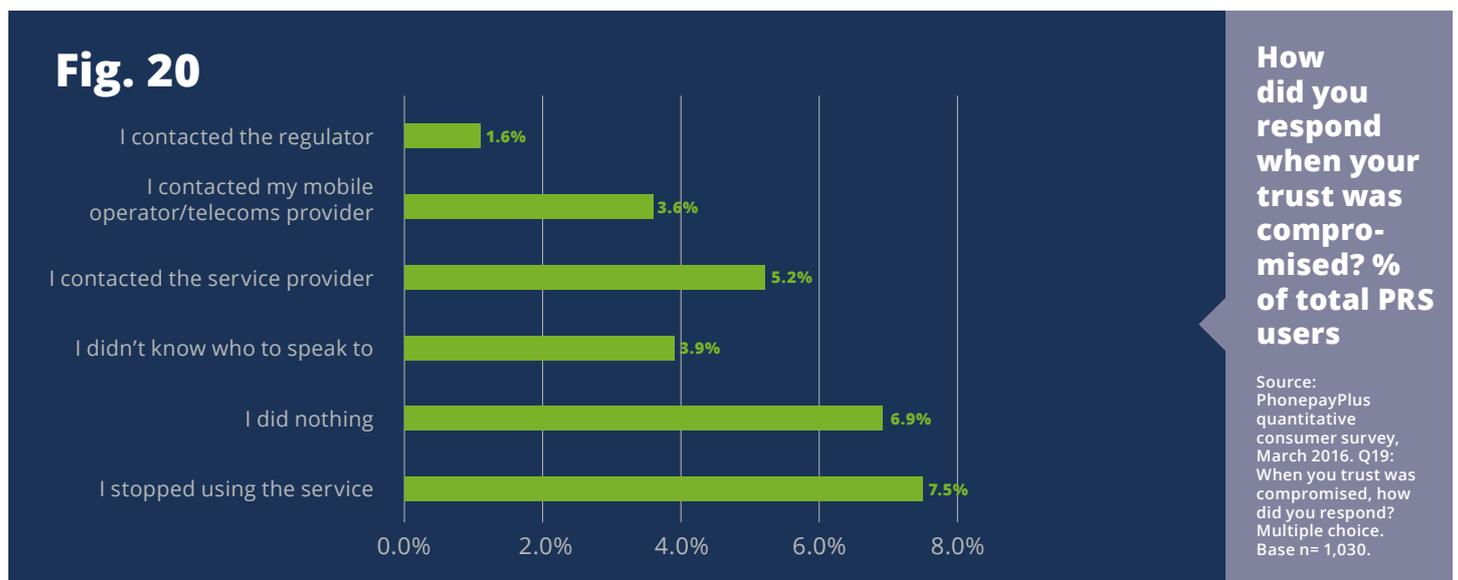
Two-thirds of respondents said that trust played an influential role in their decision-making process with regards to their usage of PRS, with 29% of total users claiming

that their trust had been compromised when using a PRS. 46% of adult users claimed their trust had been compromised, followed by 43% of non-broadcast competitions or quizzes, 43% of virtual gifts, and 42% of tarot or astrology users.

The most trusted service within premium rate is charity. This was followed by TV or radio voting and interaction, and internet-based information services.

Of the 29% of total users who claimed their trust had been compromised by a PRS, one-quarter (or 7.5% of total users in FY2015-16) stopped using the service, while a similar figure claimed they "did nothing"; users of low cost international or reverse charge calling, TV or radio competitions, and non-broadcast competitions or quizzes are the most likely to "do nothing".

In fact, of those users that had their trust compromised, a little over one-third (or 10.4% of total PRS users) contacted either their service provider, mobile operator or telecoms provider, or the regulator, while just 3.9% of total PRS users claimed they "did not know who to speak to".



Customer service, TV or radio voting or interaction, and betting or gambling had the highest percentage of users that stopped using the service because of trust-related issues, while virtual gifts, and ringtones, ringback tones and wallpapers had the lowest percentage.

Satisfaction⁸

This year we looked at consumer satisfaction. Overall, 49% of PRS users are either satisfied or very satisfied with a service, 20% are dissatisfied or very dissatisfied, and 31% are neither satisfied or dissatisfied. What is positive is that 7 of the 18 services have an above average satisfaction rating⁹, with charity the highest (68%), followed by music or video content (62%), and games on social networks (54%). The services with the lowest overall satisfaction rating were customer service, with 39% of users satisfied or very satisfied, followed by directory enquiries (39%), and non-broadcast competitions on 41%.

⁸ For explanation of how the satisfaction ratings were calculated, see Methodology.

⁹ Satisfaction rating refers to the proportion of users who said they were either satisfied or very satisfied with the service.

The services with the highest overall percentage of dissatisfied or very dissatisfied users were directory enquiries (28%), non-broadcast competitions (28%), and dating or flirt chat (27%).

The survey also broke out satisfaction by purchase experience, value for money and the post-purchase experience.

“Purchase experience” achieved an industry average of 46%, with charity (66%), music or video content (60%), and betting and gambling (55%) the leading three services. The best “value for money” was delivered by charity (59%), music or video content (53%), and low cost international and reverse charge calling (48%).

Based on users’ post-purchase experience, charity (56%) continues to offer the best experience, followed by music or video content (49%), and both betting or gambling, and games or apps charged to my bill on 46%.

Using the Net Promoter Score (NPS) model as a guide to understand consumer satisfaction throughout PRS – the percentage of users that selected “very satisfied” would be considered as “promoters” – reveals that PRS has an average of 19% of users that would act as “promoters” of their service. In total, nine services achieve an above average promoter rating, with charity leading the way with 33% of its users, followed by music or video content (25%), and low cost international or reverse charge calling (22%), and games or apps charged to my bill (22%). Customer service achieved the lowest promoter rating (10%), followed by directory enquiries (13%), and non-broadcast competitions (15%).

However, by applying the consumer satisfaction data to the NPS model, it reveals that the PRS industry has an average NPS of -36, with every service type achieving a negative score, with charity on -4 and customer service on -56.

Projected PRS user base FY2016-17

The consumer research reveals that 13% of total PRS users stopped using the service during FY2015-16, or 2,957,000 users, leaving 20 million PRS users at the start of FY2016-17.

Throughout FY2015-16, the average monthly drop-off has been just under a quarter-of-a-million (246,000). On initial inspection, 27% of these users stopped using PRS because the content or service was too expensive, or because 25% located the same content or service for free. A further 21% identified a lack of value for money, and 18% liking the content or service but longer having a need for it. Just 10% pinpointed a problem as the reason they stopped using the service.

But a deeper dive of the consumer research reveals that an undercurrent of mistrust permeates throughout PRS, with a total of 1.7 million people stopping using PRS because their trust was compromised. Trust-related issues accounted for 58% of the users that stopped using PRS in FY2015-16.

Fig. 21

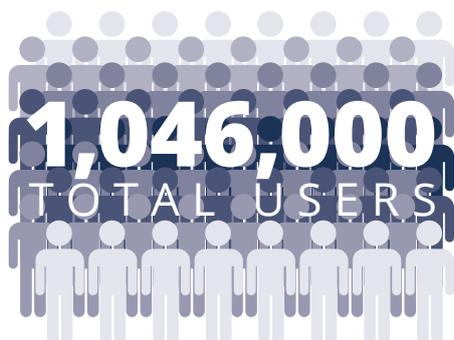
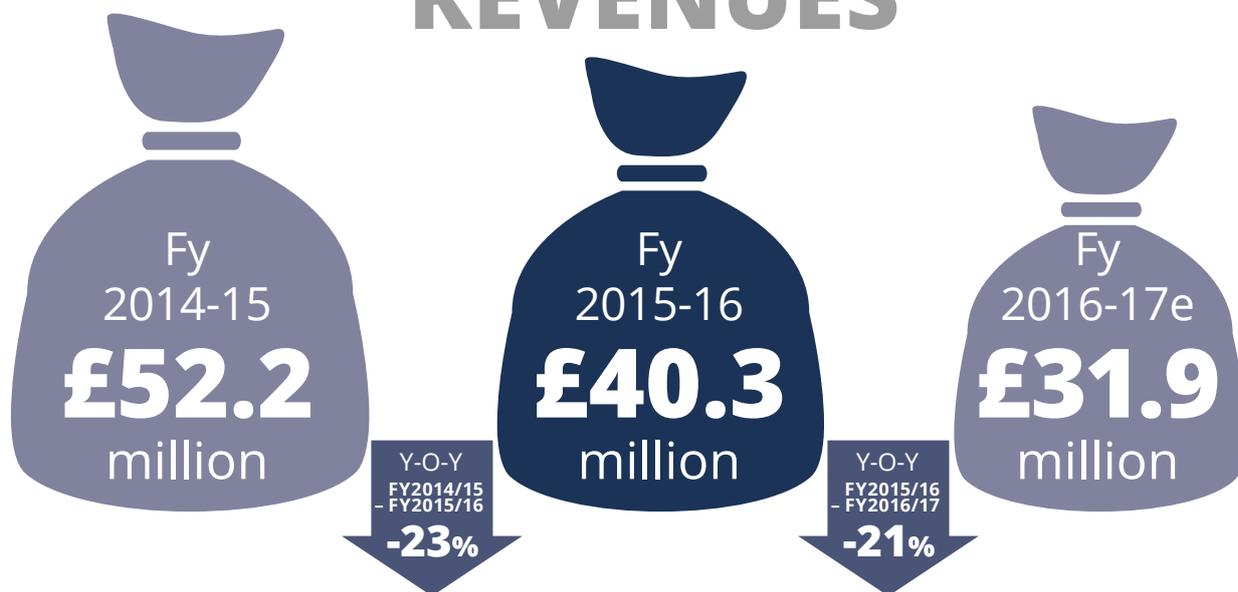
Breakdown of monthly drop-off from PRS

Avg monthly drop-offs, price/content-related issues	102,000
Avg monthly drop-offs for trust-related issues	144,000



SECTION 3: SERVICE DATA

ADULT REVENUES



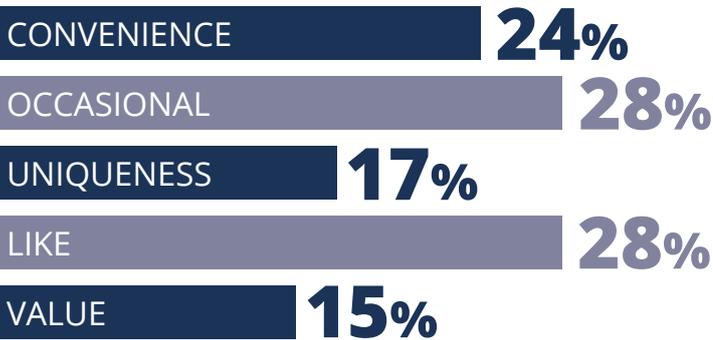
ARPU
£38.52

KEY FINDINGS

- The adult services market has undergone significant consolidation over FY2015-16, with the outlook for 2016-17 also appearing challenging. The chat services sector shrunk by one-third in the last financial year with high entry costs preventing new entrants from the market. The video market has also struggled: the high cost of monthly subscription for adult video services (£36 inc VAT) attributed to 50% decline in video-based revenues year-on-year.
- However an increasing number of cheaper adult video subscription services (below £2.50 per week) have emerged in the last 12 months, with a lower churn rate.
- The wider adult market is affecting premium rate adult services; free content on the internet is the primary reason for users stopping using adult services, while industry research reveals that banners and links driving traffic to PRS-based adult sites, has dropped by more than 50% during FY2015-16.
- Adult services is the least trusted service across all PRS, with 46% of users claiming their trust has been compromised. Despite this, industry believe compliance has improved.

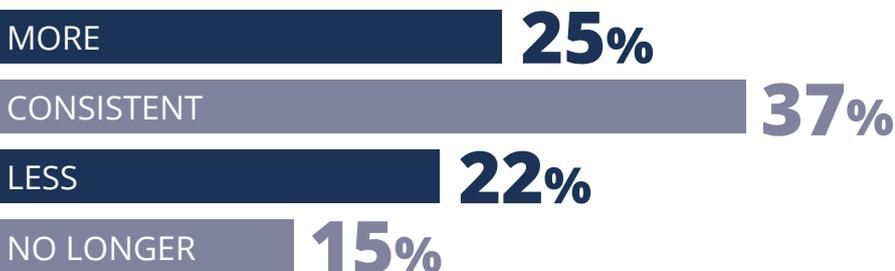
Adult continued here

USAGE: WHY DO YOU USE THESE SERVICES?



Industry Avg.	
	30%
	34%
	13%
	24%
	14%

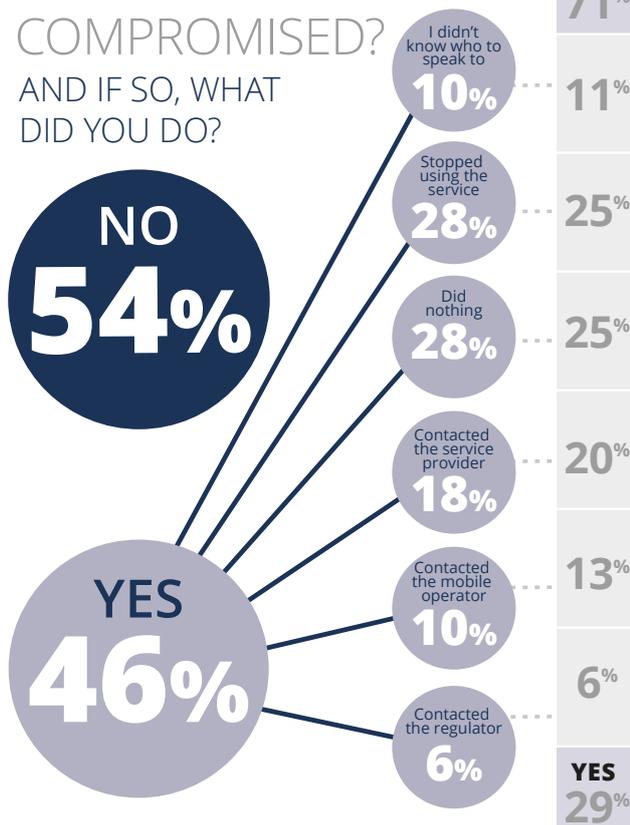
TRENDS: HOW HAS YOUR USAGE CHANGED OVER THE LAST 12 MONTHS?



Industry Avg.	
	21%
	41%
	25%
	13%

TRUST: HAS YOUR TRUST EVER BEEN COMPROMISED?

AND IF SO, WHAT DID YOU DO?



Satisfaction rating	Service	Value for money
★★★★★		
Extremely satisfied/satisfied	48%	34%
Industry average	49%	40%
Neutral	30%	43%
Industry average	31%	34%
Dissatisfied/extremely dissatisfied	22%	24%
Industry average	20%	26%

NET PROMOTER SCORE

-40

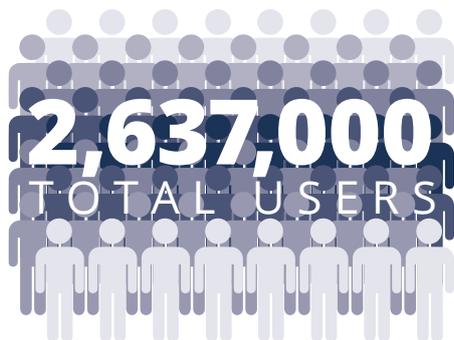
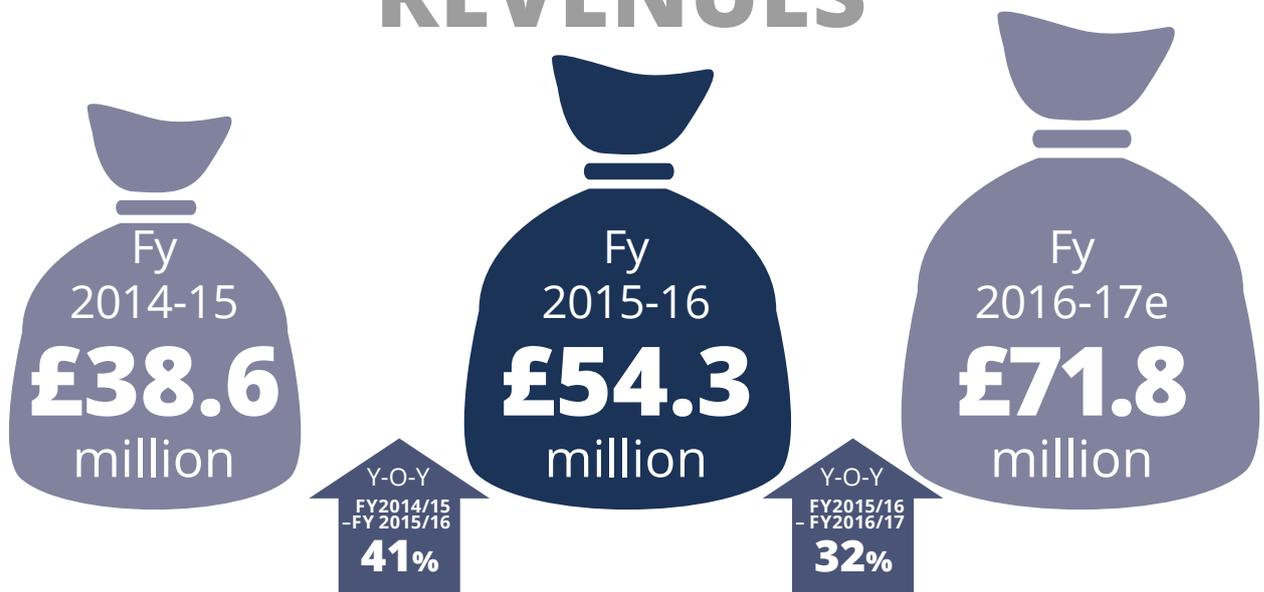
Industry Avg. -36

19%
OF USERS WOULD PROMOTE THE SERVICE

Industry Avg. 19%

BETTING OR GAMBLING

REVENUES



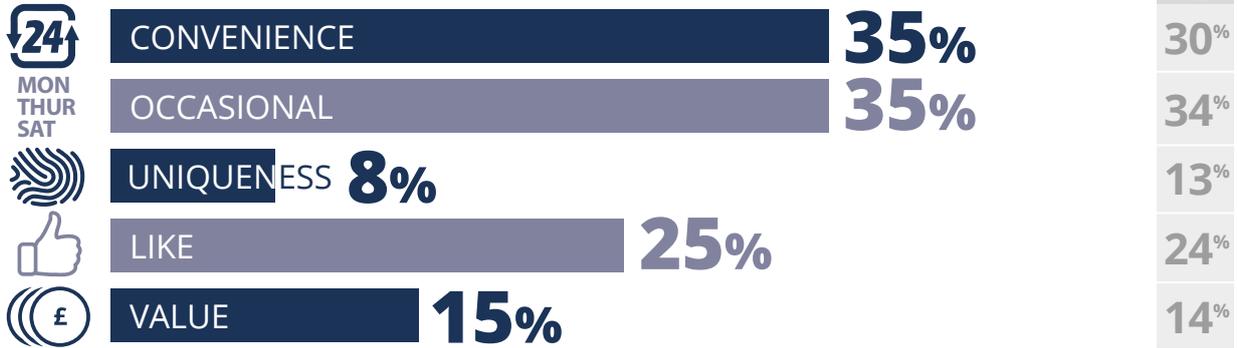
ARPU
£20.58

KEY FINDINGS

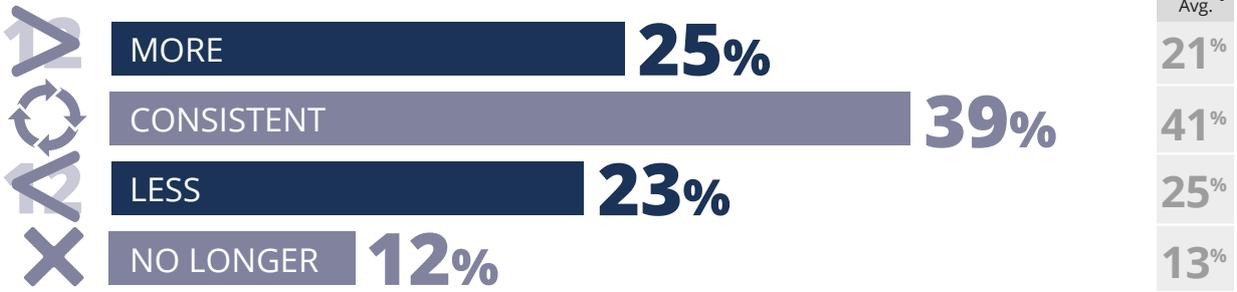
- The betting and gambling sector experienced the second-highest growth (41%) across the PRS market between FY2014-15 and FY2015-16. The sector is projected to be the fastest growing in the market (32%) in the next financial year, as more companies look to adopt operator billing as one of their payment options.
- Consumers like the convenience and impulsive nature of premium rate billing, whereas the gambling industry see PRS as an acquisition tool to encourage users to migrate to credit card billing.
- There are various business models in the market, with subscription models providing users with access to horse racing tips also on the increase.
- Those users that have had their trust compromised is below the PRS average, suggesting the consumer experience is good.

Betting or Gambling continued here

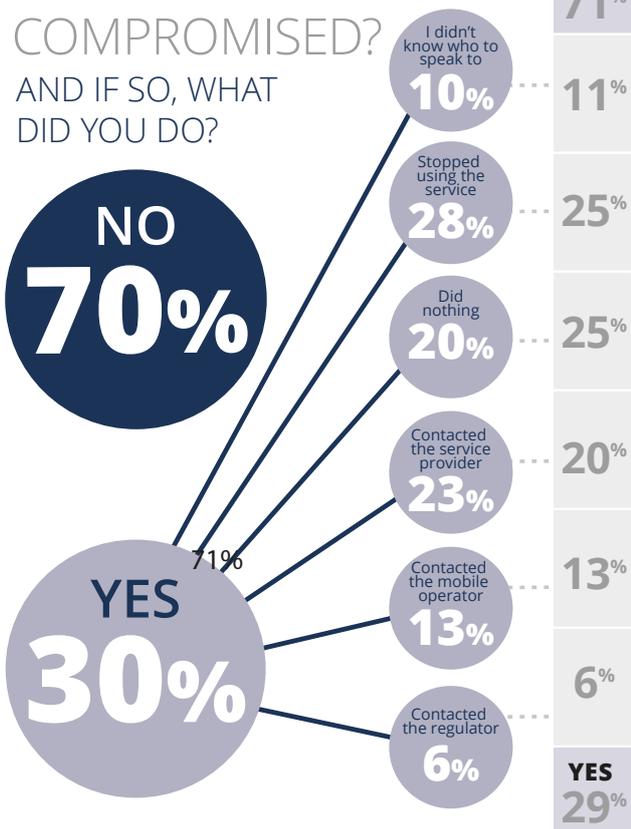
USAGE: WHY DO YOU USE THESE SERVICES?



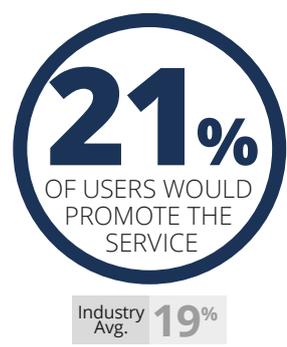
TRENDS: HOW HAS YOUR USAGE CHANGED OVER THE LAST 12 MONTHS?



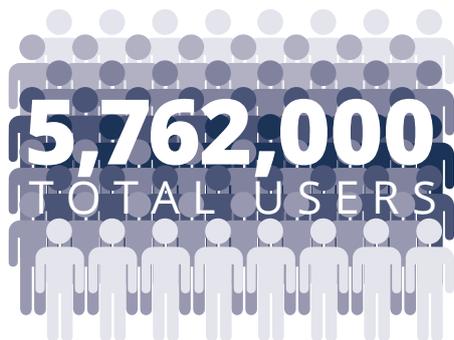
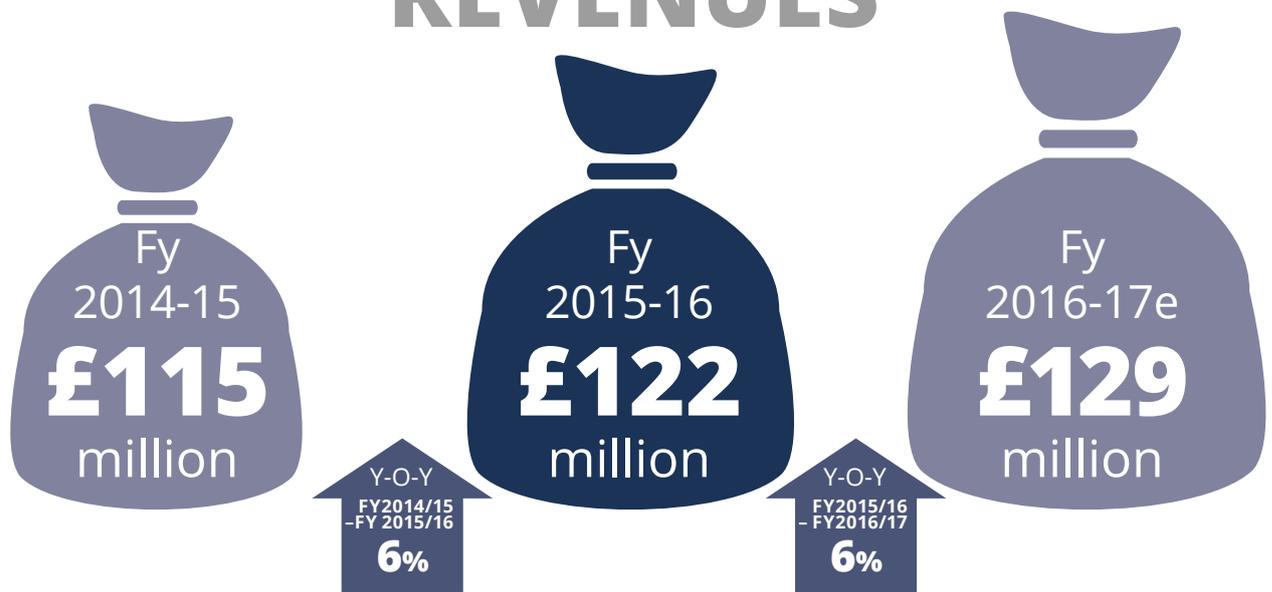
TRUST: HAS YOUR TRUST EVER BEEN COMPROMISED? AND IF SO, WHAT DID YOU DO?



Industry Avg.	Satisfaction rating	Service	Value for money
NO 71%	★★★★★		
11%	Extremely satisfied/satisfied	53%	42%
25%	Industry average	49%	40%
25%	Neutral	28%	37%
20%	Industry average	31%	34%
20%	Dissatisfied/extremely dissatisfied	19%	22%
13%	Industry average	20%	26%
6%			
YES 29%			



CHARITY REVENUES



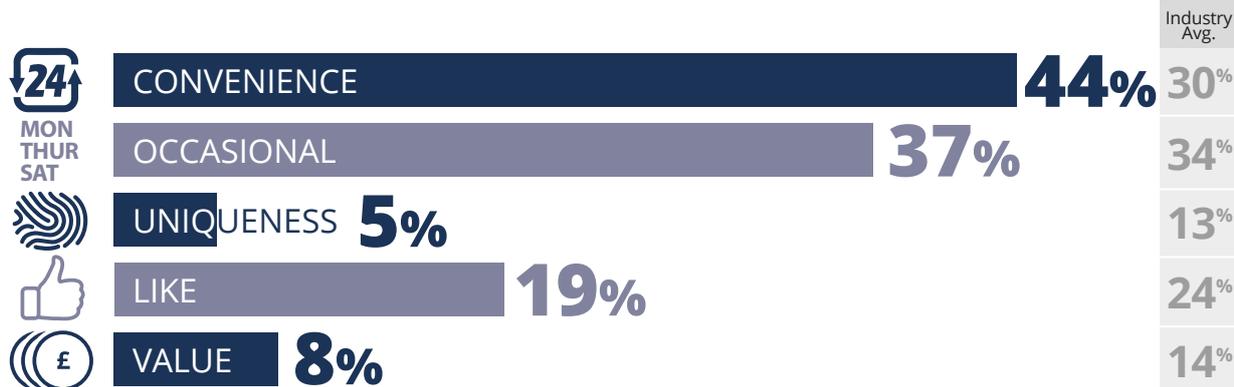
ARPU
£21.17

KEY FINDINGS

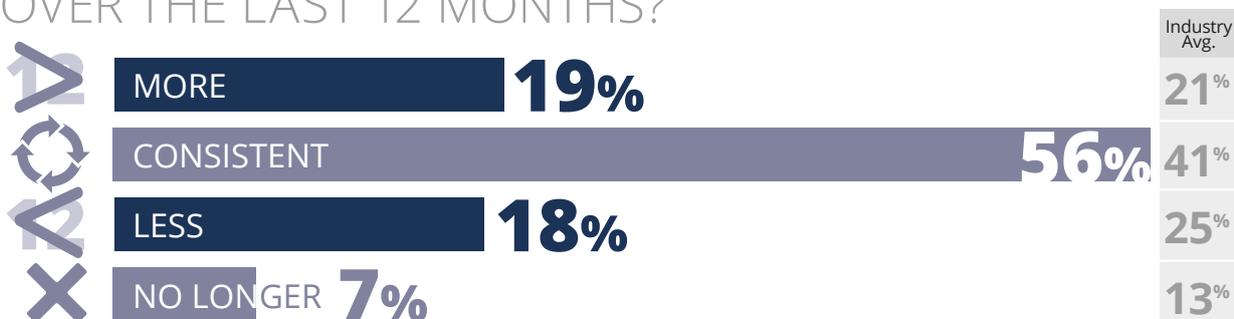
- Charity donations is now the largest of all PRS, and is projected to increase by a further 6% in FY2016-17. Charity donations have contributed to stabilising the market between FY2014-15, FY2015-16, and FY2016-17e, despite the year-on-year decline in industry outpayments over the same period.
- This is predicated on three factors: i) Charities and consumers are increasingly adopting the subscription model as a means to donate on a regular basis. ii) Donation levels are increasing: donation values have risen to £5 and £10, with the big charities dropping £3 and making £5 their default donation value. iii) An excellent user experience: Charities are the most trusted premium rate service.
- Charities are now exploring how to engage with donors via SMS better, with reminder messages, and links to URLs and videos, rather than using texts to drive consumers to call centres.
- Charities are also looking to increase the existing £10 donation cap to £20.

Charity continued here

USAGE: WHY DO YOU USE THESE SERVICES?

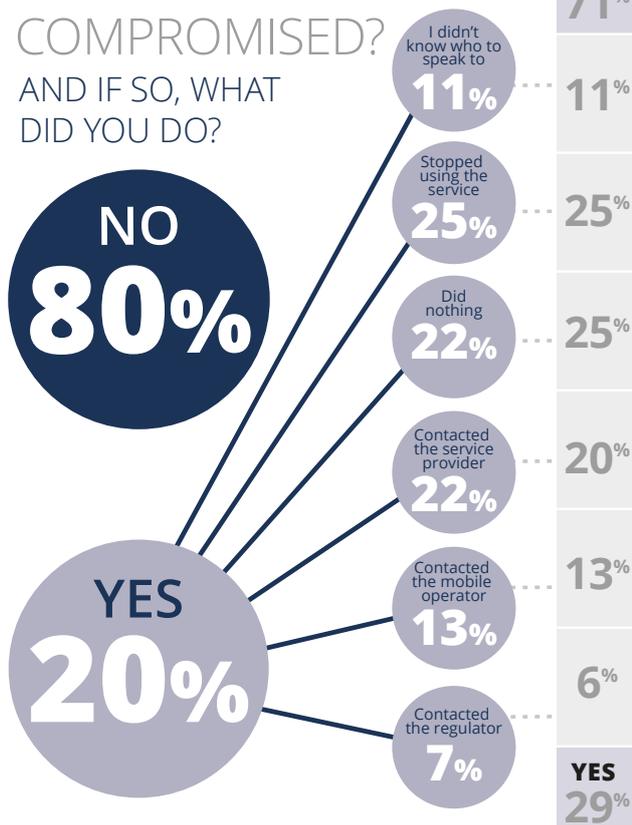


TRENDS: HOW HAS YOUR USAGE CHANGED OVER THE LAST 12 MONTHS?



TRUST: HAS YOUR TRUST EVER BEEN COMPROMISED?

AND IF SO, WHAT DID YOU DO?

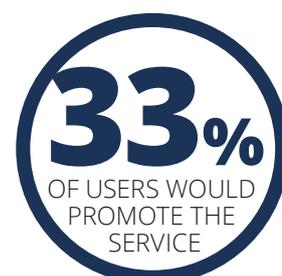


	Satisfaction rating	Service	Value for money
	★★★★★		
Extremely satisfied/satisfied	68%	68%	59%
Industry average		49%	40%
Neutral	23%	23%	29%
Industry average		31%	34%
Dissatisfied/extremely dissatisfied	9%	9%	11%
Industry average		20%	26%

NET PROMOTER SCORE

-4

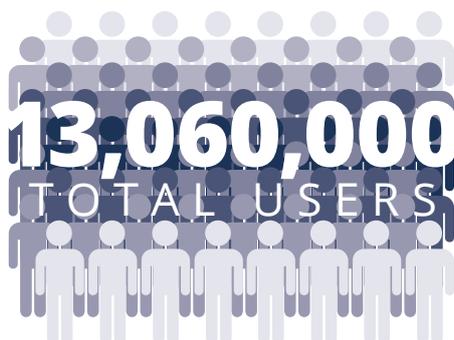
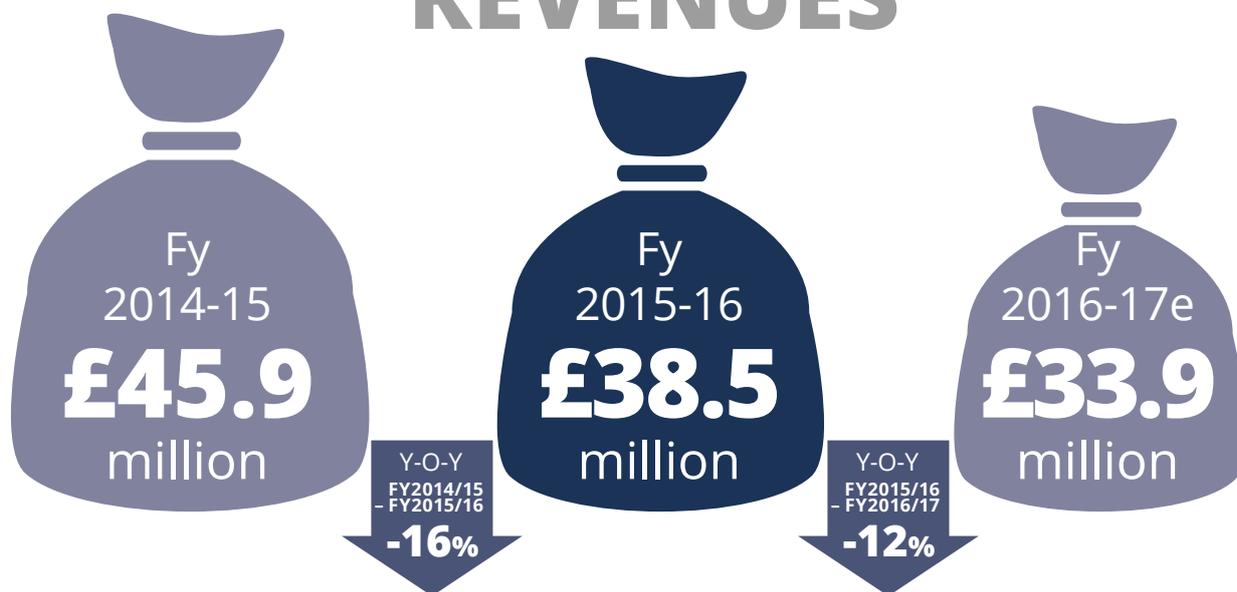
Industry Avg. -36



Industry Avg. 19%

CUSTOMER SERVICE

REVENUES

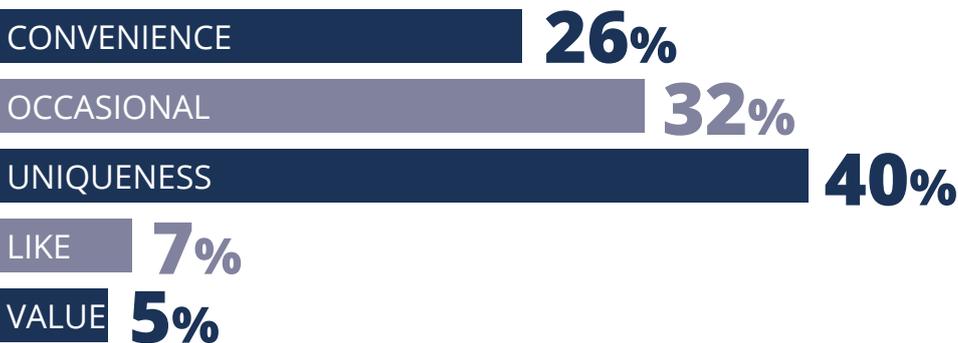


KEY FINDINGS

- Customer service is by far the most popular PRS in the UK, used as an occasional service by the majority of users.
- Despite being the most popular service, usage is expected to continue to decline as businesses migrate 087 numbers over to 03 and 080.
- Customer service has the highest percentage of its user base (50%) across all PRS claiming that their usage remained consistent over the previous 12 months. With an ARPU of £2.95 – the second lowest across all PRS, these consistent users are likely to use the service on occasion.
- Industry research states that a number of businesses have unsuccessfully experimented with migrating customer service traffic from an 08 number to voice short codes.

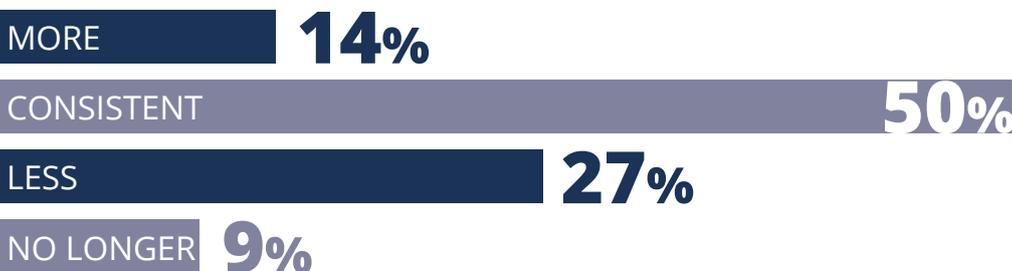
Customer service continued here

USAGE: WHY DO YOU USE THESE SERVICES?



Industry Avg.	
30%	
34%	
13%	
24%	
14%	

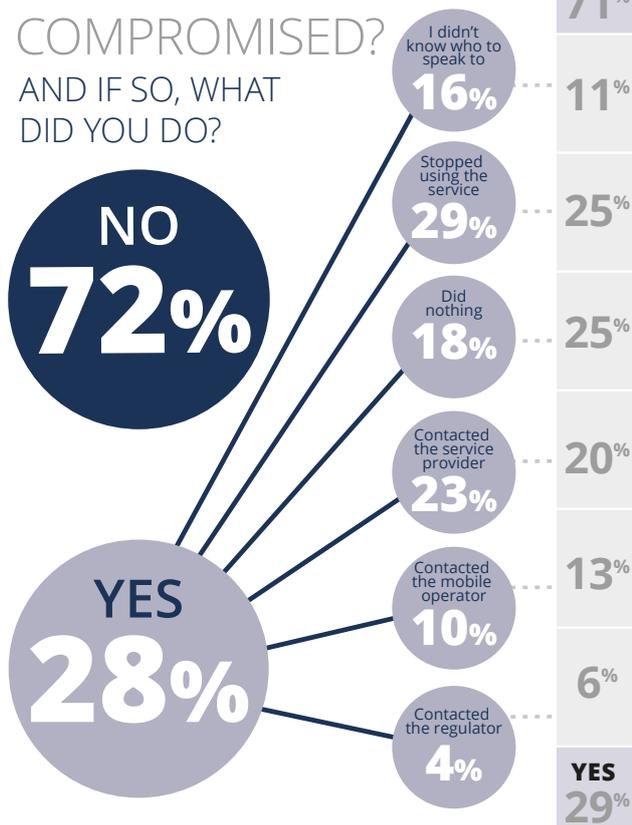
TRENDS: HOW HAS YOUR USAGE CHANGED OVER THE LAST 12 MONTHS?



Industry Avg.	
21%	
41%	
25%	
13%	

TRUST: HAS YOUR TRUST EVER BEEN COMPROMISED?

AND IF SO, WHAT DID YOU DO?



Satisfaction rating	Service	Value for money
★★★★★		
Extremely satisfied/satisfied	39%	24%
Industry average	49%	40%
Neutral	38%	35%
Industry average	31%	34%
Dissatisfied/extremely dissatisfied	22%	41%
Industry average	20%	26%

NET PROMOTER SCORE

-56

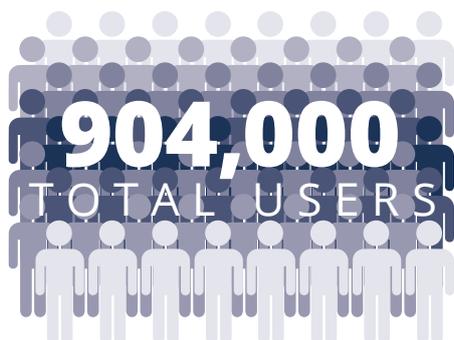
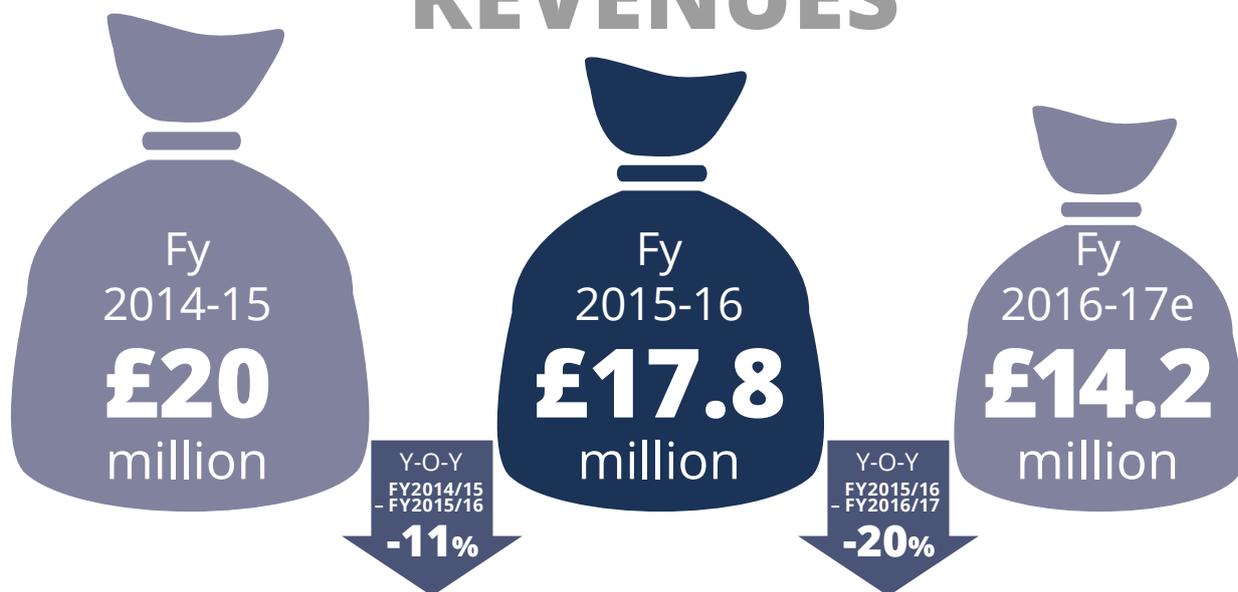
Industry Avg. -36



Industry Avg. 19%

DATING OR FLIRT CHAT SERVICES

REVENUES



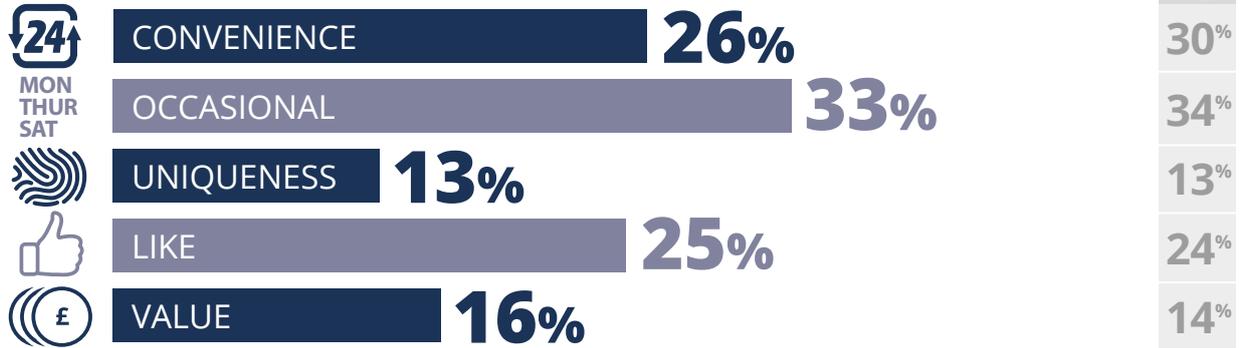
ARPU
£19.74

KEY FINDINGS

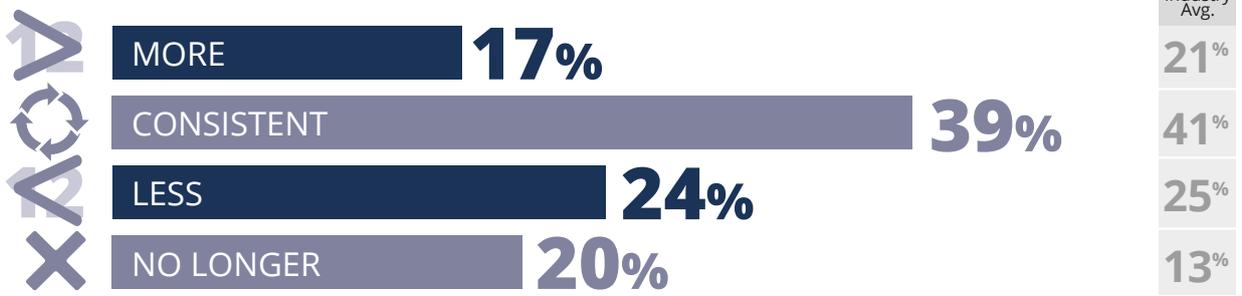
- The dating and flirt sector is expected to fall 20% between FY2015-16 and FY2016-17 leading to ongoing service consolidation, as PRS-based services are unable to compete with apps.
- The service has the joint-highest user drop-off (19%) across all PRS.
- Users that have experienced problems with the service, cite bill shock and that the content was not what they were expecting.
- New services introduced in the last 12 months have struggled, suggesting existing dating or flirt chat services have a loyal, but diminishing, user base. However, industry research suggests existing web- or app-based social dating services are exploring the inclusion of operator billing as a payment option, which could potentially redress the slide in revenues.

Dating or flirt chat services continued here

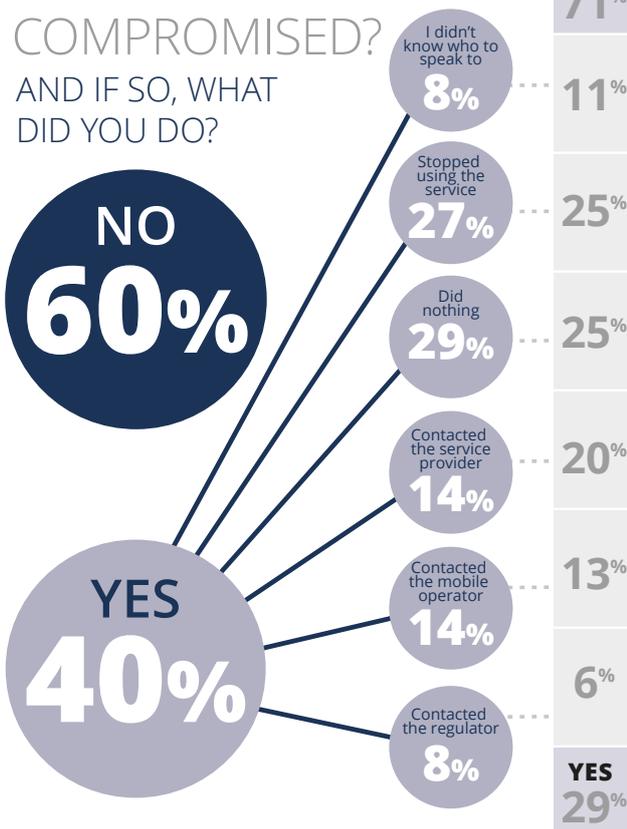
USAGE: WHY DO YOU USE THESE SERVICES?



TRENDS: HOW HAS YOUR USAGE CHANGED OVER THE LAST 12 MONTHS?



TRUST: HAS YOUR TRUST EVER BEEN COMPROMISED? AND IF SO, WHAT DID YOU DO?



	Satisfaction rating	Service	Value for money
	★★★★★		
Extremely satisfied/satisfied	43%	36%	
Industry average	49%	40%	
Neutral	30%	32%	
Industry average	31%	34%	
Dissatisfied/extremely dissatisfied	27%	32%	
Industry average	20%	26%	

NET PROMOTER SCORE

-43

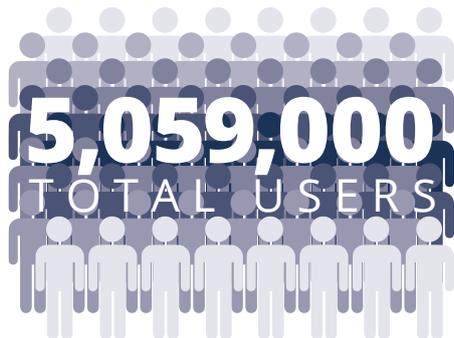
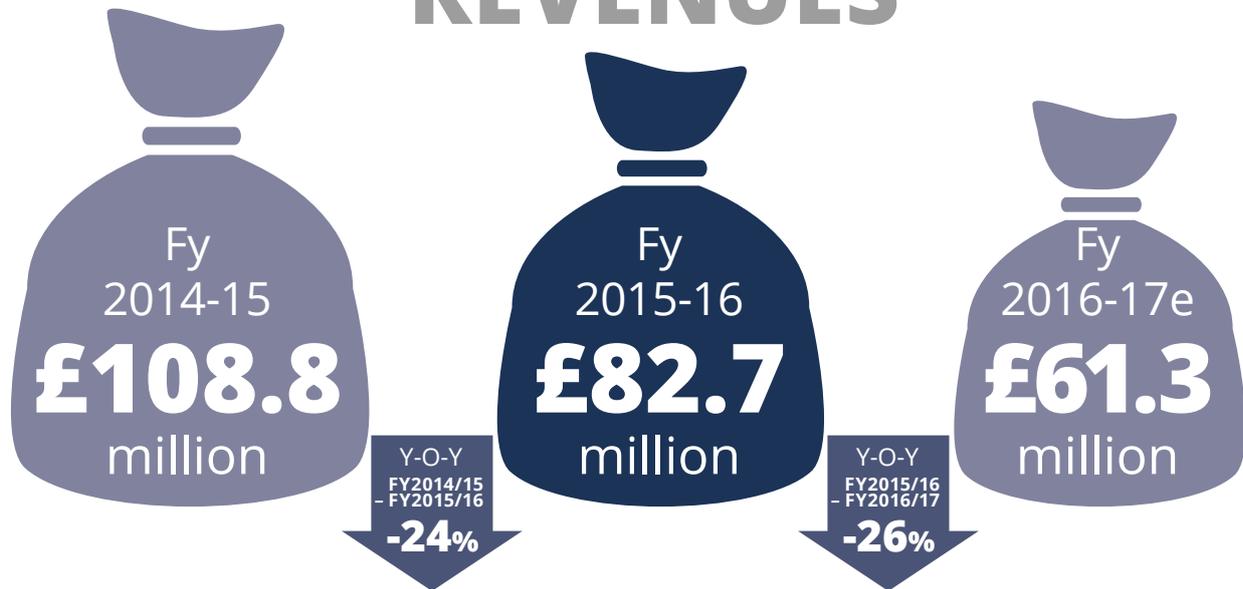
Industry Avg. -36

18%
OF USERS WOULD PROMOTE THE SERVICE

Industry Avg. 19%

DIRECTORY ENQUIRIES

REVENUES



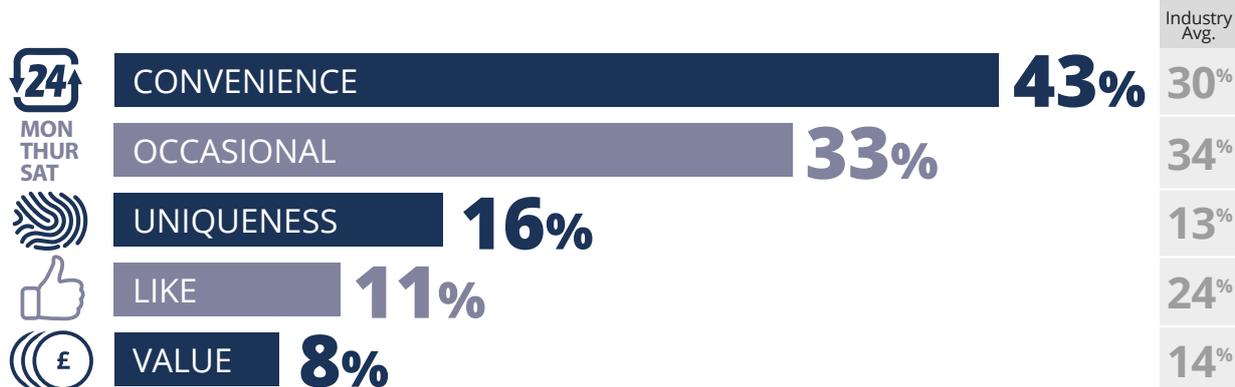
ARPU
£16.35

KEY FINDINGS

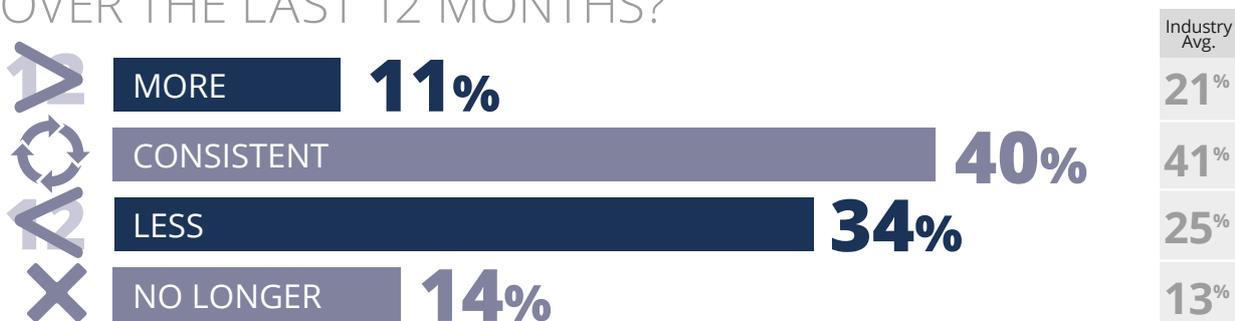
- DQ is no longer the largest service type in PRS, having been overtaken by Charity. In FY2016-17, DQ revenues are projected to be surpassed by betting, gambling and lotteries, games or apps, and games on social media.
- The majority of calls to DQ services take place weekdays between 9am and 5pm, believed to be from business workers using their company phone; DQ has a 25% call completion rate with the user connected to the requested company.
- DQ providers that have introduced price increases typically experience a drop in call volumes within 2-3 months, believed to be when consumers examine their phone bill.
- DQ services have consolidated during the last financial year, and this looks set to continue as consumers seek free alternatives.
- DQ has the highest percentage of dissatisfied users across all PRS, with price influencing this figure.

Directory enquiries continued here

USAGE: WHY DO YOU USE THESE SERVICES?

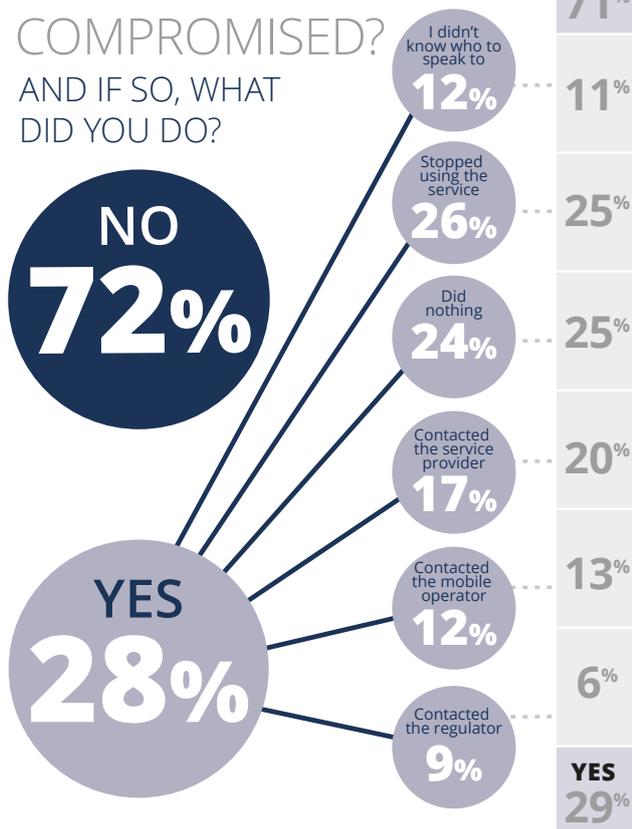


TRENDS: HOW HAS YOUR USAGE CHANGED OVER THE LAST 12 MONTHS?



TRUST: HAS YOUR TRUST EVER BEEN COMPROMISED?

AND IF SO, WHAT DID YOU DO?



	Satisfaction rating	Service	Value for money
	★★★★★		
Extremely satisfied/satisfied	39%	39%	28%
Industry average		49%	40%
Neutral	33%	33%	33%
Industry average		31%	34%
Dissatisfied/extremely dissatisfied	28%	28%	40%
Industry average		20%	26%

NET PROMOTER SCORE

-52

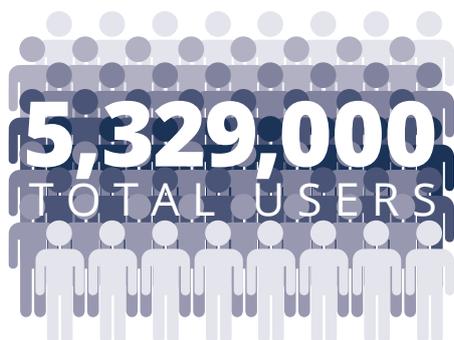
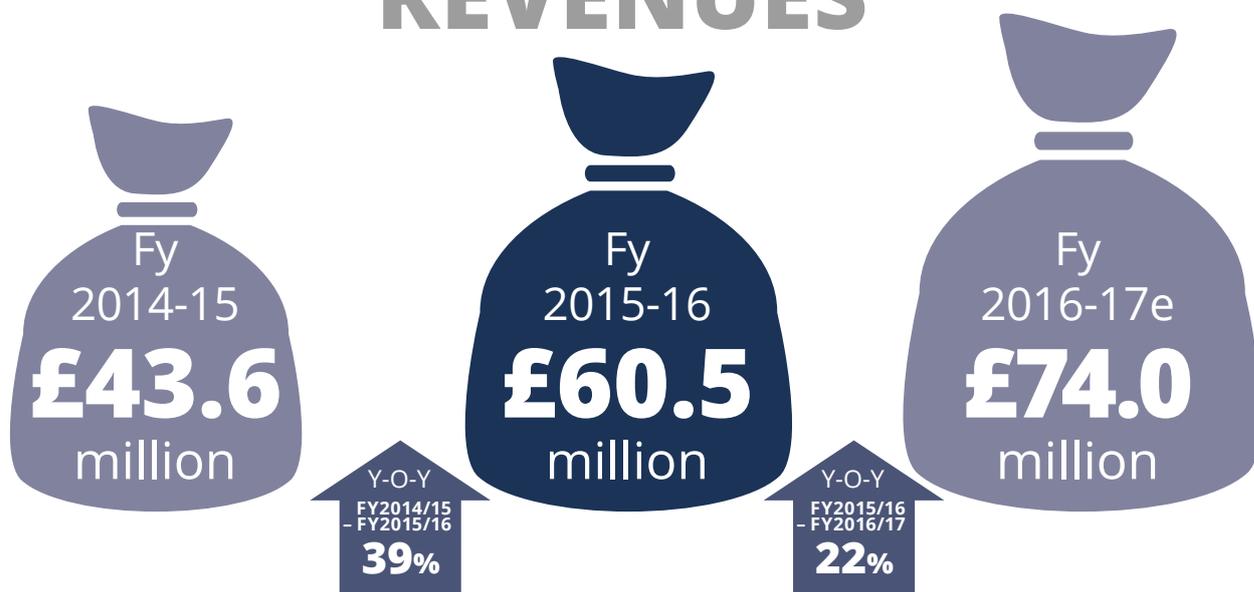
Industry Avg. -36

13%
OF USERS WOULD PROMOTE THE SERVICE

Industry Avg. 19%

GAMES ON SOCIAL NETWORKS

REVENUES



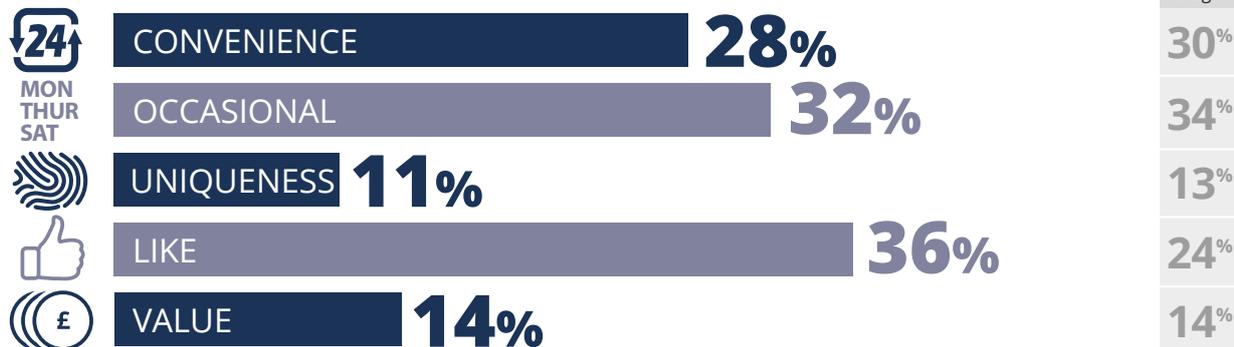
ARPU
£11.36

KEY FINDINGS

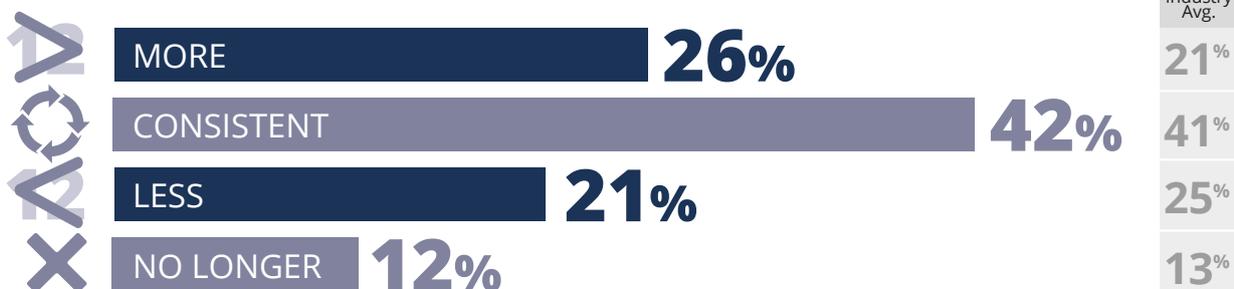
- FY 2015-16 was another excellent year, with 39% growth. A further 22% growth in revenues projected for FY2016-17 will make games on social networks the second largest PRS service type after Charity.
- Games, both on social networks and those purchased via an app store, represent the greatest potential for revenue generation for PRS in the coming years. This is related to the fact that of all content and services purchased via PRS, games are considered by the PRS industry to have the strongest brand from the consumers' perspective.
- The service has one of the highest percentage of users (26%) to have increased usage over the last 12 months.
- Overall, the consumer experience is positive, with higher-than-average levels of satisfaction. However, consumers are aware they can get free content elsewhere but when problems arise bill shock and a lack awareness of cost are common factors.

Games on social networks continued here

USAGE: WHY DO YOU USE THESE SERVICES?

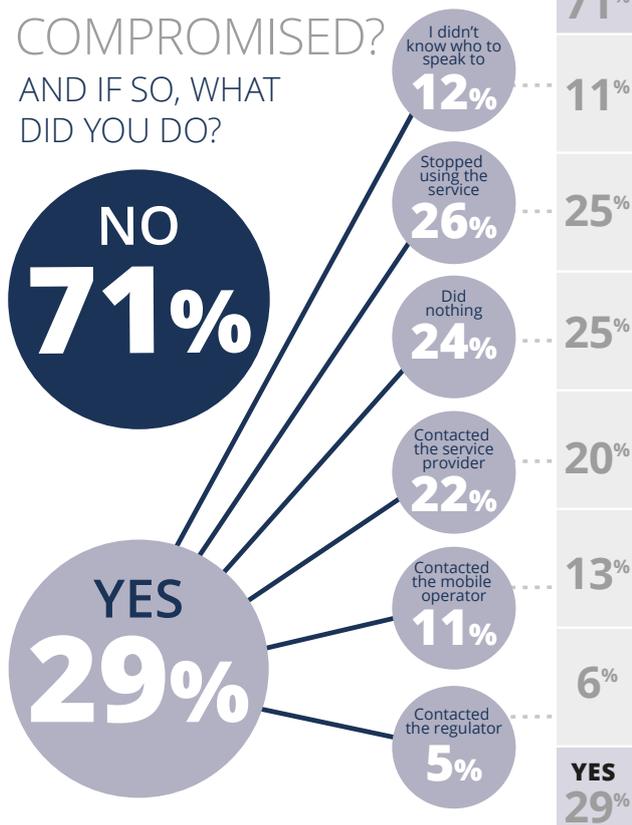


TRENDS: HOW HAS YOUR USAGE CHANGED OVER THE LAST 12 MONTHS?



TRUST: HAS YOUR TRUST EVER BEEN COMPROMISED?

AND IF SO, WHAT DID YOU DO?



	Satisfaction rating	Service	Value for money
	★★★★★		
Extremely satisfied/satisfied	54%	44%	44%
Industry average	49%	40%	40%
Neutral	31%	36%	36%
Industry average	31%	34%	34%
Dissatisfied/extremely dissatisfied	15%	20%	20%
Industry average	20%	26%	26%

NET PROMOTER SCORE

-34

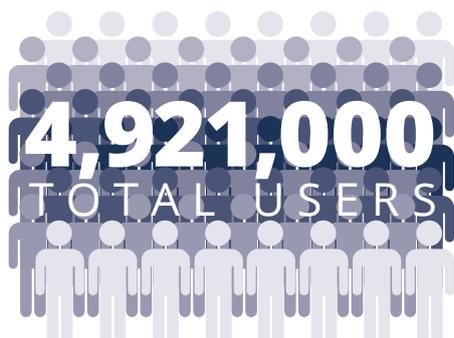
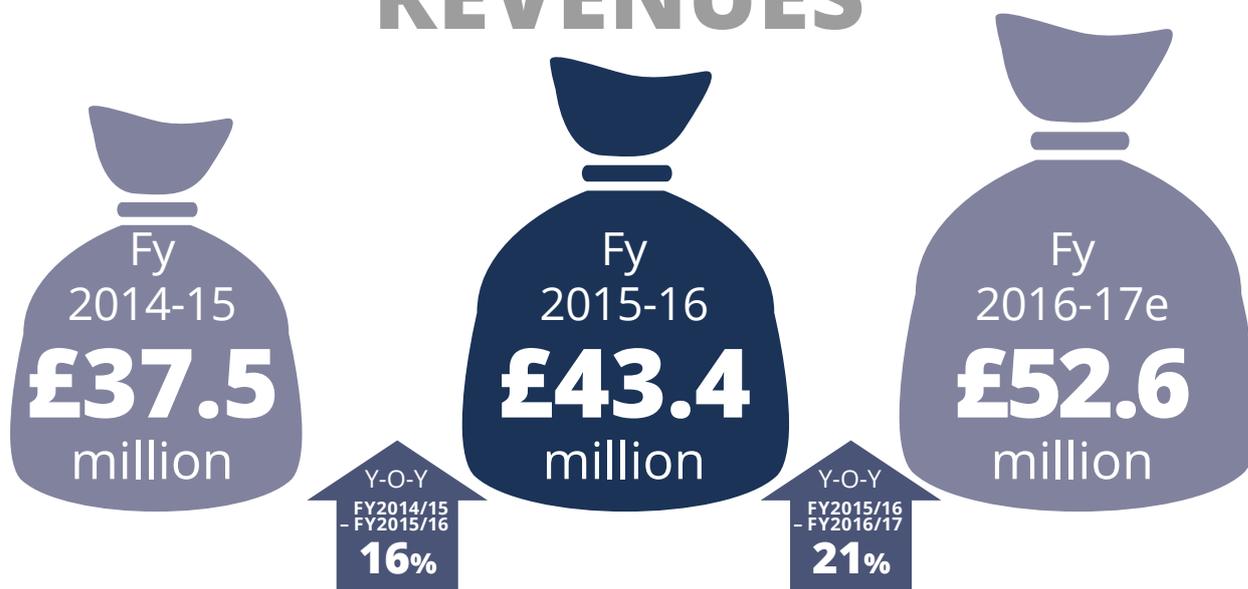
Industry Avg. -36

19%
OF USERS WOULD PROMOTE THE SERVICE

Industry Avg. 19%

GAMES OR APPS CHARGED TO MY BILL

REVENUES



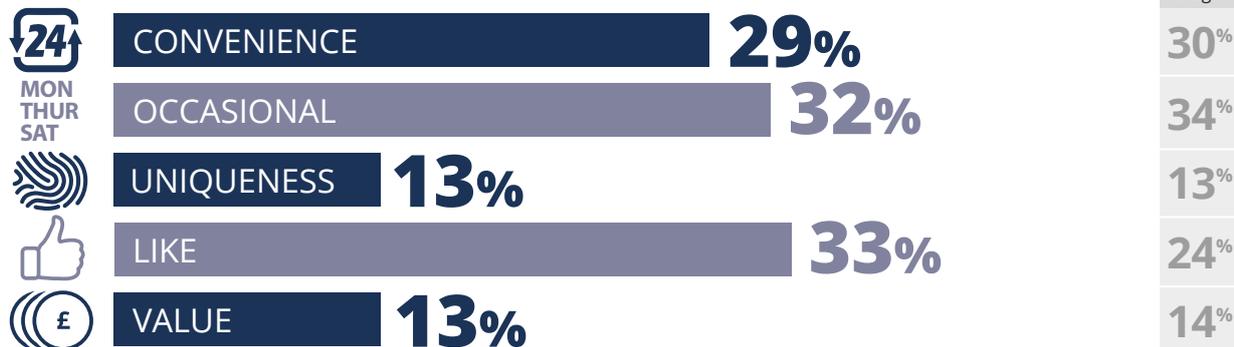
ARPU
£8.82

KEY FINDINGS

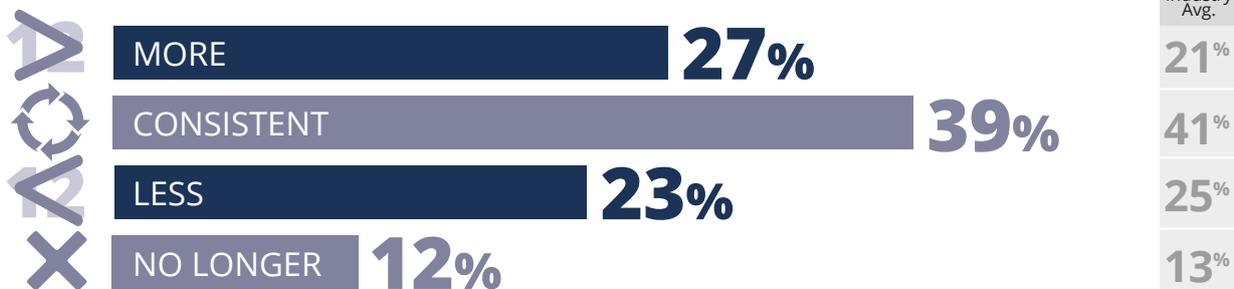
- Gaming continues to boom via PRS, with Games or apps charged to my bill recording 16% growth in FY2015-16. Indeed, the sector has the highest percentage of users (27%) across all PRS that claim their usage increased during FY2015-16.
- Growth is expected to be robust again in FY2016-17 as the smartphone user base continues to rise. Revenue is projected to increase by 21% - the fourth highest among all service categories.
- Purchases on GooglePlay make up the majority of this market sector, which could grow even further if Apple offers operator billing in the UK (it has trialled operator billing in a number of markets, including Germany.)
- Games have become an integral component in the renaissance of subscription-based bundled content packages including video, music, as well as ringtones, ringback tones and wallpapers (see related sections).

Games or apps charged to my bill continued here

USAGE: WHY DO YOU USE THESE SERVICES?

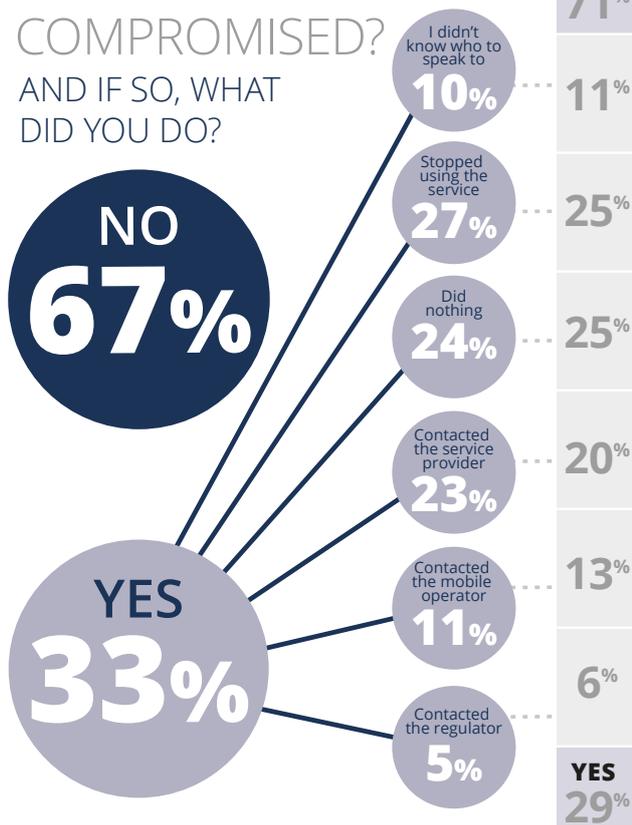


TRENDS: HOW HAS YOUR USAGE CHANGED OVER THE LAST 12 MONTHS?



TRUST: HAS YOUR TRUST EVER BEEN COMPROMISED?

AND IF SO, WHAT DID YOU DO?



	Satisfaction rating	Service	Value for money
	★★★★★		
Extremely satisfied/satisfied	53%	42%	42%
Industry average	49%	40%	40%
Neutral	30%	34%	34%
Industry average	31%	34%	34%
Dissatisfied/extremely dissatisfied	17%	24%	24%
Industry average	20%	26%	26%

NET PROMOTER SCORE

-29

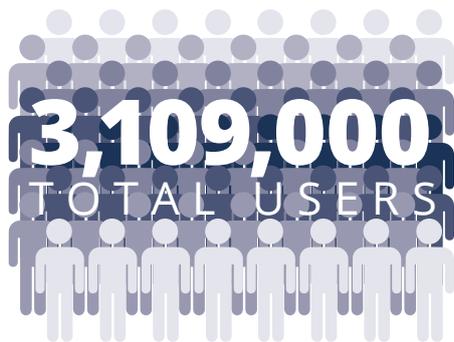
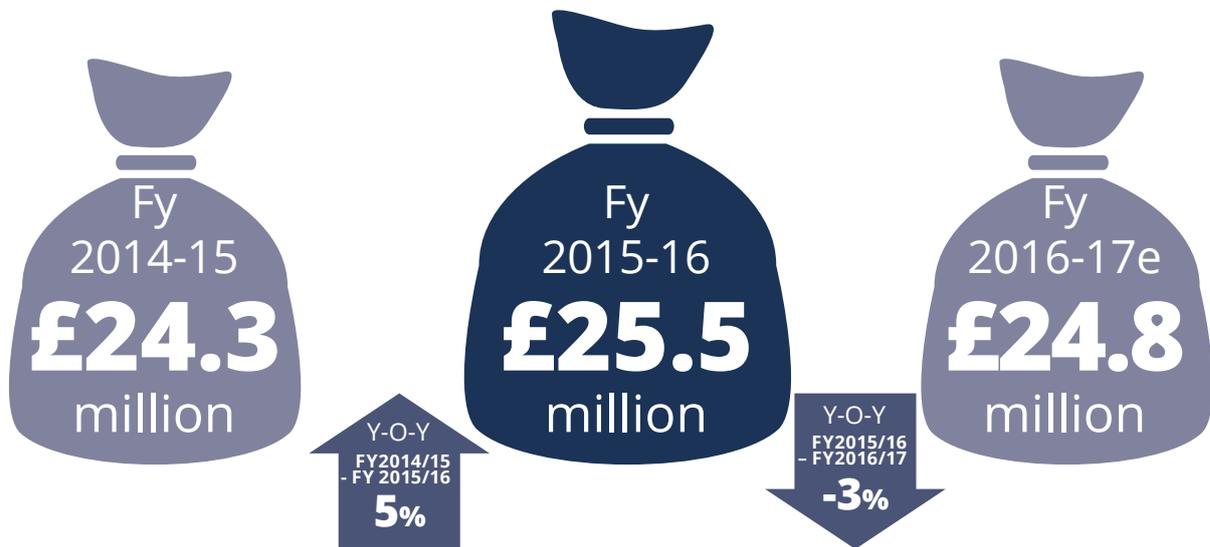
Industry Avg. -36



Industry Avg. 19%

INTERNET-BASED INFORMATION SERVICES

REVENUES



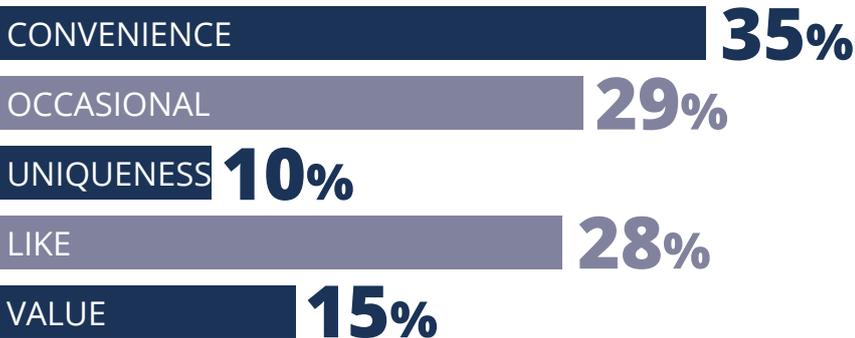
ARPU
£8.20

KEY FINDINGS

- Online and print media are considered opportunities by industry, but they admit that major publishers are yet to grasp the opportunity presented by operator billing as a convenient payment mechanism.
- Major broadsheet newspapers and broadcasters have so far overlooked operator billing as a payment option in favour of PayPal and credit card.
- Industry are now targeting high-bandwidth content providers, such as online TV-related services.
- Of the 11% of users that stopped using internet-based information services, free content accounted for almost two-fifths.

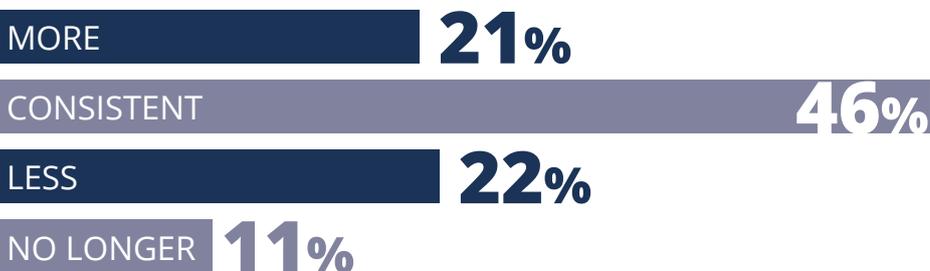
Internet-based information services continued here

USAGE: WHY DO YOU USE THESE SERVICES?



Industry Avg.	30%
Industry Avg.	34%
Industry Avg.	13%
Industry Avg.	24%
Industry Avg.	14%

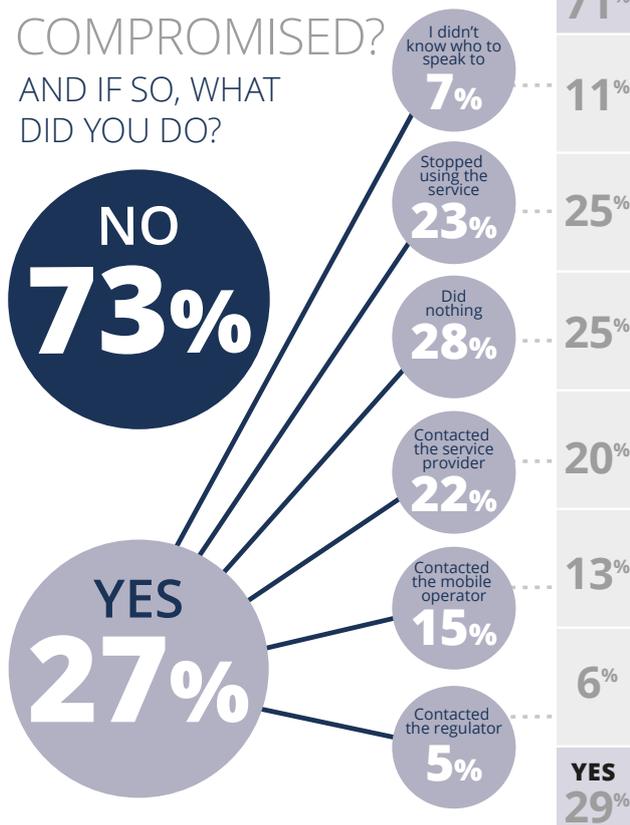
TRENDS: HOW HAS YOUR USAGE CHANGED OVER THE LAST 12 MONTHS?



Industry Avg.	21%
Industry Avg.	41%
Industry Avg.	25%
Industry Avg.	13%

TRUST: HAS YOUR TRUST EVER BEEN COMPROMISED?

AND IF SO, WHAT DID YOU DO?



Satisfaction rating	Service	Value for money
★★★★★		
Extremely satisfied/satisfied	53%	44%
Industry average	49%	40%
Neutral	32%	35%
Industry average	31%	34%
Dissatisfied/extremely dissatisfied	15%	21%
Industry average	20%	26%

NET PROMOTER SCORE

-34

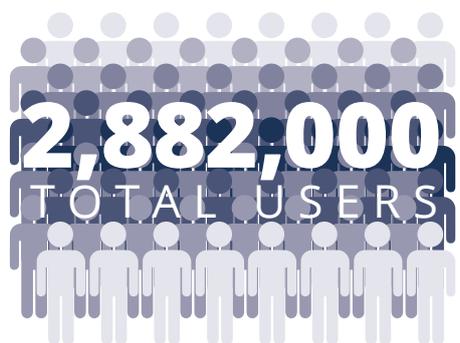
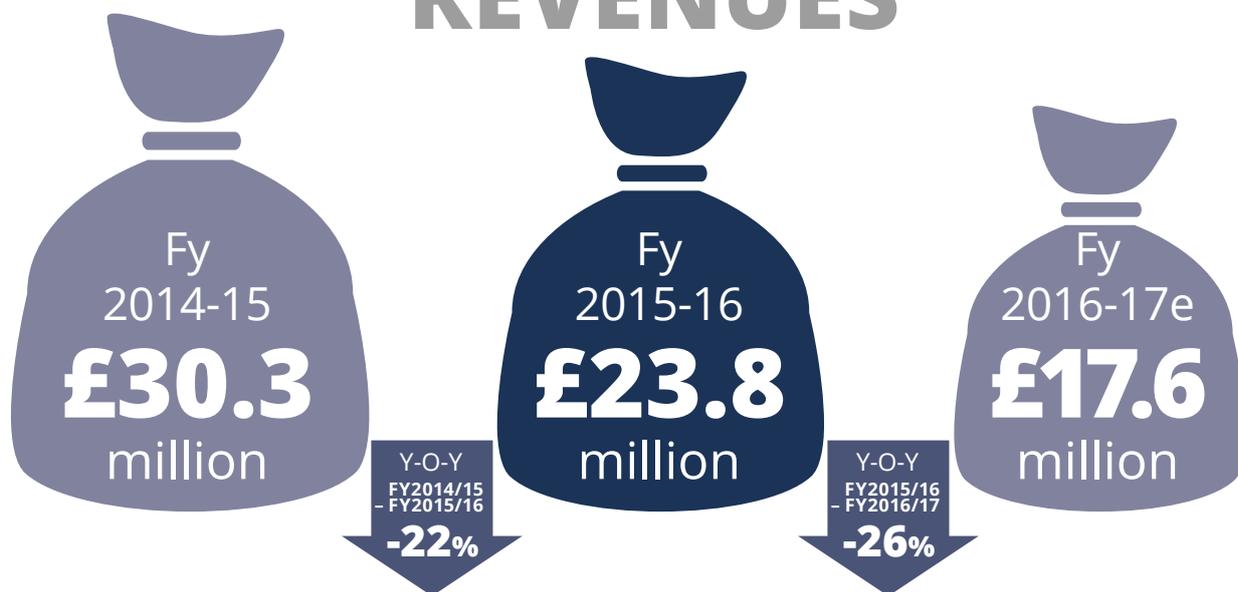
Industry Avg. -36

19%
OF USERS WOULD PROMOTE THE SERVICE

Industry Avg. 19%

LOW COST INTERNATIONAL OR REVERSE CHARGE CALLING

REVENUES



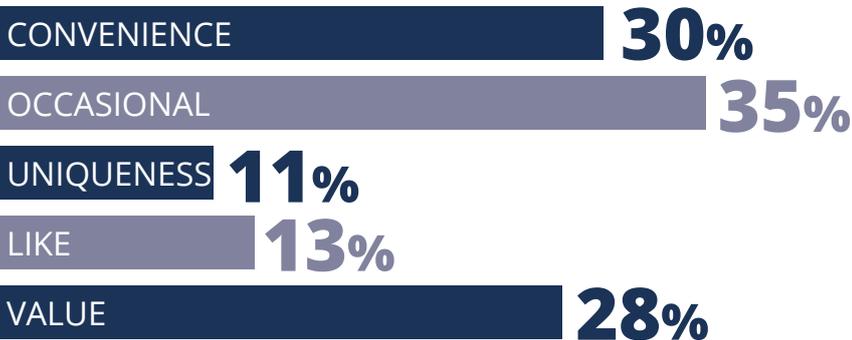
ARPU
£8.24

KEY FINDINGS

- Year-on-year falls in service revenues are projected to continue in FY2016-17. The sector is expected to contract by 26% giving the market a value of £17.59 million, as users migrate from prepaid onto postpaid, and adopt free international services such as Skype in increasing numbers.
- Despite this, the perceived service value is clearly attractive. 28% of users use the service because of its perceived value for money, which is the highest across all PRS.
- Despite increased competition from free alternatives, consumers are generally satisfied with the service: Low cost international or reversed charge calling achieved the joint-third highest proportion of promoters across all PRS.

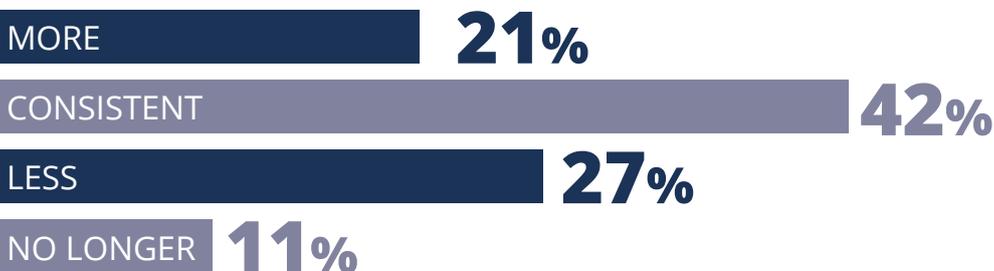
Low cost international or reverse charge calling continued here

USAGE: WHY DO YOU USE THESE SERVICES?



Industry Avg.	30%
Industry Avg.	34%
Industry Avg.	13%
Industry Avg.	24%
Industry Avg.	14%

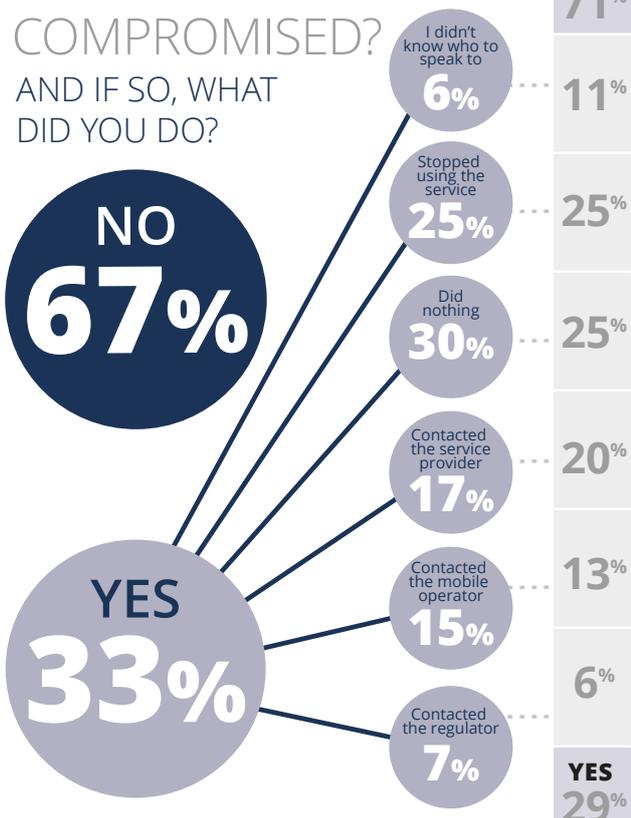
TRENDS: HOW HAS YOUR USAGE CHANGED OVER THE LAST 12 MONTHS?



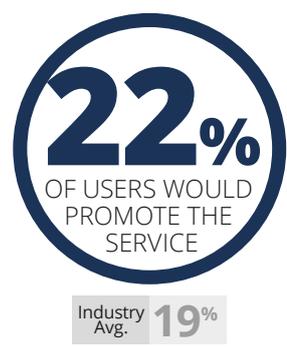
Industry Avg.	21%
Industry Avg.	41%
Industry Avg.	25%
Industry Avg.	13%

TRUST: HAS YOUR TRUST EVER BEEN COMPROMISED?

AND IF SO, WHAT DID YOU DO?

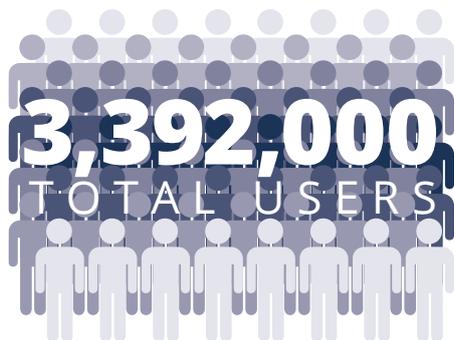
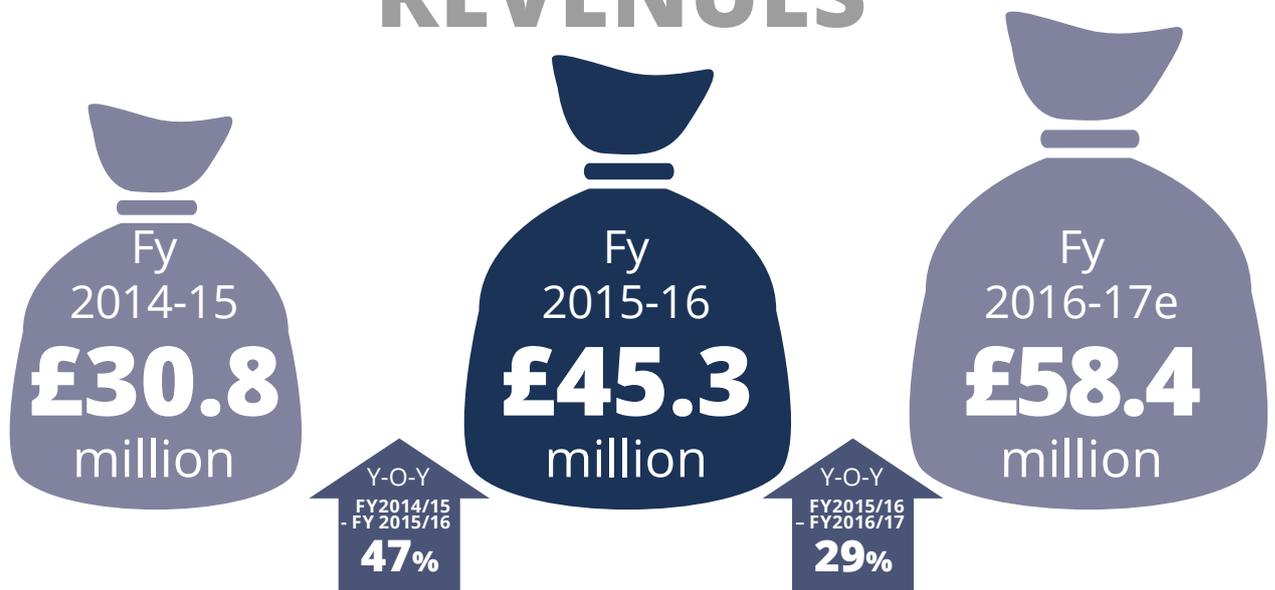


Satisfaction rating	Service	Value for money
★★★★★		
Extremely satisfied/satisfied	49%	48%
Industry average	49%	40%
Neutral	31%	30%
Industry average	31%	34%
Dissatisfied/extremely dissatisfied	20%	22%
Industry average	20%	26%



MUSIC OR VIDEO CONTENT

REVENUES



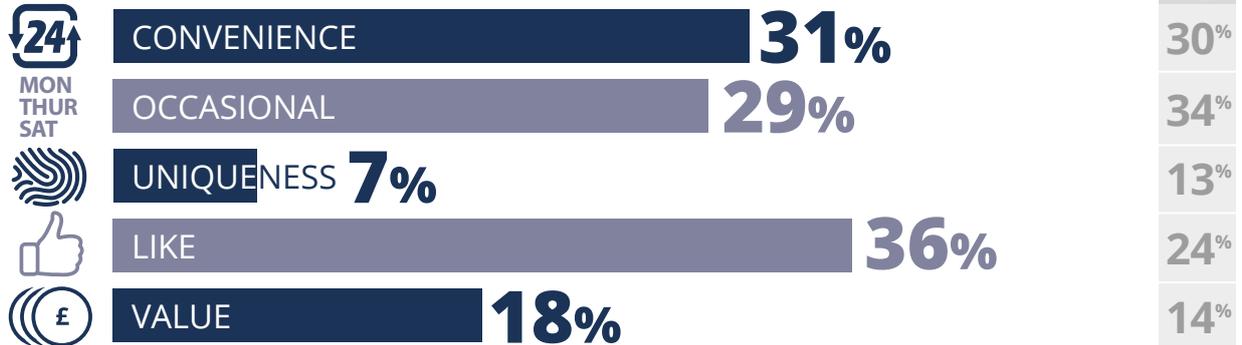
ARPU
£13.35

KEY FINDINGS

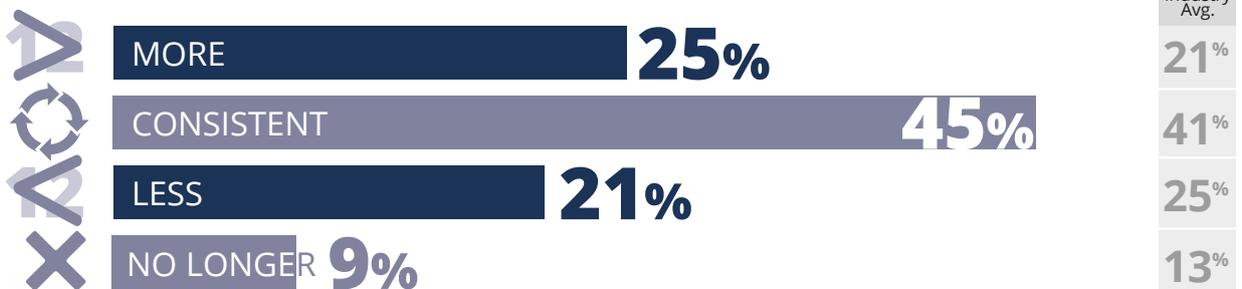
- This sector performed strongly this financial year (up 47%) and is expected to continue to flourish in the coming 12 months, with growth expected at 29%.
- Recent growth has been predicated on three factors: i) Continued consumer engagement with music streaming services offered as trials as part of post-paid smartphone contract bundle for 12 months. ii) One of the major music streaming providers adopting operator billing as its default payment mechanic via mobile. iii) A good user experience: the service has the second highest proportion of promoters (after Charity) of 25%. Indeed, 70% of users' claim that their usage has remained consistent or increased over the last 12 months.
- Service providers are now using push notifications to drive consumer usage to maximise the length of time a user remains subscribed.

Music or video content continued here

USAGE: WHY DO YOU USE THESE SERVICES?

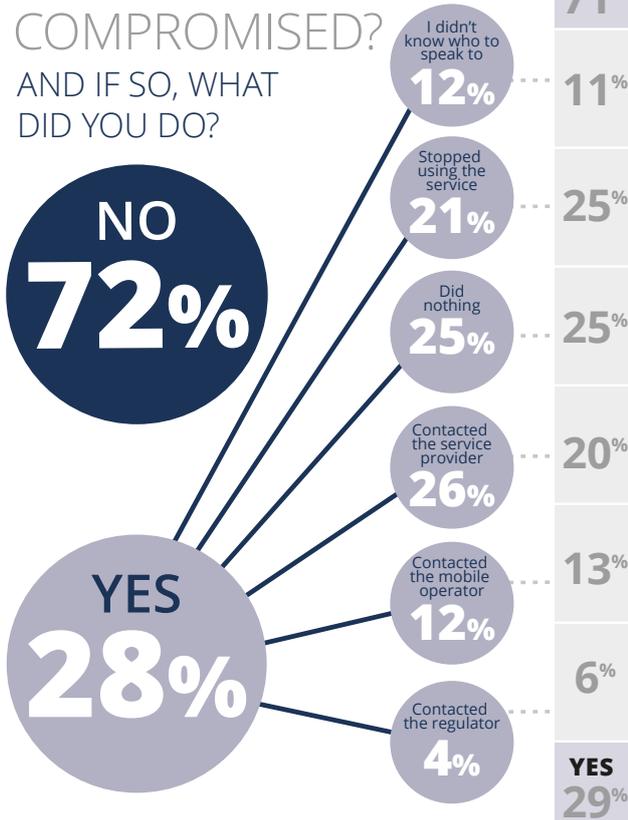


TRENDS: HOW HAS YOUR USAGE CHANGED OVER THE LAST 12 MONTHS?



TRUST: HAS YOUR TRUST EVER BEEN COMPROMISED?

AND IF SO, WHAT DID YOU DO?



	Satisfaction rating	Service	Value for money
	★★★★★		
Extremely satisfied/satisfied	62%	62%	53%
Industry average		49%	40%
Neutral	26%	26%	31%
Industry average		31%	34%
Dissatisfied/extremely dissatisfied	12%	12%	15%
Industry average		20%	26%

NET PROMOTER SCORE

-19

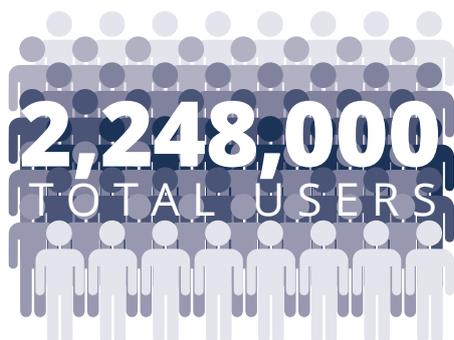
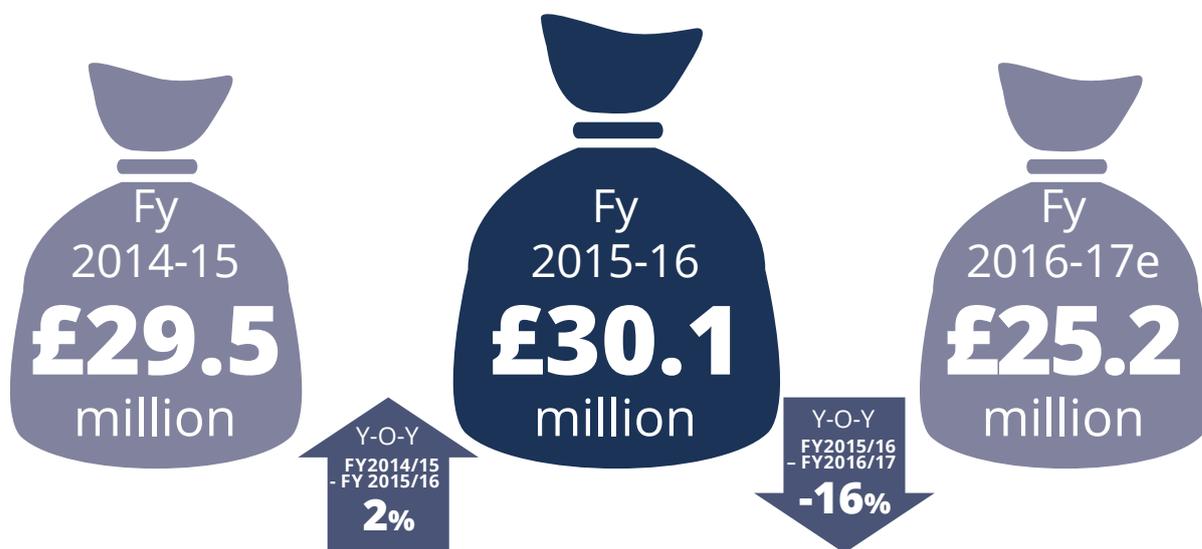
Industry Avg. -36

25%
OF USERS WOULD PROMOTE THE SERVICE

Industry Avg. 19%

NON-BROADCASTER COMPETITIONS OR QUIZZES

REVENUES



ARPU
£13.38

KEY FINDINGS

- Revenues for online competitions have stabilised between FY2014-15 and FY2015-16 for the first time since 2010.
- However, the consumer experience is not necessarily a positive one. Non-broadcast competitions have the second highest level (43%) of users who claim their trust has been compromised.
- Non-broadcast competitions have one of the highest percentages (23%) of users claiming they had "problems" with a service. Of these users, 50% received spam from the service provider, and 41% said they were not aware how much they were paying.
- Industry claims that the average consumer subscribes for 5 weeks, although ARPU would indicate this is closer to 3 weeks.

Non-broadcaster competitions or quizzes continued here

USAGE: WHY DO YOU USE THESE SERVICES?



MON
THUR
SAT



CONVENIENCE **27%**

OCCASIONAL **39%**

UNIQUENESS **13%**

LIKE **22%**

VALUE **15%**

Industry Avg.
30%
34%
13%
24%
14%

TRENDS: HOW HAS YOUR USAGE CHANGED OVER THE LAST 12 MONTHS?



MORE **22%**

CONSISTENT **32%**

LESS **31%**

NO LONGER **15%**

Industry Avg.
21%
41%
25%
13%

TRUST: HAS YOUR TRUST EVER BEEN COMPROMISED?

AND IF SO, WHAT DID YOU DO?

NO **57%**

YES **43%**

- I didn't know who to speak to **15%** ... 11%
- Stopped using the service **27%** ... 25%
- Did nothing **31%** ... 25%
- Contacted the service provider **13%** ... 20%
- Contacted the mobile operator **10%** ... 13%
- Contacted the regulator **4%** ... 6%

Industry Avg.
NO 71%
11%
25%
25%
20%
13%
6%
YES 29%

Satisfaction rating	Service	Value for money
★★★★★		
Extremely satisfied/satisfied	41%	34%
Industry average	49%	40%
Neutral	31%	32%
Industry average	31%	34%
Dissatisfied/extremely dissatisfied	28%	34%
Industry average	20%	26%

NET PROMOTER SCORE

-46

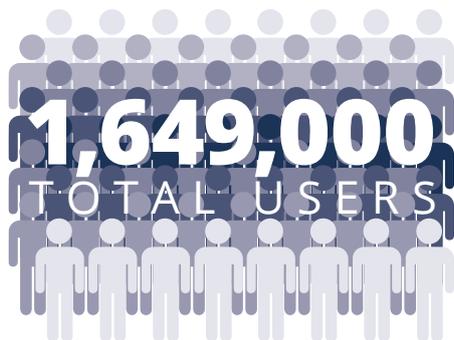
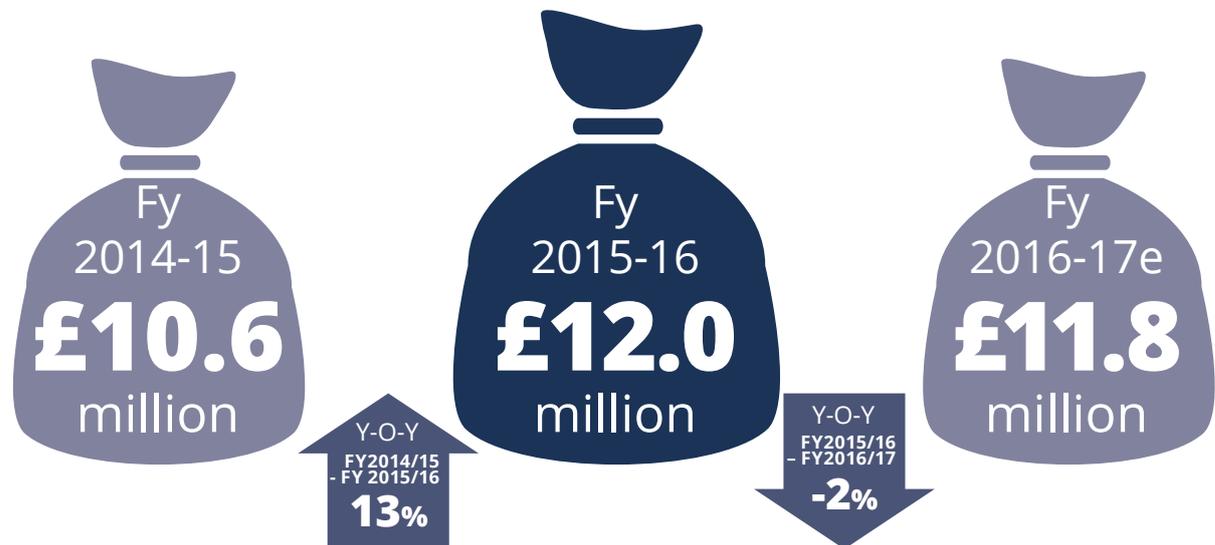
Industry Avg. -36

15%
OF USERS WOULD PROMOTE THE SERVICE

Industry Avg. 19%

RINGTONES, RBTS, WALLPAPER

REVENUES



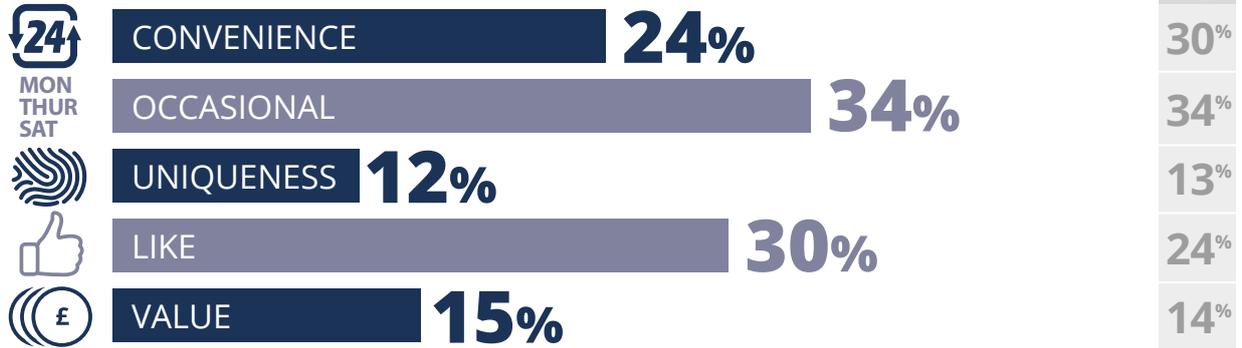
ARPU
£7.25

KEY FINDINGS

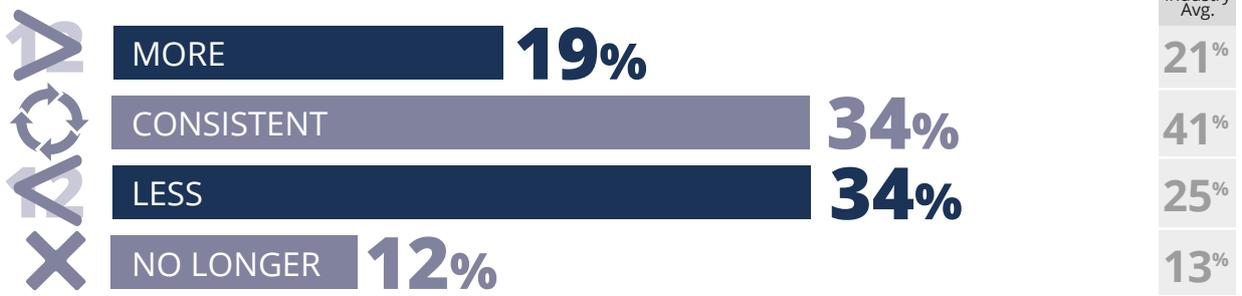
- This sector experienced higher than anticipated growth in FY2015-16, generating total revenues of just under £12 million. Content packages (including games) at a £1.50 per week subscription price point have been driving the minor resurgence in the sector, although service revenues are projected to fall 2% in FY2016-17.
- However, the sector seems to have a problem keeping customers. The sector has the highest percentage of users (34%) across all PRS claiming their usage dropped over the previous 12 months, with many citing free content as the reason they no longer use services.
- 39% of users that had experienced a problem with the service said they received spam from the service provider, although a number of service providers claim they are now using push notifications to drive usage beyond the third month of a user's subscription.

Ringtones, RBTS, wallpaper continued here

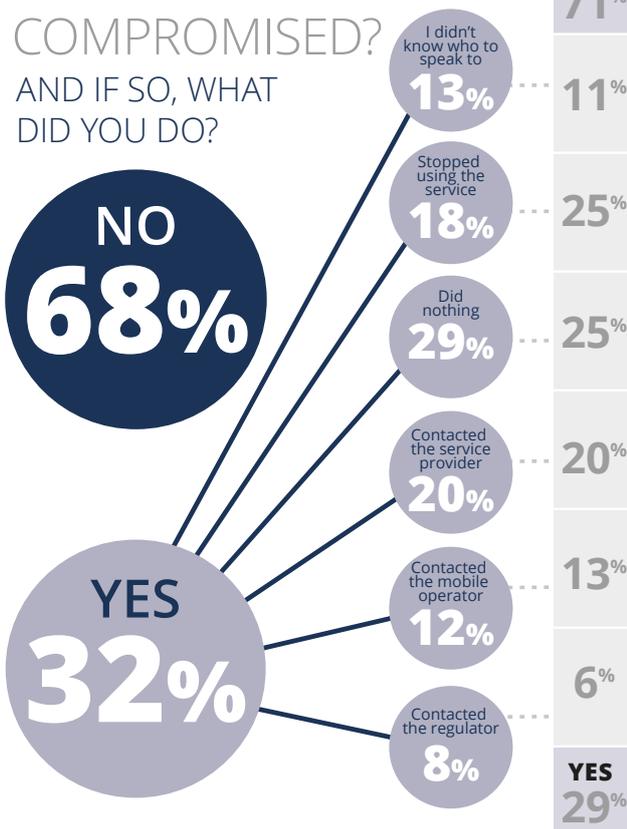
USAGE: WHY DO YOU USE THESE SERVICES?



TRENDS: HOW HAS YOUR USAGE CHANGED OVER THE LAST 12 MONTHS?



TRUST: HAS YOUR TRUST EVER BEEN COMPROMISED? AND IF SO, WHAT DID YOU DO?



	Satisfaction rating	Service	Value for money
	★★★★★		
Extremely satisfied/satisfied	49%	49%	44%
Industry average		49%	40%
Neutral	34%	34%	31%
Industry average		31%	34%
Dissatisfied/extremely dissatisfied	18%	18%	24%
Industry average		20%	26%

NET PROMOTER SCORE

-38

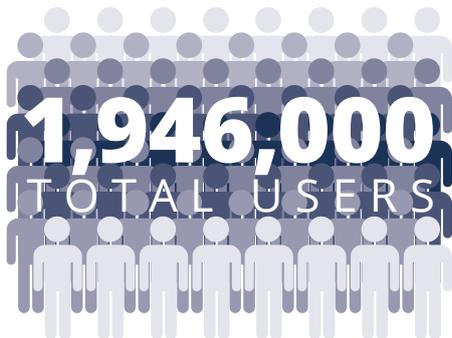
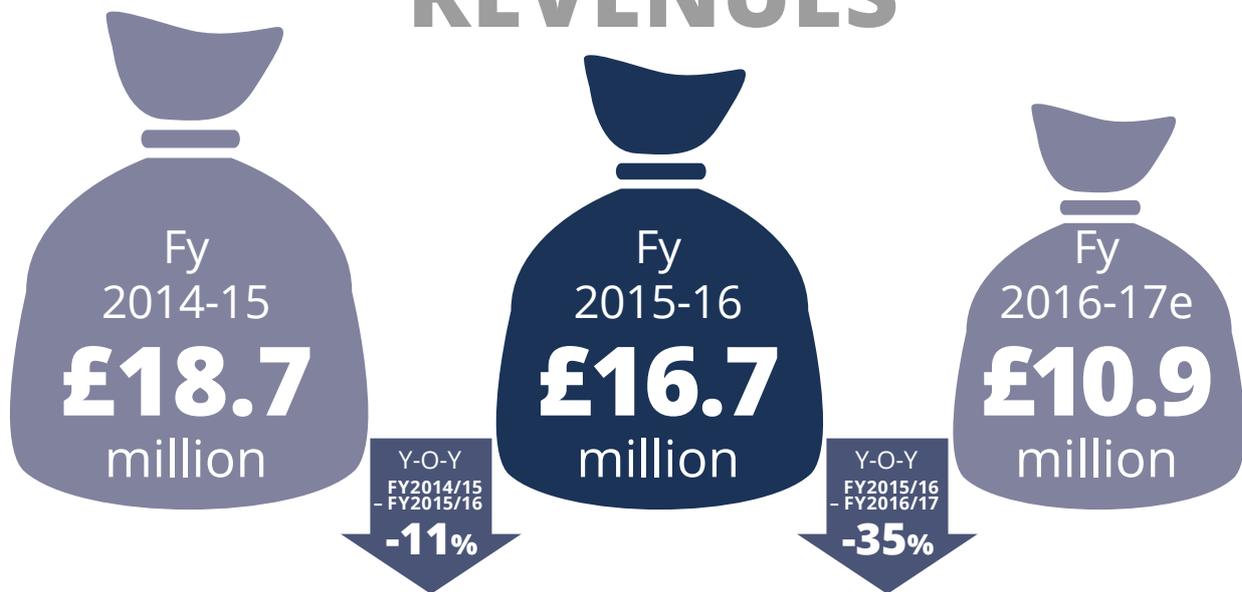
Industry Avg. -36

17%
OF USERS WOULD PROMOTE THE SERVICE

Industry Avg. 19%

TAROT OR ASTROLOGY

REVENUES



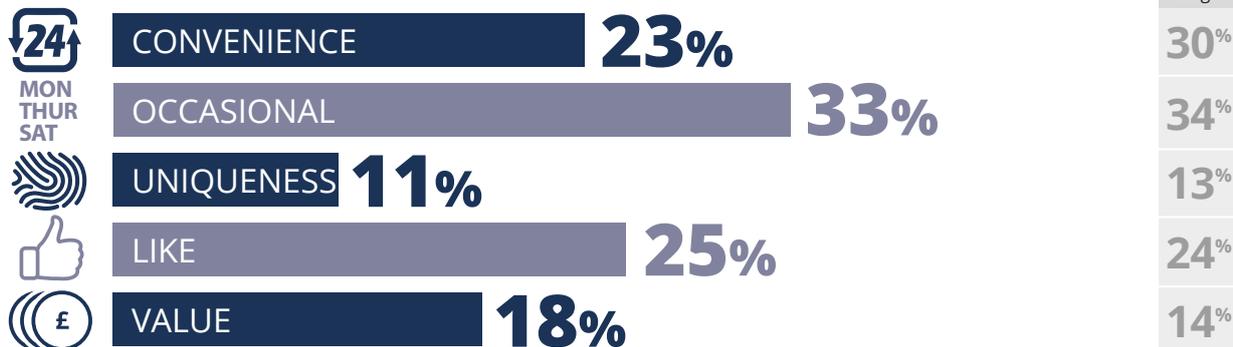
ARPU
£8.59

KEY FINDINGS

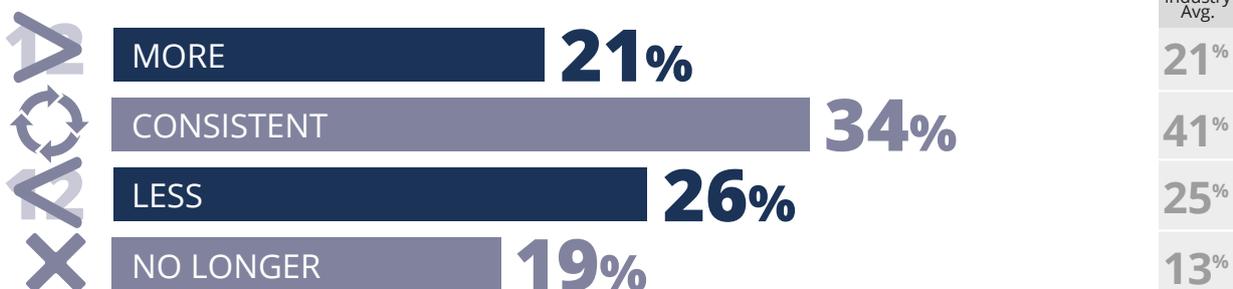
- Revenues are projected to fall 35% in FY2016-17, a proportionate fall that is second only to voice-based information services. The fall in traffic has hit the smallest providers hardest, leading to consolidation in the sector, although branded service providers have experienced relatively steady revenues throughout FY2015-16.
- As with Dating and flirt chat services, new entrants into Tarot or astrology have struggled and some have withdrawn their service within months of launching.
- The service continues to witness the migration of heavy users from PRS onto credit card.
- Consumers have a mixed view of these services. 42% of users said their trust has been compromised and 25% of users have stopped using the service because of associated problems, with cost being the primary issue.

Tarot or astrology continued here

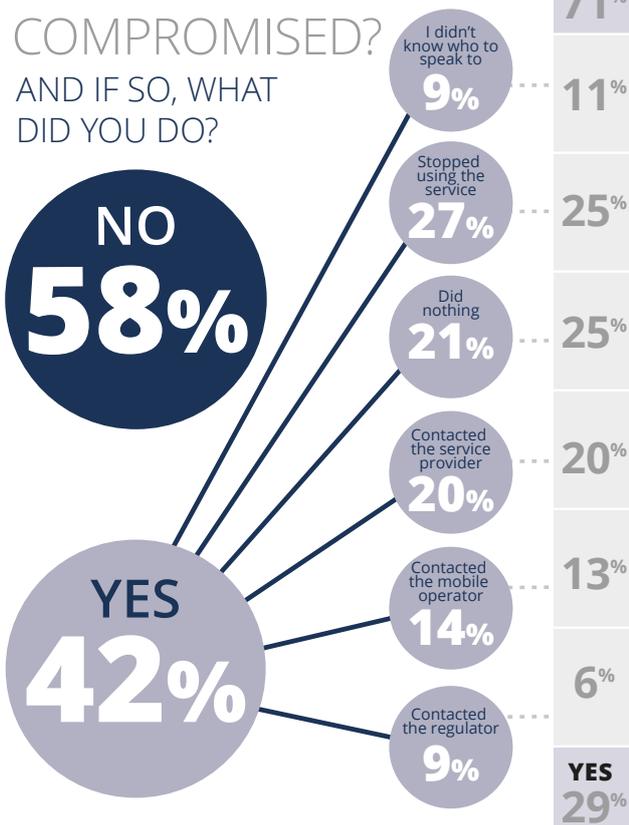
USAGE: WHY DO YOU USE THESE SERVICES?



TRENDS: HOW HAS YOUR USAGE CHANGED OVER THE LAST 12 MONTHS?



TRUST: HAS YOUR TRUST EVER BEEN COMPROMISED? AND IF SO, WHAT DID YOU DO?



	Satisfaction rating	Service	Value for money
	★★★★★		
Extremely satisfied/satisfied	42%	42%	45%
Industry average		49%	40%
Neutral	32%	32%	28%
Industry average		31%	34%
Dissatisfied/extremely dissatisfied	26%	26%	27%
Industry average		20%	26%

NET PROMOTER SCORE

-39

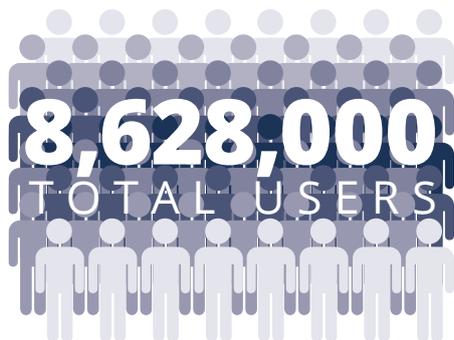
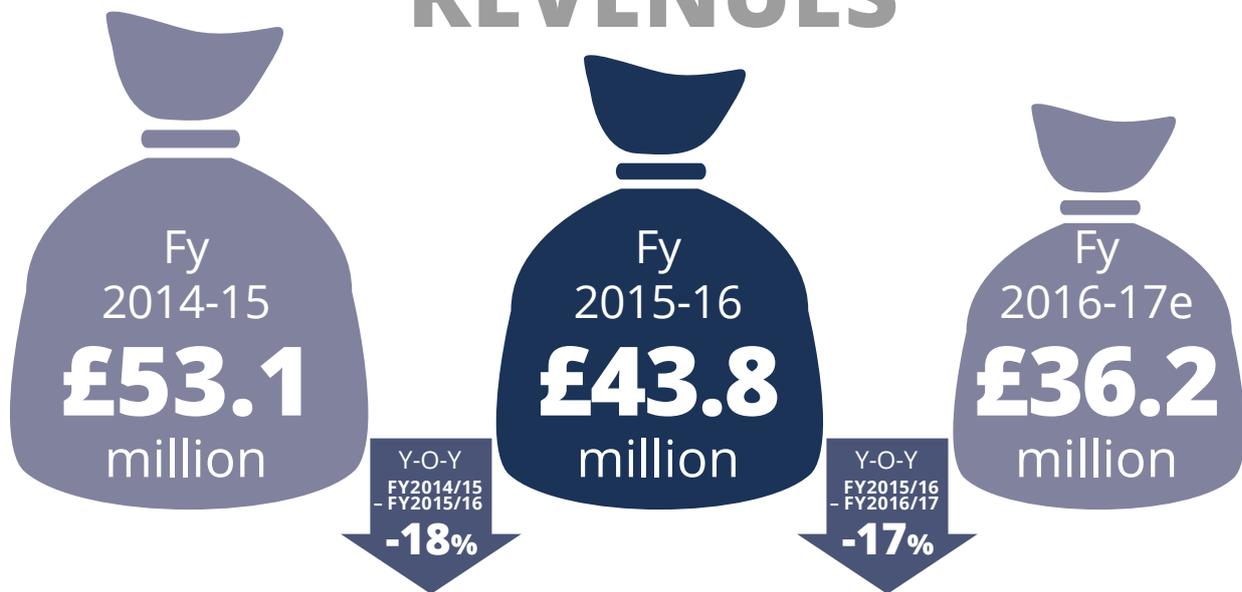
Industry Avg. -36

18%
OF USERS WOULD PROMOTE THE SERVICE

Industry Avg. 19%

TV OR RADIO COMPETITIONS

REVENUES



ARPU
£5.07

KEY FINDINGS

- The average user enters broadcast competitions at least once per quarter.
- Some broadcasters are exploring using voice short codes, driven by the drop-price model being viewed as more consumer friendly compared to service and access charge.
- TV competitions that attract the most entrants are those intrinsically linked to a programme, while low-value prizes of between £100-£500 attract the most entrants to radio competitions.
- Despite competitions run by broadcasters viewed as one of the most trusted PRS services by users, TV broadcasters believe they continue to face issues with consumers regarding lack of visibility of competition winners. (This is not applicable to radio broadcasters as listeners can hear winners live on air.)
- The demographic split of entrants is shaping the entry mechanism used by broadcasters, with short codes used for younger demographics and landline for older demographics.

TV or radio competitions continued here

USAGE: WHY DO YOU USE THESE SERVICES?



CONVENIENCE **24%**

OCCASIONAL **43%**



UNIQUENESS **11%**



LIKE **22%**



VALUE **11%**

Industry Avg.
30%
34%
13%
24%
14%

TRENDS: HOW HAS YOUR USAGE CHANGED OVER THE LAST 12 MONTHS?



MORE **19%**

CONSISTENT **46%**

LESS **25%**

NO LONGER **10%**

Industry Avg.
21%
41%
25%
13%

TRUST: HAS YOUR TRUST EVER BEEN COMPROMISED?

AND IF SO, WHAT DID YOU DO?

NO
72%

YES
28%

I didn't know who to speak to **10%**

Stopped using the service **23%**

Did nothing **32%**

Contacted the service provider **19%**

Contacted the mobile operator **11%**

Contacted the regulator **5%**

Industry Avg.
NO 71%
11%
25%
25%
20%
13%
6%
YES 29%

Satisfaction rating	Service	Value for money
★★★★★		
Extremely satisfied/satisfied	45%	34%
Industry average	49%	40%
Neutral	37%	37%
Industry average	31%	34%
Dissatisfied/extremely dissatisfied	19%	29%
Industry average	20%	26%

NET PROMOTER SCORE

-42

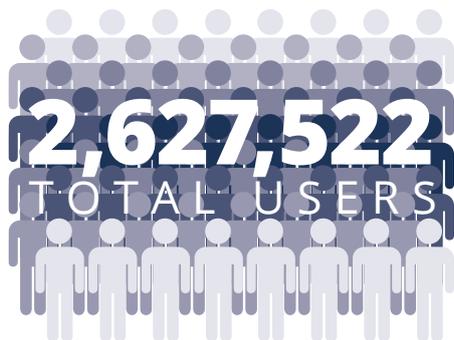
Industry Avg. -36

16%
OF USERS WOULD PROMOTE THE SERVICE

Industry Avg. 19%

TV OR RADIO SHOW VOTING OR INTERACTION

REVENUES



ARPU
£1.89

KEY FINDINGS

- TV and radio voting, PRS' smallest sector, witnessed a surprising 24% jump in revenues in FY2015-16. However, this trend is not expected to continue, with a 13% decline in revenues forecast for FY2016-17.
- While paid-for telephony-based voting will continue to play a role, the migration toward free interaction continues. The number of paid-for votes has been severely impacted by free votes via mobile apps, especially among the younger demographic.
- TV broadcasters believe they continue to face trust issues, despite offering one of the most trusted PRS services, second only to Charity.
- Text continues to drive growing levels of interaction between radio broadcasters and listeners aged 30 years and over. Conversely, interaction with the younger demographic is declining.

TV or radio show voting or interaction continued here

USAGE: WHY DO YOU USE THESE SERVICES?



CONVENIENCE 25%

OCCASIONAL 47%

UNIQUENESS 11%

LIKE 22%

VALUE 7%

Industry Avg.
30%
34%
13%
24%
14%

TRENDS: HOW HAS YOUR USAGE CHANGED OVER THE LAST 12 MONTHS?



MORE 17%

CONSISTENT 46%

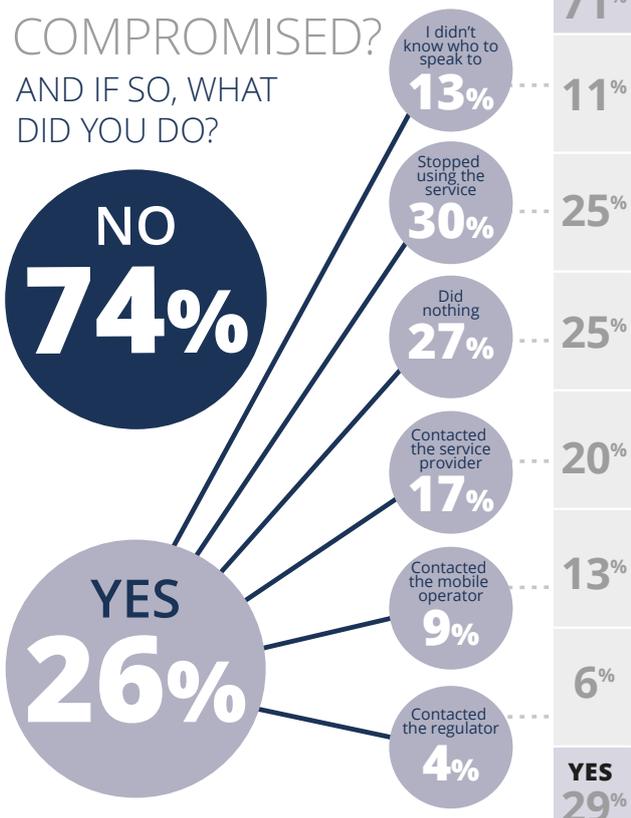
LESS 26%

NO LONGER 11%

Industry Avg.
21%
41%
25%
13%

TRUST: HAS YOUR TRUST EVER BEEN COMPROMISED?

AND IF SO, WHAT DID YOU DO?



Industry Avg.
NO 71%
11%
25%
25%
20%
13%
6%
YES 29%

Satisfaction rating	Service	Value for money
★★★★★		
Extremely satisfied/satisfied	51%	33%
Industry average	49%	40%
Neutral	33%	39%
Industry average	31%	34%
Dissatisfied/extremely dissatisfied	16%	28%
Industry average	20%	26%

NET PROMOTER SCORE

-39

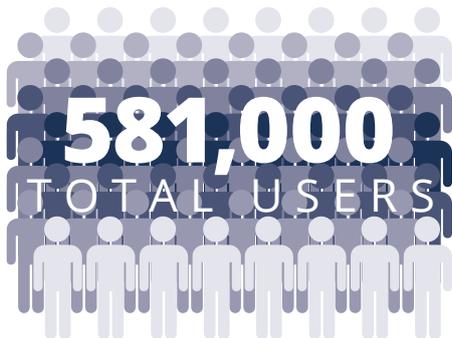
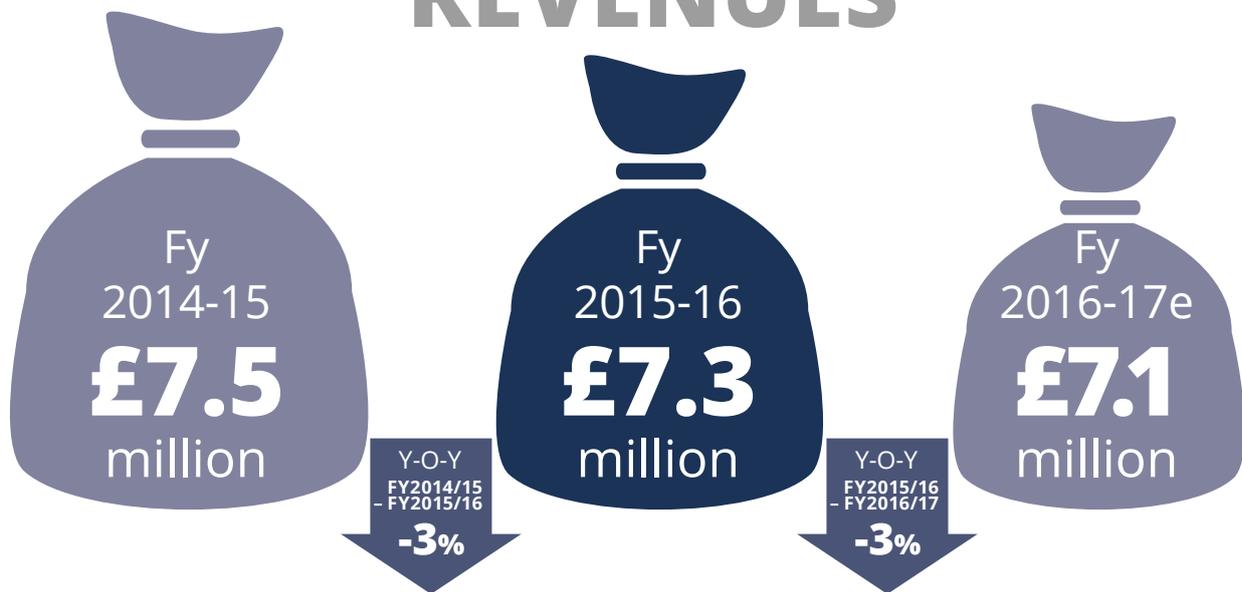
Industry Avg. -36

18%
OF USERS WOULD PROMOTE THE SERVICE

Industry Avg. 19%

VIRTUAL GIFTS

REVENUES



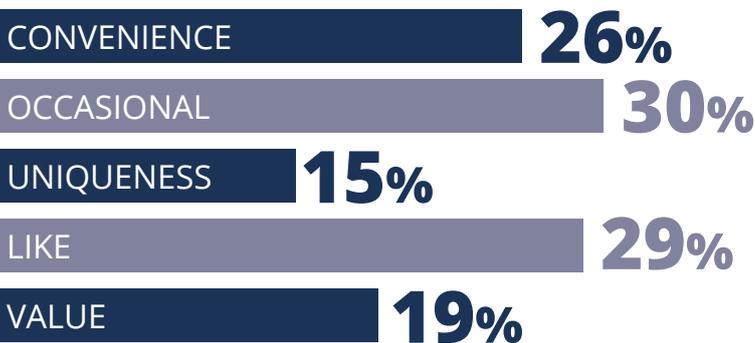
ARPU
£12.49

KEY FINDINGS

- Virtual gifts is the second smallest of all PRS and continues to experience a fall in revenues. Revenue dropped from £7.5 million in FY2014-15 to £7.3 million in FY2015-16, and is projected to drop a further 3% in FY2016-17.
- The sector has the second highest user drop-off rates (16%) across all PRS, as users no longer see the value in the service, and they claim it is too expensive.
- 43% of users claim their trust has been compromised, suggesting the sector has consumer experience issues.

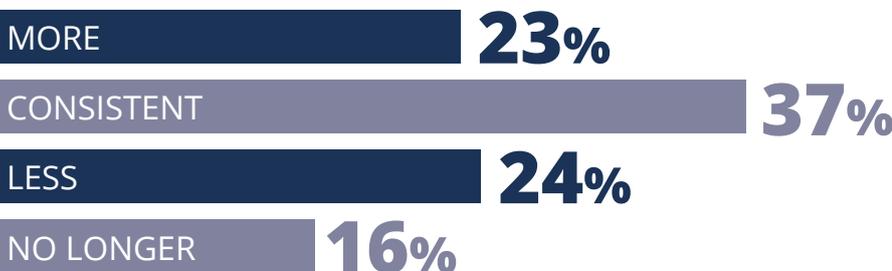
Virtual gifts continued here

USAGE: WHY DO YOU USE THESE SERVICES?



Industry Avg.	30%
Industry Avg.	34%
Industry Avg.	13%
Industry Avg.	24%
Industry Avg.	14%

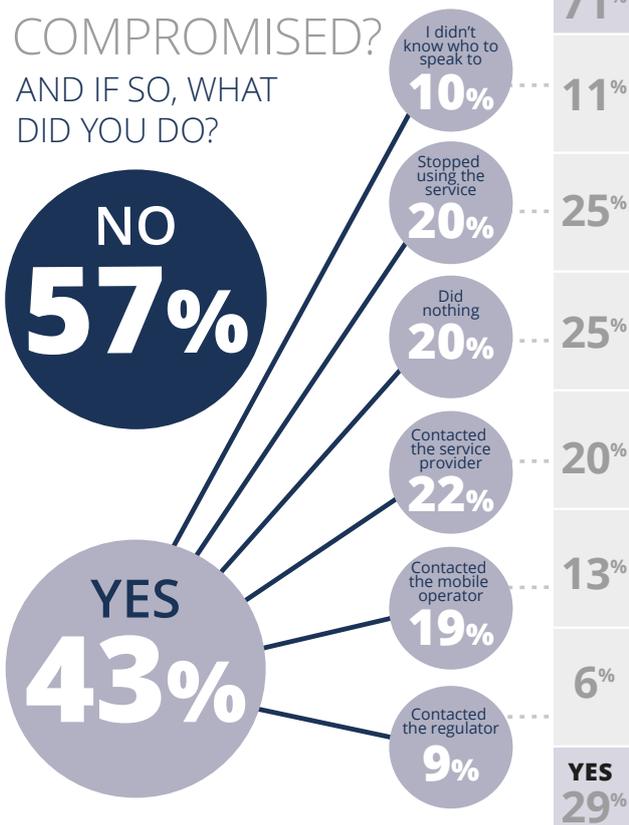
TRENDS: HOW HAS YOUR USAGE CHANGED OVER THE LAST 12 MONTHS?



Industry Avg.	21%
Industry Avg.	41%
Industry Avg.	25%
Industry Avg.	13%

TRUST: HAS YOUR TRUST EVER BEEN COMPROMISED?

AND IF SO, WHAT DID YOU DO?



Satisfaction rating	Service	Value for money
★★★★★		
Extremely satisfied/satisfied	47%	44%
Industry average	49%	40%
Neutral	31%	35%
Industry average	31%	34%
Dissatisfied/extremely dissatisfied	21%	21%
Industry average	20%	26%

NET PROMOTER SCORE

-38

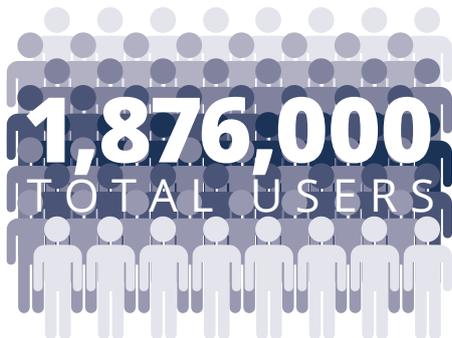
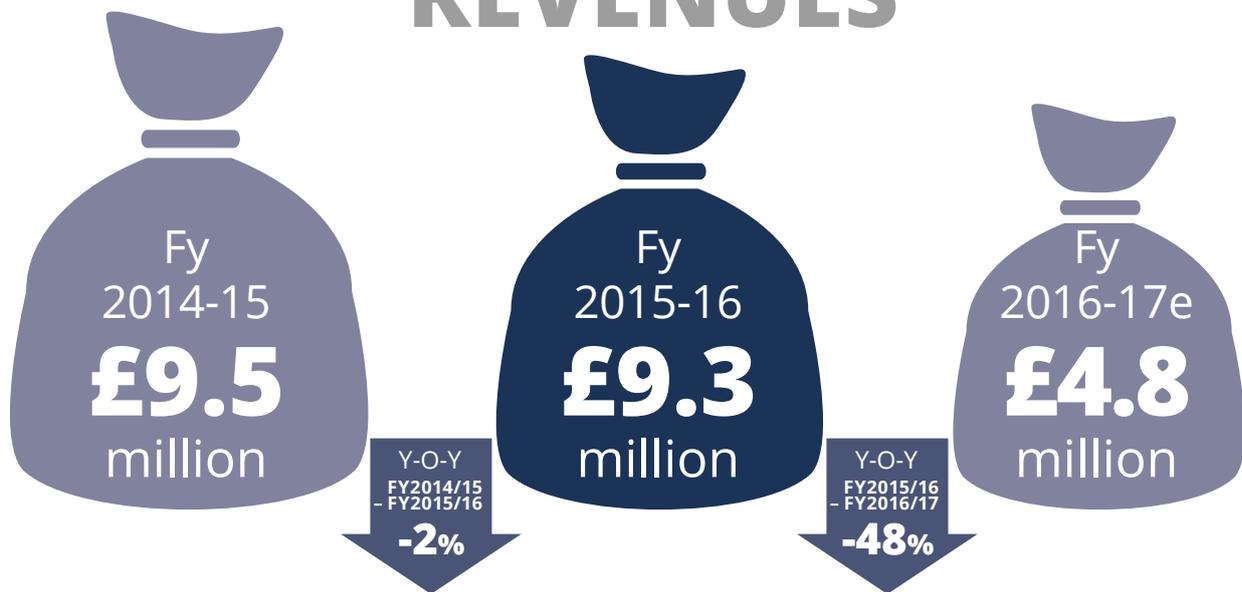
Industry Avg. -36

19%
OF USERS WOULD PROMOTE THE SERVICE

Industry Avg. 19%

VOICE-BASED INFORMATION SERVICES

REVENUES



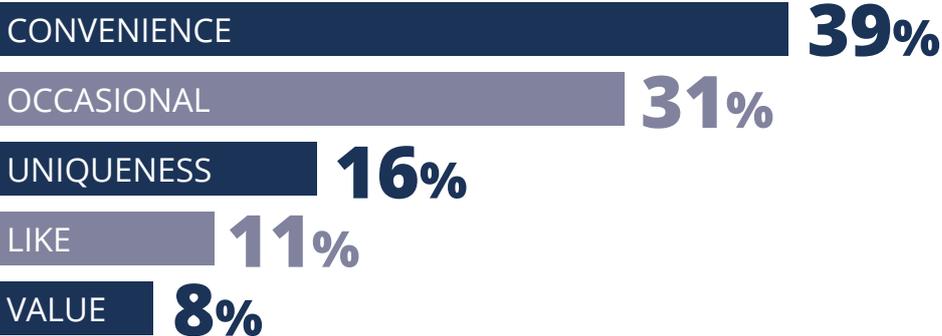
ARPU
£4.96

KEY FINDINGS

- Service revenues are forecast to plummet 48% in financial year 2016-17, which is the largest decline across all PRS. Only TV or radio voting or interaction is expected to generate less revenue in the coming financial year.
- An above average 41% of users have either reduced their usage or stopped using the service altogether in the last 12 months. Of the 14% of users that stopped using the service in the last 12 months, 32% cited free content as the primary reason, followed by 30% stating it no longer offers value for money.
- Betting-related traffic is one of few areas within voice-based information services that is not experiencing a large decline.

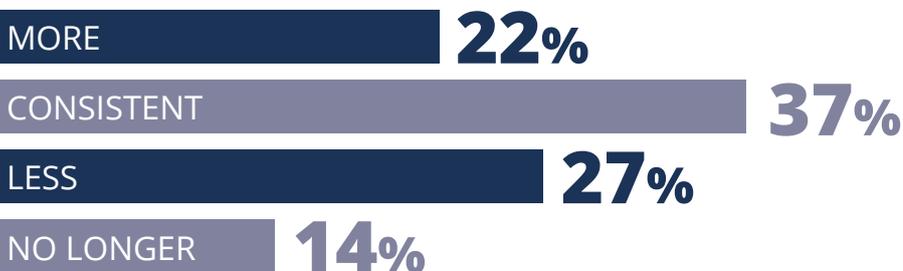
Voice-based information services continued here

USAGE: WHY DO YOU USE THESE SERVICES?



Industry Avg.	30%
Industry Avg.	34%
Industry Avg.	13%
Industry Avg.	24%
Industry Avg.	14%

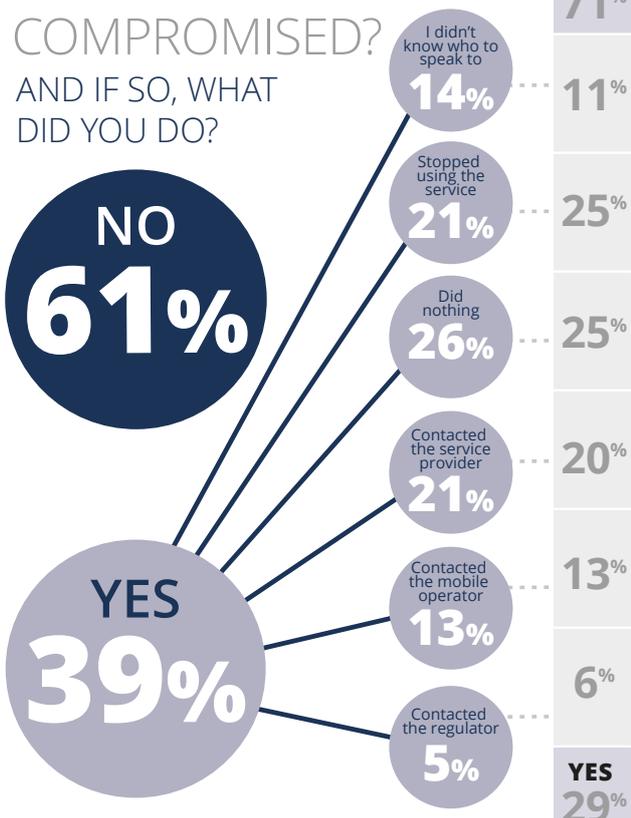
TRENDS: HOW HAS YOUR USAGE CHANGED OVER THE LAST 12 MONTHS?



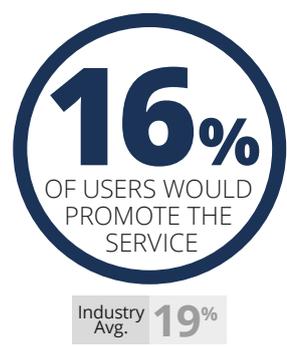
Industry Avg.	21%
Industry Avg.	41%
Industry Avg.	25%
Industry Avg.	13%

TRUST: HAS YOUR TRUST EVER BEEN COMPROMISED?

AND IF SO, WHAT DID YOU DO?



Satisfaction rating	Service	Value for money
★★★★★		
Extremely satisfied/satisfied	46%	35%
Industry average	49%	40%
Neutral	31%	34%
Industry average	31%	34%
Dissatisfied/extremely dissatisfied	22%	31%
Industry average	20%	26%





SECTION 4: ANALYSIS

4

SECTION 4: ANALYSIS

PRS revenue analysis

The PRS market is stable for the first time in six years, and given the projected fall in total revenues of 1.24% for FY2016-17, is likely to maintain this stability in the near-term upheld by operator billing and charity.

Yet this period of apparent overall stability conceals a major shift in the industry — a shift that appears to be accelerating. By the end of FY2016-17, mobile is expected to account for 79% of total PRS revenues, highlighting the continued decline of voice-based services within the PRS ecosystem. Voice-based revenues are forecast to have decreased by £119.76 million (from £262 million to £142.2 million) between FY2014-15 and FY2016-17e.

Many in the voice-based ecosystem are adopting a short-term revenue protection strategy of offsetting the dramatic decline in traffic by increasing tariffs. With the changes to Non-Geographic Call Services (NGCS) introduced by Ofcom on 1st July 2015, industry research reveals that 09-based service providers have been increasing tariffs in response to a declining user base. Directory enquiries is no different. But as the data reveals, voice-based services are severely under threat and price hikes will further fuel consumer's incentive to seek free alternatives.

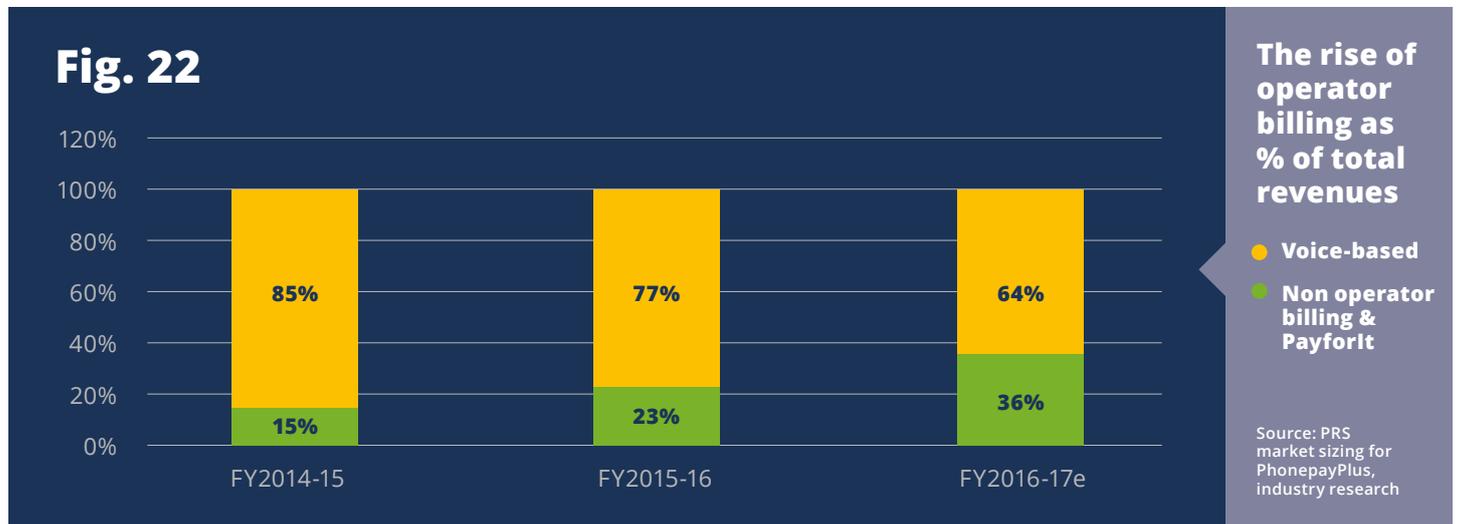
Mobile-based PRS, on the other hand, is becoming the driving force behind PRS revenues. Operator billing and charity donations, in particular, are driving this market shift. In many ways, operator billing is the White Knight for the PRS industry, with revenues projected to grow 51.2% in FY2016-17e. This growth has virtually offset the decline in voice-based service revenues and stabilised the PRS marketplace (in conjunction with charity), but to convert stability into genuine growth will require significant changes in mindset throughout the PRS ecosystem.

However, not all of the mobile-based PRS ecosphere is enjoying such success. Between FY2014-15 and FY2016-17e, total mobile revenues including charity will fall £5.5 million (from £532.9 million to £527.4 million). This trend reflects a decline in the use of PSMS. Between FY2014-15 and FY2016-17e mobile revenues, which is largely PSMS, will fall £130.6 million, from £335.4 to £204.8 million. This fall represents a compound annual growth rate (CAGR) of -22%, although much of this decline can be attributed to a migration from PSMS to operator billing.

In FY2014-15, charity combined with operator billing and PayforIt was worth £197.5 million (excluding VAT), and accounted for 29% of the total PRS market. Based on projections for FY2016-17, they will be worth £322.62 and account for 48% of the PRS market.

Perhaps the growing importance of operator billing to the PRS industry is best highlighted when charity has been excluded. In FY2014-15, operator billing (and PayforIt) was worth £82.5 million (excluding VAT), and accounted for 15% of the total PRS market

(excluding charity), but is projected to be worth £193.62 and account for 36% of the PRS market in FY2016-17. In other words, more than one-third of total revenues used for outpayments will be generated via operator billing.



Premium rate services that are already generating revenues using operator billing are music and video content, games and apps charged to my bill, games on social networks, and Internet-based information services. All of these services are projected to experience revenue growth this financial year, apart from internet-based information services.

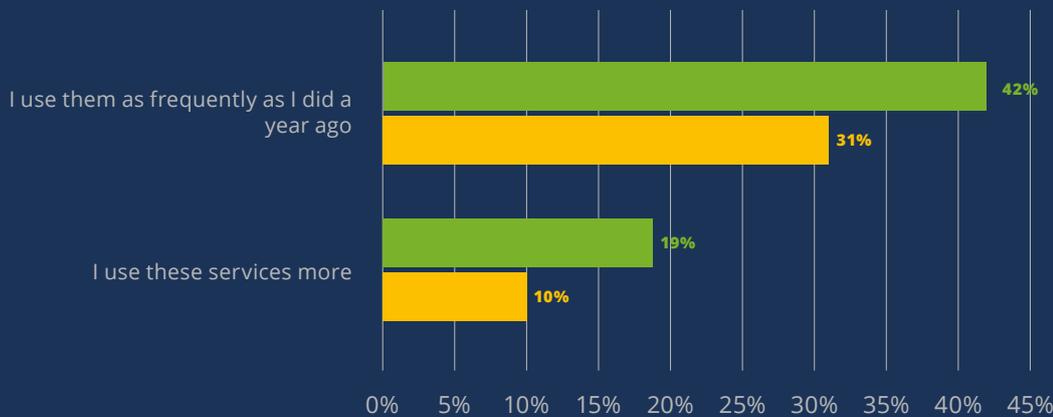
However, growth in revenues for internet-based information services is expected to be driven by consumer's increased usage of ad-blockers forcing online publishers to explore alternative monetisation strategies, such as paywalls and pay-per-story. Almost 11 million consumers in the UK will be using ad blockers by the end of 2016, with almost 5 million additional users expected by set to download them in 2017¹⁰.

Consumer perception of PRS

Since the 2014 annual market review, consumer perception of PRS has improved somewhat, driven by a more loyal user base contributing to a more stable PRS industry. In 2014-15, 10% of total PRS users claimed to use the services more, while 31% of said they used PRS as frequently as they had 12 months previous. In FY2015-16, the percentage of total PRS users that used the services more had increased to 19%, and the users that maintained consistent usage also rose to 42%. In total, 61% of total PRS users maintained or increased their usage, versus 41% the previous year. This development in itself should instil a degree of confidence in the PRS industry.

¹⁰ Source: <http://www.emarketer.com/Article/More-Than-One-Five-People-UK-Will-Use-Ad-Blockers-This-Year/1013952>

Fig. 23



Year-on-year usage changes

● 2015/16

● 2014/15

Source: PhonepayPlus quantitative consumer survey, March 2016. Q6: Do you use them more or less than you did 12 months ago? Single choice. Base n= 3,000. PhonepayPlus quantitative consumer survey, 2015.

However, the industry has perennial challenges that it needs to address.

- 1. Trust:** 29% of respondents, which equates to 6.6 million PRS users, claimed that their trust had been compromised when using PRS. This doesn't necessarily mean a service is compliant or non-compliant, it simply infers that a consumer has had a bad experience. Of these users, more than one-quarter claimed they stopped using the service in response to this breach of trust. The consumer research not only highlighted the broad issue of trust among a significant proportion of the PRS user base, it also revealed that trust-related issues are the underlying reason as to why these users stopped using the service.
- 2. Satisfaction:** Overall, satisfaction levels among PRS users are low. When the satisfaction data from the consumer survey is applied to the Net Promoter Score (NPS)¹¹ model, the PRS industry scores -36. In comparison, using the mobile operators as a point of reference, Three has an NPS of +16, while O2 is +9, Vodafone -1 and EE -7¹². This highlights the ongoing work that is required by content and service providers to boost satisfaction levels across all PRS and transform stability in the marketplace into growth. But there already some encouraging signs. For example, 33% of consumers making a donation via text would be classed as "promoters" of the service. Similarly, between one-fifth and one-quarter of users of music or video content, games or apps charged to my bill, betting or gambling, and low cost international or reverse charge calling would be categorised as promoters. And if PRS users that were either "satisfied" or "very satisfied" are combined, on average, 45% of PRS users are satisfied or very satisfied.
- 3. Awareness:** As part of the annual market review, MobileSquared conducts street research to sense check the quantitative consumer data. From this limited sample of users (95), just under one-quarter of consumers taking part in street research knew what a premium rate service was, half needed clarification, and a further quarter did not know even after being prompted. Of these users, roughly 45% used PRS, which is comparable to the 41% identified in the main consumer survey, with convenience cited as the main reason for using.

¹¹ See Methodology for description and calculation

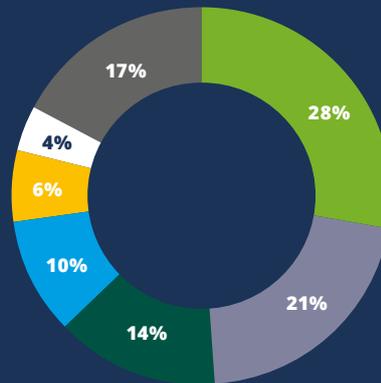
¹² Source: <http://www.mobilenewscwp.co.uk/2015/04/22/ee-comes-bottom-of-nps-benchmark-report/>

4. **Reputation:** The street research revealed that, among the general population, the industry still has reputational challenges. The first thing the majority of street research participants think of when they hear the term PRS is “scam”, followed by “premium” and “expensive”, and for four in five, trust would influence their decision-making process when using PRS. Interestingly, one in 10 had stopped using PRS because of its negative perception, such as reading an article in the media on Bill Shock.

Despite the challenges, among existing PRS users at least, the future of PRS and operator billing appears bright. Respondents in the consumer survey selected operator billing ahead of PayPal, debit card and credit card, as their payment method of choice (see Fig 21). While existing PRS users may be a captive audience, these are encouraging signs for an emerging payment mechanism. Clearly the issues of trust, outlined above, appear linked to the services and not the concept of charging a purchase to a phone bill.

Fig. 24

- Direct to your phone bill
- PayPal
- Debit card
- Credit card
- Pre-purchased credit
- Virtual currency
- I would not use an alternative payment method

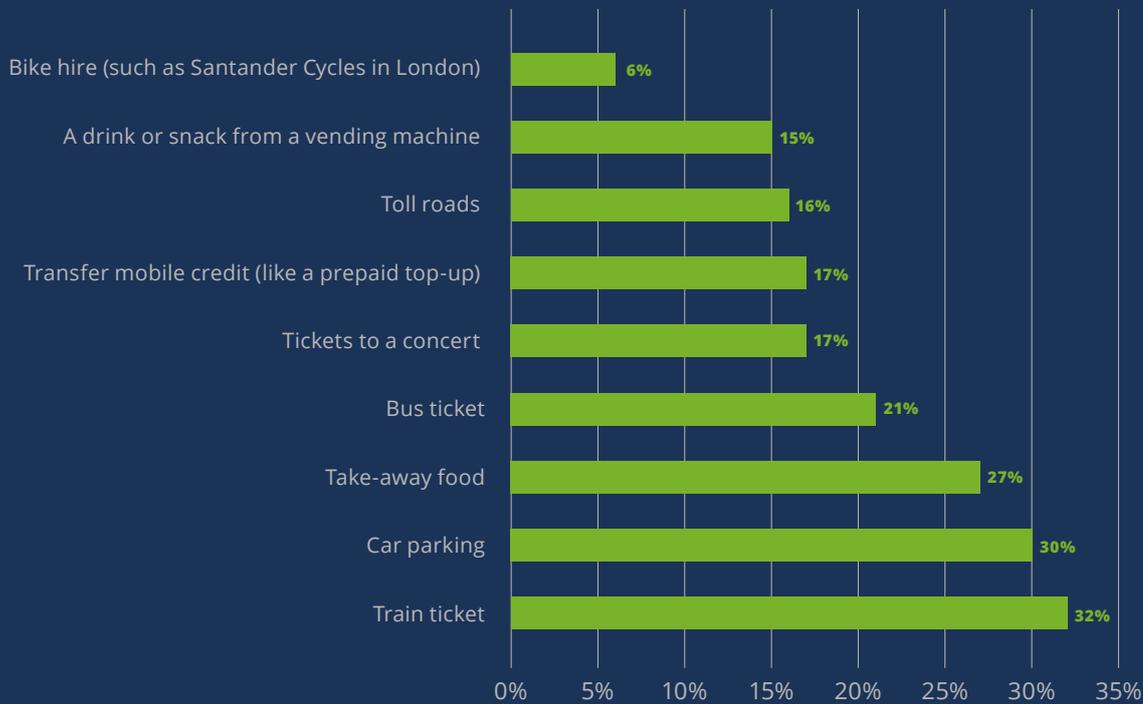


What is your preferred payment channel?

Source: PhonepayPlus quantitative consumer survey, March 2016. Q12: If you could pay for services via any payment channel, which would be your preferred choice? Base n = 3,000.

The real challenge comes in the form of extending phone bill-based purchases from digital content and services to quasi-physical and physical goods. Again, there is strong demand from the PRS user base for operator billing.

As demonstrated in Figure 25, train tickets (32% of respondents) have the greatest appeal, followed by paying for car parking (30%), take-away food (27%) and bus tickets (21%). With the exception of take-away food, travel-related services are the standout favourite for consumers, and potentially offer the greatest potential for operator billing in the near-term.

Fig. 25

How likely are you to use your mobile phone to pay for the following items (up to the value of £30 charged to your phone bill)?

Source: PhonepayPlus quantitative consumer survey, March 2016. Q21: How likely are you to use your mobile phone to pay for the following items (up to the value of £30 charged to your phone bill)? Base n = 3,000.

Regulatory and legislative landscape

In the previous annual market review, much of the industry research focused on the regulatory and legislative landscape. While this was still an issue of discussion in many of this year's industry interviews, it did not garner as much attention as last year. This suggests that industry may have a more positive view of the regulatory and legislative environment and to a degree more confidence in it. However, frustrations still remain.

PRS regulation: Last year, we noted the increasing levels of collaboration between industry and regulator. Cooperation is now engrained, with PhonepayPlus viewed by the PRS industry as a fair and effective regulator. However, much of the industry remains frustrated at what it sees as over-regulation, with a two-layer regulatory process supplemented with a dual layer of monitoring.

From an industry perspective, regulation and its enforcement comes in the form of the PhonepayPlus Code of Practice and de facto from the mobile operators as well. It's also been noted that additional complexity comes in the form of industry-generated guidance¹³. Compliance auditing companies act as an intermediary between mobile operators and L2s, while both L1s and L2s are now investing in their own monitoring solutions with the intention of self-regulating.

Much of the industry view the proprietary Codes for each mobile operator as introducing more unhelpful complexity.

¹³ Source: industry research

This complicated environment contributes to a deep-rooted view within the industry that major brands will not embrace PRS.

Industry's view of compliance levels: According to the industry, consolidation in the adult sector has resulted in a significant drop in non-compliant activity during the financial year, to such an extent that adult is now considered a "low risk" category by some sections of the industry. However, this is a view that does not stretch to include non-broadcast competitions and quizzes, which continues to be seen as a "high risk" category.

The industry believes it has made strides to work with more reputable affiliate marketing companies to boost compliance. This has been allied with a closer working relationship between all aspects of the PRS industry, from the regulator, mobile operators, compliance auditing companies, as well as content and service providers. Whether this is through the Rapid Response Team, greater monitoring, or even self-policing, non-compliant activity is being better addressed, stamped out and corrected swiftly.

Regulatory and legislative developments

Notwithstanding the industry's view of compliance, PhonepayPlus experienced a sharp increase in consumer calls in the first half of 2015 with non-broadcast competitions and quizzes and adult being the subject of the majority of those calls. PhonepayPlus and the industry worked co-operatively to address the causes of the increase in calls and a reduction in calls was seen at the end of 2015.

PhonepayPlus initiated a dialogue with industry to see what improvements could be made to its regulatory framework to support innovation and growth in the industry while still providing high standards of consumer protection. This work is a priority for PhonepayPlus for the second half of 2016 following the implementation of the 14th Code of Practice.

PSD2: The competitive environment received further clarification in October 2015 when the European Parliament adopted the revised Directive on Payment Services (PSD2). The purchase of physical goods and services through a telecom operator now falls within the scope of the Directive.

The exclusion for payments through telecom operators has also been further specified and narrowed down, and now covers only payments made through telecom operators for the purchase of digital services, such as music and digital newspapers that are downloaded on a digital device or of electronic tickets or donations to charities¹⁴.

In last year's annual market review, the industry was waiting for PSD2 before committing to an operator billing strategy centred upon quasi-physical and physical goods. The research revealed that two of the L1s had acquired an Electronic Money (e-money) licence, with a number of additional L1s about to start the application process.

As of June 2016, only one company is known to have commercialised its e-money licence in the UK. The few L1s that have acquired an e-money licence are not actively pursuing commercial ventures within the UK. Other L1s continue to evaluate the potential opportunity, and are now most likely to wait until the implementation of PSD2 into UK law in January 2018, when the need for an e-money licence will be surplus, apart from physical products. The drive towards the sale of physical and quasi-physical goods and services has

¹⁴ Source: http://europa.eu/rapid/press-release_MEMO-15-5793_en.htm?locale=en

certainly stalled in the UK, a development that can be attributed to PSD2 and its subsequent implementation by 2018, inciting the opposite reaction to that expected 12 months ago. Clearly the referendum result of June 2016 will have an impact on the implementation of PSD2 in the UK but at this stage it is far too early to tell what this may be.

In the near-term, the growth in operator billing-related revenues will come from digital goods and services, maintaining the trend identified since FY2014-15, as existing premium rate services adopt the payment platform. With the exception of mobile ticketing, revenues from the sale of physical and quasi-physical goods and services is unlikely to commence until 2018.

The future

The PRS market is expected to remain relatively stable in FY2016-17. Longer term, the outlook for the industry is less clear but genuine opportunities are out there.

For content providers:

Apps still present the greatest opportunity: Companies operating within PRS must follow where consumers are actively spending money, and that means apps present the greatest immediate return. Research has revealed that companies are now investing in content to address the popularity of health apps, and education.

Global app revenues were expected to generate £32 billion (\$45.37 billion) in 2015¹⁵, with Apple accounting for 44% of total revenues. Apple alone generated global revenues of £14.1 billion (\$20 billion) in 2015¹⁶. App revenues in the UK are estimated to be between 4%-5% of total global sales¹⁷, which would make the UK worth £1.3-£1.6 billion.

The growth in operator billing in FY2016-17 will partly come from a full house of UK mobile operators working with Google Play¹⁸, which would result in a significant leap on the 4.9 million users that already charge the downloading of games or apps to their mobile bill.

Innovation in the traditional industry: Up until recently, the traditional PRS industry has been looking to protect what has been a declining market. With relative stability, the PRS industry has begun to evolve their business models or look to expand their offering. Typically, content companies are launching innovative pricing modes, such as a price point of £1.50 per week for a subscription model, or bundled packages.

Content is one area where providers are looking to evolve, though this is more of a strategy to exploit ready-made opportunities in the wider mobile ecosystem rather than PRS innovation. Health apps is one area being targeted by content companies seen as an ideal proposition for a PRS-based subscription model. As is educational apps targeting the young demographic based on gamification.

Revisiting the affiliate model: Social media platforms are also being adopted for customer acquisition as companies look to avoid paying the high cost per acquisition (CPA) rates imposed by affiliate networks, and to negate the non-compliant risk added by using affiliates. While the use of social media represents another challenge in terms of monitoring, it is effectively handing the control of customer acquisition back to the company and disintermediating the affiliates.

¹⁵ Source: <http://www.businessofapps.com/app-revenue-statistics/>

¹⁶ Source: <http://uk.businessinsider.com/apple-app-store-sales-were-20-billion-in-2015-2016-1>

¹⁷ Source: industry research

¹⁸ Source: according to industry research

Where next for operator billing and PayforIt?

Operator billing: According to Juniper Research, the UK digital market is worth £5.5 billion¹⁹, but operator billing accounts for 2% of total market revenues²⁰. As this report has highlighted, traditional content and services are now being purchased via operator billing, but for operator billing to become a genuine challenger to cards and PayPal and other mechanics, it needs to establish a more forward-looking opportunistic model.

The mobile operators and PRS industry alike have expressed great optimism regarding mobile ticketing²¹, which is being touted by industry as the — for want of a better phrase — “golden ticket” in terms of future revenue generation. Consumer interest supports this vision. The real question is how fast can the mobile industry move to capitalise on this opportunity.

For example, Barclays claims 8-9% of the UK population have registered to use Pingit²². Alternatively, Paym links a user’s mobile number to their bank account to make payments without the need of sort codes of account numbers²³. Since its launch in July 2014, it has over 3.2 million registered users making average payments of £49.48.

Both Apple Pay and Android Pay have now launched in the UK and can be used in over 250,000 locations. Samsung Pay is expected to follow in the near future. While it’s too soon to gauge the UK’s consumption and usage of Android Pay, Apple Pay usage is believed to be slow because of the 86 million contactless cards in circulation²⁴.

PayPal potentially poses the great challenge to the adoption of operator billing. PayPal has single click buttons which it claims increases sales by 7.4%²⁵, and has 10% of its users signed up for single click²⁶.

Making the most of the opportunity: The consumer and industry research undertaken as part of this market review suggests that operator billing has a potentially very bright future. Operator billing boasts a conversion rate which suggests it should be considered as a primary payment channel for merchants. Conversion rates using operator billing can be seven or eight times higher than existing payment channels²⁷, so much so that Spotify converted operator billing as a payment option on its mobile platform into its default payment mechanism. However, questions remain about how this can be realised. A number of actors within the industry are now taking up this challenge.

Merchants continue to use card payments as a catchall channel supplemented in recent years with PayPal. There is a belief throughout the PRS industry that operator billing is being viewed by merchants as an alternative payment channel to PayPal, and not as an additional one.

But first mobile operators and L1s must uncover ways of encouraging more merchants to the negotiating table. Industry research suggests for every merchant willing to engage, there are 100 that are yet to be convinced²⁸. Operator billing continues to be a difficult sell despite exceptional conversion rates, which indicates there are hurdles for the industry to address in order to attract more merchants, including:

¹⁹ Source: Juniper Research
²⁰ Based on FY2015-16 financial data
²¹ Source: industry research
²² Source: Barclays spokesperson at AIME General Meeting, April 2016
²³ <http://www.paym.co.uk/2016/02/09/usage-of-service-nearly-doubling-every-6-months/>
²⁴ Source: Juniper Research; <http://mobilemarketingmagazine.com/apple-pay-struggling-outside-us/>
²⁵ Source: <https://www.paypal.com/uk/webapps/mpp/express-checkout>
²⁶ Source: industry research
²⁷ Source: Industry research
²⁸ Source: Industry research

A change of mindset: Part of this reason can be attributed to the fact that operator billing continues to be closely associated with PayforIt. PayforIt has a negative brand identity within the PRS industry, which may have filtered into the merchant community.

However, 100% of consumers participating in the street research had not heard of PayforIt. The failure of PayforIt to develop as a consumer brand provides a fantastic opportunity for the introduction of an industry-wide operator billing brand that can be advertised by merchants, and promoted by mobile operators, with a view to becoming a trusted consumer brand in the same vein as PayPal.

More attractive margins and easy “on-boarding”: Big brands and major merchants are typically distracted by the size of the margins offered by mobile operators with regard to operator billing, with mobile operators still looking to take up to 15%²⁹. Last year’s report³⁰ revealed that mobile operators would be willing to drop their transaction fee to 7% or 8%, or even lower depending on the business model, in order to drive the operator billing opportunity.

To deliver the true potential of operator billing to the big brands and major merchants, it will require a consistent cross-network approach from a united set of mobile operators. Ideally, big brands or merchants will want to avoid undertaking four separate rounds of negotiations and contracts. Especially considering the integration process of operator billing takes 6-12 months³¹, which, as things stand within the UK, is a process that would need to be replicated with every mobile operator.

PayPal is setting the precedent by developing a simple sign-up process for merchants to access its global platform and this is a model the mobile operators should seriously consider. If mobile operators are unable to develop a consistent on-boarding process for merchants, the opportunity to integrate with a third-party global platform provider will present a logical alternative.

Figuring out PayforIt: Industry research suggests PayforIt has reached a crossroads. With revenues from adult and non-broadcast competitions set to drop in FY2016-17 by 21% and 16% respectively, transactions completed via PayforIt are forecast to fall. PayforIt will not become the mobile operators’ operator billing brand, and is most likely to remain a bespoke payment mechanic for age-related services that are excluded from app stores, such as adult and non-broadcast competitions.

During industry research it became clear that faith in PayforIt was low and frustration with it has permeated all parts of the value chain.

A change in lexicon: Perhaps unsurprisingly, the PRS lexicon is steeped in the existing industry. By creating a new term for the next-generation of established companies and brands using operator billing (and other premium rate services, such as voice), this would help to segregate and make a clear distinction between next-generation of companies from traditional PRS-based L2s.

²⁹ Source: industry research

³⁰ Annual market review 2014

³¹ Source: industry research

Clear Billing: To accommodate the growing adoption of operating billing by consumers, mobile operators are looking to invest in their billing platforms to provide greater information to consumers. Presently, mobile operators' bills are restricted to between 8-11 characters, which severely limits the description of the content or service being charged.

PRS typically appears on a consumer's bill as a short code, which is unhelpful to consumers and explains why consumers query an unfamiliar number appearing on their bill. With consumers expected to frequently place £30 transactions on their phone bill in the coming years, whether for digital, physical or quasi-physical goods or services, they will need to know what that transaction is for.

A number of these issues are already being addressed through industry and regulatory initiatives. PhonepayPlus has just completed the latest update of its Code of Practice and the 14th edition will come into force on 12 July. The changes are focussed on improved investigations, sanctions and enforcement procedures which are aimed at providing a more efficient and cost-effective means of enforcement. In addition PhonepayPlus has embarked on an initiative to look at its regulatory framework with the goal of supporting innovation and growth in the PRS market while continuing to provide high levels of consumer protection. A policy document and consultation are expected later this year which will set out PhonepayPlus's thinking in greater detail for industry comment. Likewise, the mobile operators have launched a programme of activity to promote operator billing.



METHODOLOGY

mobilesquared were commissioned by PhonepayPlus to conduct the 2015-16 PRS Annual Market Review. This is the first year the Annual Market Review will be based on PhonepayPlus' Financial Year from April 1 to March 31, replacing the calendar year structure employed in previous reports. To this end, all financial- and market revenue-based analysis included within this report will be based on Financial Year data. As a point of reference, Mobilesquared has retrospectively updated FY2014-15, which can be found at the end of this section. This will be used as a point of comparison for FY2015-16 data.

The annual market review aims to:

- accurately size the market for PRS and the sectors within it
- assess how consumers' engage with PRS
- assess year-on-year trends to date in the market, with an appraisal of the FY2016-17 outlook for the various market sectors

To maintain consistency, mobilesquared has again adopted the 5-step 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.

Methodology at a glance

Target	Research	Sample	Process	Date
PhonepayPlus / AIME	N/A	N/A	Create database	Jan 2016
Consumer	Quan	3,000	Online survey	Feb-Mar 2016
Consumer	Qual	96	1-2-1 interviews	Mar 2016
Industry	Qual	50	1-2-1 interviews	Feb-May 2016
Industry	N/A	10	Sense check	Jun 2016

Consumer: Quantitative research

The quantitative research was based on an online survey to a nationally-representative sample in the UK aged 11+ years old. Parental permission was sought for participants aged 16 and under. Questions in relation to Adult, Dating and Gambling did not go out to the under 18s. In total, 7,250 panellists started the survey, with 4,250 screened out for claiming to have not used at least one premium-rate service over the previous 12 months, leaving 3,000 PRS panellists to complete the survey and share their PRS habits, expenditure, emerging trends, and future requirements.

The consumer survey went live on the morning of 10/03/2015 and closed on the evening of 24/03/2016.

Quantitative research demographic breakdown								
	11-15	16-17	18-24	25-34	35-44	45-54	55-64	65+
Female	91	51	213	275	224	172	163	300
Male	90	46	52	174	249	331	246	323
Total	181	97	265	449	473	503	409	623

The quantitative survey was conducted by Bilendi Limited.

Consumer: Qualitative research

To sense-check findings from the quantitative research into consumer views, behaviour and their understanding of PRS, qualitative consumer research was conducted on the streets of Reading, Woking, Bracknell and Guildford, during May 2016. In total 96 people aged between 16 and 65+ took part in the research.

	11-15	16-17	18-24	25-34	35-44	45-54	55-64	65+
Total	0	7	18	14	20	13	12	12

Industry: Qualitative research

Qualitative industry research was based on in-depth interviews of businesses operating within the PRS space, and regulated by PhonepayPlus. The research also included companies operating outside of the PRS space to provide a more holistic overview of the telecommunication and content sectors, and PRS' role within that.

mobilesquared conducted 50 in-depth interviews to provide a complete overview of every sector within the PRS market in the UK, covering the past, present and future. The interviews were based on a survey created with direct input from PhonepayPlus, AIME, and senior industry figures.

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 PhonepayPlus, although changes in market trends and market developments were taken into account.

The interviews were used as background to provide market commentary throughout this report, and to provide data and input into the FY2015-16 market modelling process and FY2016-17 forecasting.

The research took place between February 2016 and May 2016.

Market modelling

The market-modelling exercise took summary data (revenue, excluding VAT) from the network returns submitted to PhonepayPlus and combined this with survey data about stated use of different services by consumers. The subsequent model produced estimates of revenue for the 18 different categories of service as identified

in the updated PRS taxonomy (see 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 data³² of residents aged 11 and over, was used to extrapolate a total PRS user base for the UK, applicable to the start of April 2015. This resulted in an estimated PRS user base of 22.9 million people.

The total PRS 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. All references to PRS users or usage will be based on the consumer research findings, unless stated otherwise.

The network returns revenue data does not contain estimates of the value of charitable donations by premium rate, so figures for charitable donations were introduced to the model on the basis of a robust figure derived from figures supplied by industry players working in that sector, and data from the consumer survey. This is a departure from the methodology in previous years, in which estimates of charitable donations by premium rate were calculated as a percentage of the rest of the market. Overall, market revenues and forecasts have been sense-checked by members of the PRS industry.

Forecasting

Sector-by-sector forecasting of FY2016-17 revenues has been undertaken for this report. The methodology employed in the forecasting was similar to that used for the FY2015-16 model. Forecast annual revenues for each payment platform were derived by taking the annual totals from FY2014-15 and extrapolating to FY2016-17 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.

³² Source: <http://webarchive.nationalarchives.gov.uk/20160105160709/http://www.ons.gov.uk/ons/publications/re-reference-tables.html?edition=tc%3A77-368259>

Updated service taxonomy

To address the changing services in the market, the service taxonomy for the PRS industry has been updated and is based on the following:

2014 categories	FY2014-onward categories
Directory enquiries (eg numbers starting 118)	Directory enquiries (eg numbers starting 118)
Voice-based information services (eg weather hotline, text alerts, etc.)	Voice-based information services (eg weather hotline, text alerts, etc.)
Low cost international or reverse charge calling	Low cost international or reverse charge calling
Internet-based information services (books, magazines, newspapers)	Internet-based information services (books, magazines, newspapers)
Competitions or quizzes	Non-broadcaster competitions or quizzes (online)
TV or radio show voting, interaction (e.g. X Factor voting) & competitions	TV & Radio competitions or quizzes
	TV or radio show voting or interaction (e.g. X Factor voting)
Adult content (eg video clips, chat, images)	Adult content (eg video clips, chat, images, off-handset purchases for adult-related content, e.g. DVD unlock)
Off-handset purchases for adult-related content (e.g. DVD unlock)	
Dating or flirt chat service	Dating or flirt chat service
Betting or gambling (eg betting, lottery, scratch cards)	Betting or gambling (eg betting, lottery, scratch cards)
Games or apps charged to my bill (not on social networking sites)	Games or apps charged to my bill (not on social networking sites)
Games on social networks -	Games on social networks -
Virtual gifts in the social media space such as Swaplts	Virtual gifts in the social media space such as Swaplts
Music or video content	Music or video content
Tarot or astrology	Tarot or astrology
Ringtones, ringback tones, wallpapers etc	Ringtones, ringback tones, wallpapers etc
Charity donations	Charity donations
Customer service (eg advice, sales or support)	Customer service (eg advice, sales or support)

Satisfaction rating + Net Promoter Score

To create a satisfaction rating, we asked consumers to rank how satisfied they were with:

- A. With a service
- B. With the purchase experience
- C. With the value for money it offered
- D. With the post-purchase experience (did you receive a receipt, did the expected cost appear on your phone bill, etc)

Consumers were asked to rank each option with 1 very dissatisfied and 5 very satisfied.

To create an overall satisfaction rating for each service type, the responses were combined and then averaged out.

The Net Promoter Score is based on the simple calculation:

Promoters (i.e. the percentage of respondents that were extremely satisfied) - (minus)
Detractors (i.e. the percentage of users that ranked PRS as either 1, 2, or 3).

The Net Promoter Score is a management tool used to gauge the loyalty of a business' customer base.



FINANCIAL YEAR 2014-15

Updated from the 2014 Annual Market Review

All values exclusive of VAT.

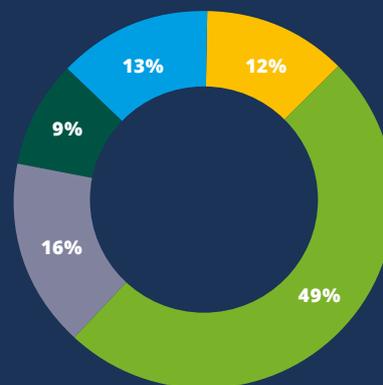
The premium rate services (PRS) market generated £679.3 million in Financial Year (FY) 2014-15. The total revenues, excluding charity, was £564.9 million.

Mobile (including voice short codes) generated £225.3 million, accounting for 33% of total revenues, ahead of charity (£115 million), directory enquiries (£108.8 million), voice PRS & red button (£83.9 million), operator billing & Payfortl (£82.5 million), and voice 087 (£64.4 million).

In total, mobile accounted for 61% of revenues with voice 39%.

Fig. 26

- Mobile (including voice shortcodes + charity)
- Operator billing & Payfortl
- Voice PRS/09 & TV red button
- Voice 087
- Directory enquiries (DQ)



Market
size by
payment
type,
FY2014-
15

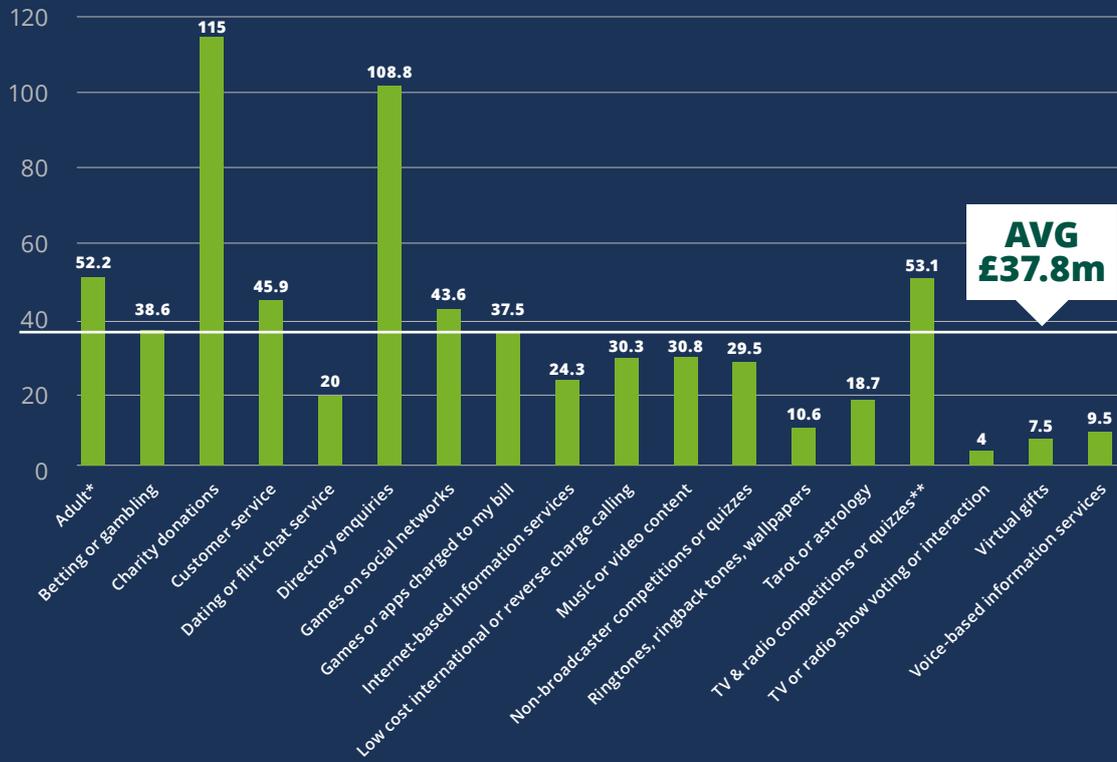
Source: PRS
market sizing for
PhonepayPlus

When market revenues are broken out by service type¹, charity is the largest service by generating £115 million in donations accounting for 17% of total revenues. Charity is followed by directory enquiries (£108.8 million), TV or radio interaction including broadcaster competitions (£53.1 million), and adult (£52.2 million).

Across the 18 service types, the average PRS generated revenues of £37.8 million in FY2014-15. Other than those services listed above, only customer service and games on social networks, are above average revenues. The three services generating the least revenues are voice-based information services (£9.5 million), virtual gifts (£7.5 million) and TV or radio interaction (£4 million).

³³ Based on the revised Service Taxonomy – see Methodology

Fig. 27



PRS Market revenues by service type, FY2014-15 (£m excl. VAT)

* & ** Based on the revised Service Taxonomy. See Methodology

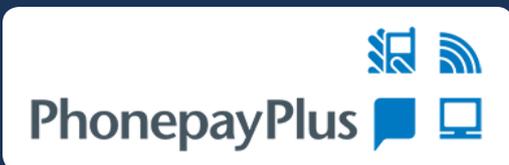
Source: PRS market sizing for PhonepayPlus



About mobile squared

mobile squared provides intelligence and insight on the mobile sector. We've been analysing the mobile space for two decades, so our expertise has been earned, not learned. Our instinctive ability to ask the right questions uncovers invaluable nuggets of insight, which we interpret to help shape truly effective strategy for our clients. Our experience is recognised by the industry - we sit on judging panels for the prestigious GSMA Awards, EMMA awards, and the MEFFYs.

For more information go to www.mobilesquared.co.uk



About PhonepayPlus

PhonepayPlus is the UK's independent regulator of premium rate services (PRS).

Premium Rate Services (PRS) are the goods and services that you can buy by charging the cost to your phone bill or pre-pay account.

They include directory enquiries, voting on TV talent shows, donating to charity by text or downloading apps on your mobile phone.

Our regulation is open, fair, and robust, underpinned by a Code of Practice approved by Ofcom.

As the telecoms, internet and payments sectors continue to grow globally at an unprecedented rate, PhonepayPlus takes action to safeguard consumers and help cutting-edge providers of digital content and services to thrive.

Our vision is that anyone can use premium rate services with absolute confidence in a healthy and innovative market.