



Report for the Phone-paid Services Authority

# Annual market review for phone-paid services 2021– 2022

*August 2022*

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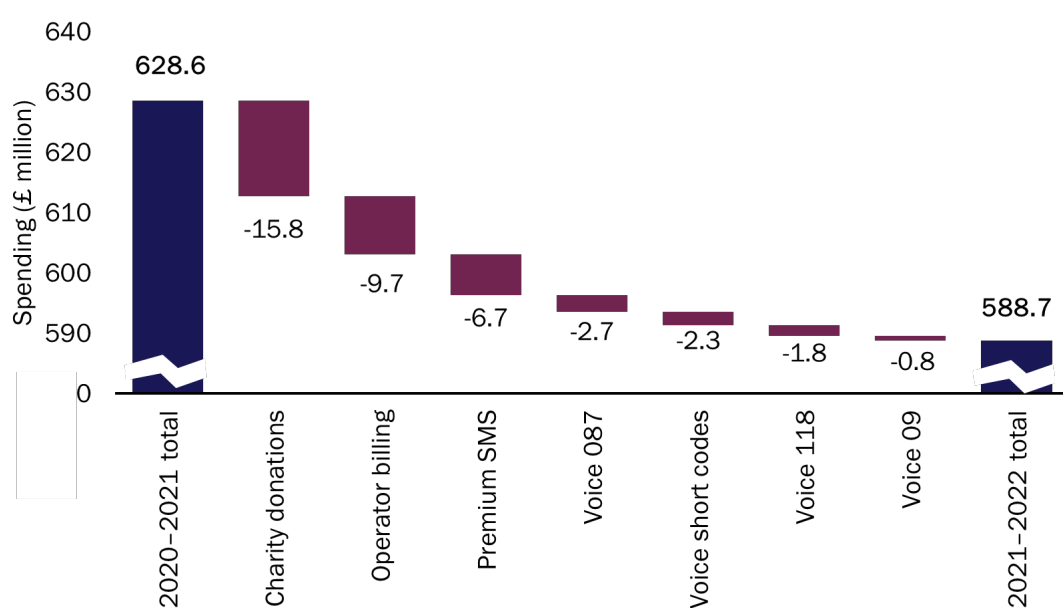
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# 1. Executive summary

This report is the annual review of the phone-paid services market for 2021–2022,<sup>1</sup> prepared by Analysys Mason on behalf of the Phone-paid Services Authority. It provides an overview of the size of the phone-paid services market in the UK for 2021–2022, a discussion of the key market drivers and an outlook for the market until 2024–2025. The report draws upon a survey of 8384 consumers that was conducted between March and April 2022 in which respondents were asked about their use and perception of phone-paid services. This report also includes quantitative modelling of market demand, alongside insights from in-depth interviews with 17 industry participants from across the value chain.

Consumers in the UK spent £588.7 million (excluding VAT) on phone-paid services in 2021–2022. This is a 6.3% drop from the £628.6 million spent in 2020–2021. Figure 1.1 shows that spending via all payment channels declined year-on-year, but that spending on charity donations fell particularly steeply (–£15.8 million). Revenue generated by services using operator billing, premium SMS and voice 09 services has been eroding since 2020–2021, while that from all other channels (voice short codes, voice 087, voice 118) has been in decline since 2017–2018.

Figure 1.1: Change in end-user spending (excluding VAT) between 2020–2021 and 2021–2022, by spending channel, UK<sup>2</sup>



Source: Phone-paid Services Authority

<sup>1</sup> The 2021–2022 date range refers to the Phone-paid Services Authority's 2021–2022 fiscal year, which runs from 1 April 2021 to 31 March 2022 (also referred to as 'the past 12 months' in this report). The 2022–2023 fiscal year should be understood as the period that runs from 1 April 2022 to 31 March 2023 (also referred to as 'the next 12 months' in this report). The same terminology applies to 2023–2024 and 2024–2025.

<sup>2</sup> Note that the numbers in the figures in this report are rounded, so totals may not appear to be equal to the sum of the market segments. This chart shows the total spend in 2020–2021 on the left-most bar and the total spend in 2021–2022 on the right-most bar. Bars in between show the growth (in light purple) or decline (in dark red) by spending channel.

The main trends within the key service categories that make up each spending channel are as follows.

- The decline in charity donations has been driven by two main factors. The BBC’s Big Night In event of April 2020 (which generated £27.3 million overall via both phone-paid donations and other payment methods) did not run this year, which reduced the amount of donations generated by televised events, despite Stand Up To Cancer (normally biannual) running for 2 years in a row. Non-event donations via phone-paid services were down from a bumper year in 2020–2021. This is because many causes captured the public attention in 2020–2021 (for example, NHS Charities Together), and an increase in the cost of living in recent months and a form of displacement effect have resulted in people giving less after giving more than normal in the previous year.
- The decline in spending on operator billing is due to a combination of factors (Figure 1.2). The end of COVID-19 lockdowns led to a reduction in gaming and a fall in the frequency of games purchases. The agreement between Three and Apple expanded the pool of potential users, but the overall consumer spend on games downloaded from app stores only marginally increased. Entertainment services have been less affected by the end of restrictions because individuals have continued to use their subscriptions post-lockdown. However, the extension of special conditions from select subscription services to all subscription services from November 2019 onwards has led to a continued decline in the use of certain services. These special conditions include additional steps for consumers when signing up to subscription services and a requirement for service providers to be more transparent about the amount being charged. This is likely to have significantly reduced the number of impulsive and unintended purchases, thereby reducing spending within this payment channel.
- Spending via premium SMS declined because legacy and subscription-based services continued to lose users, and the growth in spending in the high-value TV and radio engagement segment has slowed considerably (see Figure 1.3). Radio competitions recovered some of their audiences post-lockdown because individuals returned to the office and benefitted from the standardisation of a competition entry fee of £2.00 (up from £1.50), but TV audiences and engagement have returned to lower, pre-pandemic levels, with airtime nearing saturation.
- Spending on voice-based services that use short codes or the 09, 087, 118 numbering ranges continued to decline in line with the long-term trends of businesses migrating to other number ranges (such as 01 or 03) and online channels, a shrinking user base and the availability of cheaper or free alternatives. This decline is expected to accelerate in the future, especially within voice 09 services, due to Google’s expected renewal of its advertising ban on call directory and forwarding services.

Figure 1.2: End-user spending (excluding VAT) via operator billing, by service category, UK, 2020–2021 and 2021–2022<sup>3</sup>

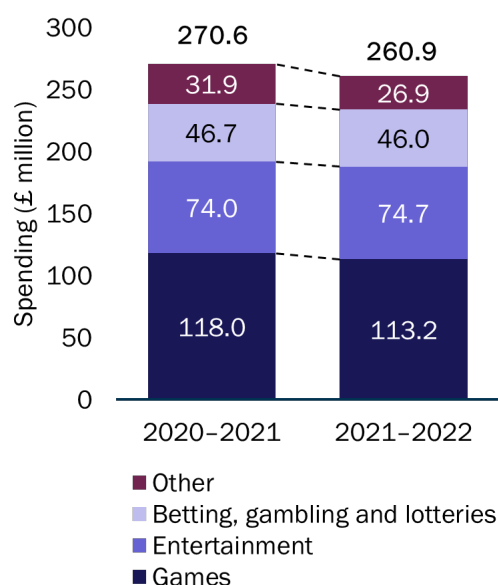
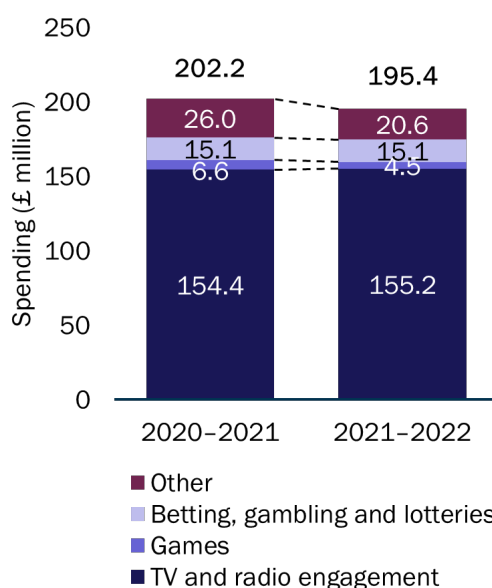


Figure 1.3: End-user spending (excluding VAT) via premium SMS, by service category, UK, 2020–2021 and 2021–2022<sup>4</sup>



Source: Analysys Mason and Phone-paid Services Authority

We have compared the forecast produced as part of the 2020–2021 annual market review with the actual data collected this year. Figure 1.4 shows that the most significant differences between the forecast and the actual data were found across the premium SMS and operator billing channels; the differences for charities, voice 118, voice 087 and voice 09 services were only marginal.

Figure 1.4: Comparison of our forecast results for consumer spending on phone-paid services with actual spending, UK, 2021–2022

Payment channel	Forecast change In spending	Actual change In spending	Comments
Premium SMS	–£3.9 million (–2.0%)	–£6.7 million (–3.3%)	We expected that spending on competitions run by TV channels and broadcasters would continue to grow, albeit to a lesser extent than in previous years because of the end of the lockdowns. However, the end of COVID-19 restrictions had a stronger effect than anticipated, and resulted in only marginal growth in this segment. In addition, we slightly underestimated the magnitude of the continuous decline in spending on legacy and subscription-based services.
Operator billing	–£2.8 million (–1.1%)	–£9.7 million (–3.6%)	As expected, spending on games declined after previously benefitting from increased usage during lockdowns, though to a greater extent than anticipated. The impact of the agreement between Three and Apple in December 2020 was not as large as expected. We

<sup>3</sup> 'Other' includes the remaining eight service categories: competitions and quizzes; device personalisation and security; digital payments; information, news and education; lifestyle; personal and relationship services; sexual entertainment and TV and radio engagement. No single category in 'Other' is estimated to have generated 10% or more of the total channel revenue.

<sup>4</sup> 'Other' includes the remaining eight service categories: competitions and quizzes; device personalisation and security; digital payments; entertainment information, news and education; lifestyle; personal and relationship services; and sexual entertainment. No single category in 'Other' is estimated to have generated 5% or more of the total channel revenue.

Payment channel	Forecast change In spending	Actual change In spending	Comments
			also anticipated that spending on gambling, betting and lotteries would grow due to the return of year-round sports betting and the substitution of credit card payments with operator billing. This did not materialise because gambling service providers became reluctant to support operator billing out of fears that it was also covered by the ban on credit card use for gambling (despite confirmation from Government that this is not the case).
Charity donations	–£15.7 million (–23.8%)	–£15.8 million (–24.0%)	Revenue declined as expected. However, the mix between televised events and non-event donations was different to what was anticipated; we did not expect that Stand Up to Cancer would run for a second consecutive year, nor did we anticipate the one-off Concert for Ukraine, which boosted televised event donations. We also anticipated a slight increase in non-event donations as a result of increased giving in 2020–2021, but this did not occur, possibly because of the recent increase in the cost of living or a displacement effect.
Voice 09	–£0.8 million (–1.5%)	–£0.8 million (–1.5%)	The reasons for decline are as expected: reduced advertising of services and the loss of existing users to cheaper alternatives or alternative payment methods.
Voice short codes	–£1.8 million (–14.8%)	–£2.3 million (–18.2%)	
Voice 087	–£2.0 million (–11.5%)	–£2.7 million (–15.8%)	Spending declined for reasons predicted, which were related to long-term declines in usage as core user bases migrated online or to cheaper alternatives.
Voice 118	–£2.0 million (–24.0%)	–£1.8 million (–21.6%)	

Source: Analysys Mason and Phone-paid Services Authority

We anticipate that the phone-paid services market will decline by a further 2.0% between 2021–2022 and 2022–2023, from £588.7 million to £577.0 million (see Figure 1.5).

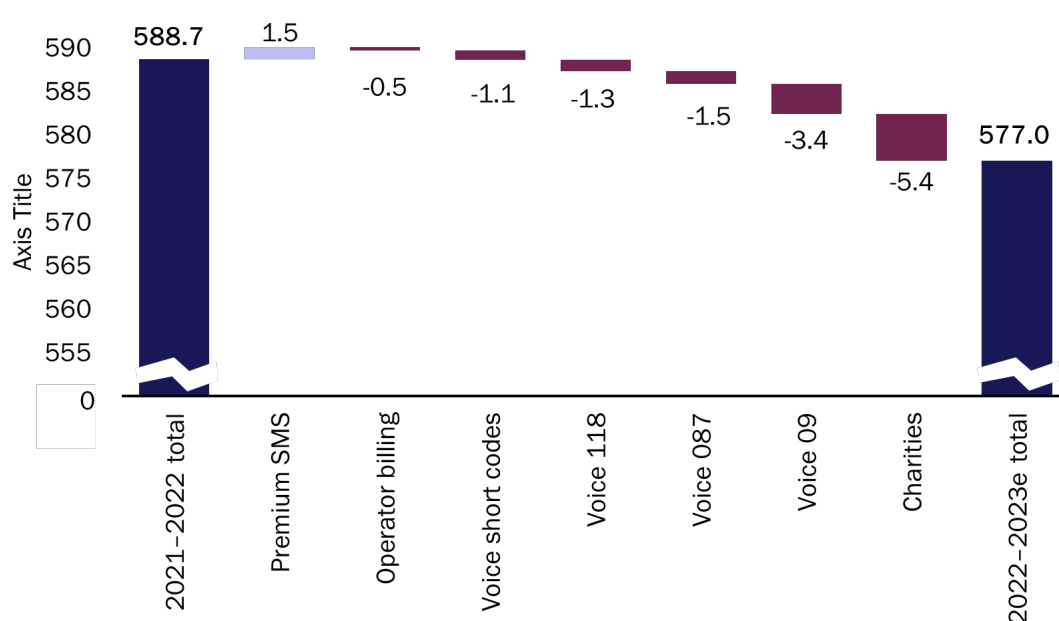
- Revenue generated via operator billing is expected to remain broadly flat (–0.2% year-on-year). Spending on games downloaded from app stores and entertainment services is expected to continue to grow steadily, though this growth is likely to be offset somewhat by a continued decline in the use of legacy and subscription-based services. Spending on gambling services should resume growth as betting and gambling service providers better understand that phone-paid services are not included in the Gambling Commission’s ban on credit cards for its services, so can be used.
- Spending via premium SMS is expected to increase marginally by 0.7% year-on-year, driven by the good performance of radio broadcast competitions as consumers return to work and pre-pandemic habits. On the other hand, spending on TV services is expected to remain flat due to airtime saturation. Spending on subscription services will continue to decline, for similar reasons as in previous years, while spending on other legacy services will generally fall as service providers move to alternative options or exit the market.
- Charity donations are expected to decline by 10.7% compared to 2021–2022 due to the seasonality of larger televised events, and with Stand Up to Cancer reverting to a biannual schedule (after running back-to-back



over 2020–2022). The ongoing cost-of-living crisis may further affect the number and average size of donations.

- End-user spending on voice-based services (including voice 09, voice 087, voice 118 and voice short codes) will continue to decline for long-standing reasons regarding the availability of alternatives to legacy services. Both users and service providers are migrating online or to cheaper alternatives, which means that there is no reason for users to return to premium-rate voice services. However, the rate of decline is generally likely to be slower than it was during 2021–2022. Voice 09 services are the exception; the expected renewed implementation of Google’s advertising ban on ICSS is likely to have a negative effect and cause a greater decline in spending in 2022–2023 than was observed in 2021–2022.

Figure 1.5: Change in end-user spending (excluding VAT) between 2021–2022 and 2022–2023 (estimated), by spending channel, UK<sup>5</sup>

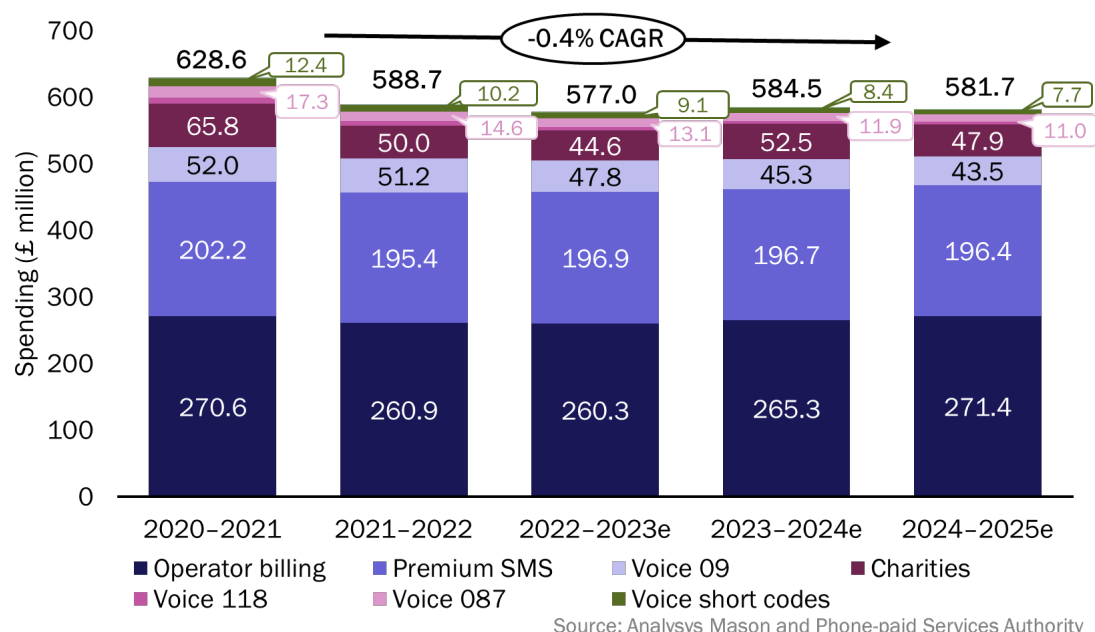


Source: Analysys Mason and Phone-paid Services Authority

We expect that the phone-paid services market in the UK will be worth £581.7 million in 2024–2025 (+0.8% from 2022–2023, Figure 1.6). We expect that spending via operator billing will increase, but that there will be a slight decline in spending on premium SMS and a more general decline in spending on legacy, voice-based services. Charity donations will continue to fluctuate throughout the forecast period, but will have a slight upward trajectory. Spending on key services, including TV and radio engagement, games, entertainment and betting, gambling and lotteries services will grow incrementally, while spending via most voice-based payment mechanisms will continue to decline. As a result, the overall market will remain relatively stable throughout the forecast period.

<sup>5</sup> This chart shows the total spend in 2021–2022 on the left-most bar and total forecast spend in 2022–2023 on the right-most bar. Bars in between show growth (in light purple) or decline (in dark red) by spending channel.

Figure 1.6: End-user spending (excluding VAT) by spending channel, UK, 2020–2021 to 2024–2025e (estimated)



Our consumer survey suggests that approximately 60% of the British population aged 16 or above used phone-paid services in 2021–2022; this is a significant increase in penetration compared to last year (54%). This may be due to a lag in reporting of usage after increased adoption during the COVID-19 lockdowns; we also slightly modified our survey introduction to now include a range of wider example services (e.g., streaming services) which may have caused more individuals to recognise they have used phone-paid services. Phone-paid service usage was motivated by similar drivers to previous years; convenience is again the biggest driver of usage, but by a greater margin than in 2020–2021 (+7% compared to the second-top driver versus +2% in 2020–2021). 26% of users reported problems with phone-paid services in 2021–2022; the main problem reported was difficulty in accessing or using services, as in 2020–2021. As with last year, problems are most likely to occur when using sexual entertainment, connection services and personal and relationship services, though these three categories accounted for a slightly decreased share of respondents experiencing issues in 2021–2022. Overall, the Net Promoter Score for the phone-paid services industry (–26) increased slightly compared to that in 2020–2021 (–27); entertainment services had the highest score at –1.

## 2. Introduction

This report is the annual market review of the phone-paid services market for 2021–2022,<sup>6</sup> prepared by Analysys Mason on behalf of the Phone-paid Services Authority. It provides an overview of the size of the phone-paid services market in the UK between 1 April 2021 and 31 March 2022, a discussion of the key market drivers, an outlook for the market in 2022–2023 and a forecast of consumer spend up to 2024–2025. The report aims to assist the Phone-paid Services Authority (and later, Ofcom) with planning and policy-making activities and to provide insights into the current and future development of the market for existing and prospective industry participants.

This market review is underpinned by primary research, desktop research and quantitative modelling of the market.

- **We have reviewed previous studies published by the Phone-paid Services Authority**, as well as other relevant literature, to improve our understanding of the phone-paid services market. This includes individual services, spending channels and price points, regulatory decisions and key developments that may have affected the market in 2021–2022.
- **We have run a consumer survey of a nationally representative sample of 8384 individuals.**<sup>7</sup> This survey captured information from those aged 16 and above regarding their use of phone-paid services (for example, types of services used, spending channels, frequency of use and spend levels). The survey also helped to identify the key underlying factors affecting usage and overall satisfaction (such as preferences, issues and levels of trust).
- **We have conducted in-depth interviews with executives in senior positions across 17 organisations** (referred to in this report as ‘industry participants’ or ‘interviewees’) in the phone-paid services industry, including mobile operators, fixed line operators, intermediaries, and merchants.
- **We have used information from the consumer survey and interviews to validate our understanding of the main market developments** over the past 12 months in order to provide evidence for our modelling assumptions and to produce a clear picture of the current state and size of the market in 2021–2022 and its outlook up to 2024–2025. We have also critically assessed our own market review from last year, determined the reasons for inaccuracies in our previous market modelling and identified the most useful elements of our survey. This year’s report builds on this cumulative knowledge and, as a result, we expect that the information presented here will be more accurate, barring any unexpected changes in macroeconomic conditions.<sup>8</sup> More detail on our modelling methodology can be found in Annex B.

<sup>6</sup> 2021–2022 refers to the Phone-paid Services Authority’s 2021–2022 fiscal year, running from 1 April 2021 to 31 March 2022 (also referred to as ‘the past 12 months’ in the text). The 2022–2023 fiscal year should be understood as the period running from 1 April 2022 to 31 March 2023 (also referred to as ‘the next 12 months’ in the text). The same terminology applies for 2023–2024 and 2024–2025.

<sup>7</sup> Field work for the consumer survey was conducted by market research company Lucid between March and April 2022.

<sup>8</sup> The consequences of the COVID-19 pandemic on the broader consumer spend remain difficult to predict at the time of writing. Restrictions were eased after the bulk of the UK population received vaccinations, but there is a chance that new variants could cause the return of restrictions in the future. In addition, the COVID-19 pandemic has had implications on supply chains, which have caused inflationary pressure and affected the macroeconomic context. While developed on the basis of assumptions that we believe to be reasonable and supported by evidence from interviews with the phone-paid services industry, our forecast of spending on phone-paid services up to 2024–2025 still carries a greater degree of uncertainty than in normal circumstances as a result.

The rest of this document is structured as follows.

- Section 3 gives an overview of the size of the phone-paid services market in 2021–2022, split by spending channel and by service category.
- Section 4 provides an analysis of the key factors that have influenced the growth of the market over the past 12 months.
- Section 5 discusses the potential outlook for the market in 2022–2023.
- Section 6 comments on our expectations regarding the evolution of the market up to 2024–2025.
- Section 7 examines the typical profile of users of phone-paid services in more detail and highlights the key issues affecting their service usage.

The report includes two annexes containing supplementary material.

- Annex A contains a taxonomy of the phone-paid services analysed in this market review as well as additional market data arranged by service category and service type.
- Annex B provides further details on our market sizing methodology.

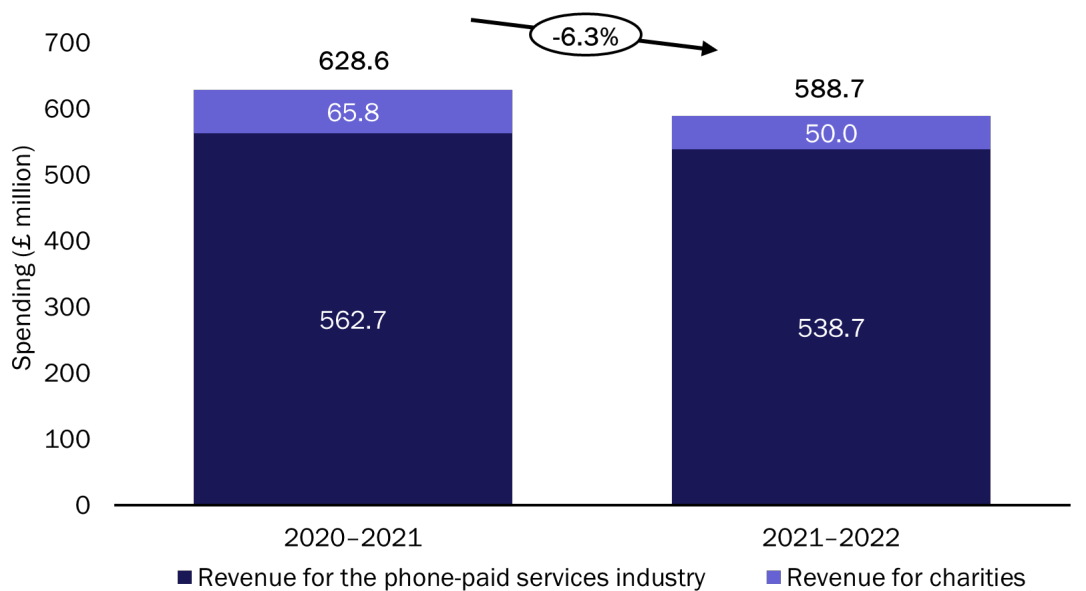
### 3. Size of the phone paid-services market in 2021–2022

Consumers in the UK spent £588.7 million (excluding VAT) on phone-paid services in 2021–2022, representing a 6.3% decline in spending from £628.6 million in 2020–2021. Consumer spending declined across all channels, including premium SMS, operator billing, voice short codes, voice 087, voice 09 and voice 118. Charity donations, which experienced an exceptional year in 2020–2021 in the midst of the COVID-19 pandemic (+£25.7 million), dropped by £15.8 million year-on-year in 2021–2022.

#### 3.1 Overall market size

Consumers in the UK spent £588.7 million on phone-paid services in 2021–2022 (–6.3% year-on-year). 92% of this (£538.7 million, –4.3% year-on-year) was generated by revenue share phone-paid services, excluding charity donations. The remaining 8% (£50.0 million) came from charities. This represents a decrease of 24% year-on-year (see Figure 3.1), though this was compared to an exceptional 2020–2021.

Figure 3.1: End-user spending (excluding VAT) on phone-paid services, UK, 2020–2021 and 2021–2022

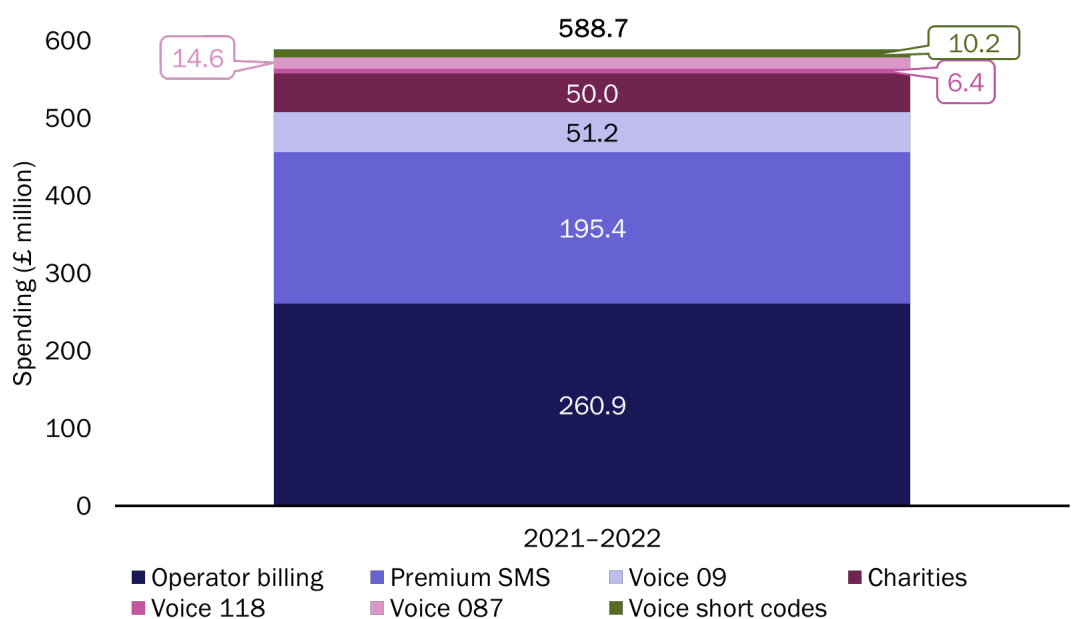


A breakdown of end-user spending by channel and service category is provided in subsections 3.2 and 3.3 below. Further explanation is then provided in Section 4, which details the main changes within each spending channel.

#### 3.2 Spend by channel

Operator billing captured the largest share of the spending on phone-paid services in 2021–2022 (44%) and accounted for £260.9 million of consumer spending, followed by premium SMS with £195.4 million (33%). Figure 3.2 provides a graphical breakdown of consumer spending by channel for 2021–2022.

Figure 3.2: End-user spending (excluding VAT), by spending channel, UK, 2021–2022

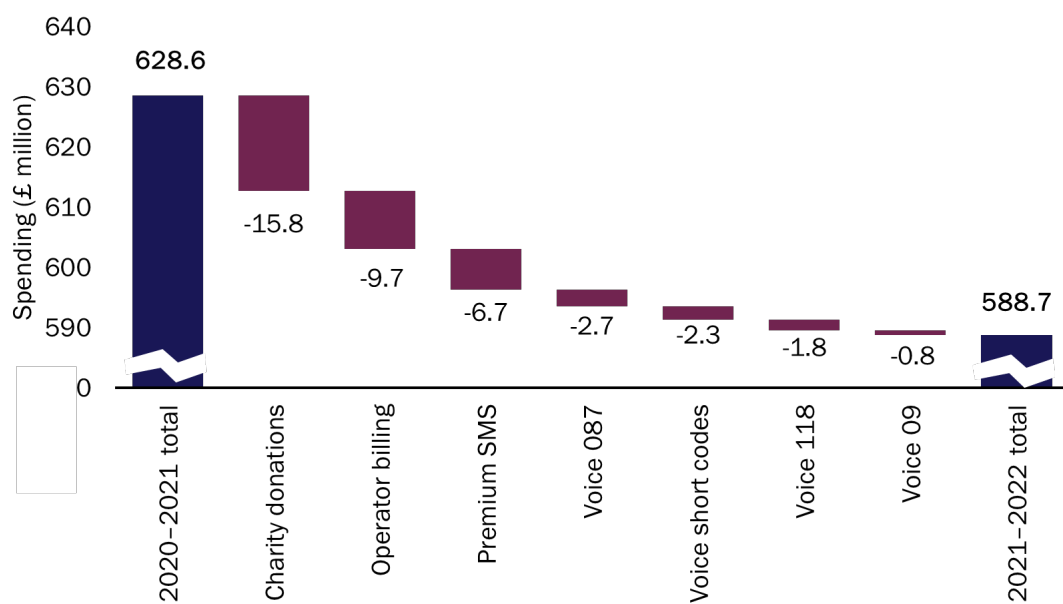


Source: Phone-paid Services Authority

The absolute net decline in the overall phone-paid services market between 2020–2021 and 2021–2022 (see Figure 3.3) was driven by reduced consumer spending across all channels.

- Spending via operator billing declined by £9.7 million year-on-year.** Spending on entertainment services and games downloaded from app stores grew, albeit more moderately post-lockdown. However, spending on many subscription-based services continued to decline as a result of the introduction of special conditions on subscriptions by the Phone-paid Services Authority in November 2019.
- Consumer spending via premium SMS decreased by £6.7 million year-on-year.** Spending on TV services declined, while that on radio engagement services increased, though to a lesser extent than in previous years. Audience sizes and levels of engagement decreased at the end of lockdown, and changes in consumer habits emerged such as listening/viewing content over a wider range of times. Spending on subscription-based services also continued to decline.
- Charity donations were down by £15.8 million compared to 2020–2021, though they were higher than in 2019–2020 and 2018–2019.** 2020–2021 was an exceptional year for charities and both the BBC Big Night In event (generated £27.3 million) and the Stand Up To Cancer televised event (normally biannual) took place. Big Night In was not renewed in 2021–2022, which led to lower donations from televised events. However, Stand Up to Cancer ran for 2 years in a row and a one-off Concert for Ukraine occurred, thereby limiting the overall decline in televised events-based donations. The number of recurring donations in 2021–2022 also declined slightly in absolute terms from 2020–2021.
- Consumer spending on voice-based services using the 09, 087 and 118 numbering range or voice short codes decreased.** Business migration to other number ranges (such as 01 or 03) and online channels, a declining user base and the availability of cheaper or free alternatives are key factors driving the continuing decline of this category. It is worth noting that this decline in consumer spending was less significant than in 2020–2021 due to a lower rate of decrease of the user base and the relatively slower decline in spending on voice 09 services.

Figure 3.3: Change in end-user spending (excluding VAT) between 2020–2021 and 2021–2022, by spending channel, UK<sup>9</sup>



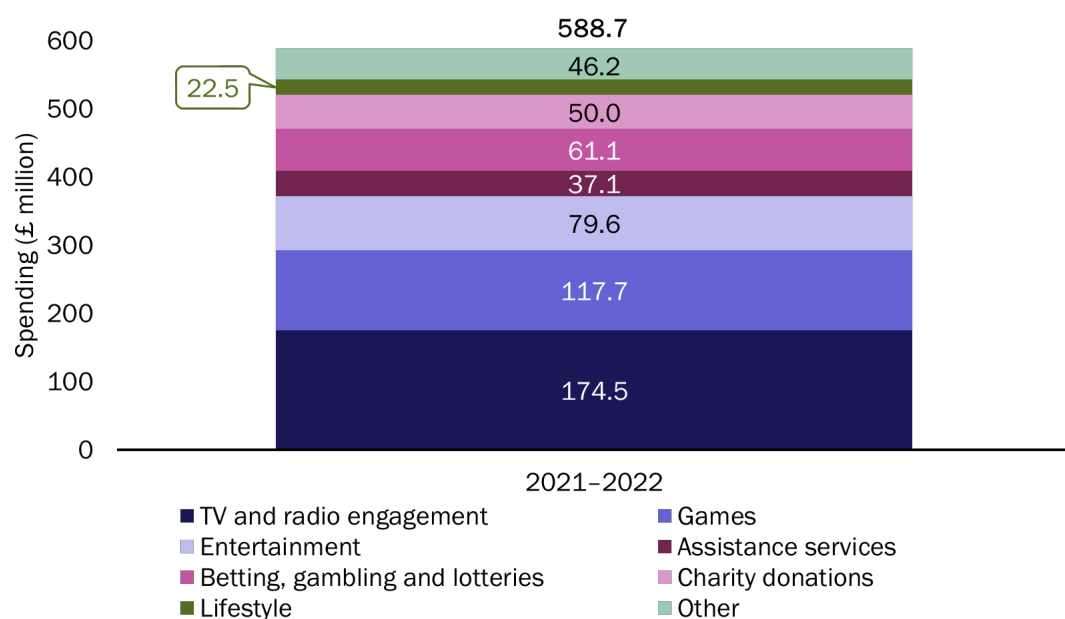
Source: Phone-paid Services Authority

### 3.3 Spend by service category

TV and radio engagement was the largest service category in 2021–2022 and accounted for an estimated £174.5 million in spending; games and entertainment services were second (£117.7 million) and third (£79.6 million), respectively. These three service categories collectively accounted for an estimated 63% of the total spend on phone-paid services. This is an increase of 3 percentage points from 2020–2021 (when these categories accounted for 60% of the total). Figure 3.4 provides an estimated breakdown of spending by service category.<sup>10</sup>

<sup>9</sup> This chart shows the total spend in 2020–2021 on the left-most bar and the total spend in 2021–2022 on the right-most bar. Bars in between show the growth (in light purple) or decline (in dark red) by spending channel (for example, charity donations decreased by £15.8 million between 2020–2021 and 2021–2022).

<sup>10</sup> Note that more detail regarding the service taxonomy (including definitions) and service-level data can be found in Annex A. Annex B expands further on our approach to estimating the breakdown of end-user spending by service category and individual service type.

Figure 3.4: End-user spending (excluding VAT), by service category, UK, 2021–2022<sup>11</sup>

Source: Analysys Mason and Phone-paid Services Authority

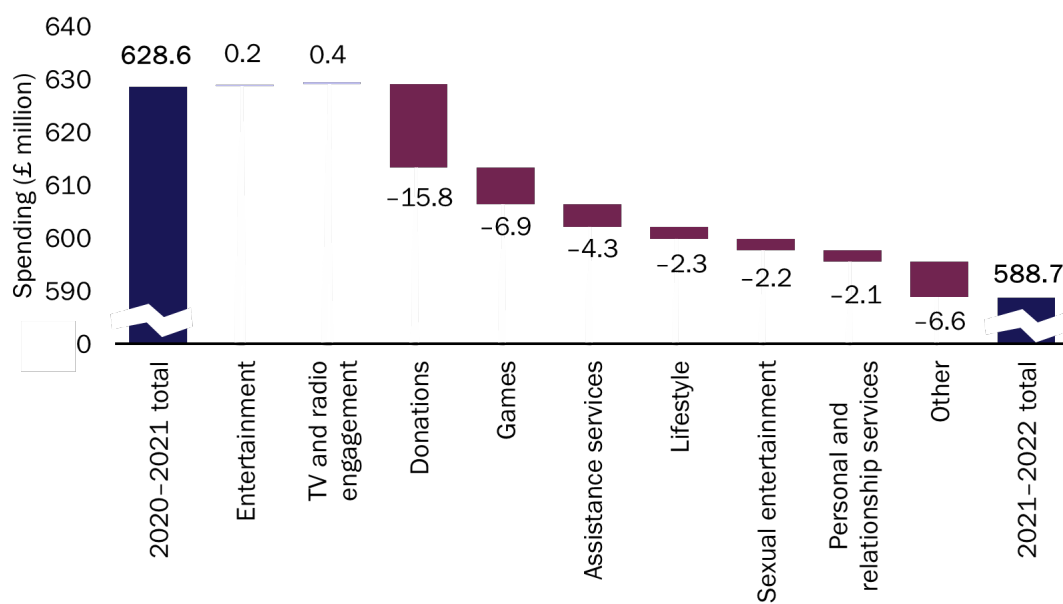
Figure 3.5 provides a breakdown of the overall, year-on-year net decline in consumer spending by service category.

- **Spending on TV and radio engagement services increased slightly (+£0.4 million)** due to an increase in radio audience sizes post-lockdown, even though TV audiences and engagement returned to near pre-pandemic levels. The standardisation of the £2.00 competition entry for radio broadcast competitions was a supporting growth driver.
- **Spending in the games segment declined by £6.9 million** due to, in part, the special conditions imposed on subscriptions in November 2019. For example, spending on games bundled through monthly subscriptions declined by £4.7 million compared to that in 2020–2021. A slight increase in the number of games downloaded from the app stores, partially due to the agreement between Apple and Three in December 2020, has had a limited effect on spend. This is because games (for example, Fortnite and those within Facebook) removed app store payment mechanisms for in-game currency and individuals spent less time at home post-lockdown.
- **Spending on all services outside of entertainment and TV and radio engagement declined.** This includes a number of legacy and subscription-based services such as assistance services (including ICSS and other voice-based connection services), sexual entertainment and relationship services. These services lost users to alternatives, largely on online platforms, that provide cheaper and/or superior offerings. Some services, including lifestyle services, also suffered from an over-saturation of poor-quality services that drove users away from the platform.

<sup>11</sup> 'Other' includes service categories that are estimated to have generated £20 million or less. This includes sexual entertainment; personal and relationship services; competitions and quizzes; digital payments; information, news and education and device personalisation and security.



Figure 3.5: Change in end-user spending (excluding VAT) between 2020–2021 and 2021–2022, by service category, UK<sup>12</sup>



Source: Analysys Mason and Phone-paid Services Authority

<sup>12</sup> This chart shows the total spend in 2020–2021 on the left-most bar and the total spend in 2021–2022 on the right-most bar. Bars in between show growth (in light purple) or decline (in dark red) in spending by service category. 'Other' includes service categories in which spending is estimated to have declined by £2 million or less. This includes betting, gambling and lotteries; competitions and quizzes; device personalisation and security; digital payments; and information, news and education services.

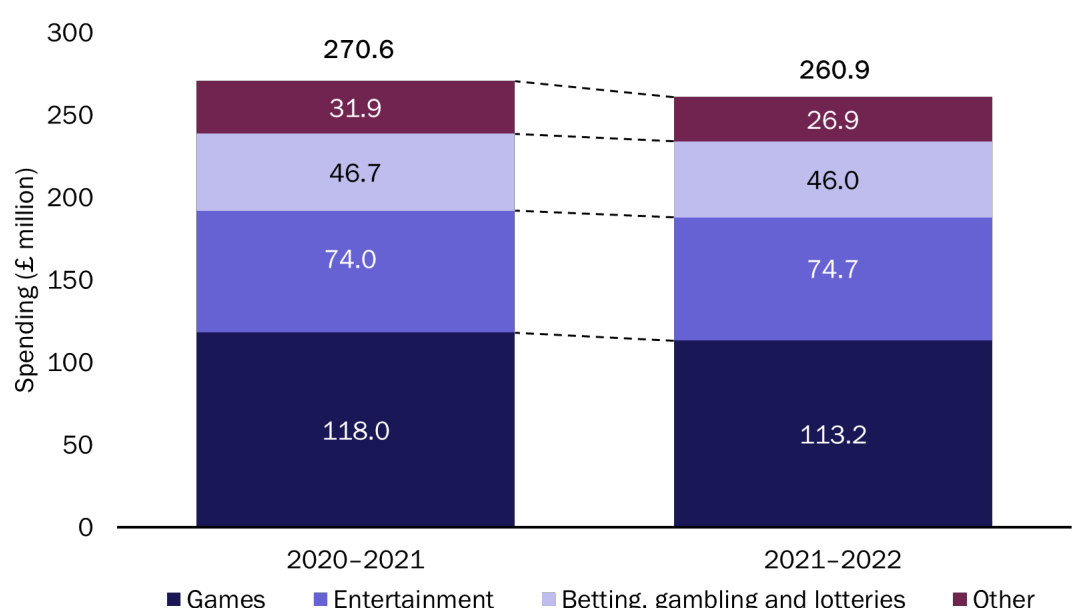
## 4. Analysis of key market drivers

Spending via all phone-paid service payment channels declined between 2020–2021 and 2021–2022. Spending via operator billing declined by 3.6% because the limited growth in spending on games and entertainment services caused by the end of the COVID-19 lockdowns did not offset the decrease in spending on subscription services following the extension of special conditions in November 2019. The scale of this effect, however, has decreased now that many users have left these services. Similarly, revenue generated via premium SMS declined by 3.3% because the modest growth in spending on radio broadcast competitions was offset by a drop in TV engagement post-lockdown (and by the continuous decline in spending on legacy or subscription-based services). Charity donations decreased by the largest amount year-on-year, partly because they were so high in the previous year. Spending on voice 09 services held up better than expected due to loyal core users and the continued appearance of some ICSS services on Google search despite the search engine's introduction of a ban on such advertising; spending on all other voice-based services declined in line with existing trends.

### 4.1 Operator billing

Operator billing was the largest spending channel in 2021–2022; it generated £260.9 million (–3.6% year-on-year) and accounted for 44% of the total spend. Games, entertainment and betting, gambling and lotteries were the three largest service categories by spend (90% share), as shown in Figure 4.1.

Figure 4.1: End-user spending (excluding VAT) via operator billing, by service category, UK, 2020–2021 and 2021–2022<sup>13</sup>



Source: Analysys Mason and Phone-paid Services Authority

### Games

Consumers spent £113.2 million on game purchases via operator billing in 2021–2022, down by 4.0% year-on-year. As with previous years, the largest sub-segment within gaming via operator billing was downloading paid-

<sup>13</sup> 'Other' includes the eight remaining service categories: competitions and quizzes; device personalisation and security; digital payments; information, news and education; lifestyle; personal and relationship services; sexual entertainment and TV and radio engagement. No single category in 'Other' is estimated to have generated over 10% of the total revenue for the channel.

for games from large app stores (such as Google Play and Apple App Store), followed by the purchase of games from consoles or games aggregator stores (such as Microsoft Store on Xbox and Sony PlayStation Store) or directly from games publishers (such as Epic Games). Purchases of in-game currency (e.g. games published by Electronics Arts or Tencent) and items is another significant contributor to this segment.

Three factors contributed to the decline of spending in the games segment in 2021–2022: the end of COVID-19 restrictions, a continuing decline in spend on monthly subscriptions and the move of some games away from app stores.

The pandemic had previously provided a boost to spending on games and entertainment services because lockdowns left consumers with more available time to consume digital content. However, 2021–2022 saw a phased return to normality from July 2021 onwards (compared to 2020–2021, in which 75% of the time was spent in lockdown). This allowed individuals to enjoy outdoor activities for the rest of the year (until March 2022). With the substitute of outdoor activities available once more, consumers played fewer games than in the previous year, thereby leading to a decrease in purchases of games and in-game currencies.

The prevalence of games bundled with monthly subscriptions has been in significant decline since the extension of special conditions to all subscription-based services in November 2019. These special conditions were previously only applicable to recurring donations, adult services, online competitions and society lotteries. Sign-ups for new subscription-based services now require a multi-step process comprising an initial confirmation using either a PIN-based system, an account and password (such as an App Store account) or a text, followed by a second confirmation step. This has led to a reduction in revenue through the removal of inadvertent sign-ups (which had previously artificially inflated overall spending) and increasing friction in the sign-up process, which causes consumers to reconsider their purchasing decision.

Fortnite and Facebook Gaming (among others) have left Google Play and Apple App Store to avoid paying a 30% cut of their revenue and having to comply with certain commercial terms and conditions. Fortnite delisted from the Apple App Store in August 2020, but other games then followed suit, which enhanced the effect of this move in 2021–2022. Epic's legal action (the owner of Fortnite) against Apple also concluded in May 2021, which played a role in the decline in spending in this sector. Games that leave app stores offer alternative payment methods that do not generally include operator billing. Thus, games leaving app stores reduces the proportion of spending on games that goes through phone-paid payment channels.

## Entertainment

Entertainment services largely consist of music and video streaming. They generated £74.7 million in spending via operator billing in 2021–2022, a slight increase from 2020–2021 (+0.9%). Many of the factors affecting games also apply to entertainment, though the nature of these services mean that the impacts were less significant.

For example, the end of lockdown affected video streaming services, but consumers are likely to keep using and paying for their subscriptions for some time afterwards, whereas gaming saw an immediate reduction in one-off purchases. The quality and reputation of entertainment services is also likely to mean that the special conditions have a limited impact on consumers paying for subscription-based entertainment services (due to fewer inadvertent sign-ups in the first place and fewer customers reconsidering after the addition of an extra step in the payment process). Finally, while some of these services have moved away from app store payments, most services remain likely to be bundled with operator contracts because network operators use such bundles to differentiate from competitors.

One constraint on growth of this segment is potential saturation; Netflix lost a significant number of subscribers for the first time in 2021–2022, which suggests that many households now have multiple video subscriptions and are cancelling services they no longer use before signing up to a new service.

## Betting, gambling and lotteries services

Consumers spent £46.0 million on betting, gambling and lotteries services via operator billing in 2021–2022; this is a slight decline of 1.5% year-on-year. This revenue was predominantly generated by online gambling services such as mobile casino applications and websites. Spending on betting, gambling and lotteries services accelerated in 2020–2021 due to the closure of physical gambling locations during the COVID-19 lockdowns and an initial surge of individuals switching from credit cards to operator billing as a payment method (after the UK Gambling Commission’s ban on credit cards for gambling payments in April 2020). However, as with games and entertainment, spending increases caused by the pandemic were reversed in 2021–2022 and many gambling service providers were reticent to support operator billing payments. Interviewees suggested that this was because many service providers believed that phone-paid services were a loophole to the Gambling Commission’s credit card ban; they did not invest time or effort into sign-ups because they feared the ‘loophole’ may be closed and therefore limit their return on investment.

## Other services

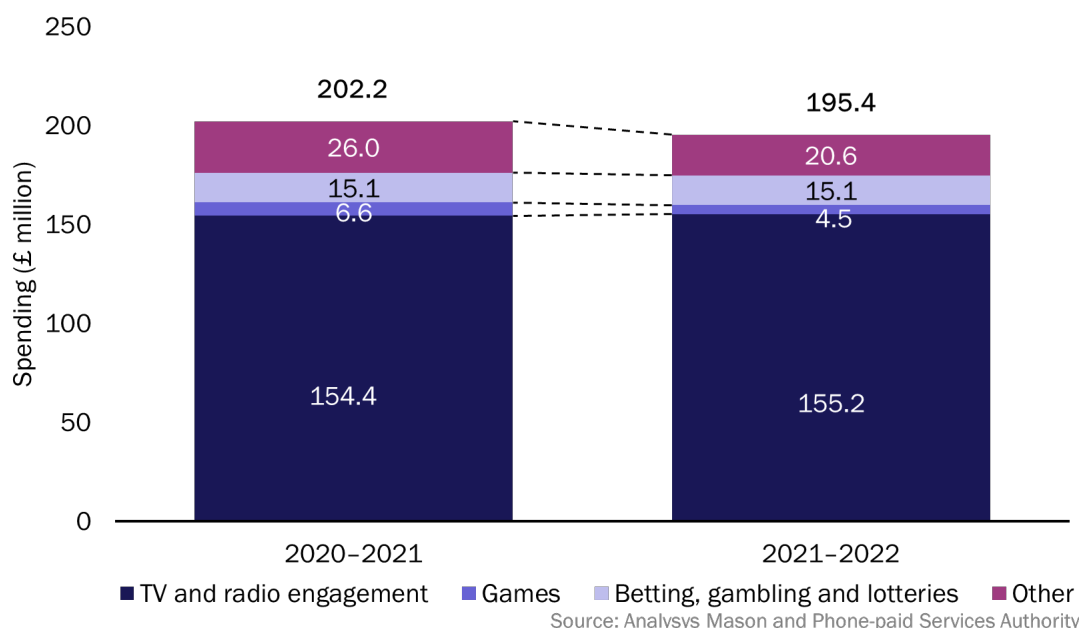
Spending on most other service categories within operator billing declined in 2021–2022, though to a lesser extent than in 2020–2021. Many of these services were affected by the extension of special conditions on subscriptions in November 2019 and so declined significantly in 2020–2021, followed by a smaller subsequent decline this year. Lifestyle services accounted for the biggest portion of the remainder of the operator billing market; spending in this sector declined by 8.8% to £19.8 million in 2021–2022, compared to a 15.4% decline the year before. Spending on lifestyle services has also been affected by the departure of poor-quality services from the market. Indeed, interviewees reported that consumers had lost trust in these services, even when demand existed.

Interviewees also reported discussions on the introduction of new services, though none of these new services, if introduced, had notable take-up in 2021–2022. Transport services were mentioned by a number of players because ‘unbanked’ individuals such as children without access to a bank account would be able to access transport services through phone-paid services. This would add a non-negligible share to the overall addressable market for transport in the UK. However, interviewees suggested that discussions over the introduction of operator billing to transport payment methods was likely to take some time, and that train journeys are unlikely to support operator billing while the £40 transaction limit (imposed by the EU Payment Services Directive (PSD2) and regulated by the Financial Conduct Authority (FCA)) remains in place. Rich Communications Services (RCS) were also mentioned by interviewees as a potential avenue for new services, though with decreased optimism compared to previous years, despite adoption by mobile operators. Consumers remain unaware of the existence and benefits of RCS and as such, there remains no incentive for service providers to develop use cases that support them.

## 4.2 Premium SMS

Premium SMS remains the second-largest channel within the UK phone-paid services market; it generated £195.4 million in spending in 2021–2022 (–3.3% year-on-year). It now accounts for 33% of the overall market, which is a 1 percentage point increase on the figure from 2020–2021. Figure 4.2 shows the breakdown of spending within this payment channel, which is dominated by TV and radio engagement services (79% of the total).

Figure 4.2: End-user spending (excluding VAT) via premium SMS, by service category, UK, 2020–2021 and 2021–2022<sup>14</sup>



### TV and radio engagement services

Spending on TV and radio engagement via premium SMS grew by 0.5% year-on-year to £155.2 million. However, this limited overall growth hides more-granular areas of growth and decline: spending on TV broadcaster competition services declined by £4.6 million, while that on radio broadcaster competition services increased by £5.4 million.

The decrease in spending on TV competitions was partly caused by the loss of audiences after the end of COVID-19 lockdowns. Fewer people participated in broadcast competitions as live TV audiences returned to pre-pandemic levels. Interviewees had previously suggested that this segment had also been approaching saturation prior to the boost in live audience numbers during the COVID-19 pandemic and that its strong performance last year was partly related to a temporary collapse in content and advertising, which directors filled with broadcast competitions in order to maintain profitability.

By contrast, radio engagement increased for similar reasons that led to a decline in TV engagement. Consumers were able to return to normal, pre-pandemic habits, which are more likely to include listening to the radio for a period during the day (for example, during a morning commute or within a public space in an office). Interviewees suggested that radio broadcast competitions are further away from saturation than those on TV. Indeed, radio players were able to maintain growth in 2021–2022 through a combination of continued organic growth, an increase in competition entry prices (from £1.5 to £2.0) and the filling of gaps in content with an increased number of competitions. In addition to increased audience numbers this year, competition entry prices have also largely become standardised at £2.0, thereby providing another marginal increase in revenue. One negative development for radio broadcasters, however, was that audiences have become spread over a much longer period of the day than pre-pandemic – previously, radio broadcasters experienced a spike in listening activity around relatively fixed commuting hours, which have become disrupted by the pandemic. Radio

<sup>14</sup> 'Other' includes the eight remaining service categories: competitions and quizzes; device personalisation and security; digital payments; entertainment; information, news and education; lifestyle; personal and relationship services and sexual entertainment. No single category in 'Other' is estimated to have generated over 5% of the total revenue for this channel.

broadcasters now need to invest more time and money into catching the attention of audiences, increasing the cost of running content and competitions as a result.

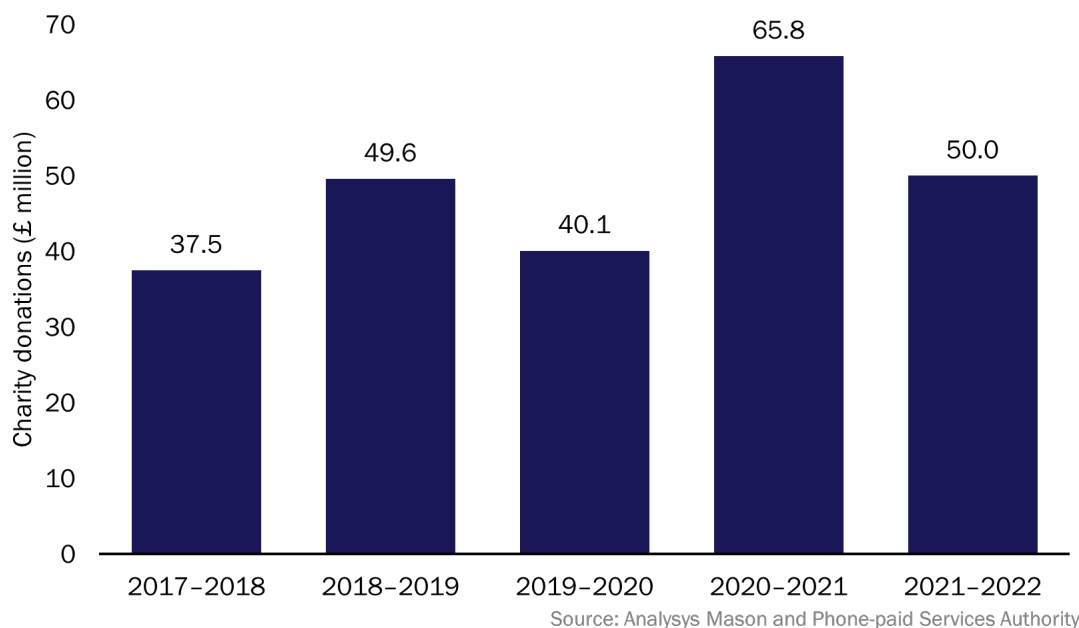
## Other services

Spending on all other services via premium SMS declined in 2021–2022, though less significantly than in 2020–2021. Most of these services are legacy or subscription-based services and so suffered from a shrinking user base. The number of users of legacy services, including alerts and tarot services, decreases year-on-year, though the decline will inevitably slow as each service approaches its floor of core, loyal users. Outside of broadcaster competitions, premium SMS now exists to fill niche usage scenarios because most modern services have switched to alternative payment mechanisms; this is unlikely to change barring widespread adoption of RCS, which is not anticipated in the medium term.

## 4.3 Charity donations

The amount of money raised via charity donations on phone-paid services fell to £50.0 million in 2021–2022; this is a significant decrease on the record £65.8 million donated in 2020–2021. The amount of donations in the phone-paid services market is highly dependent on televised events and other major charity events that encourage text-to-donate. This results in cyclical increases and decreases in spend (the effect can easily be seen in Figure 4.3 below).

Figure 4.3: Charity donations made via phone-paid payment mechanisms, UK, 2017–2018 to 2021–2022



On first glance, Figure 4.3 suggests that donations in 2021–2022 were significantly greater than in 2019–2020. However, we cannot directly compare these two time periods because of the two unexpected televised events that ran in 2021–2022 (Concert for Ukraine and Stand Up to Cancer). Without these events, the total charity donations via phone-paid mechanisms are likely to have been closer to the £40.1 million raised in 2019–2020. These televised events together bumped the overall televised event donations up to almost the same level as seen in 2018–2019.

Stand Up to Cancer is a biannual event that has received increasing donation amounts year-on-year. It did not run in its normal format in 2020 due to COVID-19 restrictions that made filming difficult. The main Stand Up To Cancer live TV show was postponed, but the campaign did run online, and the Great British Bake Off for Stand Up to Cancer ran instead. This event generated over £26.3 million in total donations (i.e. donations processed via phone-paid mechanisms and other payment methods), which represented a slight increase on the £24.6 million raised by Stand Up to Cancer in 2018–2019. As a result of the disrupted 2020 show, Stand Up to Cancer held a televised event in 2021, thereby effectively running back-to-back for the first time. This event raised £31.2 million, another substantial increase in total donations.

The second unexpected televised event was the Concert for Ukraine (March 2022) that was held for the victims of the war in Ukraine. This event, jointly led by ITV, Global, Livewire Pictures and the Disasters Emergency Committee, raised £13.4 million on the night, £4.9 million of which came from mobile donations processed via a phone-paid mechanism.<sup>15</sup> This had a similar, but smaller, impact to the BBC's Big Night In event in 2020–2021; it was a one-off televised event and unexpectedly increased phone-paid donations for the year.

Recurring and one-off non-event donations decreased from their exceptional performance in 2020–2021. We estimate that donations outside of televised events accounted for around £12.5 million (25% of total donations, down from approximately £16.5 million last year), £11.5 million of which came from recurring, monthly subscriptions (down from £14.8 million last year) and £1.0 million came from single/one-off donations (compared to £1.6 million in 2020–2021). This is due to external factors including macroeconomic conditions and the number of worthy causes that attract media interest and capture the public's attention. A large number of such causes emerged in 2020–2021; most notably, NHS Charities Together. 2021–2022 also had worthy causes, but there were simply fewer donations than in 2020–2021, which can be linked to both the emergence of the cost-of-living crisis and fewer charities gaining media prominence during the year. Some interviewees also suggested that there may have been a minor displacement effect from consumers who had donated more than usual in 2020–2021, thereby resulting in these individuals donating less in 2021–2022 to compensate.

#### 4.4 Voice 09

Voice 09 spending declined to £51.2 million in 2021–2022, down from £52.0 million in 2020–2021. In the previous annual market review, we noted that Google had implemented a ban on advertising information, connection and/or signposting services (ICSS) in March 2020 for consumer protection. This was intended to significantly reduce the ability of service providers to attract new users through advertising. This had some effect in 2020–2021, but it has emerged from interviews with industry stakeholders that some service providers were able to circumvent this ban in 2021–2022, thereby resulting in these services and voice 09 generally holding up slightly better than expected. Weather forecasts, travel information, news, dating and adult services provided over voice 09 numbers continue to leave the market due to the availability of lower-cost alternatives or the migration towards credit card payments. However, the decline in spending on these services continues to slow because the remaining user base is increasingly made up of loyal users or users who are unable to switch to alternatives.

#### 4.5 Voice 087

Voice 087 service revenue declined from £17.3 million in 2020–2021 to £14.6 million in 2021–2022. This was expected and due to the same reasons as in previous years. 087 numbers have primarily been used for post-sales calls for organisations, and the availability of online channels and the 01 and 03 number ranges as cheaper

<sup>15</sup> Fonix Blog (5 May 2022), *Text-to-donate raises over £6.8m in mobile donations for the Ukraine Humanitarian Appeal*. Available at: <https://blog.fonix.com/text-to-donate-raises-over-6-8m-in-mobile-donations-for-the-ukraine-humanitarian-appeal-f222a3f021a8>.

alternatives has meant that both enterprises and consumers have migrated away from this channel. Of note is Ofcom's formal industry consultation on the role of voice 087 numbers. Ofcom is examining the future role of 087 (and 084) numbers, which may see 087 numbers removed entirely. Interviewees have limited visibility over this topic, but feel that 087 numbers are unlikely to disappear in the short or medium term.

#### 4.6 Voice short codes

Revenue from voice short code services fell from £12.4 million in 2020–2021 to £10.2 million 2021–2022. As with voice 087 services, this is an expected continuation of broader trends. Services offered via voice short codes are losing customers to cheaper and superior alternatives via online channels.

#### 4.7 Voice 118

Similarly to voice 087 and voice short codes, spending on voice 118 services has declined due to the availability of alternatives, primarily the widespread popularity of search browsers that can access information at no cost. Spending via this channel declined from £8.2 million in 2020–2021 to £6.4 million in 2021–2021 (–22%), which only represents a slight deceleration in decline (spending fell by 29% between 2019–2020 and 2020–2021). There is likely to be some way to go before reaching the 'floor' of core users who will stick with this service in the long term.



## 5. Market outlook in 2022–2023

The size of the phone-paid services market is expected to decline to £577.0 million in 2022–2023 (–2.0% year-on-year). Spending via operator billing will remain broadly flat year-on-year, while that via premium SMS will increase only marginally (+0.7% year-on-year). Charity donations are expected to decline, largely due to the seasonality of larger televised events and with Stand Up to Cancer reverting to a biannual schedule (after running back-to-back during 2020–2022). Spending on voice-based services will also continue to decline, though the rate of decline will slow down as the service user bases become increasingly formed of loyal core users.

### 5.1 Context

With no further lockdowns anticipated, we expect to see a gradual return to pre-pandemic trends for some, but not all, phone-paid services as consumers return to more-regular routines. For example, we do not expect that spending on legacy services will recover from the shift to online alternatives because the alternatives are typically superior and as such, there is no incentive to switch back.

Other factors affecting growth in 2022–2023 include the increasing cost of living, driven by increasing fuel and food costs. This is caused by disruptions to supply chains as a result of COVID-19, Brexit and Russia's invasion of Ukraine, among other factors. The increasing cost of living means that individuals may have less disposable income available to spend on non-essentials, including phone-paid services, thereby causing decreased demand.

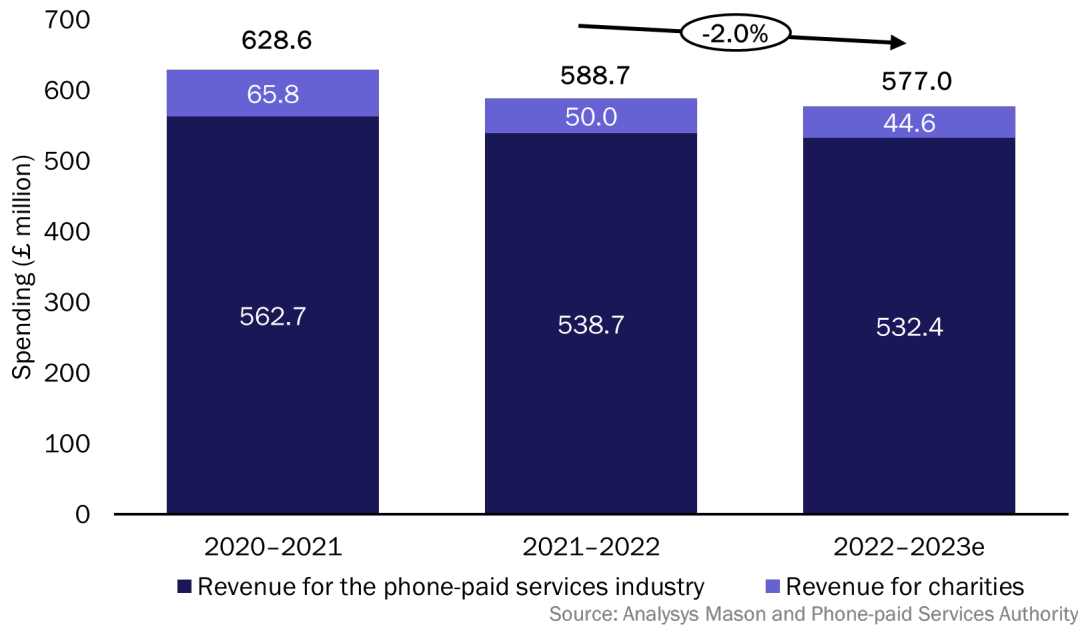
On the supply side, interviewees have mentioned uncertainty over Code 15, with a particular fear that demands are too onerous on small players. This uncertainty may cause smaller players to leave the market or potential players to delay their entry into the market. In addition, there may be some players who wait to see if Ofcom's regulation of the market differs from the PSA's in any way before entering.

The following sections discuss our expectations for the phone-paid services market in 2022–2023 in more detail.

### 5.2 Overall market size

The size of the phone-paid services market decreased in 2021–2022 (–6.3%), and we expect this year-on-year decline to continue, albeit at a slower rate. As such, we forecast that the market will fall to £577.0 million (–2.0%) in 2022–2023 (see Figure 5.1). Revenue for the phone-paid services industry is forecast to decline by 1.2% between 2021–2022 and 2022–2023, and charity revenue is expected to decline by 10.7%.

Figure 5.1: End-user spending (excluding VAT) on phone-paid services, UK, 2020–2021, 2021–2022 and 2022–2023e (estimated)



A high-level analysis of end-user spending split by spending channel and service category is provided in Sections 5.3 and 5.4 below.

### 5.3 Spend by channel

Operator billing will remain the largest channel; spending forecast to continue to decline to £260.3 million (–0.2% year-on-year), though at a slower rate than in 2021–2022 (–3.6%). Premium SMS will remain the second-largest channel, and spending is expected to increase slightly to £196.9 million (+0.7% year-on-year). The rest of the market will continue to decline and will account for only 21.0% of the total spend in 2022–2023 (down from 22.5% in 2021–2022). Figure 5.2 provides a breakdown of end-user spending in 2021–2022 and a forecast for 2022–2023 (estimated) by channel. Figure 5.3 shows how spending is forecast to change between 2021–2022 and 2022–2023 (estimated).

Figure 5.2: End-user spending (excluding VAT) by spending channel, UK, 2021–2022 and 2022–2023e (estimated)

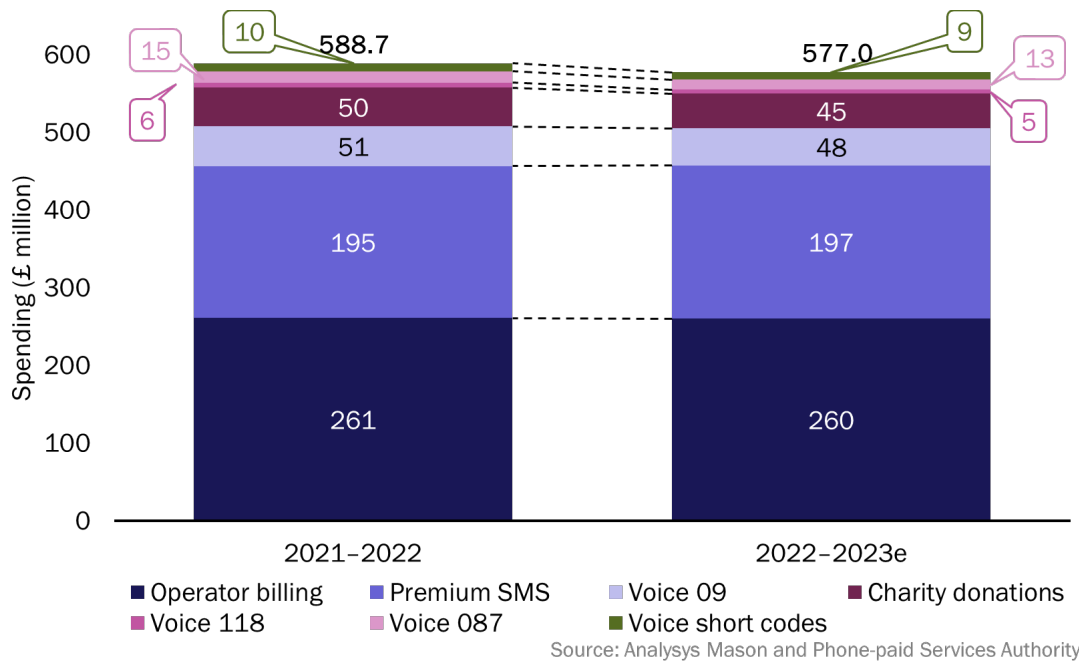
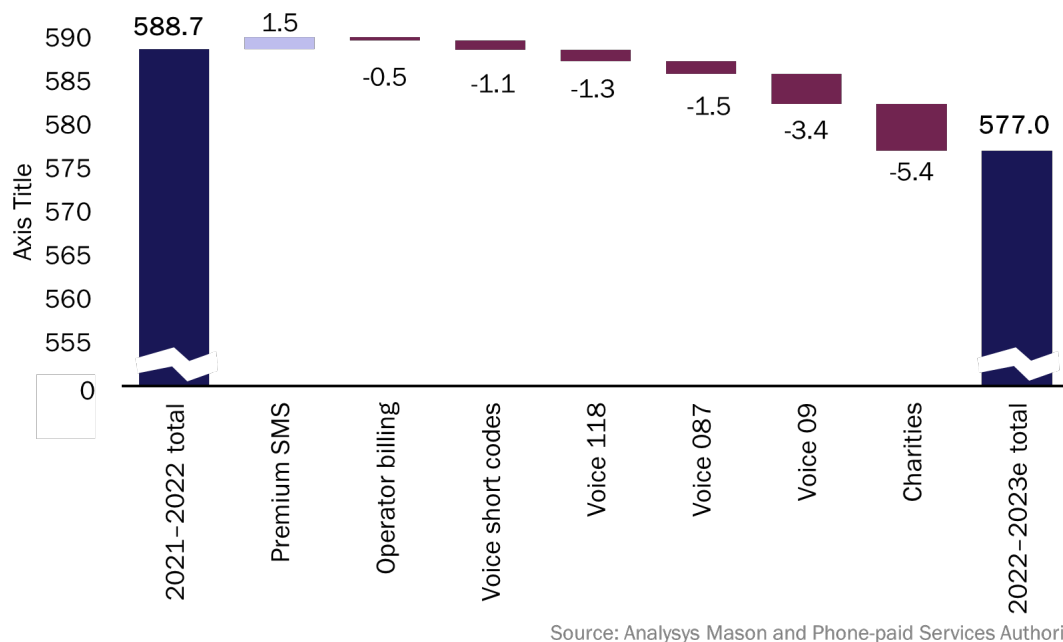


Figure 5.3: Change in end-user spending (excluding VAT) between 2021–2022 and 2022–2023e (estimated), by spending channel, UK



These changes, and their underlying drivers, are detailed below.

- Spending on charity donations is expected to decline by a further £5.4 million in 2022–2023 to £44.6 million (–10.7%),** primarily as a result of the seasonality of larger televised events, with fewer running in 2022–2023 than in 2021–2022. Televised events account for a significant portion of phone-paid charity donations, and the biannual cycle of key televised events such as Stand Up To Cancer means that phone-paid donations typically fluctuate over a 2-year period (higher every other year). However, this seasonality has decreased with changes to some major events; Sports Relief is no longer a televised event (since 2021–2022), Red Nose Day now runs every year and Soccer Aid became an annual event in 2018–

2019, having been biannual beforehand. However, Stand Up to Cancer is still expected to be a biannual event, despite running in both of the last 2 years, meaning that it will not run in 2022–2023. As a result, there will be fewer donations from major televised events in 2022–2023. Instead, the amount of donations through televised events will be more comparable to that in 2019–2020 (in which £40.1 million was raised). The impending cost-of-living crisis may also constrain growth because it will limit both the number of people who can afford to donate and the amount that they can give. An estimate of the donations made through televised events is provided in Figure 5.4.

Figure 5.4: Reported on-the-night donation totals for televised events (£ million), UK, 2017–2022 and estimated totals for 2022–2023e

Televised event	2017–2018	2018–2019	2019–2020	2020–2021	2021–2022	2022–2023e
Children in Need (November)	50.2	50.6	47.9	37.0	39.4	42.3
Red Nose Day (March)	-	63.5	-	52.0	42.8	46.8
Sports Relief (March)	38.2	-	40.5	-	-	-
Stand Up To Cancer (October)	-	24.6	-	26.3 <sup>16</sup>	31.2	-
STV Appeal (September)	2.6	2.6	2.6	3.5	4.3	-
Soccer Aid (June)	-	6.7	7.9	11.6	13.0	15.7
Concert for Ukraine	-	-	-	-	13.4	-
BBC Big Night In (April)	-	-	-	27.3	-	-
<b>Total</b>	<b>91.0</b>	<b>148.0</b>	<b>98.9</b>	<b>157.8</b>	<b>144.1</b>	<b>109.8</b>

Source: Analysys Mason

- Spending via operator billing will decrease by £0.5 million** (–0.2% year-on-year). Overall, we expect that spending via operator billing will remain broadly flat. Steady organic growth in spending on games from app stores and high-quality entertainment services will be countered by a continued decline in spending on legacy and subscription-based services, as well as concerns over Code 15. For example, one interviewee shared their view that Code 15 may cause some existing players to drop out of the market or for potential new players to delay their entrance into the market due to greater due diligence requirements. Interviewees were particularly concerned that the amount of due diligence required will be difficult for smaller players to achieve, but the effect of this is likely to take some time to be realised.
- Spending via premium SMS will increase by £1.5 million** (+0.7% year-on-year) thanks to growth in spending on TV and radio competitions, though this segment is now largely saturated. Growth will primarily be driven by an increase in spending on radio competitions as consumers return to work and pre-pandemic habits. Spending on legacy and subscription-based services is also expected to continue to decline, though at a slower rate than in previous years because many of these services have already exited the market.
- Spending on all voice-based services will decline.** Spending has decreased for every voice-based payment channel since 2017–2018 (excluding voice 09 services in 2019–2020). This long-term decline is due to the availability of cheaper or superior alternatives (typically online) and low customer satisfaction levels across voice-based services. The decline in spending in 2022–2023 is anticipated to be higher than that in 2021–

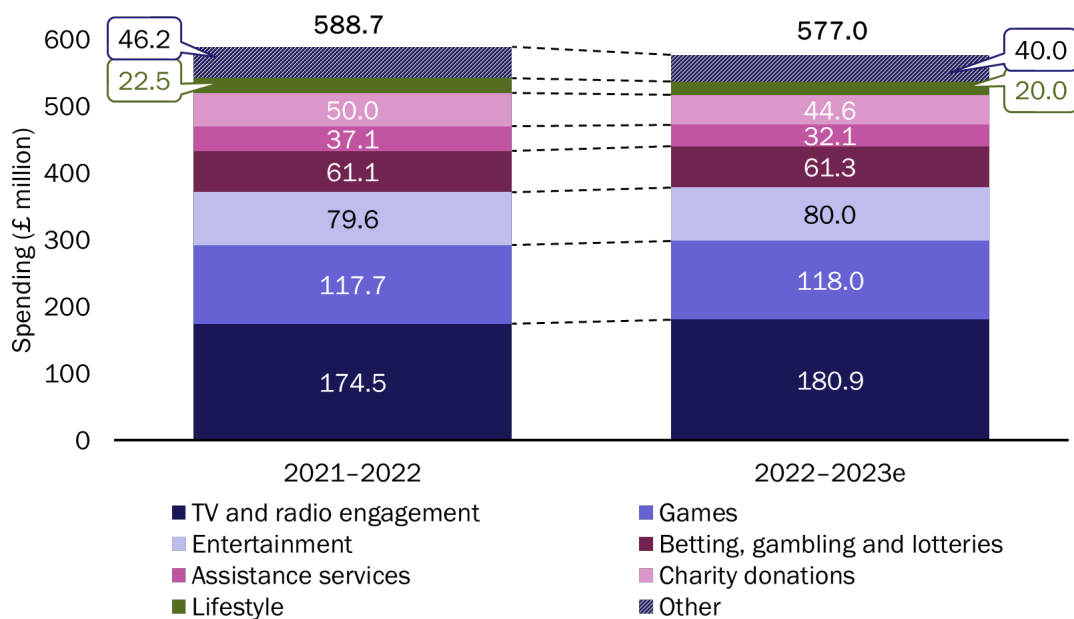
<sup>16</sup> The main Stand Up To Cancer live TV show was postponed, but the campaign did run online (and to some extent on screen, through the Great British Bake Off for Stand Up To Cancer) and generated over £26.3 million in donations.

2022 due to a declining user base and Google’s expected renewal of its advertising ban on assistance services. This will have a significant impact on voice 09 services, which have typically held up better than other voice-based services.

#### 5.4 Spend by service category

TV and radio engagement (£180.9 million) will remain the largest service category in the phone-paid services market and spending in this category will grow by 3.6% (£6.3 million) between 2021–2022 and 2022–2023. Games (£118.0 million) and entertainment (£80.0 million) are the second- and third-largest categories, respectively. Spending on betting, gambling and lotteries (£61.3 million), the fourth-largest category, will grow slightly (+0.2 million). Figure 5.5 provides a breakdown of spending in 2021–2022 and 2022–2023e by spending channel.

Figure 5.5: End-user spending (excluding VAT), by service category, UK, 2021–2022 and 2022–2023e (estimated)



Source: Analysys Mason and Phone-paid Services Authority

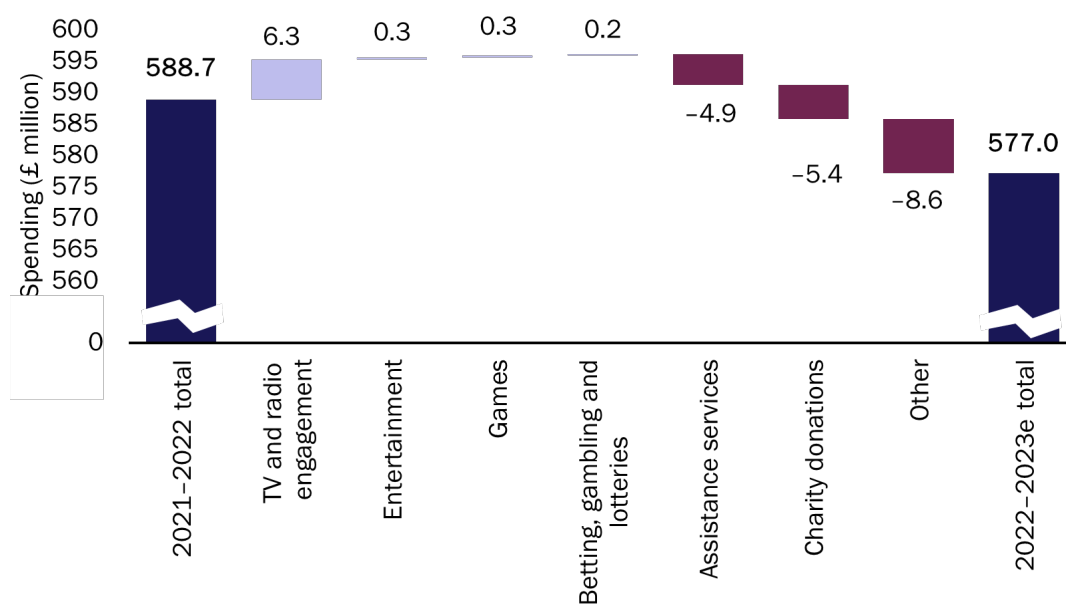
The following trends illustrate how spending in key service categories is expected to change between 2021–2022 and 2022–2023 (Figure 5.6 provides a graphical breakdown).

- Spending on TV and radio engagement will increase by £6.3 million.** This is significantly more than the £0.4 million increase in 2021–2022, and will be driven primarily by an increase in spending on radio competitions (spending on TV competitions will remain roughly stable). Spending on radio competitions will continue to grow, albeit at a slower rate than in previous years, due to the continued, gradual return to pre-pandemic habits and office-based working. Spending on TV competitions will not change significantly year-on year; the decline in 2021–2022 was related to a fall in audience numbers following a lockdown-induced increase.
- End-user spending on games is expected to increase by £0.3 million.** The decline in spending on gaming in 2021–2022 is likely to have been due to a one-off post-lockdown decrease in audience sizes, combined with a continuing decline in the number of games bundled with monthly subscriptions. Both of these effects are likely to be much smaller in 2022–2023 onwards, so this decline should be followed by organic growth in line with long-term, pre-pandemic trends. However, this growth will be counterbalanced by more and

more games avoiding app stores, which means that there is a decreased likelihood that gamers will use phone-paid services to purchase in-app goods and currency.

- **Spending on entertainment services will grow by £0.3 million.** Spending on entertainment services via operator billing will grow as operators continue to use bundles of streaming services to help differentiate themselves from competitors. The launch of new OTT services such as Paramount+ (in June 2022) and potential new partnerships with streaming service providers may offer further opportunities for spending growth, though the recent decline in the number of Netflix subscribers suggests this sub-segment is nearing saturation.
- **Spending on betting, gambling and lotteries will grow by £0.2 million.** Betting and gambling companies have been reluctant to use phone-paid services since the Gambling Commission banned the use of credit card payments in April 2020; many providers view such services as a loophole to the regulation. This limits the potential for spending growth in this segment, but this misunderstanding should fade with time. Indeed, the Department for Digital, Culture, Media and Sport (DCMS) has iterated that “phone payments do not represent a breach of rules banning credit card payments for gambling (July 2020)”.<sup>17</sup> As such, gambling companies should eventually gain confidence in phone-paid services as an option.

Figure 5.6 Change in end-user spending (excluding VAT), by service category, UK, 2021–2022 to 2022–2023e (estimated)<sup>18</sup>



Source: Analysys Mason and Phone-paid Services Authority

The most significant declines in spending are expected for assistance services and charity donations, as shown in Figure 5.6. This represents a continuation of the trends observed in 2021–2022.

<sup>17</sup> UK Parliament (July 2020), *Gambling: Fees and Charges*. Available at: <https://questions-statements.parliament.uk/written-questions/detail/2020-07-13/73119>.

<sup>18</sup> This chart shows the total spend in 2021–2022 on the left-most bar and the total spend in 2022–2023e on the right-most bar. Bars in between show growth (in light purple) or decline (in dark red) in spending by service category.

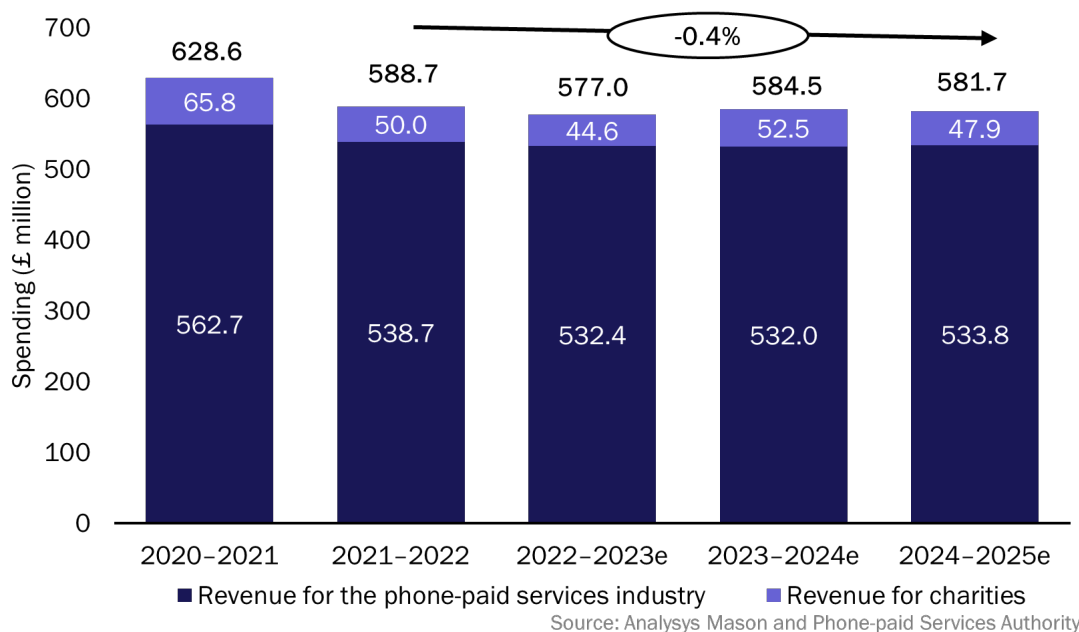
## 6. The phone-paid services market beyond 2022–2023

We expect that the phone-paid services market in the UK will be worth £581.7 million in 2024–2025 (+0.8% from 2022–2023), with steady growth via operator billing, a slight decline in spending on premium SMS and a more general decline in spending on legacy, voice-based services. Charity donations will continue to fluctuate throughout the forecast period, but will have a slight upwards trajectory. Spending on key services, including TV and radio engagement, games, entertainment and betting, gambling and lotteries services will grow incrementally, while spending via voice-based payment mechanisms will continue to decline. As a result, the overall market will remain relatively stable throughout the forecast period

### 6.1 Future evolution of consumer spend

End-user spending will grow from £577.0 million in 2022–2023 to £584.5 million in 2023–2024 (+1.3%), though we then forecast a slight decline (–0.5%) in 2024–2025. Charity donations are expected to continue to fluctuate beyond 2022–2023: £52.5 million will be donated in 2023–2024, while £47.9 million will be donated in 2024–2025. Overall, we expect that the market will remain relatively stable over this period, with a CAGR of –0.4% between 2021–2022 and 2024–2025 (Figure 6.1).

Figure 6.1 End-user spending (excluding VAT) on phone-paid services, UK, 2020–2021 to 2022–2025e (estimated)



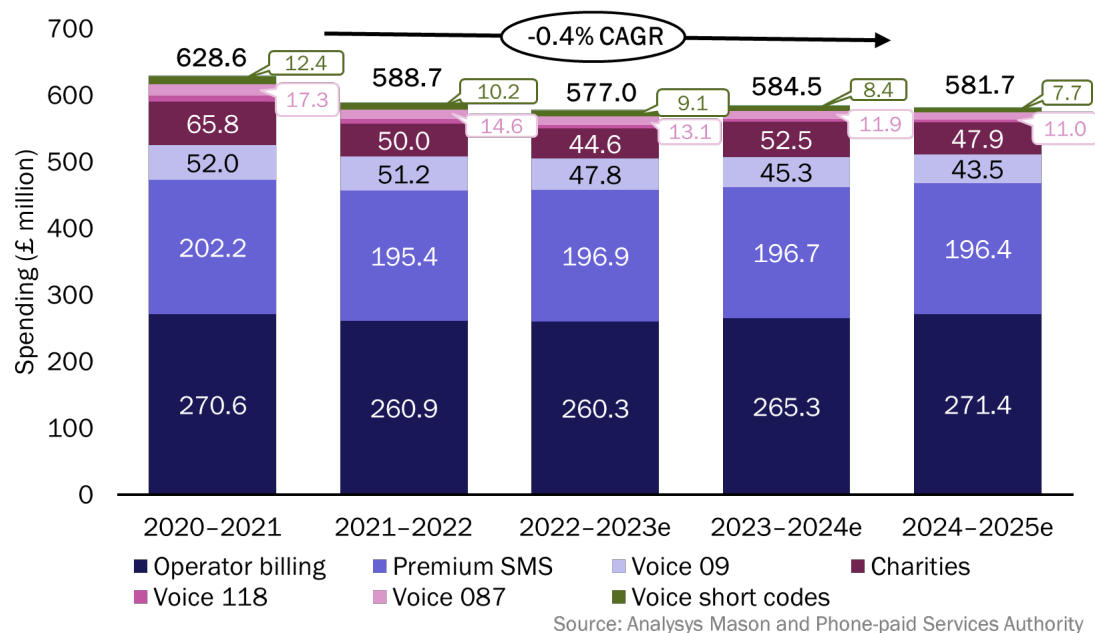
A high-level analysis of the trends in end-user spending by channel and service is provided in Sections 6.2 and 6.3.

### 6.2 Spend by channel

Operator billing and premium SMS will remain the two largest spending channels throughout the forecast period, and will together account for 79.0% and 80.4% of the total spending in 2023–2024 and 2024–2025, respectively. Spending via premium SMS is expected to remain flat over the next 3 years, with a very slight decline. Operator billing is the only payment channel via which spending is expected to grow continuously and will eventually reach the level of spending in 2020–2021. Charities is the other payment channel that will

experience spending growth, though spending will fluctuate due to the biannual nature of some televised events. Spending across all voice-based channels will continue to decline; these services will account for 12.0% and 11.3% of the phone-paid services market by 2023–2024 and 2024–2025, respectively. A breakdown is provided in Figure 6.2.

Figure 6.2: End-user spending (excluding VAT) by spending channel, UK, 2020–2021 to 2022–2025e (estimated)



The key trends by spending channel are detailed below.

- Spending via operator billing is forecast to grow at a CAGR of 4.0% between 2021–2022 and 2024–2025 to £271.4 million**, driven by the continuing popularity of gaming services, especially games downloaded from app stores. Spending on betting and gambling services is also expected to increase gradually as regulatory concerns are eased, and spending on entertainment services will grow despite approaching saturation (see Section 6.3 for further information). Interviewees mentioned new services, in particular in the transport industry, which could help individuals without bank accounts to access transport services. However, the development of such new services remains at an early stage currently and despite some initial discussions between operators and transport players in early 2022, their possible introduction and wide-scale adoption is likely to be a few years away. As a result, we have assumed that these will not have a significant impact during the forecast period.
- End-user spending via premium SMS will remain broadly flat and will be worth £196.4 million by 2024–2025.** The high-value TV and radio segments will reach saturation, while spending in most other segments (including games and entertainment) will decline. The increasing rise of alternative payment methods, such as Apple and Google Pay, that offer similar convenience and better features than premium SMS will contribute to the long-term decline in spending via this channel. In previous years, it had been hoped that the take-off of RCS would lead to an increase in the use of text messaging, better service integration and thereby maintain the convenience of premium SMS over alternatives. Most operators in the UK have now launched RCS, but usage is limited and interviewees are no longer optimistic that it will have any real impact.
- Charity donations will fluctuate during this period**, primarily due to the biannual nature of Stand Up to Cancer. The seasonality of charity donations is decreasing because Red Nose Day is now held every year



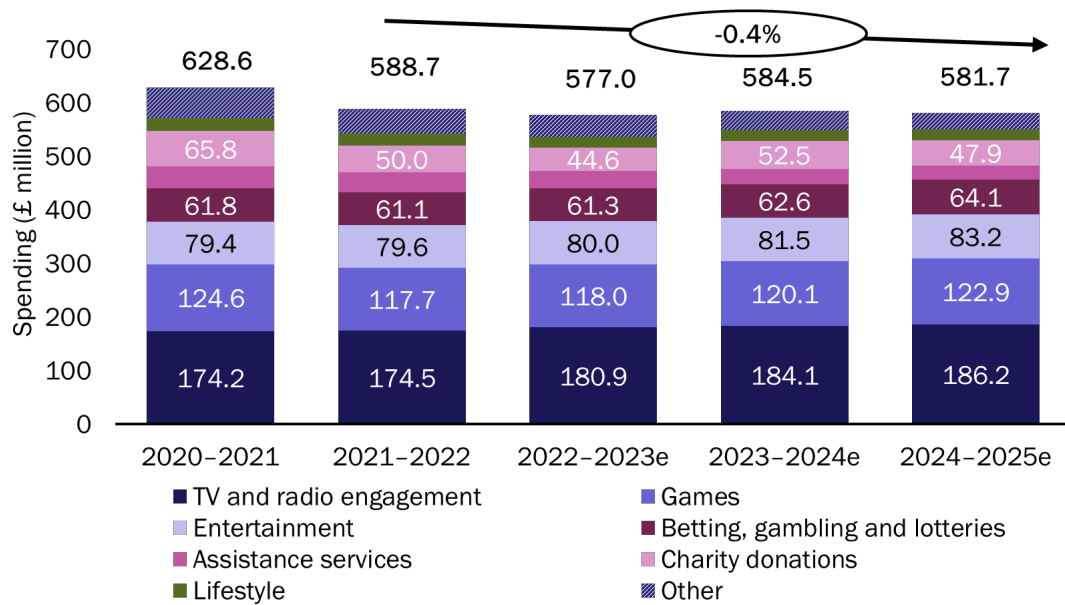
and Sports Relief carries out fundraising activities throughout the year. Nonetheless, there remains significant variation between ‘up’ and ‘down’ years; years that have a Stand Up to Cancer event are considered to be ‘up’ years (see Section 5.3 for more information). Some televised events, such as Stand Up to Cancer and Soccer Aid, are becoming increasingly popular, but others are receiving fewer donations year-on-year. Some interviewees cited the regularity of televised events and the lack of ‘ground-breaking’ content as reasons why some televised events receive less attention with each iteration, but others felt that external factors were more important (such as the timing of televised events relative to the mood of the nation) and that the relative ability to film content throughout COVID-19 lockdowns may have had a significant impact. All interviewees felt that the economic uncertainty caused by the cost-of-living crisis has the potential to constrain the number and amount of donations over the next few years, but noted that this could be trumped by the emergence of sufficiently important causes (for example, the NHS during COVID-19, Black Lives Matter and the Ukraine crisis have all raised significant sums in previous years, despite economic difficulties).

- **Spending via voice-based channels will continue to decline.** Voice-based services tend to be legacy in nature and often have cheaper alternatives. This causes both businesses using these lines and the users of these services to switch to 01, 03 or online channels. Voice 09 will have the highest spending levels out of all the voice-based channels, but spending on voice 09 services but will still decline at a CAGR of –5.3% between 2021–2022 and 2024–2025. Interviewees felt that the decline in the use of voice 09 services had been postponed by COVID-19 lockdowns and the circumvention of Google’s advertising ban by ICSS. Google is expected to renew the implementation of its ban, so these ICSS will be unable to replace customers that stop using their services and overall usage should decline. Spending on voice 087 numbers, the second-largest voice-based spending channel, will decline at a CAGR of –8.9% between 2021–2022 and 2024–2025. Spending via voice 118 numbers has fallen significantly and will continue to decline the fastest of all our channels (CAGR of –16.1% between 2021–2022 and 2024–2025), while spending via voice short codes will decline at a CAGR of –8.8%.

### 6.3 Spend by service category

TV and radio engagement, games and entertainment will remain the fastest growing and largest categories in terms of spending. Together, they will account for 66.0% and 67.4% of the market in 2023–2024 and 2024–2025, respectively. Spending on betting, gambling and lotteries will also grow, particularly towards the end of the forecast period. Spending on lifestyle services will begin to stabilise by the end of the forecast period because lower-quality services will leave the market and home-based/personalised fitness services will increase in popularity. Spending on other services, including assistance services, will continue to decline over the next 2 years (Figure 6.3).

Figure 6.3: End-user spending (excluding VAT), by service category, UK, 2020–2021 to 2022–2025e (estimated)



This forecast can be explained by considering the following key trends.

- Spending on TV and radio engagement will grow to £186.2 million by 2024–2025, and will account for 32.0% of the phone-paid services market.** Growth will begin to slow as spending on TV remains stable whilst that on radio increases slightly, limited by airtime saturation. TV players are increasingly turning towards online platforms to generate alternative revenue, though revenue generated via phone-paid payment mechanisms will only constitute a small proportion of this. Interviewees felt this would amount to additional revenue, rather than acting to cannibalise existing revenue, so this should not have a negative impact on the phone-paid service market. Some radio players are also actively looking to transition from a premium SMS payment channel to operator billing, but the impact of this is not expected to be significant within our forecast period, and should only represent a substitution effect. Macroeconomic trends such as the cost-of-living crisis will further affect the number of users and the average spend per user, though interviewees suggested that changes in the structure of prizes had been successful in maintaining consumer interest in competitions thus far (for example, either having even higher prize pots or a higher number of more-attainable prizes helps consumers to believe that entering competitions may help them with their tough financial circumstances).
- Spending on games and entertainment will grow to £122.9 million and £83.2 million, respectively, by the end of the forecast period.** Streaming services within the entertainment market continue to be attractive to new entrants (for example, Paramount+ launched in June 2022), though some players such as Netflix are already struggling to compete for existing subscribers. It is likely that many households now hold multiple streaming subscriptions and the amount of content available, combined with the cost-of-living crisis, has meant that households are unsubscribing from the service that they use the least. This implies that these services are approaching saturation, despite their popularity, which will have an impact on the growth of spending within this segment. Interviewees have suggested that some international players are interesting in entering e-sports, digital access to sports content or other similar verticals, but this is not expected to have a significant effect within the forecast period. Similarly, the move towards cloud-gaming subscriptions such as Xbox GamePass will have a long-term impact on the phone-paid service gaming segment, but this effect will be limited within our forecast period. Phone-paid services will also have to compete with

existing payment methods on other devices (such as consoles and PCs), as well as mobile payment competitors such as PayPal, Apple Pay and Google Pay.

- **Spending on betting, gambling and lotteries will grow to £64.1 million by 2024–2025.** Increases in spending will result from organic growth and reduced unease over using phone-paid services as a payment method in the absence of credit cards (due to the Gambling Commission’s ban on credit card gambling). As mentioned in Section 5.3, the Department for Digital, Culture, Media and Sport (DCMS) has reiterated that phone payments do not represent a loophole.<sup>19</sup> As such, no ban on phone-paid gambling services is likely to be put in place before 2024–2025, and we therefore expect increasing numbers of gambling service providers to sign up for payment via operator billing as this becomes more evident.
- Other services tend to fall into the **legacy service category**. Spending in this category will decline consistently throughout our period and beyond, though the rate of decline will slow as these services become limited to core users only.

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<sup>19</sup> UK Parliament (July 2020), *Gambling: Fees and Charges*. Available at: <https://questions-statements.parliament.uk/written-questions/detail/2020-07-13/73119>.

## 7. Consumer analysis

Our consumer survey suggests that approximately 60% of the British population aged 16 or above used phone-paid services in 2021–2022; this is a significant increase in penetration compared to last year (54%). This may be due to a lag in reporting of usage after increased adoption during the COVID-19 lockdowns; we also slightly modified our survey introduction to now include a range of wider example services (e.g., streaming services) which may have caused more individuals to recognise they have used phone-paid services. Phone-paid service usage was motivated by similar drivers to previous years; convenience is again the biggest driver of usage, but by a greater margin than in 2020–2021 (+7% compared to the second-top driver versus +2% in 2020–2021). 26% of users reported problems with phone-paid services in 2021–2022; the main problem reported was difficulty in accessing or using services, as in 2020–2021. As with last year, problems are most likely to occur when using sexual entertainment, connection services and personal and relationship services, though these three categories accounted for a slightly decreased share of respondents experiencing issues in 2021–2022. Overall, the Net Promoter Score for the phone-paid services industry (–26) increased slightly compared to that in 2020–2021 (–27); entertainment services had the highest score at –1.

### 7.1 Demographics

Our survey of 8384 individuals indicates that phone-paid services were used by approximately 60% of the British population (16 years of age or above) in 2021–2022; this is a relatively significant increase from the 54% reported in 2020–2021. This increase seems to contradict the overall decline in spending in the phone-paid services market between 2020–2021 and 2021–2022, but may be partially explained by the following factors.

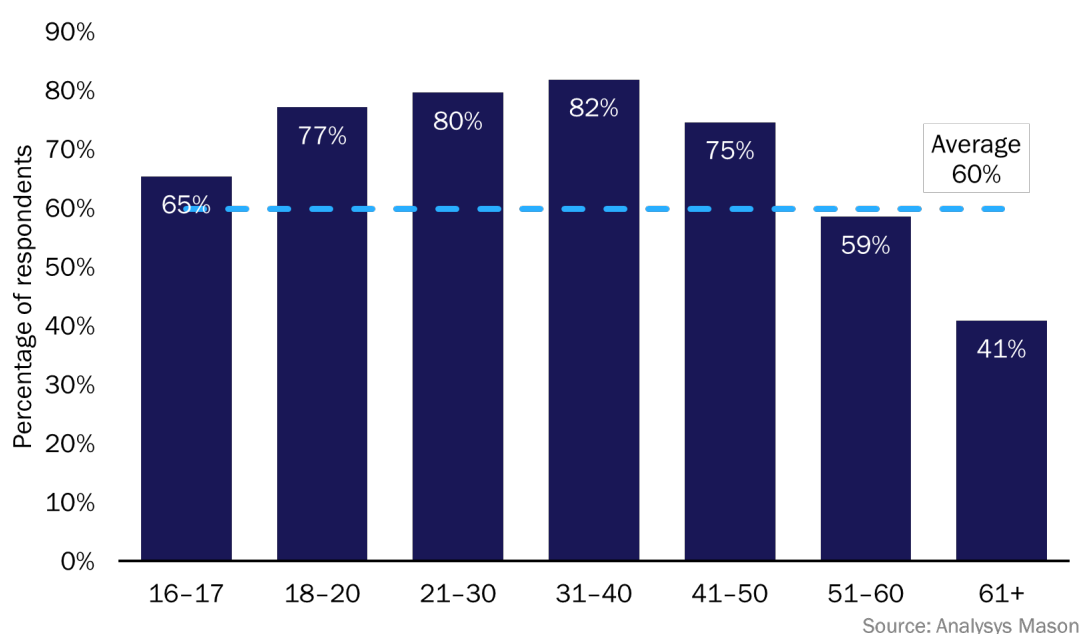
- The use of phone-paid services increased during COVID-19 lockdowns because consumers turned to these services in the absence of outdoor activities and due to increased promotion by certain services that further embraced digital payment mechanisms (such as charities). There is typically some lag in consumer surveys because respondents are often unable to accurately determine whether they used services in the period of interest (in this case, between April 2021 and March 2022) or a few months before. In addition, perceptions take time to change; consumers perhaps do not realise they are using phone-paid services until they use them repeatedly. As a result, it is possible that this increase in penetration merely reflects increased usage during the COVID-19 pandemic in 2020–2021.
- We slightly modified the introduction to our survey this year in order to reflect changes in the structure of the phone-paid services market that had made our example services less relevant than in previous years. We have now included references to a wider range of examples (for example, we now refer to streaming services as a potential phone-paid service for the first time). It is possible that the change in some of the example services we used has caused more individuals to realise they have used a phone-paid service. This would imply that some of the increase in penetration this year was ‘artificial’, or potentially that the relatively consistent penetration observed in previous years had not accounted for the decreasing relevance of legacy services, and phone-paid services were actually increasing in penetration over this timeframe.

As always, survey responses were collected online, which means that there may be a degree of bias towards consumers with a strong online presence who are more likely to consume digital content and services. Therefore, the actual penetration of phone-paid services is likely to be slightly lower than what the survey results suggest. We have aimed to maintain a consistent approach when gathering survey responses by using a nationally representative sample in terms of age, gender and regional distribution. However, there are likely to be some differences in the make-up of the survey panel compared to the nation due to COVID-19-related

lockdowns until April 2021. For example, some people on furlough may have answered the survey last year, but would have refused or not been made aware of the survey this year or in previous years.

In line with the findings from the previous annual market review, phone-paid service usage did not vary significantly by gender or region, but it did vary by age. Indeed, Figure 7.1 shows that service penetration was the highest among those aged 31–40 (82%) and generally across the 18–50 age group; this is likely to be because many games and/or entertainment services appeal to a wide range of consumers across these age groups. As in previous years, the penetration of phone-paid services was slightly below-average among 51–60 year olds (59%) and was significantly below-average among respondents aged 61 and above (41%).

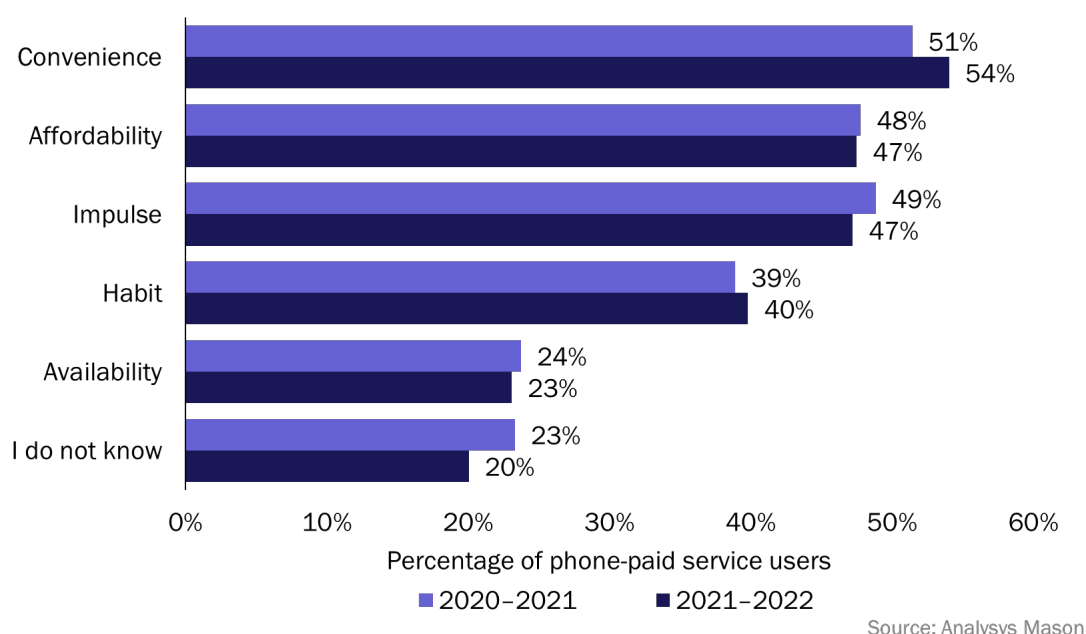
Figure 7.1: Penetration of phone-paid services, by age group, UK, 2021–2022<sup>20</sup>



## 7.2 Drivers of use

The drivers of phone-paid service usage in 2021–2022 were broadly similar to those observed in the 2020–2021 survey. Figure 7.2 shows that convenience was once again the most commonly cited driver (cited by 54% in 2021–2022, up from 51% in 2020–2021), closely followed by affordability (cited by 47%, down from 48% last year) and impulse purchases (cited by 47%, down from 49% in 2020–2021). 40% of respondents continued to use these services out of habit (an increase of 1 percentage point from last year), while the percentage of respondents that cited availability decreased slightly from 24% to 23%. Convenience and habit have become stronger and stronger drivers of usage over the last 4 years, and convenience is now clearly the prime motivator for phone-paid service usage.

<sup>20</sup> Question: “Based on your understanding of phone-paid services, which of the following categories of services have you used and paid for via your mobile phone bill or landline phone bill over the last 12 months?” [multiple choice] (n = 8384)

Figure 7.2: Drivers of phone-paid service use among phone-paid service users, UK, 2020–2021 and 2021–2022<sup>21</sup>

Interviews with industry participants this year suggested that consumer confidence and trust in phone-paid services is relatively high, and that there has been a low number of complaints. However, confidence in the adult and ICSS segments remains low, though Code 15 intends to better regulate these services. Problematic service providers also continue to leave the market due to the Phone-paid Services Authority imposing special conditions on subscription services, which have been carried over into Code 15, thereby deterring scams and poor-quality services. In addition, operators have continued to retire legacy services that have generated significant numbers of complaints in the past. However, a few industry stakeholders believed that the impact of AIMM’s phonecharges.org, which aims to improve consumer awareness of phone-paid services, has been restricted by limited marketing.

### 7.3 Problems and impact

#### Key problems encountered

26% of survey respondents who used phone-paid services in 2021–2022 reported encountering a problem with at least one service. This represents a slight increase since 2020–2021 (25%), but the overall complaint level has remained largely steady at around 25% since 2018.

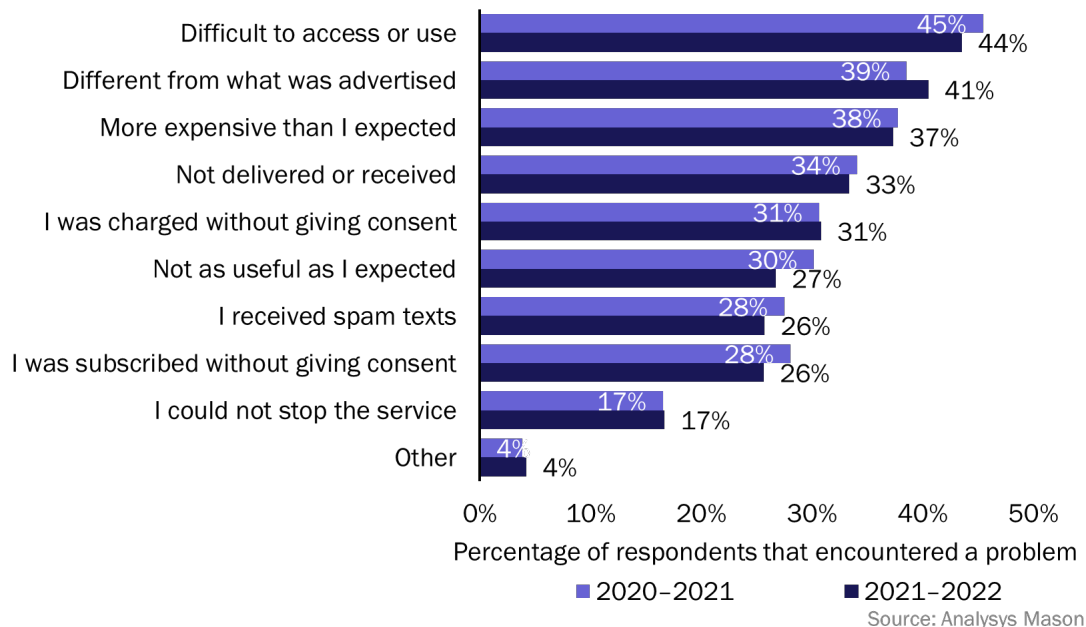
Difficulties in accessing or using services was again the most commonly cited problem by survey respondents (44% in 2021–2022, down from 45% in 2020–2021), followed by a perceived difference between the service received and what was advertised (41%, up from 39% in 2020–2021) and a higher price than expected (37%, down from 38% in 2020–2021). 26% of respondents reported that they were subscribed without consent, down 2 percentage points from 2020–2021. This improvement may be linked to the PSA’s special conditions on subscriptions, introduced in November 2019, after accounting for some lag in the change of consumer perceptions (similar to the reasons suggested for improved penetration of phone-paid services in Figure 7.1).

<sup>21</sup> Question: “Why did you use the service/content?” [multiple choice] (n = 5018; only respondents who have used the listed phone-paid services in the past 12 months)

Overall, the average number of problems per user was down from 2.93 in 2020–2021 to 2.85 in 2021–2022 (3% decline). This is a positive step in the right direction.

Figure 7.3 shows a breakdown of respondents' problems in 2020–2021 and 2021–2022.

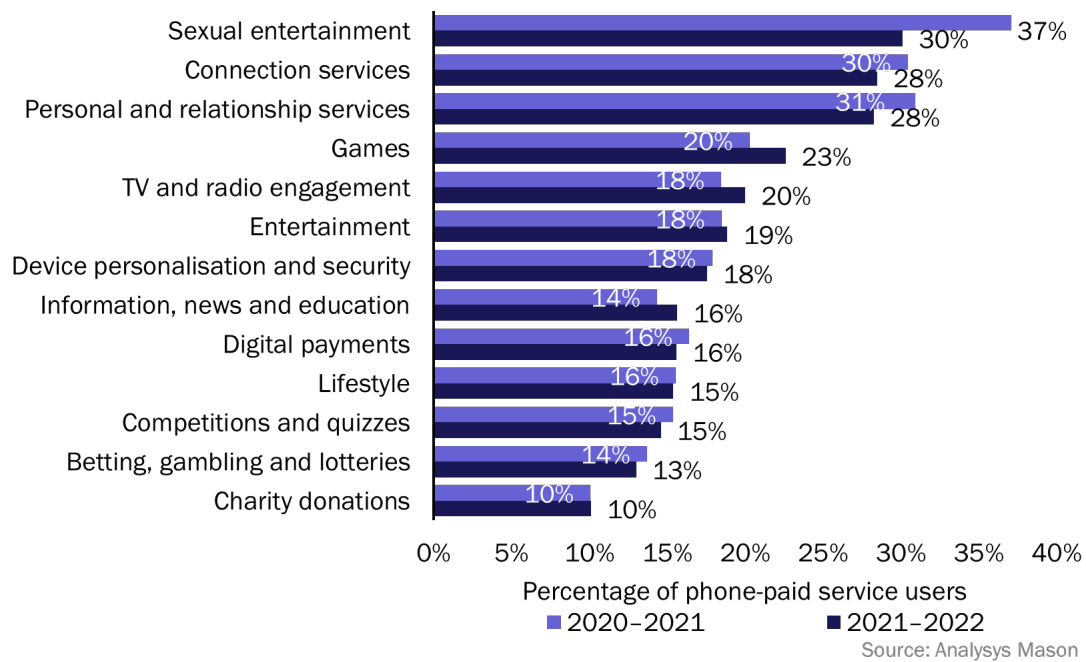
Figure 7.3: Breakdown of the problems encountered by respondents, UK, 2020–2021 and 2021–2022<sup>22</sup>



As shown on Figure 7.4 below, sexual entertainment, connection services and personal and relationship services resulted in problems for the largest proportion of respondents (30%, 28% and 28%, respectively) and these three service categories also caused the most problems last year (37%, 30% and 31%, respectively). However, the percentage of users citing problems with sexual entertainment services has declined by 7 percentage points since 2020–2021 and has returned to typical levels (29% in 2019–2020). This may indicate that the higher number of problems observed last year was the result of a dubious player entering the market and misleading consumers before being forced out of the market this year. Overall, the aforementioned service problems most likely come from a minority of disreputable service providers seeking to deceive customers through misrepresentation of the services provided. Industry participants suggested that regulatory work carried out by the Phone-paid Service Authority has been successful in preventing these types of companies from gaining a foothold in the market, and that Code 15 has further removed high-risk services.

<sup>22</sup> Question: "Can you please identify from the following what this (these) problem(s) was (were)?" [multiple choice] (n = 1291; only respondents who have used the listed phone-paid services in the past 12 months and encountered a problem with at least one service)

Figure 7.4: Share of respondents that encountered a problem, by service category, UK, 2020–2021 and 2021–2022<sup>23</sup>

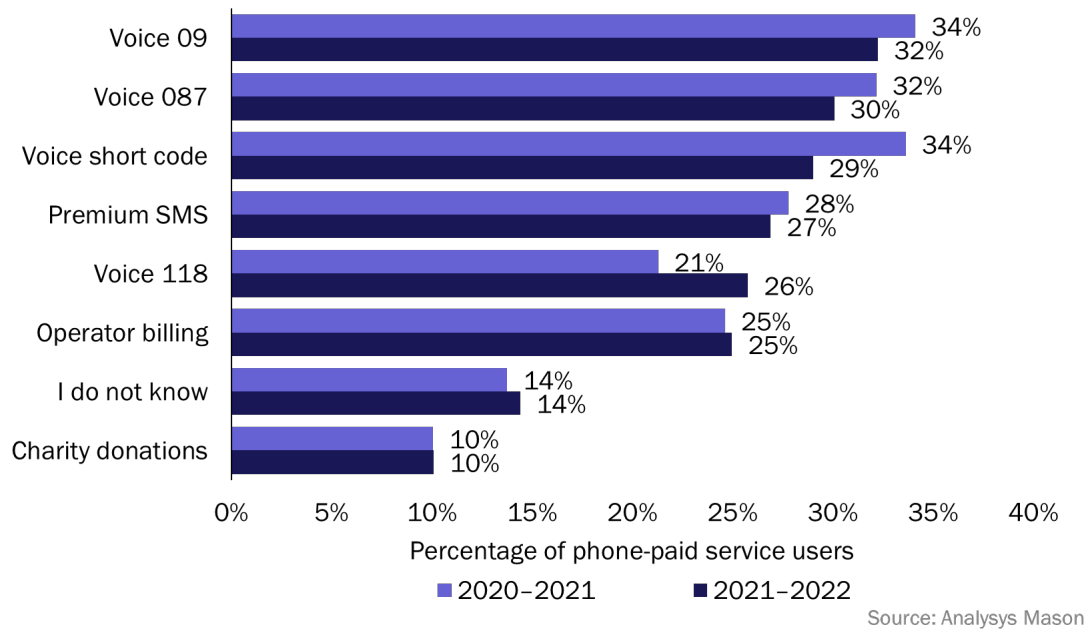


Voice-based services were the most likely to cause a problem for users, particularly those using the 09 numbering range (32% of users encountered an issue), followed by 087 (30%) and voice short code services (29%, a decrease from 34% last year). Figure 7.5 shows that these three channels accounted for the majority of problems last year too, though the percentage of voice short code users that encountered a problem has decreased due to a higher number of satisfied customers (reflected in its increased Net Promoter Score). The percentage of problems caused by premium SMS, charity donations and mobile billing has remained stable year-on-year, while the proportion of complaints for voice 118 services has increased to 26%, compared to 21% last year.

<sup>23</sup> Question: “Have you experienced any problem(s) when using the service in the past 12 months?” (n = variable; respondents who have used any phone-paid service from the listed categories in the past 12 months)



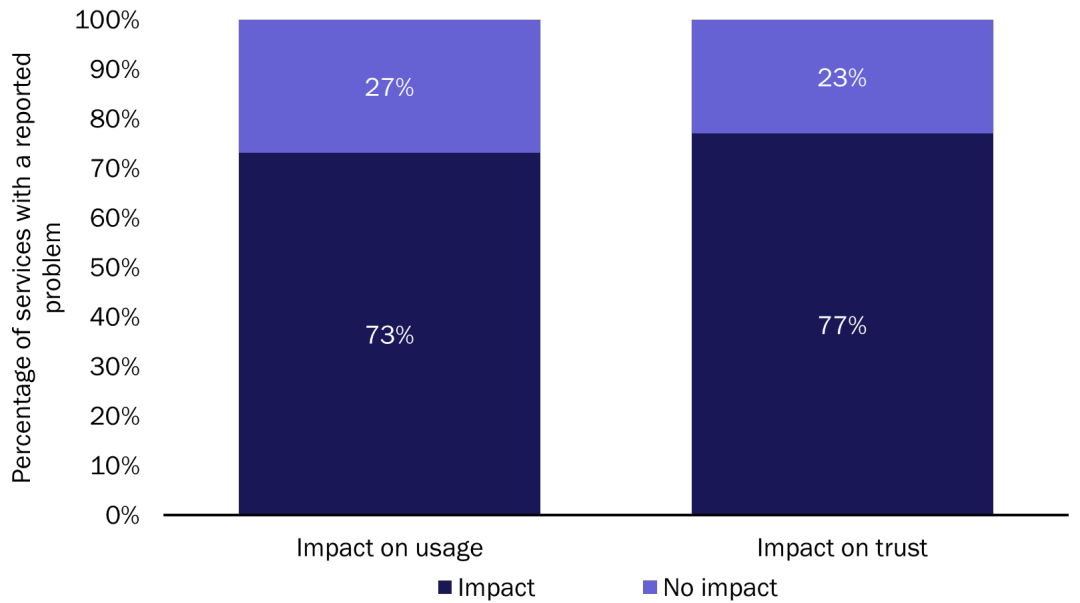
Figure 7.5: Share of respondents that encountered a problem, by spending channel, UK, 2020–2021 and 2021–2022<sup>24</sup>



### Impact of problems on usage and trust

77% of respondents that encountered issues reported that these problems had an impact on their trust in the service; this is slightly lower than the 80% seen in our survey last year. However, the impact of problems on usage remains similar: 73% of users reported that their problem had resulted in decreased usage, compared to 71% last year (Figure 7.6).

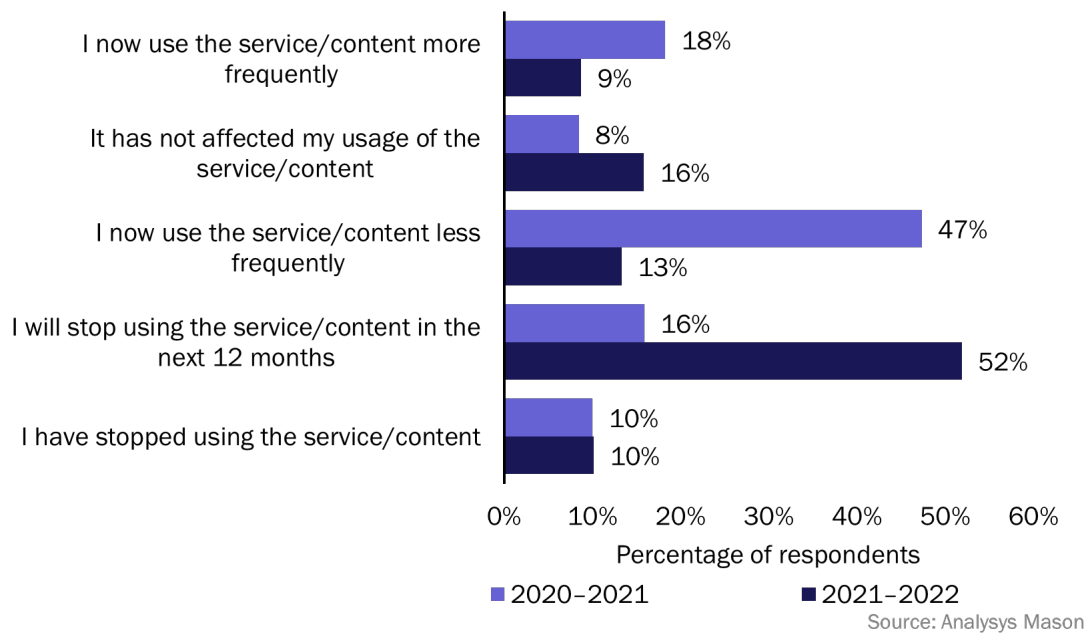
<sup>24</sup> Question: “Have you experienced any problem(s) when using the service in the past 12 months?” (n = variable; respondents who have used the listed phone-paid service channels in the past 12 months)

Figure 7.6: Impact of a problem on a respondent's usage of, and trust in, a service, UK, 2021–2022<sup>25</sup>

#### 7.4 Impact of the COVID-19 pandemic on usage

The impact of the COVID-19 pandemic has been felt across industries over the last few years, and the end of the national lockdown in 2021–2022 had notable effects on phone-paid services. 52% of respondents to our survey indicated that they plan to stop using services/content that they picked up during lockdowns within the next 12 months because they have no further need for them now that outdoor activities are available. Only 9% of respondents said that their usage was unaffected by the pandemic and 16% increased their usage. Figure 7.7 shows that the biggest year-on-year change is that respondents in 2020–2021 reported using content less frequently (47%), but now many of these respondents plan to stop their usage over the next 12 months. This shows how the loss of lockdowns has meant that these services are no longer required.

<sup>25</sup>  $n = 1291$ ; total number of services with which respondents encountered at least one problem.

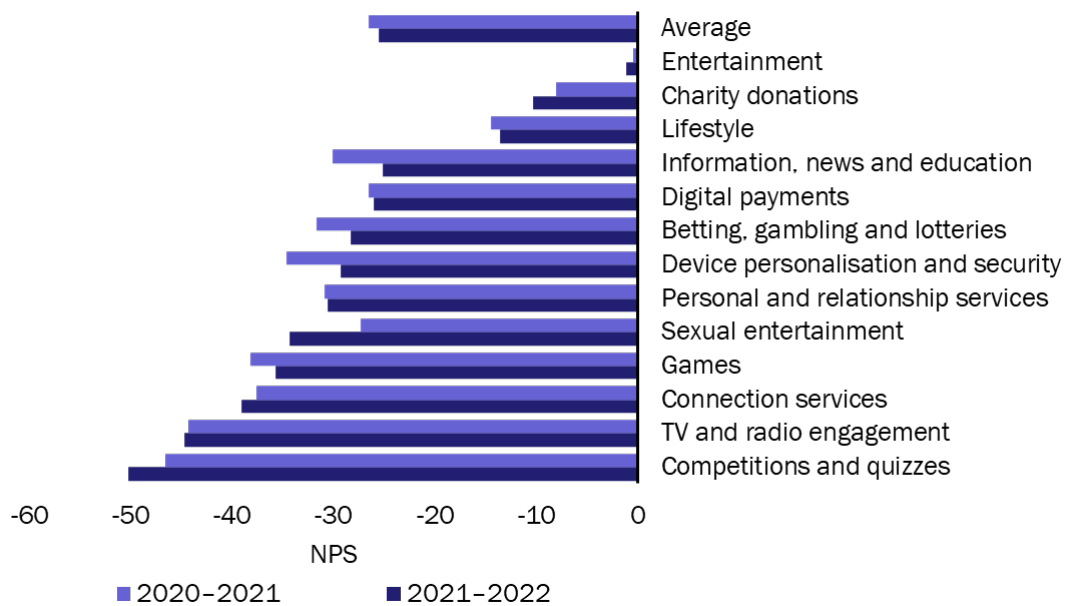
Figure 7.7: Impact of the COVID-19 pandemic on service usage, UK, 2020–2021 and 2021–2022<sup>26</sup>

## 7.5 Net Promoter Scores (NPSs)

The NPS is an industry standard index to measure customers' willingness to recommend products or services to others. It is calculated by estimating the number of promoters and detractors each service has, based on how users' response to the question, "on a scale from 1 ('not at all likely') to 10 ('definitely'), how likely are you to recommend each service to friends or family members?" The NPS is calculated by subtracting the percentage of detractors (respondents scoring 0–6) from the percentage of promoters (respondents scoring 9–10).

The overall NPS for phone-paid services in 2021–2022 was –26, which is slightly higher than the NPS for 2020–2021 (–27). The year-on-year changes in NPS varied across the categories. Figure 7.8 shows that the entertainment category has the highest NPS (–1, slightly down from 0 last year), followed by charity donations (–10, down from –8 last year). Lifestyle (–14) and information, news and education (–25) were the only other categories to have an above-average NPS. The worst-performing categories were competition and quizzes (–50, an increase from –47 last year) and TV and radio engagement (–45, a slight increase from –44 last year). However, it is important to note that these types of services consistently perform badly because the majority of users do not win the competitions and are likely to be more negative as a result. For other types of services, poor product quality and/or poor customer service are likely to be key drivers of a low NPS.

<sup>26</sup>  $n = 26,693$ ; total number of phone-paid services that respondents have used in the past 12 months.

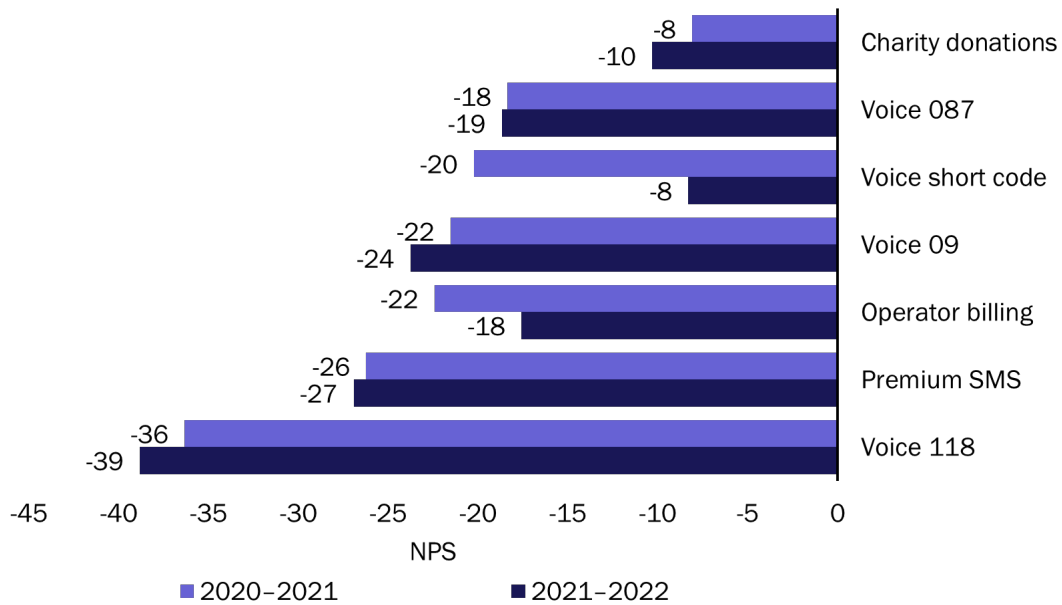
Figure 7.8: Net Promoter Score, by service category, UK, 2020–2021 and 2021–2022<sup>27</sup>

Source: Analysys Mason

The NPS for voice 118 services declined the most out of all spending channels (–39 compared to –36 last year), while the NPS for voice short codes increased most (–8 compared to –20 last year) (Figure 7.9). This is potentially a result of the shrinking voice short code market, which has left only the most loyal base of core users. These users are likely to be more positive about the service, though the scale of the increase in NPS year-on-year is still very surprising. Alternatively, it is possible that many problematic voice short code services have left the market in recent years, but it is surprising to see this effect contained solely within voice short code users and not for other payment mechanisms. Operator billing was the only other payment mechanism to see an increase in NPS this year, from –22 to –18, which may be reflective of the decreased usage of problematic legacy and subscription-based services.

<sup>27</sup> Question: On a scale from 1 ('not at all likely') to 10 ('definitely'), how likely are you to recommend each service to friends or family members? (n = 5018; only respondents who have used the listed phone-paid services in the past 12 months)

Figure 7.9: Net Promoter Score, by spending channel, UK, 2020–2021 and 2021–2022

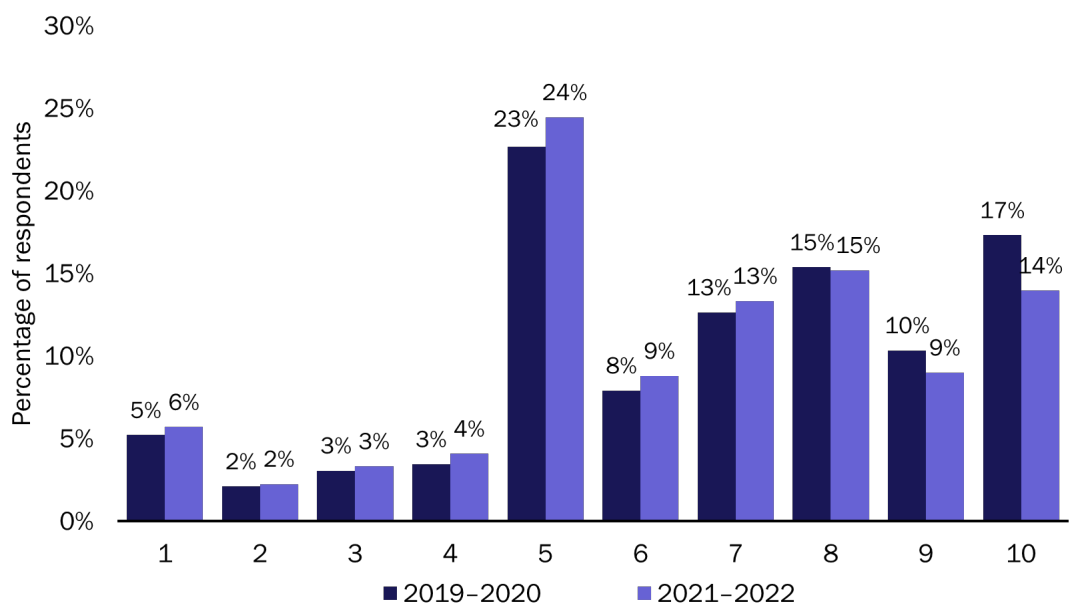


Source: Analysys Mason

The average NPS from our survey has remained remarkably consistent across the 4 years that Analysys Mason has run its survey of phone-paid service users, with the exception of 2019–2020. Indeed, this year's average of –26 is very similar to averages of –27 in 2020–2021 and –26 in 2018–2019, and an average of –17 in 2019–2020 now seems like an exception to the norm.

We have produced additional analysis to compare this year's results against the exceptional results of 2019–2020, as shown in Figure 7.10 below.

Figure 7.10: Likelihood of recommending a service, UK, 2019–2020 and 2021–2022

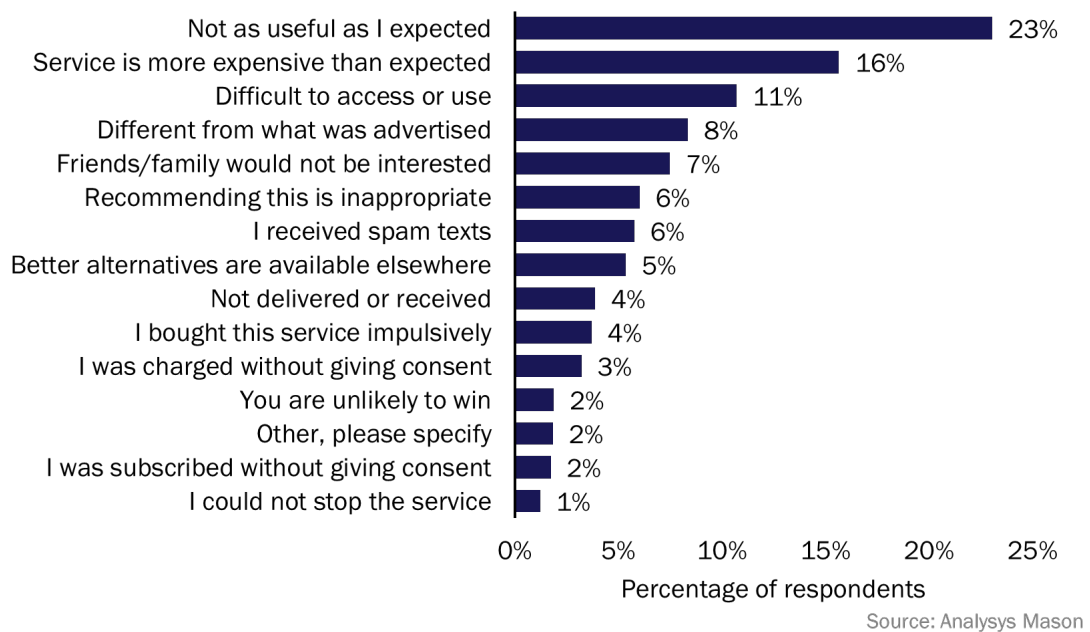


Source: Analysys Mason

As can be seen from the distribution of survey responses, there were more 9s and 10s in 2019–2020 and more 5s, 6s and 7s this year. However, it is worth noting that NPS is a particularly sensitive metric: the overall NPS fell from –17 in 2019–2020 to –26 in 2021–2021 even though the weighted average score from Figure 7.10 only dropped by 0.2 in the same time period.

We also added an additional question to this year’s survey in order to understand the reasons why respondents who provided low recommendation scores were unlikely to recommend phone-paid services. Figure 7.11 below shows the results; almost a quarter of respondents with scores of 4 or lower indicated that they are unlikely to recommend the service because it was not as useful as expected (23%). This is notable because it is significantly higher than the share of respondents who considered “not as useful as expected” to be a problem elsewhere in the survey (Section 7.4). This implies that phone-paid services are often perceived as not useful enough to recommend, even when they are unproblematic. The second-most selected response was that the service was more expensive than expected or did not provide value for money (16%). This confirms that phone-paid services retain a reputation for poor value, which makes it less likely that respondents will recommend them to others.

Figure 7.11: Reasons given for not recommending a service, UK, 2021–2022 <sup>28</sup>



<sup>28</sup> Question: “For each of the services selected, why are you unlikely to recommend this service to friends or family members?” (n = 4708; only respondents who provided a score of 4 or below)

## Annex A Service taxonomy and data

This section contains a taxonomy of the phone-paid services assessed in this market review, as well as additional market data on a per-service basis.

### A.1 Service taxonomy

This annual market review uses the same service taxonomy that was used in the 2020–2021 report. It includes 13 service categories broken down into 48 service types.

Figure A.1: Phone-paid services taxonomy, by service category and type, 2021–2022

Service category	Service type	Definition
Assistance services	Directory enquiries	<ul style="list-style-type: none"> <li>Voice service used to find out a specific phone number and/or address of a residence, business or public entity.</li> <li>Accessed and paid for via a premium-rated six-digit number beginning with 118.</li> </ul>
	Customer services	<ul style="list-style-type: none"> <li>Voice service to contact the customer service of an organisation.</li> <li>Accessed and paid for via a premium-rated number beginning with 087 or 09, or presented as a voice short code.</li> </ul>
	Information, connection and/or signposting services (ICSS)	<ul style="list-style-type: none"> <li>Voice service to contact a specific business or service (for example, a lawyer or solicitor).</li> <li>Accessed and paid for via a premium-rated number beginning with 087 or 09.</li> </ul>
Betting, gambling and lotteries	Betting	<ul style="list-style-type: none"> <li>Entry to a sport-related competition to win prizes (for example, via an event, bookmaker or online)</li> <li>Paid for via premium SMS or operator billing.</li> </ul>
	Gambling	<ul style="list-style-type: none"> <li>Entry to a game of chance to win prizes (for example, mobile casino, arcade or bingo). Excludes bets and lotteries.</li> <li>Paid for via premium SMS or operator billing.</li> </ul>
	Lotteries	<ul style="list-style-type: none"> <li>Entry to a lottery/tombola typically organised by a business, charity or society to raise money.</li> <li>Paid for via premium SMS or operator billing.</li> </ul>
Charity donations	Charity donations	<ul style="list-style-type: none"> <li>Text-based donation to a charity (as part of a televised event, regular donations collected by charities, or specific appeals during humanitarian crises).</li> <li>Paid for via premium SMS.</li> </ul>
Competitions and quizzes	Online competitions	<ul style="list-style-type: none"> <li>Entry to competitions advertised online (for example, on a website or through email marketing). Excludes competitions run by TV or radio broadcasters.</li> <li>Paid for via premium SMS or operator billing.</li> </ul>
	Offline competitions	<ul style="list-style-type: none"> <li>Entry to competitions advertised offline (for example, on TV, in newspapers or on public billboards). Excludes competitions run by TV or radio broadcasters.</li> </ul>

Service category	Service type	Definition
Device personalisation and security		<ul style="list-style-type: none"> <li>• Paid for via premium SMS or using a premium-rated number beginning with 09.</li> </ul>
	Ringtones, ring-back tones and wallpapers	<ul style="list-style-type: none"> <li>• Purchase and download of ringtones, ring-back tones and wallpapers for device personalisation.</li> <li>• Paid for via premium SMS or operator billing.</li> </ul>
Digital payments	Security	<ul style="list-style-type: none"> <li>• Purchase and download of software to protect a mobile device (for example, from viruses, hackers or other malware).</li> <li>• Paid for via premium SMS or operator billing.</li> </ul>
	Vouchers	<ul style="list-style-type: none"> <li>• Purchase of discount codes (for example, that can be used at a retailer or supermarket).</li> <li>• Paid for via premium SMS or operator billing.</li> </ul>
	Virtual gifts	<ul style="list-style-type: none"> <li>• Purchase of virtual gifts on social media websites (such as virtual flowers).</li> <li>• Paid for via premium SMS or operator billing.</li> </ul>
	Gift cards	<ul style="list-style-type: none"> <li>• Purchase of gift cards (for example, to use at a retailer or supermarket).</li> <li>• Paid for via premium SMS or operator billing.</li> </ul>
	Low-cost international or reverse charge calls	<ul style="list-style-type: none"> <li>• Alternate call services typically with a charge per minute.</li> <li>• Accessed and paid for via a premium-rated number beginning with 087 or 09, or presented as a voice short code.</li> </ul>
Entertainment	Music	<ul style="list-style-type: none"> <li>• Subscription to music streaming services or one-off download of songs or music albums.</li> <li>• Paid for via premium SMS or operator billing.</li> </ul>
	TV	<ul style="list-style-type: none"> <li>• Subscription to niche TV channels or one-off download of TV shows.</li> <li>• Paid for via premium SMS or operator billing.</li> </ul>
	Video	<ul style="list-style-type: none"> <li>• Subscription to video streaming services or one-off download of short videos.</li> <li>• Paid for via premium SMS or operator billing.</li> </ul>
	Film	<ul style="list-style-type: none"> <li>• Subscription to film bundles/channels or one-off download of individual films.</li> <li>• Paid for via premium SMS or operator billing.</li> </ul>
	Books	<ul style="list-style-type: none"> <li>• Subscriptions to, or one-off downloads of, books and magazines.</li> <li>• Paid for via premium SMS or operator billing.</li> </ul>
Games	Games downloaded from an app store	<ul style="list-style-type: none"> <li>• Purchase and download of games from an online store (including app stores such as Apple App Store and Google Play, large online games stores such as PlayStation Store and Microsoft Store and other small independent online games portals).</li> <li>• Paid for via operator billing.</li> </ul>
	Games played on social media	<ul style="list-style-type: none"> <li>• Access to games playable on social media websites.</li> <li>• Paid for via premium SMS or operator billing.</li> </ul>
	Games bundled as part of a monthly subscription	<ul style="list-style-type: none"> <li>• Subscription service for game downloads (unlimited or limited to a certain number of games per time period) from online games portals.</li> </ul>



Service category	Service type	Definition
Information, news and education		<ul style="list-style-type: none"> <li>• Paid for via premium SMS or operator billing.</li> </ul>
	In-game purchases	<ul style="list-style-type: none"> <li>• Purchase of in-game items or rewards (for example, boosters, lives or customisable content), or the premium version of a free-to-play game (for example, with no ads or with expanded game content).</li> <li>• Paid for via premium SMS or operator billing.</li> </ul>
	In-game credit top-ups	<ul style="list-style-type: none"> <li>• Purchase of in-game credit, such as gold and gems, that can be used to purchase in-game items or rewards.</li> <li>• Paid for via premium SMS or operator billing.</li> </ul>
	Weather	<ul style="list-style-type: none"> <li>• Voice service used to access weather information.</li> <li>• Accessed and paid for via a premium-rated number beginning with 087, 09 or presented as a voice short code.</li> </ul>
	News	<ul style="list-style-type: none"> <li>• Voice service used to access news information.</li> <li>• Accessed and paid for via a premium-rated number beginning with 087, 09 or presented as a voice short code.</li> </ul>
	Travel	<ul style="list-style-type: none"> <li>• Voice service used to access travel information.</li> <li>• Accessed and paid for via a premium-rated number beginning with 087, 09 or presented as a voice short code.</li> </ul>
	Sport	<ul style="list-style-type: none"> <li>• Voice service used to access information on sports results.</li> <li>• Accessed and paid for via a premium-rated number beginning with 087, 09 or presented as a voice short code.</li> </ul>
	Stocks and shares	<ul style="list-style-type: none"> <li>• Voice service used to access information on stocks/shares.</li> <li>• Accessed and paid for via a premium-rated number beginning with 087, 09 or presented as a voice short code.</li> </ul>
	Alerts	<ul style="list-style-type: none"> <li>• Service used to set up alerts at specific times.</li> <li>• Accessed and paid for via a premium-rated number beginning with 087, 09 or presented as a voice short code, via premium SMS or through operator billing.</li> </ul>
	Educational services	<ul style="list-style-type: none"> <li>• Service used to access information on educational services.</li> <li>• Accessed and paid for via a premium-rated number beginning with 087, 09 or presented as a voice short code or accessed online and paid for through operator billing.</li> </ul>
Lifestyle	Fitness, health and wellbeing	<ul style="list-style-type: none"> <li>• Service used to access information, tips, advice or reminders on nutrition, dieting and exercise.</li> <li>• Paid for via premium SMS or operator billing.</li> </ul>
	Food and recipes	<ul style="list-style-type: none"> <li>• Subscription to, or one-off downloads of, information on foods and recipes.</li> <li>• Paid for via operator billing.</li> </ul>

Service category	Service type	Definition
Personal and relationship services	Dating	<ul style="list-style-type: none"> <li>Access to dating services or in-app purchases (for example, credit or premium messaging) in free-to-use dating services.</li> <li>Accessed and paid for via a premium-rated number beginning with 087, 09 or presented as a voice short code, via premium SMS or through operator billing.</li> </ul>
	Flirting chat services	<ul style="list-style-type: none"> <li>Voice- or message-based (non-explicit) flirting chat with a service operator.</li> <li>Accessed and paid for via a premium-rated number (beginning with 087, 09 or presented as a voice short code), via premium SMS or through operator billing.</li> </ul>
	Chat services	<ul style="list-style-type: none"> <li>Voice- or message-based chat with a helpline or friendship service. Excludes flirting chat services.</li> <li>Accessed and paid for via a premium-rated number beginning with 087, 09 or presented as a voice short code, via premium SMS or through operator billing.</li> </ul>
	Tarot/astrology services	<ul style="list-style-type: none"> <li>Service used to access services such as horoscopes and tarot card readings.</li> <li>Accessed and paid for via a premium-rated number beginning with 087, 09 or presented as a voice short code, via premium SMS or through operator billing.</li> </ul>
Sexual entertainment	Glamour pics	<ul style="list-style-type: none"> <li>Access to and/or download of revealing or nude photos.</li> <li>Paid for via premium SMS or operator billing.</li> </ul>
	Adult pics	<ul style="list-style-type: none"> <li>Access to and/or download of hardcore and explicit photos.</li> <li>Paid for via premium SMS or operator billing.</li> </ul>
	Adult videos	<ul style="list-style-type: none"> <li>Access to and/or download of hardcore and explicit videos.</li> <li>Paid for via premium SMS or operator billing.</li> </ul>
	Adult cams	<ul style="list-style-type: none"> <li>Purchase of tokens to access online video streams.</li> <li>Paid for via premium SMS or operator billing.</li> </ul>
	Adult chat (messaging)	<ul style="list-style-type: none"> <li>Message-based (explicit) chat service.</li> <li>Paid for via premium SMS or operator billing.</li> </ul>
	Adult talk services (voice)	<ul style="list-style-type: none"> <li>Voice-based (explicit) chat service.</li> <li>Accessed and paid for via a premium-rated number (beginning with 087, 09 or presented as a voice short code).</li> </ul>
TV and radio engagement	Radio broadcaster competitions	<ul style="list-style-type: none"> <li>Entry to an online or offline competition run by a radio broadcaster.</li> <li>Paid for via premium SMS or operator billing, or using a premium-rated number beginning with 09 or presented as a voice short code.</li> </ul>
	TV broadcaster competition	<ul style="list-style-type: none"> <li>Entry to an online or offline competition run by a TV broadcaster.</li> <li>Paid for via premium SMS or operator billing, or using a premium-rated number beginning with 09 or presented as a voice short code.</li> </ul>

Service category	Service type	Definition
	Voting on a TV/radio show	<ul style="list-style-type: none"> <li>Voting in the context of a TV or radio show (for example, voting for a favourite candidate).</li> <li>Paid for via premium SMS or using a premium-rated number presented as a voice short code.</li> </ul>
	Texting in to show host	<ul style="list-style-type: none"> <li>Text-based engagement with the presenter of a TV or radio show.</li> <li>Paid for via premium SMS.</li> </ul>

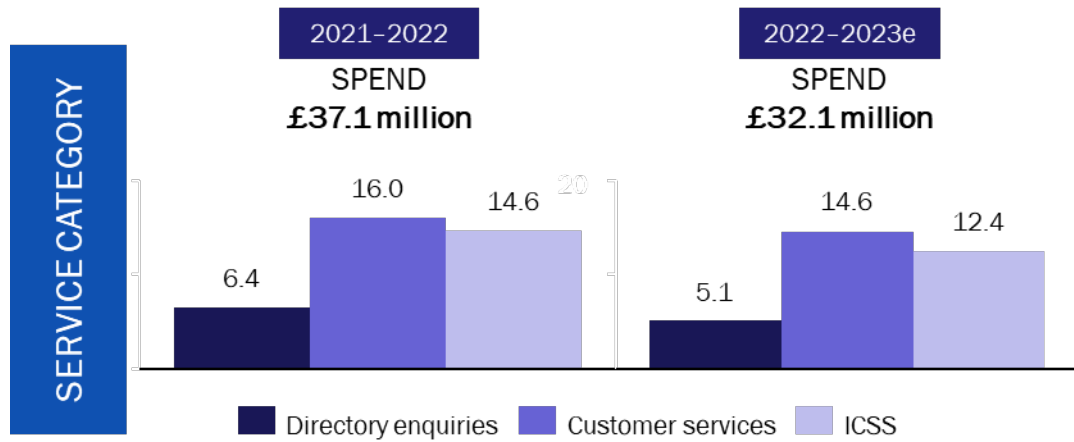
Source: Analysys Mason

## A.2 Service-level data

This sub-section provides additional market data across the 13 service categories.

- For each service category, we provide data on the spend by service type in 2021–2022 and 2022–2023, and associated year-on-year growth rates.
- For each service type, we provide data on the spend, number of users, implied yearly average spend per user (ASPU), the share of users that have reported encountering a problem in the previous 12 months, the share of users that have had their trust affected as a result of encountering a problem and the NPS.

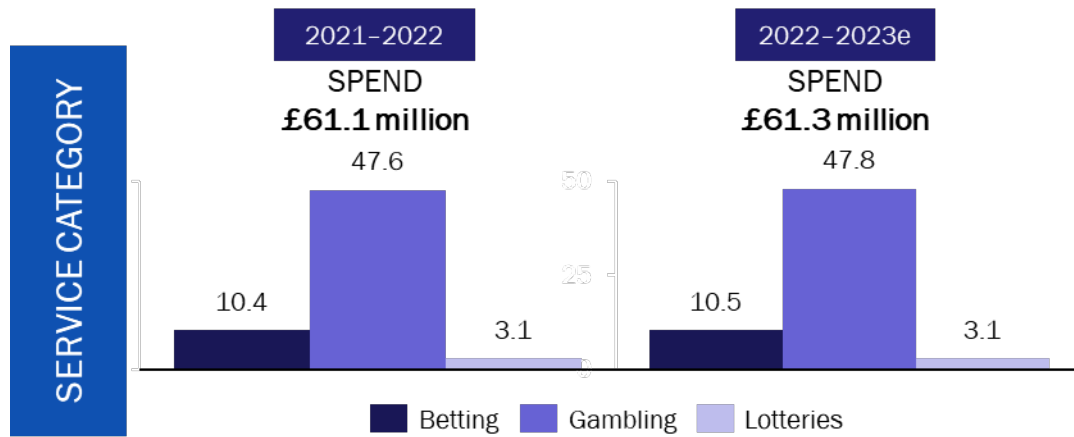
# ASSISTANCE SERVICES



SERVICE CATEGORY	2021-2022			2022-2023e		
	SPEND (£ million)	USERS (million)	ASPU (£)	SPEND (£ million)	USERS (million)	ASPU (£)
DIRECTIONS ENQUIRIES	6.4	0.7	9.8	5.1	0.7	9.8
	26% Users w/problems	14% Users w/trust impacted	-39 NPS	5.1	0.7	9.8
CUSTOMER SERVICES	16.0	2.3	7.1	14.6	2.3	7.1
	25% Users w/problems	14% Users w/trust impacted	-43 NPS	14.6	2.3	7.1
ICSS	14.6	1.2	12.0	12.4	1.2	12.0
	28% Users w/problems	18% Users w/trust impacted	-32 NPS	12.4	1.2	12.0

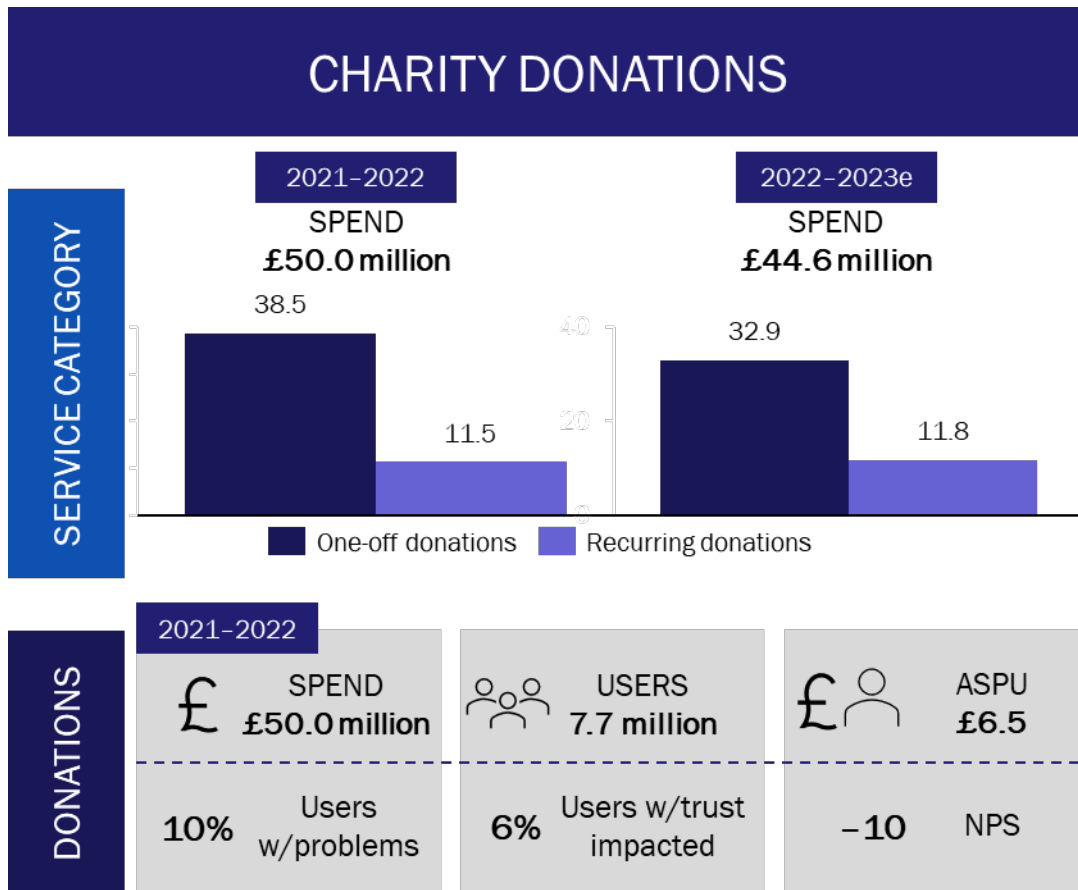
Source: Analysys Mason and Phone-paid Services Authority

# BETTING, GAMBLING AND LOTTERIES



BETTING	2021-2022	£ SPEND <b>£10.4 million</b>	USERS <b>2.4 million</b>	£ ASPU <b>£4.3</b>
		13% Users w/problems	6% Users w/trust impacted	-29 NPS
GAMBLING	2021-2022	£ SPEND <b>£47.6 million</b>	USERS <b>3.1 million</b>	£ ASPU <b>£15.2</b>
		12% Users w/problems	5% Users w/trust impacted	-35 NPS
LOTTERIES	2021-2022	£ SPEND <b>£3.1 million</b>	USERS <b>1.3 million</b>	£ ASPU <b>£2.4</b>
		9% Users w/problems	4% Users w/trust impacted	-22 NPS

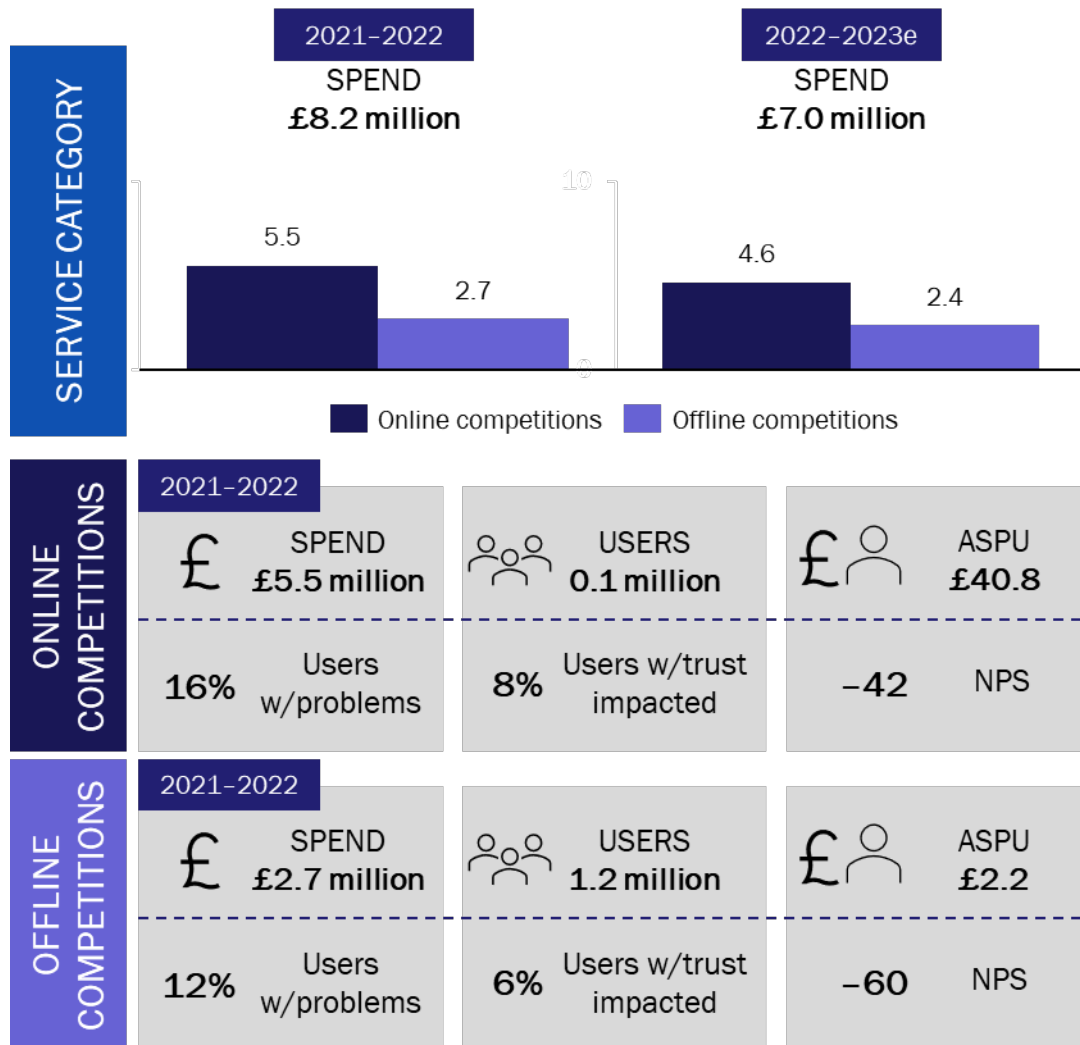
Source: Analysys Mason and Phone-paid Services Authority



Source: Analysys Mason and Phone-paid Services Authority 29

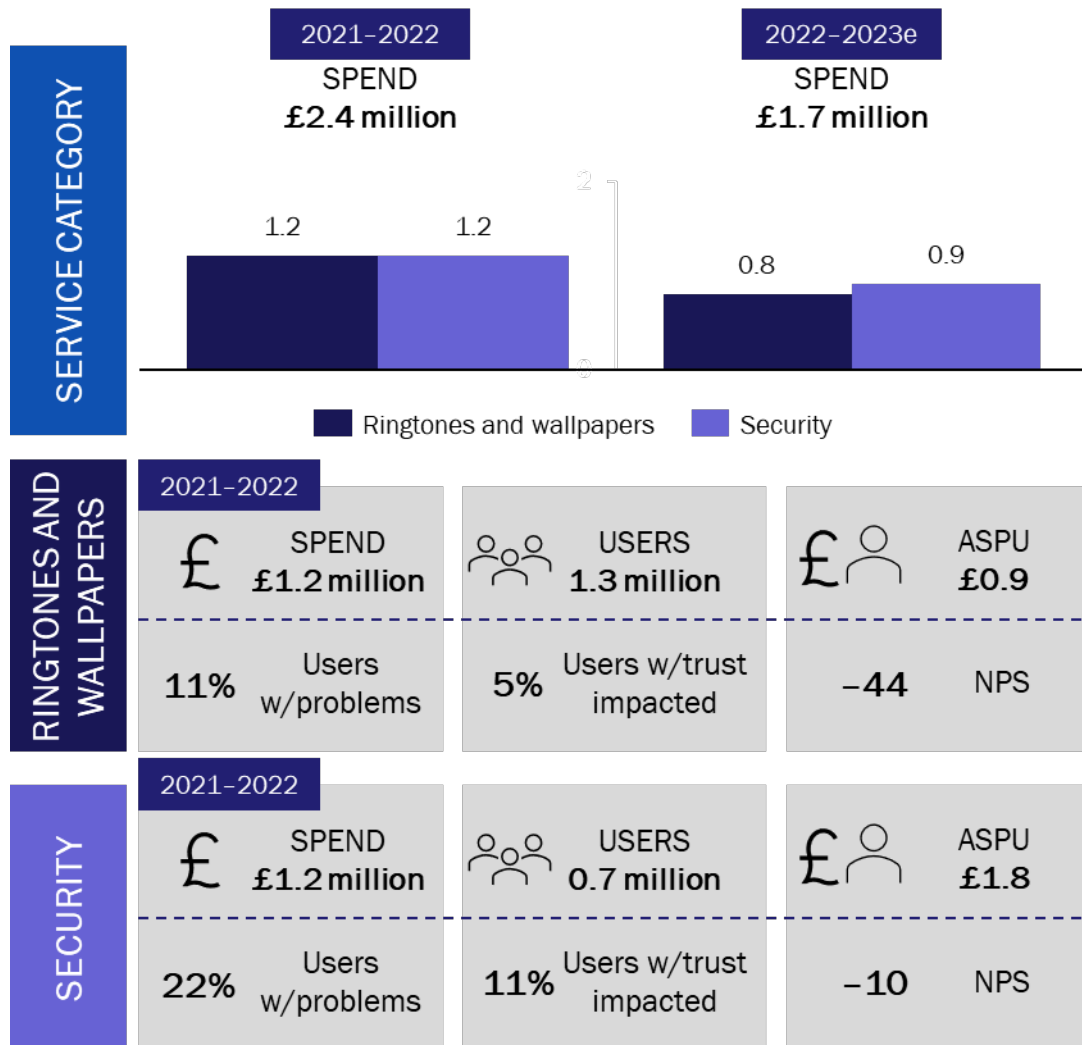
29 Breakdown of spend between one-off and recurring donations based on data collected from interviews. Note that individual, service-level data for one-off and recurring donations on the number users, ASPU levels, share of users with problems, share of users with trust impacted and NPS was not collected as part of this exercise.

## COMPETITIONS AND QUIZZES



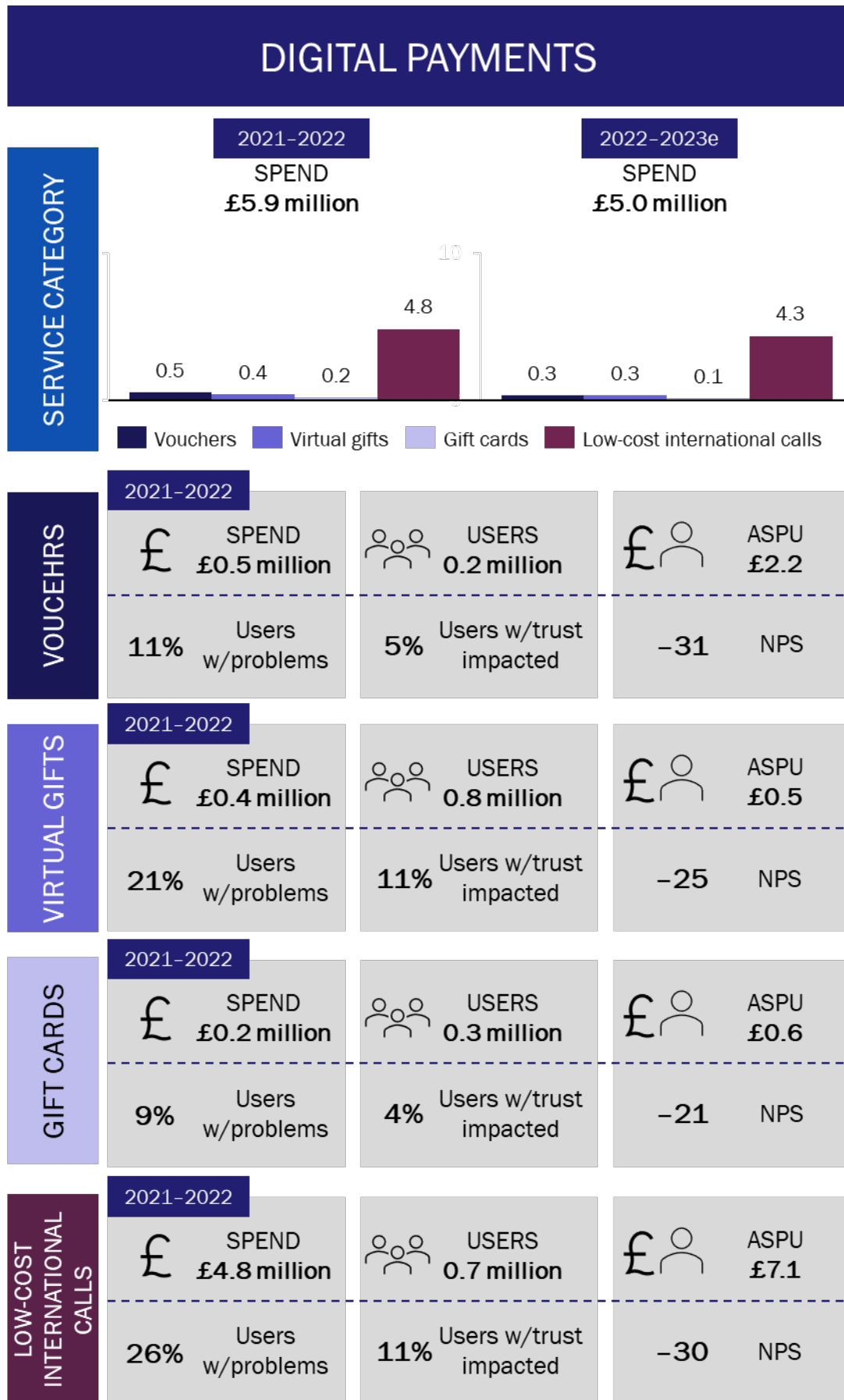
Source: Analysys Mason and Phone-paid Services Authority

## DEVICE PERSONALISATION AND SECURITY

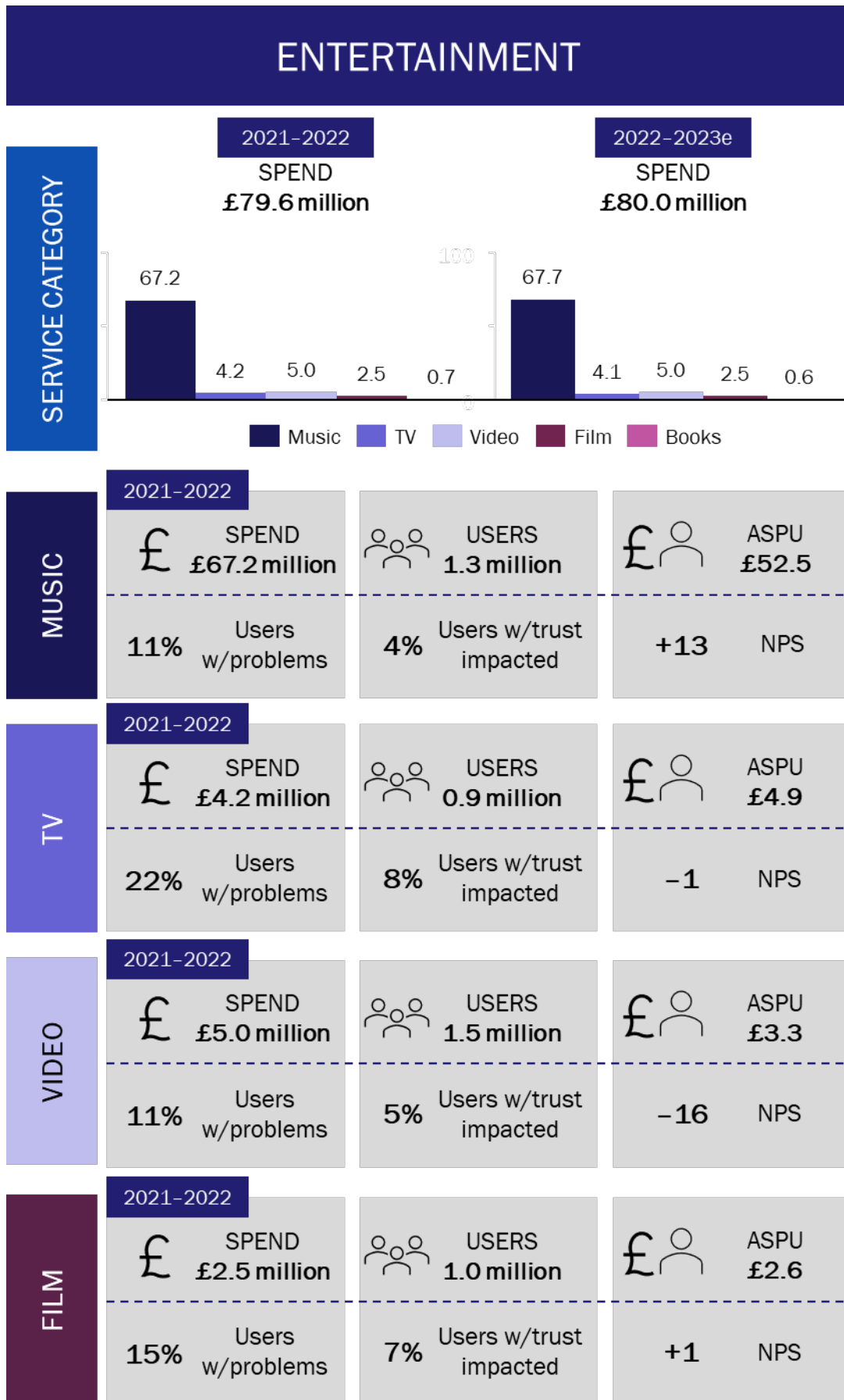


Source: Analysys Mason and Phone-paid Services Authority





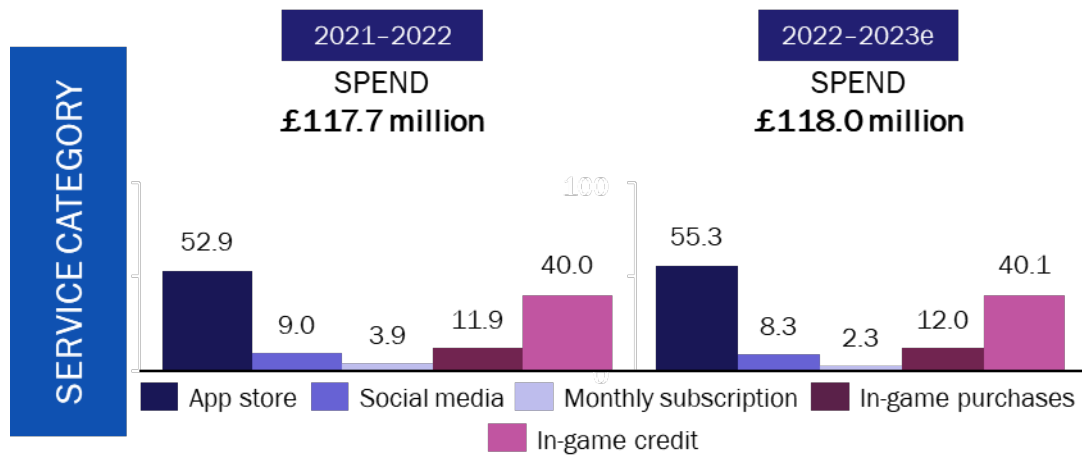
Source: Analysys Mason and Phone-paid Services Authority



BOOKS	2021–2022		
	SPEND £ £0.7 million	USERS 0.2 million	ASPU £3.1
	11% Users w/problems	5% Users w/trust impacted	–4 NPS

Source: Analysys Mason and Phone-paid Services Authority

# GAMES

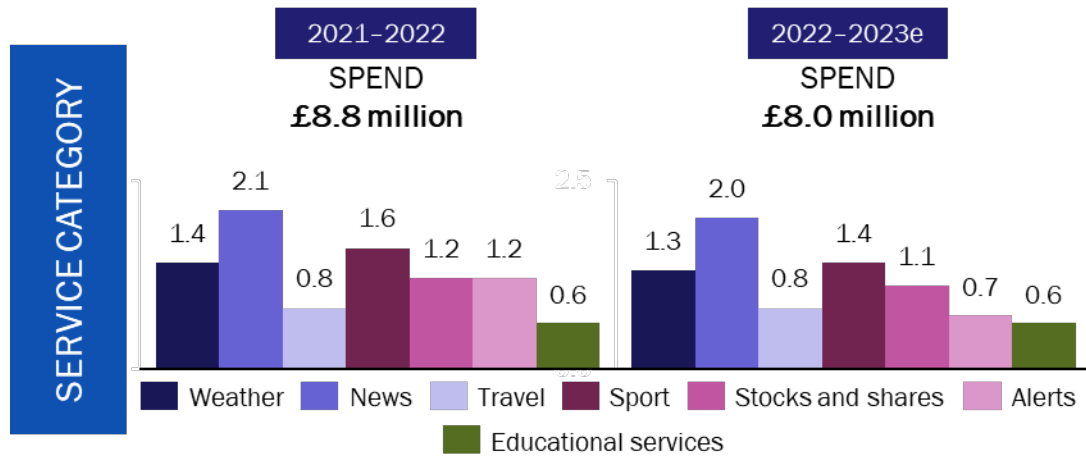


SERVICE CATEGORY	2021-2022		2022-2023e	
	SPEND	USERS	ASPU	NPS
GAMES FROM APP STORES	£52.9 million	7.6 million	£7.0	
	14% Users w/problems	6% Users w/trust impacted	-34	
PLAYED ON SOCIAL MEDIA	£9.0 million	3.3 million	£2.7	
	21% Users w/problems	10% Users w/trust impacted	-35	
BUNDLED IN SUBSCRIPTION	£3.9 million	0.2 million	£15.7	
	25% Users w/problems	13% Users w/trust impacted	-27	
IN-GAME PURCHASES	£11.9 million	2.9 million	£4.1	
	18% Users w/problems	9% Users w/trust impacted	-43	










IN-GAME CREDIT TOP-UP	2021–2022		
	SPEND £ £40.0 million	USERS 3.3 million	ASPU £12.0
	25% Users w/problems	12% Users w/trust impacted	–40 NPS

Source: Analysys Mason and Phone-paid Services Authority

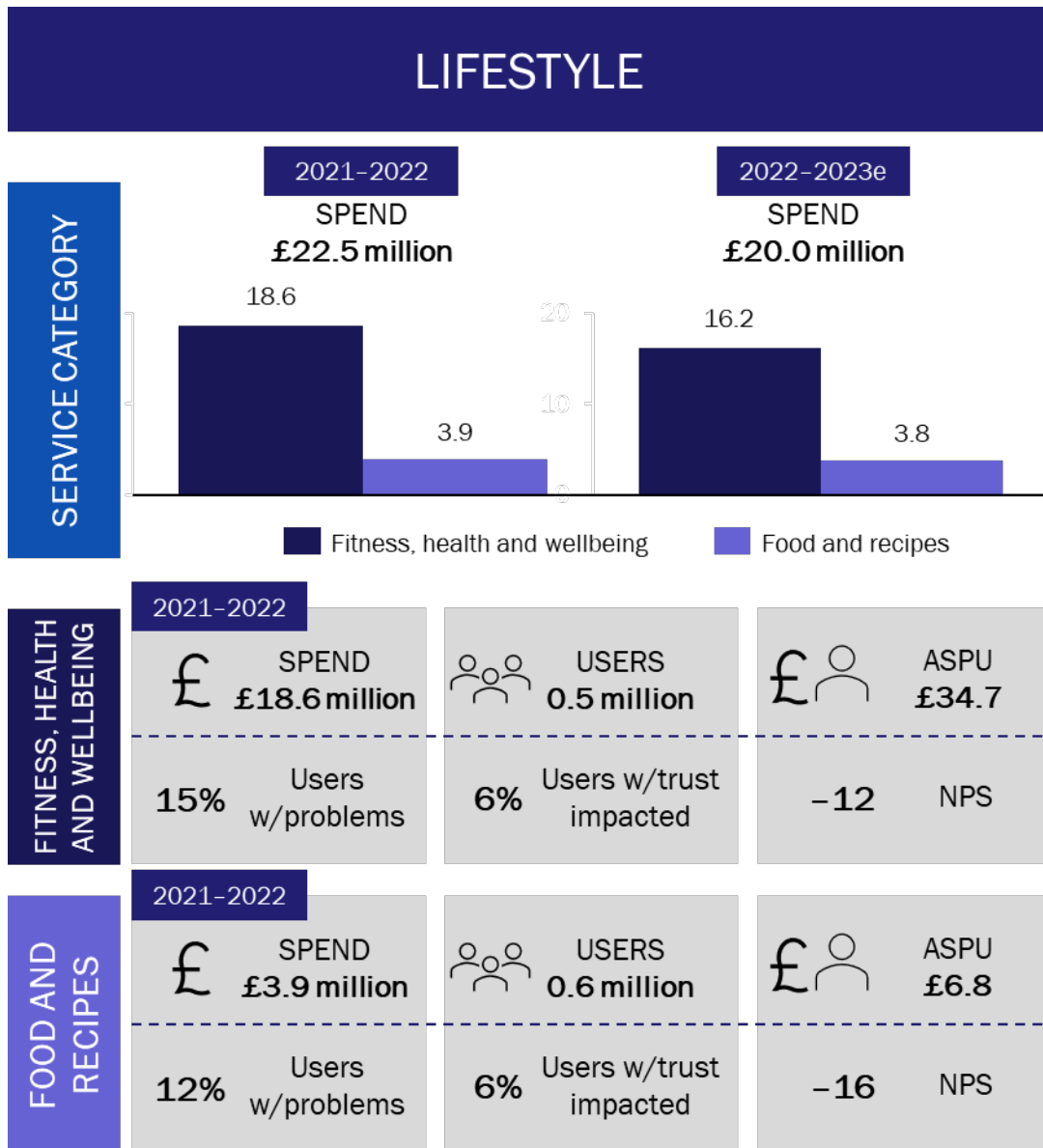
# INFORMATION, NEWS AND EDUCATION



SERVICE CATEGORY	2021-2022		
	SPEND £	USERS	ASPU £
WEATHER	£1.4 million	0.3 million	£5.0
	7% Users w/problems	2% Users w/trust impacted	-30 NPS
NEWS	£2.1 million	0.3 million	£6.8
	7% Users w/problems	3% Users w/trust impacted	-30 NPS
TRAVEL	£0.8 million	0.2 million	£4.7
	10% Users w/problems	4% Users w/trust impacted	-20 NPS
SPORT	£1.6 million	0.2 million	£8.4
	11% Users w/problems	4% Users w/trust impacted	-14 NPS

STOCKS AND SHARES	2021-2022	 SPEND £1.2 million	 USERS 0.1 million	 ASPU £17.6
		18% Users w/problems	10% Users w/trust impacted	-17 NPS
ALERTS	2021-2022	 SPEND £1.2 million	 USERS 0.3 million	 ASPU £3.4
		10% Users w/problems	4% Users w/trust impacted	-40 NPS
EDUCATIONAL SERVICES	2021-2022	 SPEND £0.6 million	 USERS 0.1 million	 ASPU £5.9
		16% Users w/problems	7% Users w/trust impacted	-22 NPS

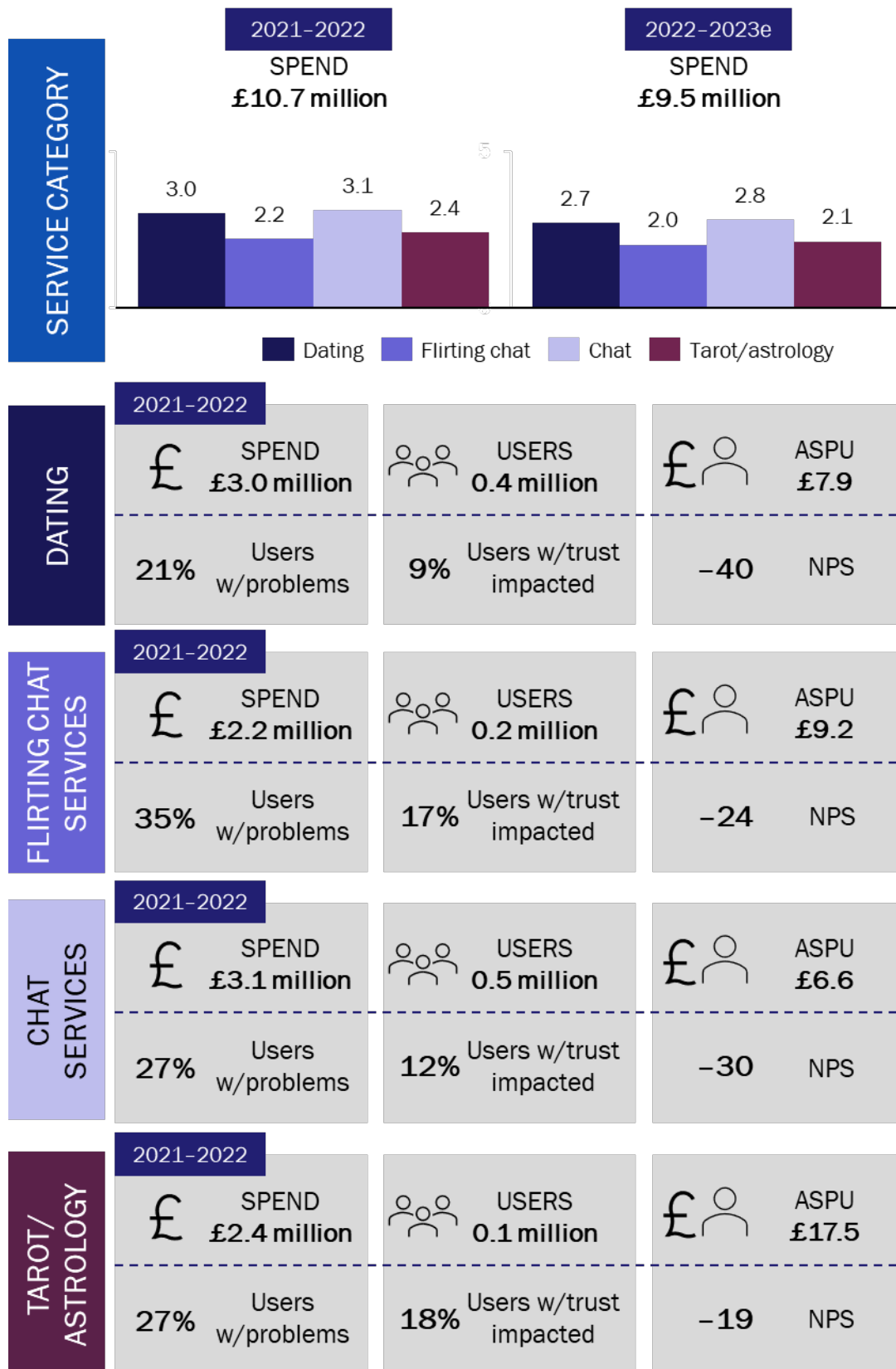
Source: Analysys Mason and Phone-paid Services Authority



Source: Analysys Mason and Phone-paid Services Authority

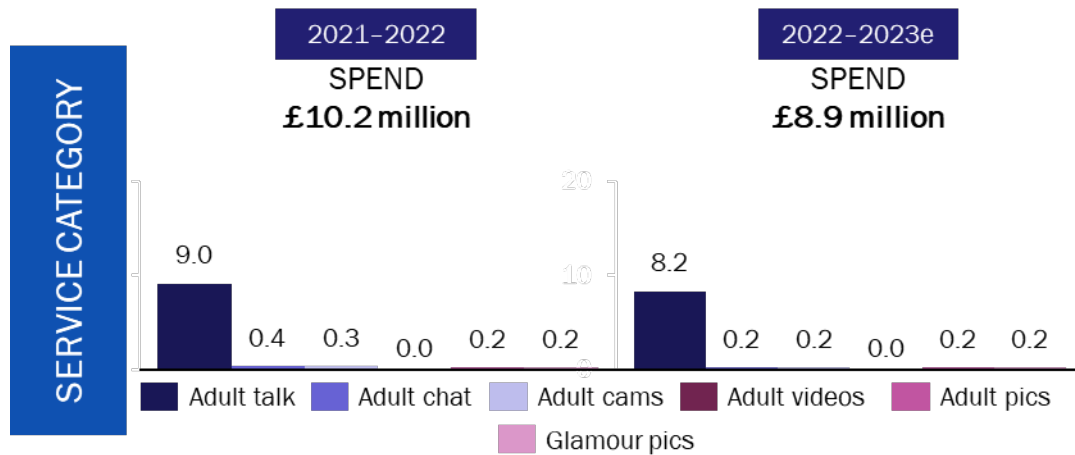


## PERSONAL AND RELATIONSHIP SERVICES









Source: Analysys Mason and Phone-paid Services Authority

# SEXUAL ENTERTAINMENT

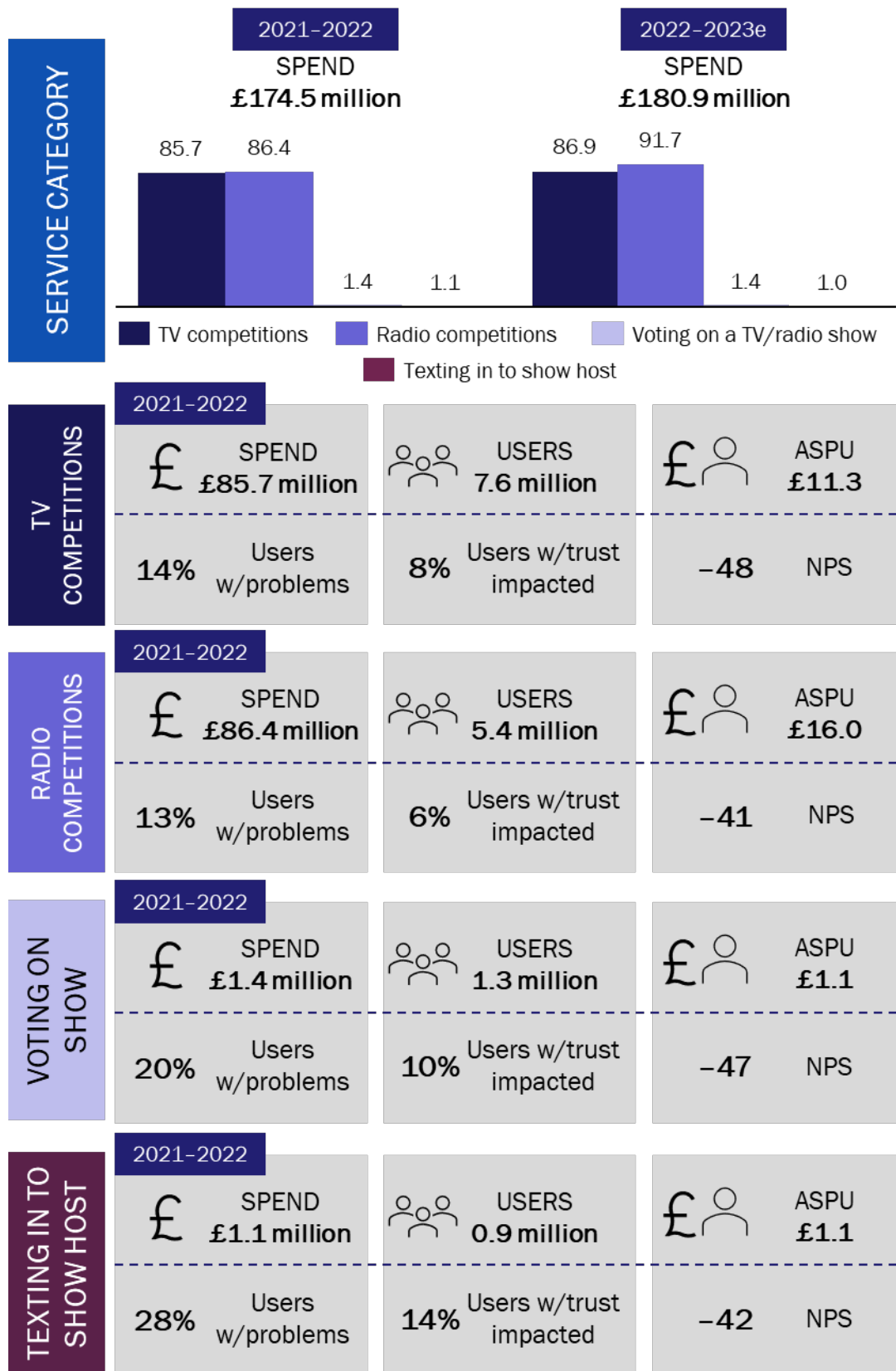


Service Category	2021-2022			2022-2023e		
	Spend (£m)	Users (million)	ASPU (£)	Spend (£m)	Users (million)	ASPU (£)
Adult Talk Services	£9.0 million	0.3 million	£27.5			
	37% Users w/problems	24% Users w/trust impacted	-25 NPS			
Adult Chat (Messaging)	£0.4 million	0.1 million	£2.6			
	38% Users w/problems	16% Users w/trust impacted	-34 NPS			
Adult Cams	£0.3 million	0.1 million	£2.2			
	35% Users w/problems	11% Users w/trust impacted	-20 NPS			
Adult Videos	<£0.1 million	<0.1 million	£19.3			
	23% Users w/problems	12% Users w/trust impacted	-48 NPS			

ADULT PICS	2021–2022	 SPEND £0.2 million	 USERS 0.2 million	 ASPU £1.1
		24% Users w/problems	15% Users w/trust impacted	–33 NPS
GLAMOUR PICS	2021–2022	 SPEND £0.2 million	 USERS 0.3 million	 ASPU £0.7
		20% Users w/problems	8% Users w/trust impacted	–33 NPS

Source: Analysys Mason and Phone-paid Services Authority

## TV AND RADIO ENGAGEMENT



Source: Analysys Mason and Phone-paid Services Authority

## Annex B Market sizing and methodology

Our approach to estimating the end-user spend on phone-paid services in 2021–2022 and until 2024–2025 was based on the following four-step process.<sup>30</sup>

- Step 1: collection of network returns data
- Step 2: online consumer survey
- Step 3: in-depth interviews with industry participants
- Step 4: market modelling

### B.1 Step 1: collection of network returns data

Network operators report revenue (and out-payments to value chain participants) by spending channel on a quarterly basis to the Phone-paid Services Authority. This data was used to derive the overall end-user spend (excluding VAT) on phone-paid services for 2021–2022, broken down by spending channel. Consumer spend on charity donations does not generate revenue for network operators and is therefore not reported in network returns. However, network operators have reported the total value of charity donations that has passed through their networks to the Phone-paid Services Authority since 2017–2018.

To further break down end-user spend by service category (13 categories) and service type (48 types) and forecast the evolution of the market up to 2024–2025, we considered the following steps.

### B.2 Step 2: online consumer survey

We conducted a survey of consumers to generate quantitative data on the adoption of phone-paid services, the reasons for use/non-use of phone-paid services and the key underlying factors affecting usage and overall satisfaction. Field work was conducted online by Lucid between March and April 2022. The survey included 25 questions overall and took approximately 10 minutes for survey respondents to complete. The survey questionnaire was designed to maintain continuity with previous annual market reviews, although changes have been included to address the continuous evolution of the phone-paid services market.

The total survey sample was formed of 8384 individuals and was broadly representative of the population in the UK aged 16 years and above in terms of gender and age.<sup>31</sup> Figure B.1 and Figure B.2 provide a comparison of the distribution by age group and gender, respectively, of the population in the UK with the sample of individuals surveyed.

<sup>30</sup> Steps are presented sequentially for clarity, but some activities (such as the market modelling exercise) were relevant at all stages of the project.

<sup>31</sup> Office of National Statistics (Feb 2022), *Mid-Year Population Estimates, UK, June 2020*. Available at: <https://www.ons.gov.uk/peoplepopulationandcommunity/populationandmigration/populationestimates/bulletins/annualmidyearpopulationestimates/mid2020>.

Figure B.1: Distribution by age group of the population and of survey respondents, UK, 2021–2022

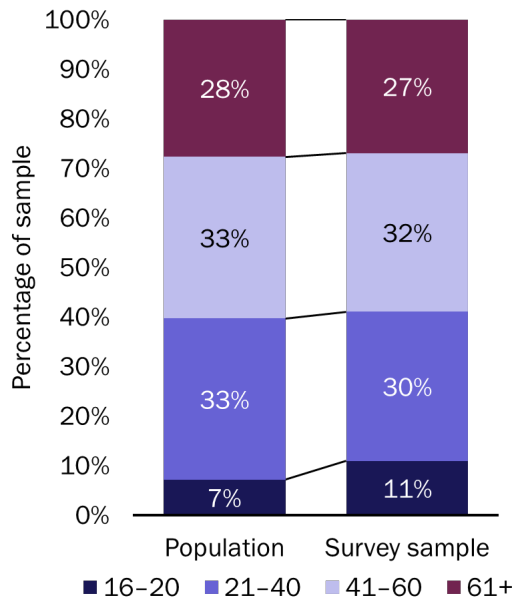
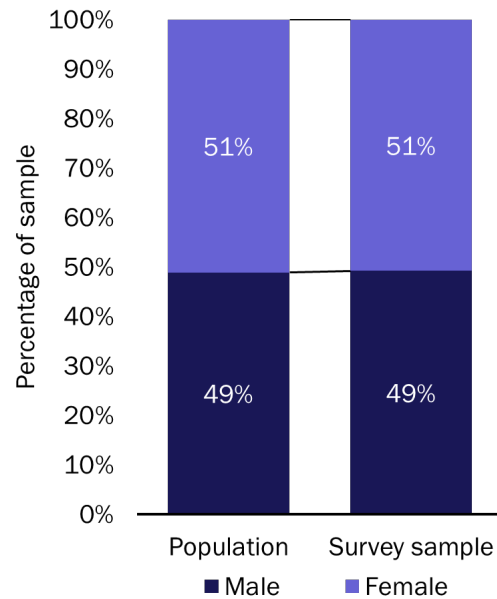


Figure B.2: Distribution by gender of the population and of survey respondents, UK, 2021–2022



Source: Analysys Mason and Office for National Statistics

5018 of the 8384 individuals surveyed used at least one phone-paid service in the past 12 months (equivalent to a 60% incidence rate). Respondents were asked about their usage (including the types of service(s) used, spending channels, frequency of use and spend levels), underlying key drivers (for example, their own preferences, the key difficulties that they have encountered and levels of trust) and overall satisfaction with phone-paid services. Further detail on the demographic segmentation of these respondents is provided in Figure B.3, Figure B.4 and Figure B.5 below.

Figure B.3: Demographic segmentation of phone-paid services users by age, UK, 2021–2022

Age group	Percentage of respondents
16–20	11%
21–30	15%
31–40	16%
41–50	15%
51–60	17%
61+	27%

Source: Analysys Mason

Figure B.4: Demographic segmentation of phone-paid services users by gender, UK, 2021–2022

Gender	Percentage of respondents
Female	15%
Male	49%

Source: Analysys Mason

*Figure B.5: Demographic segmentation of phone-paid services users by region, UK, 2021–2022*

Region	Percentage of respondents
England (South)	44%
England (North)	24%
England (Midlands)	16%
Scotland	8%
Wales	5%
Northern Ireland	2%

Source: Analysys Mason

### B.3 Step 3: in-depth interviews with industry participants

We conducted in-depth interviews with executives in senior positions across 17 organisations with activities in the phone-paid services industry, including mobile operators, fixed operators, intermediaries, merchants and trade associations between February and June 2022. The objectives of these interviews were:

- to collect additional historical revenue data to cross-check the adoption and spend level implied by the consumer survey in Step 2 at the service category and service type level
- to develop a broader understanding of the main trends affecting the adoption of phone-paid services, frequency of usage and spend level over the next 12 months and the next 3 years to inform our modelling assumptions and estimates of the size of the market in 2022–2023, 2023–2024 and 2024–2025.

Interviews were conducted as open-ended discussions, but aimed to cover market trends by segment of operation, market outlook, issues affecting consumer confidence and top-line financials. Figure B.6 provides an overview of the number of interviews completed, by type of industry participant.

*Figure B.6: Interviews completed, by type of industry participant, UK, February–June 2022*

Type of participant	Number of Interviews
Mobile network operator	4
Fixed network operator	3
Intermediary	4
Merchants	5
Trade association	1

Source: Analysys Mason

### B.4 Step 4: market modelling

As outlined in Step 1, the overall purpose of the market modelling exercise was to further break down the end-user spend by service category and type.

- Firstly, we used the output of the consumer survey (Step 2) to generate initial assumptions about key spend drivers (including service adoption, frequency of usage and spend level) and to estimate the draft distribution of end-user spend by service category and type (referred to as a ‘bottom-up’ approach).

- Secondly, we used additional revenue data provided by intermediaries, combined with insights obtained during interviews with industry participants (Step 3), to segment the total reported end-user spending by service category and type (also referred to as a ‘top-down’ approach).
- Finally, both approaches were used to derive the final spending figures by channel, service category and service type, using the top-down approach to account for under- or over-reporting from survey respondents, and the bottom-up approach to estimate the market where little data or insights had been provided.
- We then forecast the market size for 2022–2023, 2023–2024 and 2024–2025. This exercise was primarily based on key modelling drivers, on the insights generated from our interviews with industry participants (including their views on the evolution of the market segments that they are operating within) and on additional information collected from desk research on likely upcoming market developments.

The final output of the market modelling exercise is an estimate of end-user spend (excluding VAT) on phone-paid services, split by service category (13 categories), service type (48 types) and spending channel (7 spending channels), for 2021–2022, 2022–2023, 2023–2024 and 2024–2025.

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