Report for the Phone-paid Services Authority

Annual market review for phone-paid services 2022–2023

August 2023

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1. Executive summary

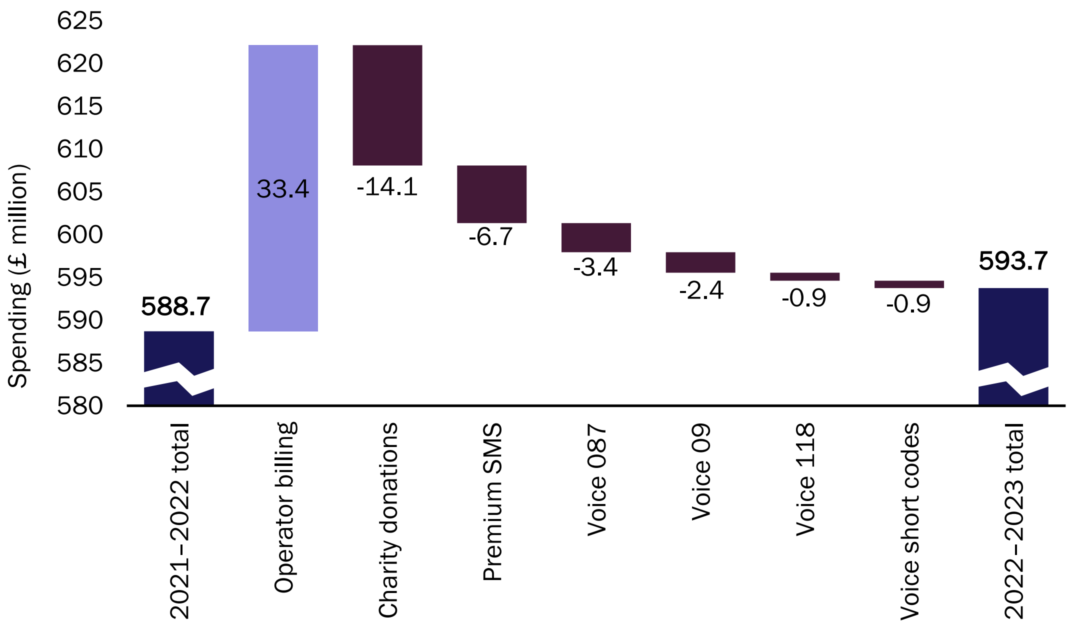
This report is the annual market review of the phone-paid services market for 2022–2023,[1] prepared by Analysys Mason on behalf of the Phone-paid Services Authority (PSA). It provides an overview of the size of the phone-paid services market in the UK for the period between 1 April 2022 and 31 March 2023, a discussion of the key market drivers, an outlook for the market during 2023–2024 and a forecast of consumer spending up to 2025–2026. The conclusions of the report are based on a survey of 8067 consumers in the UK, conducted by Analysys Masons between March and April 2023, which asked respondents to provide information about their use of phone-paid services. The report’s conclusions also draw upon in-depth interviews conducted by Analysys Mason with 17 industry stakeholders in the UK across the phone-paid services value chain[2]. Both primary sources have been used for insights and as inputs into a quantitative model of market demand.

Consumers in the UK spent £593.7 million on phone-paid services in 2022–2023. This represents a 0.9% year-on-year increase (user spending in 2021–2022 was £588.7 million). This overall increase has been driven by the growth of non-charity spending, which reached £557.8 million (+3.5% year-on-year). Revenue generated from operator billing increased significantly to £294.3 million (+12.8% year-on-year), outweighing declines in revenue across all other channels including premium SMS, voice 087, voice 09, voice 118 and voice short codes. Charity donations also fell by £14.1 million (–28.1% year-on-year) to £35.9 million in 2022–2023.

1 The 2022–2023 date range refers to the Phone-paid Services Authority’s 2022–2023 financial year, running from 1 April 2022 to 31 March 2023 (also referred to as ‘the past 12 months’ in this report). The 2023–2024 financial year should be understood as the period running from 1 April 2023 to 31 March 2024 (also referred to as ‘the next 12 months’ in this report). The same terminology applies to 2024–2025 and 2025–2026.

2 These industry stakeholders work for organisations including mobile and fixed network operators, level 1 and 2 service providers and trade associations.

Figure 1.1: Change in end-user spending (excluding VAT) between 2021–2022 and 2022–2023, by spending channel, UK[3]



Source: Phone-paid Services Authority

The main trends within these spending channels are as follows.

- The growth in spending on **operator billing** was driven by higher spending on games downloaded from app stores and, more broadly, by the increased popularity of operator billing as a payment mechanism for games and entertainment services. The addressable market for app stores through operator billing grew inorganically as a result of an agreement between Vodafone and Apple (completed in November 2022) and also organically as a result of increasing consumer awareness in 2022–2023 about the partnership between Three and Apple (established in 2021–2022). The average spending on app stores also increased after Vodafone lifted spending limits on Google Play purchases. There were also new partnerships between operators and video streaming providers.

- **Charity donations** declined as a result of cost-of-living pressures and decreasing viewership of telethon events. These two factors explain why spending on telethons run during 2022–2023 was lower than in previous years. For example, Red Nose Day 2023 raised £31.9 million across all payment mechanisms (including both phone-paid methods and other channels) compared to £42.8 million in 2022. In addition, Stand Up to Cancer did not run in 2022–2023 because it returned to its bi-annual format. Non-telethon charity donations also fell, largely due to cost-of-living pressures.

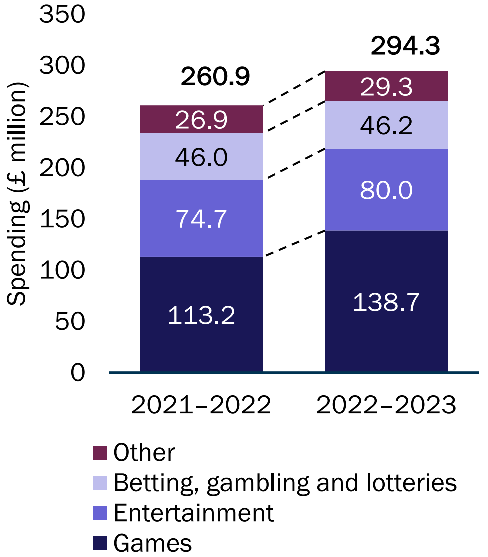
- Spending via **premium SMS** declined because of lower consumer participation in TV and radio broadcast competitions using premium SMS as a payment mechanism. Other service categories, including legacy and subscription-based services, continued to decline. Spending via premium SMS also declined following a 2-week pause in broadcast competitions following the death of the Queen. In 2022–2023, premium SMS services also faced greater competition from online platforms hosted by existing industry players (which have started to migrate users to their own online platforms because consumers are more likely to use

3 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.

alternative digital payment methods) and from new entrants in the competitions market (which operate exclusively online and do not offer phone-paid payment mechanisms at all).

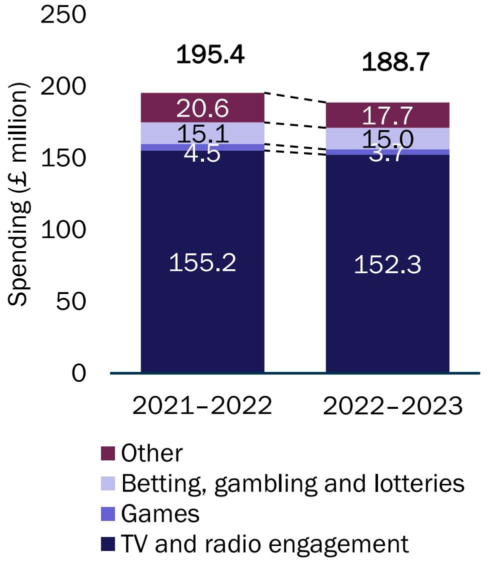
- Spending on voice-based services using the 09, 087 and 118 numbering range and voice short codes declined as consumers continued to migrate to free or online alternatives. Spending on information, connection and/or signposting services (ICSS) services over the voice 09 number range generated more revenue than expected during 2021–2022, and has declined only marginally this year, which has led to a slower decline in spending on voice 09 services overall. Voice short code services are being phased out by some industry players.

Figure 1.2: End-user spending (excluding VAT) via operator billing, by service category, UK, 2021–2022 and 2022–2023[4]



Source: Analysys Mason and Phone-paid Services

Figure 1.3: End-user spending (excluding VAT) via premium SMS, by service category, UK, 2021–2022 and 2022–2023[5]



Source: Analysys Mason and Phone-paid Services

We have revised the 2021–2022 market spending breakdown produced for the 2021–2022 annual market review because more information is now available about spending on voice 09 and 087 services (and ICSS services in particular). While total spending on voice 09 and voice 087 remains the same as we reported last year, the breakdown between service categories has changed (see Figure 1.4).

4 '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.

5 '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.

Figure 1.4: End-user spending on selected service categories as reported in the 2021–2022 annual market review and revised spending for 2021–2022

Service category	Reported 2021–2022 spend in the 2021–2022 annual market review	Revised 2021-2022 spend	Comments
Assistance services	£37.1 million	£38.7 million	Following additional information made available after the publication of the 2021–2022 annual market review, we were able to improve the accuracy of our estimates of ICSS spending in 2021–2022. We mentioned evasion of Google's advertising ban last year, but the scale of this effect was greater than anticipated, which resulted in a year-on-year increase in ICSS spending rather than a decline. This led us to reconsider spending on other services delivered through voice 09 and voice 087 and we concluded that spending on customer services had declined more than previously thought The main driver of this decline – the shift to free number ranges (01 and 03) was the same as originally reported in the 2021–2022 annual market review, but changes were a greater scale than expected.
Information, news and education	£8.8 million	£5.8 million	Voice 09 and 087 spending accounted for a greater-than-expected share of spending on ICSS services and broadcast competitions. In addition, following more-granular inputs from interviewees this year, we have concluded that the scale of decline in spending on information, news and education services was greater than anticipated. All of these services have alternatives that are cheaper or offer greater functionality through other payment channels (for example, free online alternatives).
TV and radio engagement	£174.5 million	£175.9 million	Following more-granular inputs from interviewees this year, we have concluded that TV and radio broadcaster competitions accounted for a slightly higher spend in 2021–2022 via voice 09 than we reported last year. Despite a general move to online platforms or apps for voting, or other forms of broadcaster engagement, the audience for these services on voice 09 appears relatively stable in the short term, with remaining users strongly attached to voice 09 and resistant to using alternatives.

Source: Analysys Mason

We have also compared our forecast from the 2021–2022 annual market review to the actual data collected this year. Spending on operator billing performed significantly better than expected while spending on premium SMS actually declined (we had originally forecast that it would remain largely flat). Differences between our forecast for last year and actuals for this year were greater than in the previous reports.

Figure 1.5: Comparison of our forecast results for consumer spending on phone-paid services with actual spending, UK, 2022–2023

Payment channel	Forecast change in spending	Actual change in spending	Comments
Operator billing	–£0.5 million (-0.2%)	+£33.4 million (+12.8%)	Operator billing performed significantly better than expected, driven by a new agreement between Vodafone and Apple, as well as an increasing consumer awareness and popularity of operator billing via Three following a slow launch of its partnership with Apple in 2021–2022. In addition, Vodafone also lifted spending limits on Google Play. These factors acted as significant boosts to both the operator billing userbase and average spend, which contributed to strong growth in spending on games through app stores. These factors explain most of the differences between the forecast and the actual results. Spending on entertainment services was similarly boosted by new agreements, with renewed promotions of video streaming services as part of mobile phone contract bundles, causing spending growth in this segment to be higher than expected. Spending on lifestyle services grew unexpectedly – this was also boosted by Apple's agreements with operators as higher-quality fitness subscriptions became available through operator billing (including Apple's own Fitness+). Other areas of spending in the operator billing market declined as expected but were outweighed by the growth in spending on games, entertainment and lifestyle services.
Premium SMS	+£1.5 million (+0.7%)	–£6.7 million (–3.5%)	Spending on competitions run by TV and radio broadcasters declined unexpectedly as a result of a 2-week pause on competitions after the death of the Queen. These players also faced competition from new, online-based competitors that do not use phone-paid services. Spending on other services declined broadly as expected.
Charity donations	–£5.4 million (–10.7%)	–£14.1 million (–28.1%)	In our 2021–2022 annual market review, we anticipated the impact of the cost-of-living crisis on telethon donation totals, but the scale of this effect was greater than anticipated, with Red Nose Day 2023 raising 25% less on the night (across all payment mechanisms) than in 2022. Telethon donations have also returned to a longer-term trend of decline, in line with declining live TV audiences.
Voice 09	–£3.4 million (-6.6%)	–£2.4 million (–4.7%)	After revising spending on ICSS services, we concluded that 2021–2022 voice 09 spending concentrated more on ICSS and broadcaster engagement services than previously thought, with lower spend on customer services and information, news and education services. These amendments were considered in the voice 09 spending total for the 2022–2023 annual market review. Other services declined as expected.
Voice short codes	–£1.1 million (–10.8%)	–£0.9 million (–8.5%)	Spending declined broadly as expected.
Voice 087	–£1.5 million (–10.3%)	–£3.4 million (–23.2%)	The decline in spending accelerated unexpectedly during 2021–2022 due to a spike in spending on ICSS services

Payment channel	Forecast change in spending	Actual change in spending	Comments
			(which we did not anticipate in 2021–2022) however, this decline in spending decelerated in 2022–2023. This spike also acted to balance out the scale of decline in spending on customer services and information, news and education services, which continued to decline rapidly this year.
Voice 118	–£1.3 million (–20.2%)	–£0.9 million (–14.4%)	The decline in spending was anticipated but the rate of decline slowed slightly earlier than expected.

Source: Analysys Mason and Phone-paid Services Authority

We forecast that the phone-paid services market will continue to grow in 2023–2024, with end-user spend increasing 4.3% to £619.0 million.

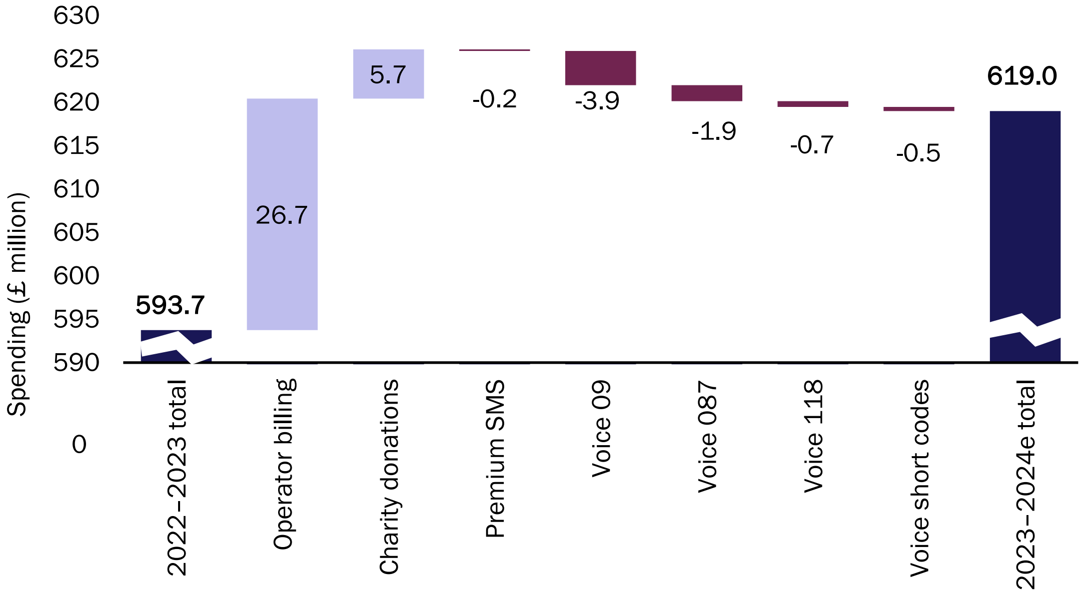
- Spending via operator billing is expected to increase by 9.1% year-on-year. The significant increase in spending via operator billing on app stores is anticipated to continue through 2023–2024, albeit at a lower rate of increase than in 2022–2023 due to the absence of new agreements between operators and app store providers. However, new partnerships in the entertainment services space are expected during this period following renewed interest by major video streaming platforms this year.

- Consumer spending on charity donations is forecast to increase by 15.8% year-on-year**.** This growth will be largely due to the return of the Stand Up to Cancer televised event, which will return in 2023–2024 after a recess in 2022–2023. This biannual event raises increasing amounts of donations every time it runs and is a direct reason for the seasonality of the phone-paid charity donations market, which usually sees increased donations every other year (with an exception during 2020–2021/2021–2022, when Stand Up to Cancer was held consecutively). Donations will be lower than in the 'comparable year' of 2021–2022 because of continued cost-of-living pressures and because viewership of other telethon events is declining.

- Spending via premium SMS is expected to be similar to in 2022-2023, declining very slightly by 0.1% year-on-year. Spend via broadcast competitions will rise as a result of an uninterrupted year of competitions and is expected to remain the largest service category. Spending on all other premium SMS service categories is likely to decline as a result of providers moving to online platforms and continuing to diversify their suite of payment mechanisms to benefit from digital channels.

- Spending on all voice-based services (including voice 09, voice 087, voice 118 and voice short codes) is expected to continue to decline. Users continue to migrate to more cost-effective or user-friendly alternatives (for example, online platforms). Declines in spending are expected in 2023–2024 for all channels. However, with the exception of voice 09, we anticipate that these will represent smaller reductions relative to 2022–2023 as voice-based services are left with only their core user base. Spending on voice 09 is likely to decline faster than in 2022–2023 as a result of the PSA's consultation on draft regulation for ICSS, which is likely to come into effect from September 2023.

Figure 1.6: Change in end-user spending (excluding VAT) between 2022–2023 and 2023–2024e (estimated), by spending channel, UK[6]

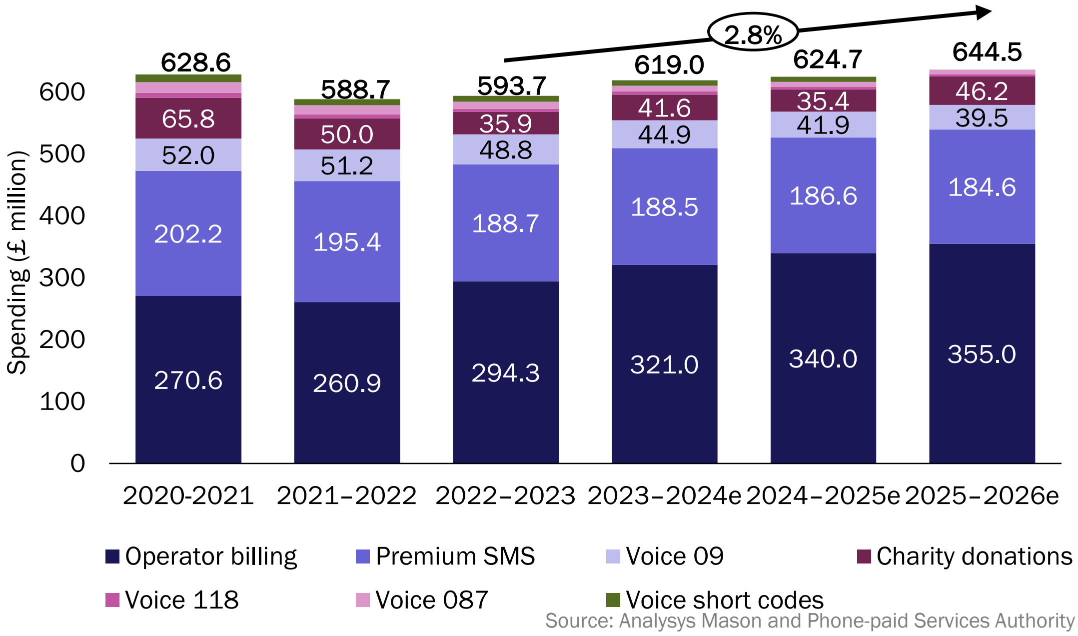


Source: Analysys Mason and Phone-paid Services Authority

We expect that between 2022-2023 and 2025-2026, the phone-paid services market will grow at a CAGR of 2.8% to reach £644.5 million in user spending by the end of the forecast period. Steady growth in spending on operator billing, and biannual growth in spending on charity donations, will drive this overall increase, with growth in the former being the result of continued increases in consumer spending on games and the latter due to increasing donations following the alleviation of the cost-of-living crisis. Spending on TV and radio broadcast competitions will decline between 2023-2024 and 2025-2026, following the recovery in 2023-2024 (as mentioned above, due to an uninterrupted year of competitions), as they begin to move to online platforms. Spending via all other payment mechanisms will continue to decline during the forecast period, as legacy services reach their core user bases.

6 This chart shows the total spend in 2022–2023 on the left-most bar and total forecast spend in 2023–2024 on the right-most bar. Bars in between show growth (in light purple) or decline (in dark red) by spending channel.

Figure 1.7: End-user spending (excluding VAT) by spending channel, UK, 2020–2021 to 2025–2026e (estimated)



Source: Analysys Mason and Phone-paid Services Authority

Our consumer survey of 8067 UK consumers suggests that around 62% of those aged 16 or above living in the UK used phone-paid services in 2022–2023, a small increase in comparison with last year's penetration rate of 60%. The key drivers of using phone-paid services as reported by survey respondents include convenience, affordability and impulse purchasing, which are broadly consistent with those highlighted in the 2021–2022 annual market review. Convenience in particular seems to be increasing in importance year-on-year, in terms of both response rates (56% this year compared to 54% last year) and the margin between it and the second-most common driver (a +8% gap this year compared to +7% last year) both increasing. In general, individuals reported fewer issues with phone-paid services in 2022–2023 (24%) than in 2021–2022 (26%). The most commonly reported problem was difficulty in accessing or using services, which was the same as last year. Similarly to last year, the most problematic services appeared to be sexual entertainment services, with respondents reporting the greatest number of problems when using these services. The Net Promoter Score (NPS) was broadly unchanged from last year at –26. The service with the highest NPS was entertainment (–3) and the one with the lowest was competitions and quizzes (–45).

2. Introduction

This report is the annual market review of the phone-paid services market for 2022–2023,[7] prepared by Analysys Mason on behalf of the Phone-paid Services Authority (PSA). It provides an overview of the size of the phone-paid services market in the UK for the period between 1 April 2022 and 31 March 2023, a discussion of the key market drivers, an outlook for the market during 2023–2024 and a forecast of consumer spending up to 2025–2026. The report aims to assist the Phone-paid Services Authority (and later, Ofcom) with planning and policy-making activities and to provide insights on 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 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, and regulatory decisions and key developments that may have impacted the market in 2022–2023.

- **We have run a consumer survey of a nationally representative sample of 5000 users**.[8] 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 spending levels). The survey also helped to identify the key underlying factors affecting usage and overall satisfaction (such as preferences, issues with phone-paid services and levels of trust).

- **We conducted in-depth interviews with executives in senior positions across 17 organisations** (referred to in this report as 'industry participants') in the phone-paid services industry across the value chain, including mobile operators, fixed line operators, intermediaries and merchants.

- **We 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 2023–2024 and its outlook up to 2025–2026. We have also critically assessed our own market review from last year: we have determined the reasons for inaccuracies in our previous market modelling and identified the most useful elements of our survey. More detail on our modelling methodology can be found in Annex B of this report.

The rest of this document is structured follows.

- Section 3 gives an overview of the size of the phone-paid services market in 2022–2023, split by spending channel and by service category.

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7 2022–2023 refers to the Phone-paid Services Authority's 2022–2023 financial year, running from 1 April 2022 to 31 March 2023 (also referred to as 'the past 12 months' in the text). The 2023–2024 financial year should be understood as the period running from 1 April 2023 to 31 March 2024 (also referred to as 'the next 12 months' in the text). The same terminology applies to 2024–2025 and 2025–2026.

8 Field work for the consumer survey was conducted online by market research company Cint between March and April 2023.

- 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 2023–2024.
- Section 6 comments on our expectations regarding the evolution of the market up to 2025–2026.
- 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.

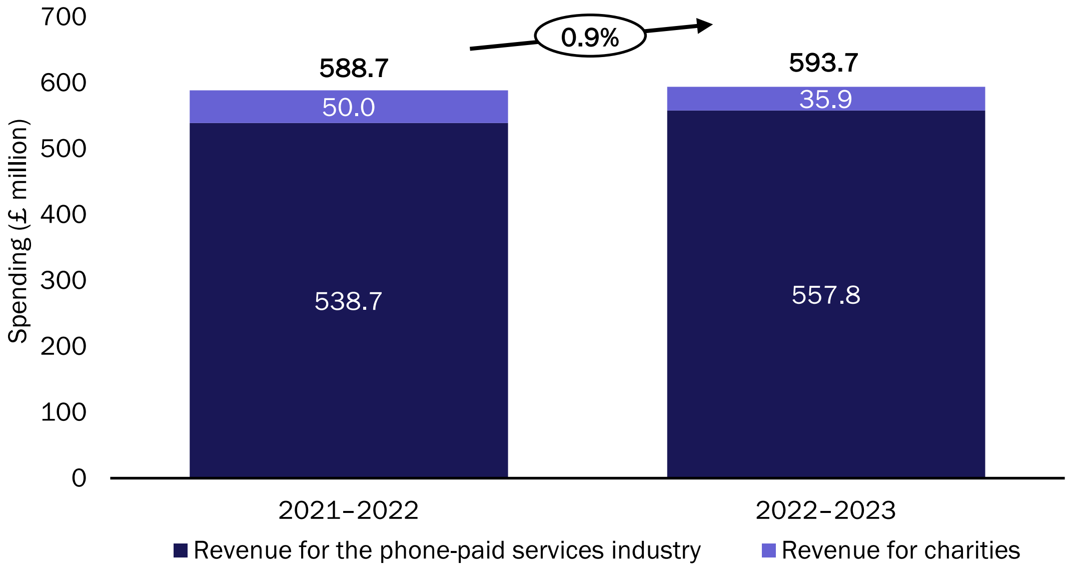
3. Size of the phone-paid services market in 2022–2023

In 2022–2023, UK consumers spent £593.7 million on phone-paid services. This represents a 0.9% increase in user spending from £588.7 million in 2021–2022. The main driver of this growth is non-charity spending, which reached £557.8 million (+3.5% year-on-year). Revenue generated via operator billing increased significantly to £294.3 million (+12.8% year-on-year), outweighing declines in revenue across all other channels, including premium SMS, voice 087, voice 09, voice 118 and voice short codes. Spending on charity donations also fell, by £14.1 million (–28.1% year-on-year) to £35.9 million in 2022–2023.

3.1 Overall market size

Consumers in the UK spend £593.7 million (excluding VAT) on phone-paid services in 2022–2023 (+0.9% year-on-year from £588.7 million in 2021–2022). Spending on charities this year was £35.9 million (–28.1% year-on-year) and accounted for 6.1% of total spending (down from 8.5% last year). The remaining £557.8 million (93.9% of total spend) came from non-charity phone-paid service revenue, representing growth of 3.5% during 2021–2022.

Figure 3.1: End-user spending (excluding VAT) on phone-paid services, UK, 2021–2022 and 2022–2023



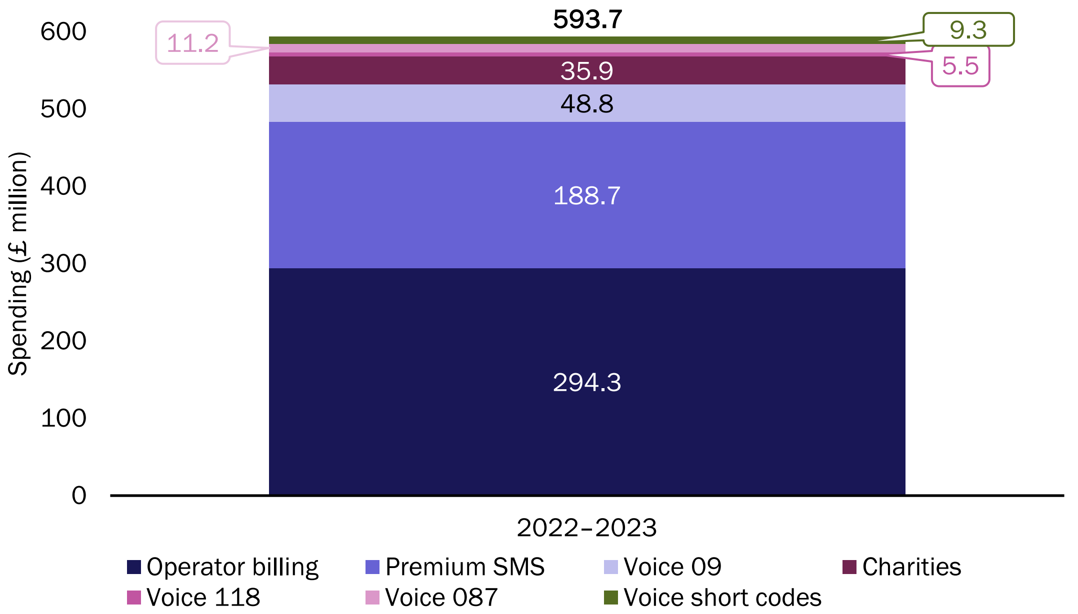
Source: Phone-paid Services Authority

Subsections 3.2 and 3.3 describe the differences in end-user spending by payment channel and service category. Section 4 provides additional detail on the drivers of change within each spending channel.

3.2 Spend by channel

Figure 3.2 shows a breakdown of consumer spending on phone-paid services by payment channel. Operator billing captured the largest share of spending on phone-paid services, accounting for £294.3 million of total user spending (or 49.6%, up from 44.3% last year). Premium SMS was the second most dominant payment channel, contributing £188.7 million (or 31.8%) of total user spend (down from 33.2% last year).

Figure 3.2: End-user spending (excluding VAT), by spending channel, UK, 2022–2023



Source: Phone-paid Services Authority

Figure 3.3 shows the change in spend for each payment channel. The data indicates that the overall increase in the phone-paid services market between 2021–2022 and 2022–2023 can be attributed to the growth in spending on operator billing (up 12.8% year-on-year), which made up for declining revenue in all other payment channels.

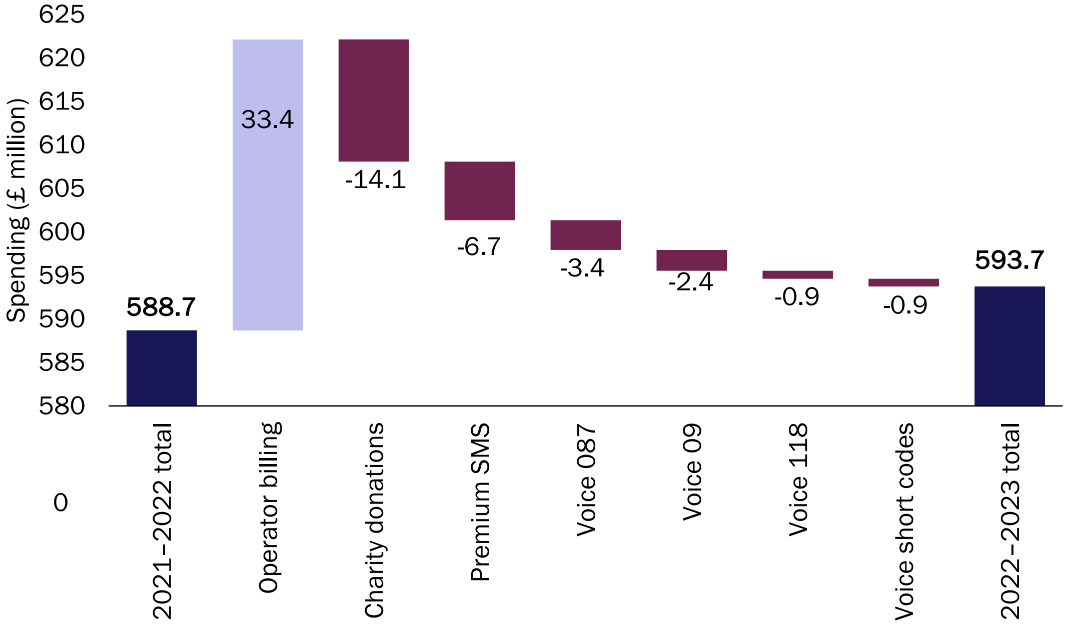
- **Consumer spending via operator billing grew by £33.4 million year-on-year.** Significant increases in spending on games, both through app stores and physical consoles, is the key driver of this growth. This was supported by a new partnership between Vodafone and Apple to enable operator billing on Apple's App Store. Operators also partnered with entertainment and video streaming providers to drive subscription-related payments and increase user bases.

- **Spending via premium SMS fell by £6.7 million year-on-year.** Spending on TV and radio broadcast competitions declined slightly this year as a result of a 2-week pause in competitions following the death of the Queen, as well as the emergence of online platforms and new competitors that use other payment mechanisms. Spending on all other services continued to decline because of the availability of online alternatives that use other payment mechanisms.

- **Spending on charity donations declined by £14.1 million year-on-year.** Donations decreased overall (both for telethon and non-telethon fundraising), largely due to the effects of the cost-of-living crisis. Telethons that ran in 2022–2023 generated less revenue than in previous years (for example, Red Nose Day 2023 generated £31.9 million on the night across payment mechanisms, down from £42.8 million in 2022), due to generally declining linear TV viewership, and the biannual nature of the Stand Up To Cancer televised event meant that it did not run in 2022–2023.

- **Consumer spending also declined on voice-based services using the 09, 087 and 118 numbering ranges, as well as voice short codes. Usage of** all premium voice channels has declined across almost all service categories as users migrate to more cost-effective or more functional alternatives. The decline in spending on Voice 09 has been slower than for other channels over the last few years, and that was the case this year. This is largely due to the significant spend on ICSS services – spending on these services declined slightly this year (after a relatively high level of spend in 2021–2022) because some players are phasing these services out. Voice short codes are also being phased out, which has contributed to further decline in user spend.

Figure 3.3: Change in end-user spending (excluding VAT) between 2021–2022 and 2022–2023, by spending channel, UK[9]



Source: Phone-paid Services Authority

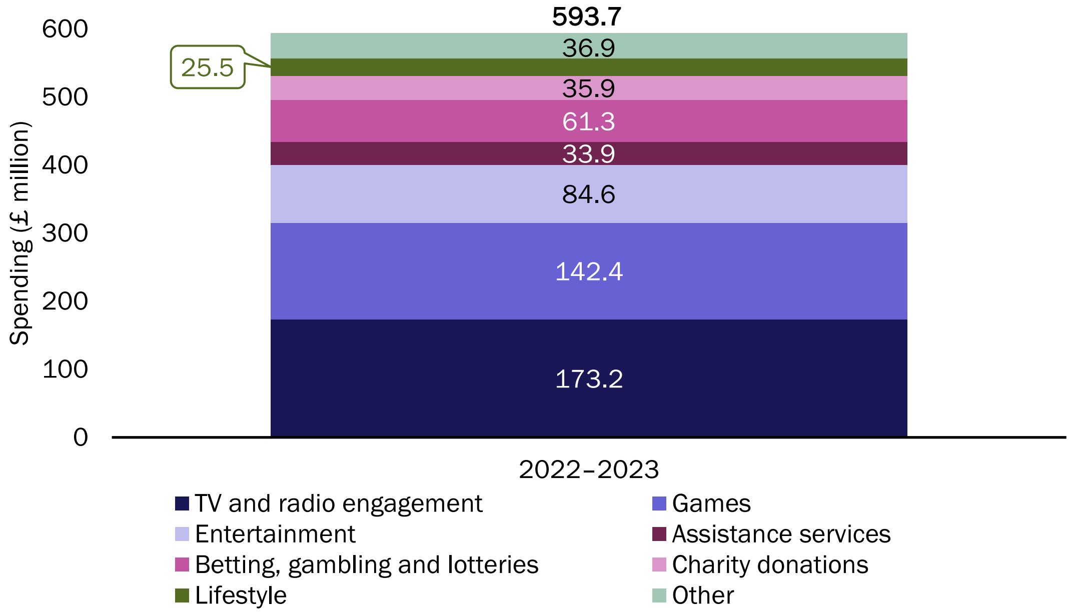
3.3 Spend by service category

TV and radio engagement made up the largest service category in 2022–2023, accounting for £173.2 million in user spending. Spending on games experienced the highest levels of growth this year, with £142.4 million in spending (up from £117.7 million in 2021–2022). This makes it the second largest segment. Entertainment services was the third largest segment in terms of spending (£84.6 million). In combination, these top three service categories made up 67.4% of overall phone-paid services spending, with spending on games increasing from 20.0% in 2021–2022 to 24.0% in 2022–2023. Figure 3.4 provides an estimated breakdown of spending by service category.[10]

9 This chart shows the total spend in 2021–2022 on the left-most bar and the total spend in 2022–2023 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 £14.1 million between 2021–2022 and 2022–2023).

10 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, 2022–2023[11]



Source: Analysys Mason and Phone-paid Services Authority

The annual change in consumer spending by service category is shown in Figure 3.5.

- **Consumer spending on games increased by £24.7 million year-on-year.** This significant increase is attributed to higher app store payments which were made possible following partnerships between Apple and mobile network operators (Apple's partnership with Vodafone was forged this year and Apple previously established a partnership with Three, but take-up of its offering increased significantly in 2022–2023). Vodafone also removed its spending limitations on Google Play, which increased average spend per user. Finally, growth has also been driven by higher numbers of purchases for physical gaming consoles, such as on the Microsoft Xbox and Sony PlayStation stores.

- **Spending on entertainment increased by £5.0 million and lifestyle services payments increased by £3.0 million.** These increases are due to higher spending via operator billing, boosted by the agreements between Apple and operators, but also because the quality of content and the number of subscriptions increased. In particular, new entertainment service providers (for example, Paramount+) in the phone-paid service market as well as the improved quality of merchants' lifestyle content subscriptions are key drivers of the success of these respective services.

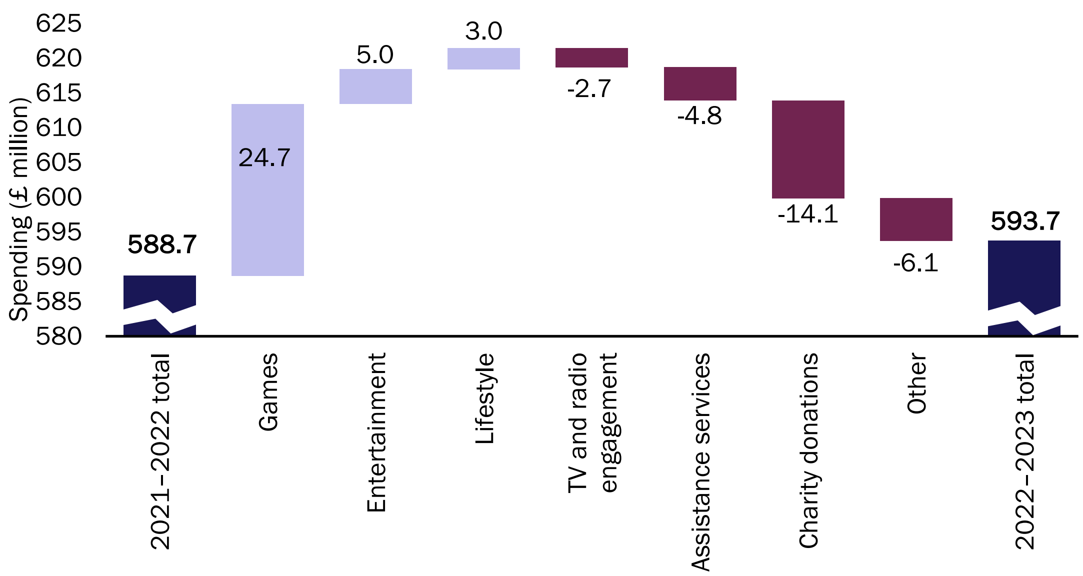
- **Spending on TV and radio engagement fell by £2.7 million year-on-year**, mostly due to consumers reducing their spend on TV and radio broadcast competitions via phone-paid services. There was a two-week break in broadcast competitions for the period of national mourning follow the death of the Queen, and consumers have also begun favouring online-based competitions that offer bigger prizes (for example, the opportunity to win a house via Omaze), which do not use phone-paid service payment channels. Broadcasters have also encouraged audiences to migrate to their own online platforms, where audiences are less likely to pay via phone-paid services. Other reasons for this decline, after years of strong growth,

11 'Other' includes service categories that are estimated to have generated £10 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.

involve a general reduction in TV viewership as consumer habits increasingly shift towards the use of online streaming platforms via smartphones and other portable devices.

- **User spending on most other services, including assistance services, charity donations and personal and relationship services, declined.** The main reasons for this include the increasing prevalence and use of online platforms, the growing popularity of digital payment mechanisms and the declining use of legacy services. Betting, gambling and lotteries was the only other service category in which spending did not decline, remaining flat (+£0.1 million), with a stable user base but there is limited appetite within the industry to promote or grow these services.

Figure 3.5: Change in end-user spending (excluding VAT) between 2021–2022 and 2022–2023, by service category, UK[12]



Source: Analysys Mason and Phone-paid Services Authority

12 This chart shows the total spend in 2021–2022 on the left-most bar and the total spend in 2022–2023 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.

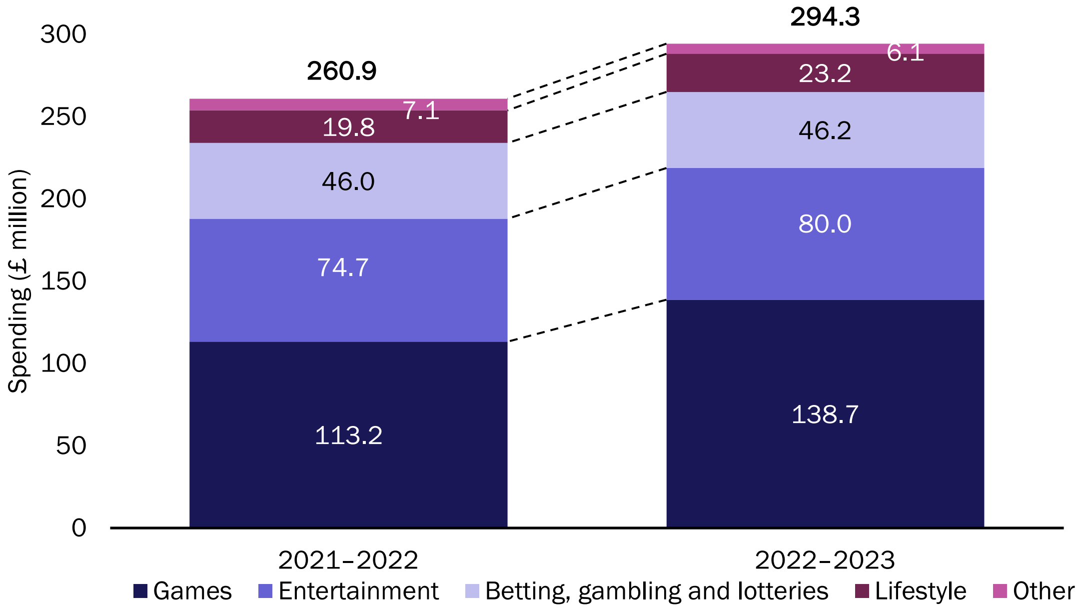
4. Analysis of key market drivers

Consumer spending via operator billing increased between 2021–2022 and 2022–2023, while spending via all other phone-paid service payment channels declined. Spending on operator billing increased by 12% year-on-year, driven primarily by increased downloads of games from app stores (a usage trend that was encouraged by new or previously established partnerships between Apple and other operators). Increased use of operator billing for entertainment services was also a driver, as video streaming providers and mobile operators forged new partnerships to improve the availability of high-quality entertainment services via operator billing. This growth in spending on operator billing offset the decline across all other payment mechanisms. User spending on premium SMS was down 3.5% in the same time period, largely because of declining engagement in TV and radio broadcast competitions following a two-week pause in competitions in a period of national mourning. Charity donations also declined by 28.1% year-on-year, both for telethon and non-telethon fundraising, largely due to the effects of the cost-of-living crisis. The telethon donation total was also hit by declining viewership trends and the absence of the Stand Up to Cancer biannual telethon event, which did not run year. Spending on all voice-based services declined, driven by the increasing popularity of digital payment mechanisms. However, ICSS services accounted for a large proportion of voice 09- and voice 087-based service revenue and because these have evaded regulatory pressure, voice 09 services in particular have declined.

4.1 Operator billing

Operator billing was the largest spending channel in 2022–2023, accounting for £294.3 million in consumer spending. This represents year-on-year growth of 12.8% and effectively represents half (49.6%) of all consumer spending on phone-paid services, up from 44.3% last year. Spending on games and entertainment combined accounted for 74.3% of total spend via this payment mechanism, with both service categories seeing an increase in operator billing revenue from 2021–2022. Figure 4.1 shows a breakdown of the growth in consumer spending via operator billing for each service category.

Figure 4.1: End-user spending (excluding VAT) via operator billing, by service category, UK, 2021–2022 and 2022–2023[13]



Source: Analysys Mason and Phone-paid Services Authority

Games

Consumers' spending on games-related purchases increased by 22.5% year-on-year to reach £138.7 million in 2022–2023. This growth was mainly driven by increased downloads in paid-for games from large app stores (such as Apple's App Store and Google Play), which was again the largest sub-segment within gaming payments via operator billing. The second largest sub-segment was the purchase of in-game credit top-ups, especially through physical consoles or games aggregator stores (including Microsoft Store on Xbox and Sony PlayStation Store) but also through direct purchases from games publishers (for example, Epic Games). Consumers' acquisitions of in-game currency and items (for example, in games published by Electronics Arts or Tencent) formed the third largest sub-segment in this service category.

The key drivers of this growth in gaming-related payments include the emergence of new partnerships and the wider impact of existing partnerships between mobile operators and Apple, Vodafone's removal of Google Play spending limits and a general improvement in the quality of gaming content.

In 2022–2023, partnerships between Apple and mobile network operators Three and Vodafone were key drivers of spending growth. Although the partnership between Three and Apple was agreed before the 2022–2023 annual market review, take-up increased significantly this year because of growing consumer awareness and usage of the option to pay for games and gaming subscriptions on Apple's App Store via operator billing. Vodafone forged a similar partnership with Apple in July 2022. This led to higher spending because new subscribers discovered this payment mechanism for the first time, and existing users increased their spending via operator billing to pay for new, additional services. Vodafone also removed the spending limitations that it had previously implemented on the Google Play Store this year. This change has increased the average revenue per user for games-related payments from Google Play using operator billing.

13 'Other' includes the seven remaining service categories: competitions and quizzes; device personalisation and security; digital payments; information, news and education; 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.

The long-term increase in the overall gaming userbase has also had an impact on the growth in spending on games. The easing of COVID-19 restrictions led to a decline in the number of users playing games in 2021–2022, as individuals returned to outdoor activities and socialised outside of the home more. However, this year, the trend appears to have reverted back to the year-on-year growth seen prior to the easing of lockdown restrictions. The shift from low-quality to higher-quality games has also positively influenced user spending on games: consumers are more likely to spend money on in-game credit micropayments when playing higher quality games. Finally, the growing popularity of gaming subscription services paid for via operator billing (for example, PlayStation Plus Premium and Xbox Game Pass Ultimate) alongside traditional, one-off gaming payments, has also contributed to higher consumer spending on games.

Entertainment

Entertainment services are the second-largest segment within operator billing and, for the most part, include music and video streaming services. Consumer spending on these services grew by 7.1% year-on-year, from £74.7 million in 2021–2022 to £80.0 million in 2022–2023. Some of the same factors that has driven the growth in games also positively affected entertainment-related payments, as mobile operators' partnerships with Apple also meant that music and video-related payments via Apple's App Store could be completed using operator billing. Mobile operators also forged partnerships with video-on-demand (VoD) providers to offer new services via operator billing and, in addition, the availability of higher-quality subscription services has increased, which have together been key drivers of growth in spending on entertainment services.

Competition in the VoD market is increasing and subscribers are continuing to reduce the number of entertainment services that they subscribe in response to the cost-of-living crisis. These conditions present an opportunity for operator billing services, which can be used by unbanked consumers. These services also provide new and existing customers with a payment mechanism that removes friction and adds convenience. As such, service providers are partnering with mobile operators to allow subscribers to pay for subscriptions using operator billing. Netflix re-entered a partnership with Three in November 2022, providing Three's subscribers with an operator billing option directly on Netflix's basket page. The motivation for this move was likely because Netflix lost subscribers in 2021–2022, which was the first time the streaming provider had seen a decline in subscriber numbers. Additional video streaming services, including Disney+ and Paramount+, now also offer operator billing as a payment mechanism via app stores. Other entertainment services are consistent drivers of spending growth: payments for music services (for example, Spotify) represent the largest sub-segment within entertainment services and revenue has increased year-on-year.

The provision of higher-quality subscription services, some of which offer multiple services under one subscription (for example, Apple One), has also driven growth in this segment by attracting new users and by helping to secure repeat subscriptions for mobile network operators. This trend has been heavily influenced by the partnerships between various mobile operators and Apple, as mentioned previously, and has helped to drive a 10.7% and 10.8% year-on-year increase, respectively, in spending on video and TV via operator billing in 2022–2023.

Betting, gambling and lotteries

The only other service category for which user spending increased in 2022–2023 was betting, gambling and lotteries, which grew by 0.5% year over year to an overall spend of £46.2 million, making it the third largest segment in the operator billing category. Although there was an increase in user spending on these services, growth was relatively low because of the constraints imposed by the EU Payment Services Directive (PSD2) regulation, which limits individual transaction amounts to £40 and monthly operator billing payments to £240 per consumer. This regulation is viewed positively by most players in the industry because it protects vulnerable consumers. As a byproduct of PSD2, there is limited interest from merchants, service providers and operators in increasing revenue from this service segment and as such, growth was limited this year.

Lifestyle

Lifestyle service payments via operator billing also increased significantly in 2022–2023: user spending increased by 16.8% year-on-year to reach £23.2 million. In previous years, this has been a declining segment that offered limited growth opportunity for operator billing, but the recently increasing quality of these content subscriptions has driven renewed usage of these services, in particular fitness, health and wellbeing content services (for example, Apple Fitness+). Subscriptions that offer good-quality content have grown in popularity in recent years, and in many cases these services have expanded their content offering to include new and innovative offerings. This has given users access to an improved experience and has incentivised further investment in the segment. For example, many subscription-based fitness applications have evolved from basic applications that offer a single workout plan to holistic health applications – covering aspects including cooking, mental health, multiple different types of workout plans, sleep tracking and other wellness attributes (for example, Shreddy and EvolveYou).

Providers of poor-quality content may also have left the market following the implementation of Code 15 by the PSA in April 2022, which increased compliance requirements for those in the phone-paid services market and caused smaller merchants and providers that were selling legacy, smaller-scale services to leave the market. While previous spending in this category was focused on legacy services that are more limited in scope, recent spending is on more-modern services through app store subscriptions, which has driven spending growth in this segment.

Other services

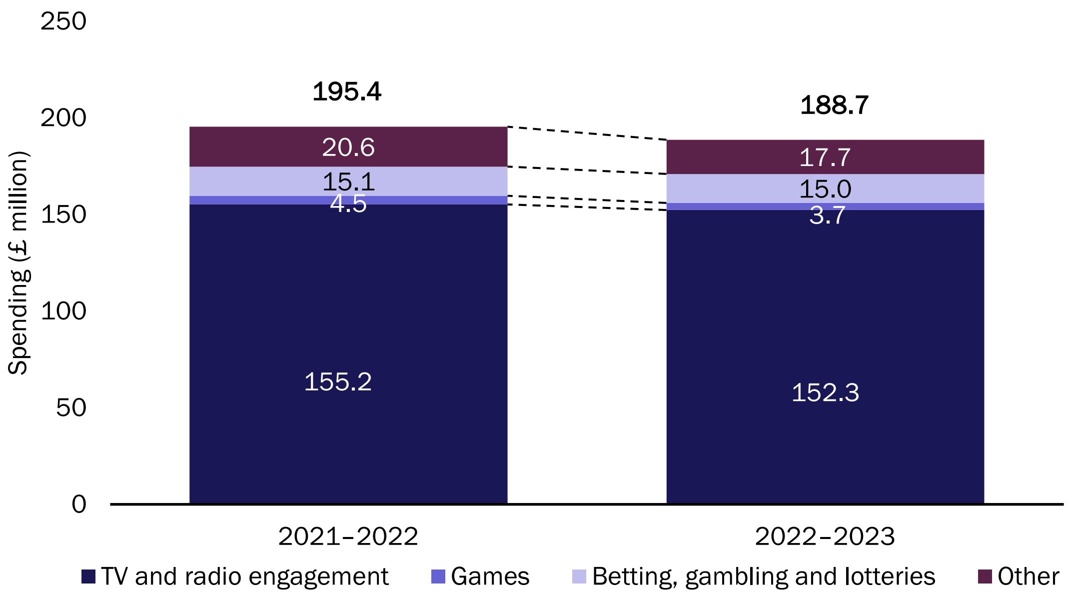
All other services experienced a decline in user spending, including sexual entertainment and information, news and education services. This is mostly due to the growing adoption of digital payment mechanisms and online platforms to access these services, as well as subsequent lower investment from operators and service providers in these segments. The rate of decline slowed down in comparison with previous year across most of these categories, with several industry stakeholders suggesting in interviews that the decline is approaching a base of core, loyal users who are likely to continue to use these services going forward (for example, adult services).

In interviews, several operators and service providers mentioned that the PSD2 spending limits are inhibiting their ability to release new services on operator billing, such as e-ticketing, carparking and transport payments. As one industry stakeholder mentioned, tickets to many West End shows cost more than £40 and any users wanting to buy more than one ticket are also often constrained. The same applies to train tickets, as many of these exceed the £40 limit. In particular, as prices of many services have increased in line with inflation, the static nature of the PSD2 spending limit since its introduction in 2017 has made it increasingly difficult for providers to explore new revenue opportunities by expanding their phone-paid service portfolios. Several industry stakeholders revealed in interviews a hope that the PSD2 consultation held in 2022 will lead to a revision of the limits to enable new and innovative services to be paid for via operator billing.

4.2 Premium SMS

Premium SMS remains the second-largest phone-paid services payment channel but experienced a 3.5% year-over-year decline in user spending – falling from £195.4 million in 2021–2022 to £188.7 million in 2022–2023. This is a slightly steeper decline than the 3.3% year-on-year decline seen in 2021–2022. User spending declined across all service categories, as shown in Figure 4.2. Despite this decline, premium SMS still accounted for 31.8% of all spending via phone-paid services, down 1.4% from its market share in 2021–2022.

Figure 4.2: End-user spending (excluding VAT) via premium SMS, by service category, UK, 2021–2022 and 2022–2023[14]



Source: Analysys Mason and Phone-paid Services Authority

TV and radio engagement services

TV and radio engagement services are, by far, the largest service category within premium SMS, accounting for 80.7% of total consumer spend via this payment mechanism. User spending within this segment fell by 1.9% year-on-year to £152.3 million in revenue in 2022–2023. Spending in all sub-segments within this category declined, with TV broadcaster competition spend falling by 1.3% (to £73.7 million), radio broadcaster competition spend decreasing by 2.3% (to £76.3 million), voting on a TV/radio show down by 3.7% (to £1.3 million) and texting a show host down by 3.5% (to £1.0 million).

A key reason for the decline in TV and radio engagement is a 2-week break in competitions during the period of national mourning following the death of Queen Elizabeth II on the 8 September 2022. Industry stakeholders mentioned that in addition to a direct decline in revenue across this 2-week period, the break halted general momentum in fundraising via competitions and so the subsequent week also saw lower revenue as a result.

New competitors have entered the market that run competitions but do not offer premium SMS as a payment mechanism, and their entrance is another reason for the decline across these services. Omaze, in particular, has received significant attention due to its large prizes (for example, the opportunity to win a house). Although competitions with larger prize pots generally involve a higher entry fee (for example, a minimum of £10 for Omaze) than many TV and radio broadcast competitions that use premium SMS (commonly £2 per entry), the higher-value prizes are attracting many consumers who may have otherwise entered TV and radio broadcast competitions.

This decline across TV and radio engagement services can also be partly explained by the launch of online platforms by established players and the subsequent gradual shift to other payment mechanisms. In particular, some industry stakeholders noted in interviews that although radio listenership is increasing, radio broadcasters are looking to gradually move revenue online, with providers including Global having their own online

14 ‘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.

platforms (Global Player). The same is true for TV broadcasting. For example, ITV is pushing for increased use of its ITV+ online platform in light of declining live TV viewership. Live TV viewership is in general decline as the online streaming services market continues to grow, with the popularity of VoD streaming players increasing compared with traditional TV content, and with the launch of digital platforms by traditional TV content providers. The move towards online platforms is leading to a move away from premium SMS use, predominantly in favour of digital payment mechanics.

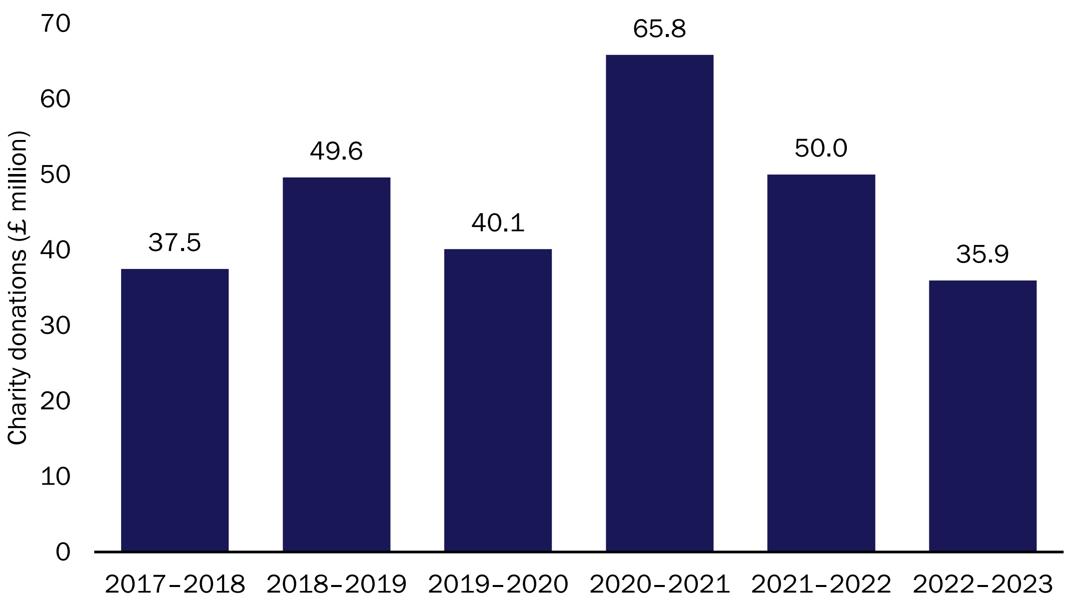
Other services

User spending via premium SMS for all other services was lower in 2022–2023 than in 2021–2022, primarily because of a shrinking user base for legacy and subscription-based services, including adult services as well as personal and relationship services. The increasing availability of online platforms that offer these services is a key reason for lower use of premium SMS. However, although the number of consumers using these services is likely to continue to fall year-on-year, the decline is expected to slow down because there remains a core, loyal user base for many of these services.

4.3 Charity donations

Charity donations via phone-paid services fell from a total of £50.0 million in 2021–2022 to £35.9 million in 2022–2023, a decline of 28.1%. The amount of charity donations raised though phone-paid services has been declining since a peak in 2020–2021 (see Figure 4.3). Donations fell in 2022–2023 primarily because of the bi-annual nature of the Stand Up to Cancer telethon, the declining popularity of telethons overall, and consumers' reduced discretionary income in light of the cost-of-living crisis.

Figure 4.3: Charity donations made via phone-paid payment mechanisms, UK, 2017–2018 to 2022–2023



Source: Analysys Mason and Phone-paid Services Authority

Two additional telethons, Concert for Ukraine and Stand Up to Cancer, were televised in 2021–2022. Without the donations raised for these two events, it is likely that the total donation figure for 2021–2022 would have been closer to the £40.1 million raised in 2019–2020. Stand Up to Cancer did not run in 2022-2023, returning to its bi-annual scheduling after running consecutively in 2020-2021 and 2021-2022[15]. It is one of the largest telethons in terms of on-the-night donations and has raised an increasing amount of donations each year, with £31.2 million raised in 2021 across payment channels (that is, donations processed via phone-paid mechanisms and other payment methods). As a result, some level of decline in phone-paid service donations was expected.

Additional factors that influenced the decline in telethon charity donations this year included a general year-on-year decline in telethon viewership and popularity, in keeping with the overall decline in linear TV viewership since the COVID-19 pandemic, as well as charities' recent use of alternative digital payment mechanisms. One interviewee mentioned this latter factor will become increasingly important if telethon viewership continues to decline.

The other key contributor to the decline in charity donations via phone-paid services was the increasing pressure on consumers' disposable income as the cost-of-living crisis continues. The telethon events that did run this year received lower donation amounts via phone-paid services (for example, Red Nose Day raised £31.9 million in 2023 across all payment mechanisms compared to £42.8 million in 2022, a 25.5% year-on-year decline). Many people across the UK face financial pressures just in terms of affording basic necessities (for example, food and heating), so discretionary spending is being reined in for numerous services, including charity donations. Relatively high levels of giving in March 2022 (with Concert for Ukraine and a stronger performance of Red Nose Day that year) were followed by a dip in spending, which may reflect some 'displacement' in donations, with consumers donating more in March 2022 (within the 2021–2022 financial year) and reducing subsequent donations as a result.

As a result of these factors, we estimate that phone-paid donations excluding televised events amounted to £10.6 million in 2022–2023, (down from £12.5 million last year). The proportion of total donations coming from non-televised events increased from 25.0% in 2021–2022 to 29.4% in 2022–2023. An estimated £9.8 million of these non-telethon phone-paid donations were recurring donations (down from £11.5 million last year) compared to £0.9 million from single/one-off donations (down from £1.0 million last year). Interviews with industry stakeholders who have visibility over charity donations noted a drop in the number of individuals donating, although average donation amounts did not change to the same degree. Despite the decline in recurring donations in absolute terms, the proportion of charity donations via phone-paid services that were recurring payments is estimated to have grown from 23.0% in 2021–2022 to 27.1% in 2022–2023. This is because the amount of overall donations raised through televised events this year was significantly lower than last year.

4.4 Voice 09

Consumer spending via voice 09 fell 4.7% from £51.2 million in 2021–2022 to £48.8 million in 2022–2023. The overall decline follows the trend set in previous years that has seen consumer spending on voice 09 since 2020–2021 decline each year. The largest service category within voice 09 is information, connection and/or signposting services (ICSS), which accounts for 27.2% of consumer spending (£13.3 million) via this payment channel. ICSS services generated more revenue than expected in 2022–2023, which is why consumer spending on voice 09 this year is higher than forecasted in the previous year's report (£47.8 million). ICSS services have evaded regulatory pressure better than previously anticipated (many service providers have circumvented

15 Stand Up to Cancer ran in both 2020–2021 and 2021–2022. COVID-19 restrictions meant that the event was required to adapt from its traditional live TV show to an online campaign in 2020.

Google's ICSS advertising ban),[16] and we have therefore revised our figures for consumer spending on ICSS services for 2021–2022.

The continued presence of ICSS in the market has, however, contributed to a negative perception of voice 09 services among certain user because consumers often underestimate, or are not aware of, the cost of these services. Some players within the market have stopped offering ICSS services as a result, which accounts for a slight decline in ICSS spending compared with our revised estimate of ICSS spending for 2021–2022.

Beyond ICSS, spending declined on almost all other phone-paid services delivered through voice 09 in 2022–2023. The main reasons for this include the transition to more cost-effective or more functional platforms (either online or via free 01 and 03 number ranges) and the growth of other, non-phone-paid service payment mechanisms. Despite this decline, voice 09 is the most stable premium voice channel, thanks largely to persistent spending on ICSS services. The channel also supports broadcast competitions and adult/relationships services, which now have relatively stable core audiences through this payment channel.

4.5 Voice 087

User spending on voice 087 services fell from £14.6 million in 2021–2022 to £11.2 million in 2022–2023 (-23.2% year-on-year). The reasons for the decline in 2022–2023 are similar to those affecting other phone-paid services, namely the increasing popularity and use of digital platforms and other payment mechanisms. ICSS also affects the spending on voice 087 in a comparable manner to voice 09: these services make up the largest share of user spending on voice 087 (42.5%) but some consumers have stopped using voice 087 services because of poor experiences with ICSS.

4.6 Voice short codes

Voice short codes accounted for £9.3 million in consumer spending in 2022–2023, a decline of 8.5% from the £10.2 million spent in 2021–2022. Services using this payment mechanism are experiencing a long-term reduction in usage, with industry stakeholders saying there is no demand for new services to be offered on voice short codes. Notably, the transition by companies that provide conference calling services through voice short codes to digital conference calling platforms (for example, PowWowNow) to keep up with online competitors that experienced significant growth during and following the COVID-19 pandemic (for example, Zoom, Microsoft Teams) has continued to drive the decline of this service.

4.7 Voice 118

As with the other premium voice services, voice 118 user spending fell from £6.4 million in 2021–2022 to £5.5 million in 2022–2023 (a 14.4% decrease year-on-year). This decline is due to the increasing availability of more cost-effective or user-friendly alternatives to voice 118. However, this decline is lower than the 21.6% decline in 2021–2022. The rate of decline in spending through this payment channel is expected to slow as it reaches its core user base.

[16] In March 2020, Google implemented an advertising ban on ICSS for consumer protection.

5. Market outlook in 2023–2024

The phone-paid services market is expected to increase to £619.0 million in 2023–2024 (+4.3% year-on-year). This growth will be driven by further increases in consumer spending via operator billing (+9.1% year-on-year), and charity donations (+15.8%), with the return of the Stand Up to Cancer telethon expected to generate increased donations. User spending via premium SMS will be very similar to spending in 2022-2023 (–0.1%), and all other payment channels will decline in comparison with 2022–2023 because online platforms and digital payment mechanisms will continue to divert payments from phone-paid services.

5.1 Context

No major macroeconomic changes are expected in 2023–2024. We therefore expect that many of this year's spending trends will continue on a similar trajectory. We anticipate the cost-of-living crisis will continue into 2023–2024 because this is largely driven by factors such as inflated food and fuel prices as a result of Brexit and Russia's invasion of Ukraine. We therefore expect that cost-of-living pressures will continue to impact some phone-paid services, predominantly charity donations and premium SMS.

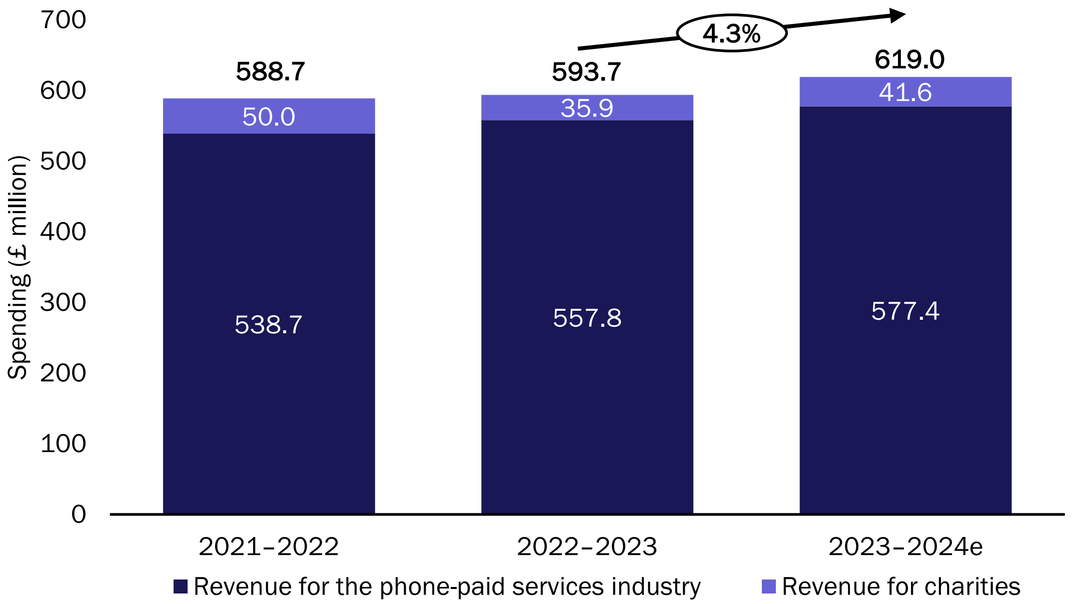
The transfer of responsibility for phone-paid services regulation from the PSA to Ofcom, which is expected to be completed by the end of 2023–2024, may also have an impact on the market. During interviews, providers of phone-paid services, network operators and those in the charity sector were generally hopeful that this transition will be beneficial for the market, although a handful expressed concerns about the lack of communication around what they can expect from this change. Ofcom is a widely known and trusted regulator, and industry stakeholders suggested in interviews that the move may make it easier for new entrants to trust the process of investing in phone-paid services. However, the timing and communication of the move could have impacts on the market, particularly if there is an unanticipated delay because this may discourage new providers from entering the market or influence existing players to leave.

The sections below provide further details about our forecast and our expectations for the phone-paid services market in 2023–2024.

5.2 Overall market size

We expect to see further spending increases in the market next year and forecast that phone-paid services will accrue £619.0 million, which represents year-on-growth in spending of 4.3% (see Figure 5.1). We expect that consumer spending for the phone-paid services industry will grow by 3.5% and spending on charities will increase by 15.8%.

Figure 5.1: End-user spending (excluding VAT) on phone-paid services, UK, 2021–2022, 2022–2023 and 2023–2024e (estimated)



Source: Analysys Mason and Phone-paid Services Authority

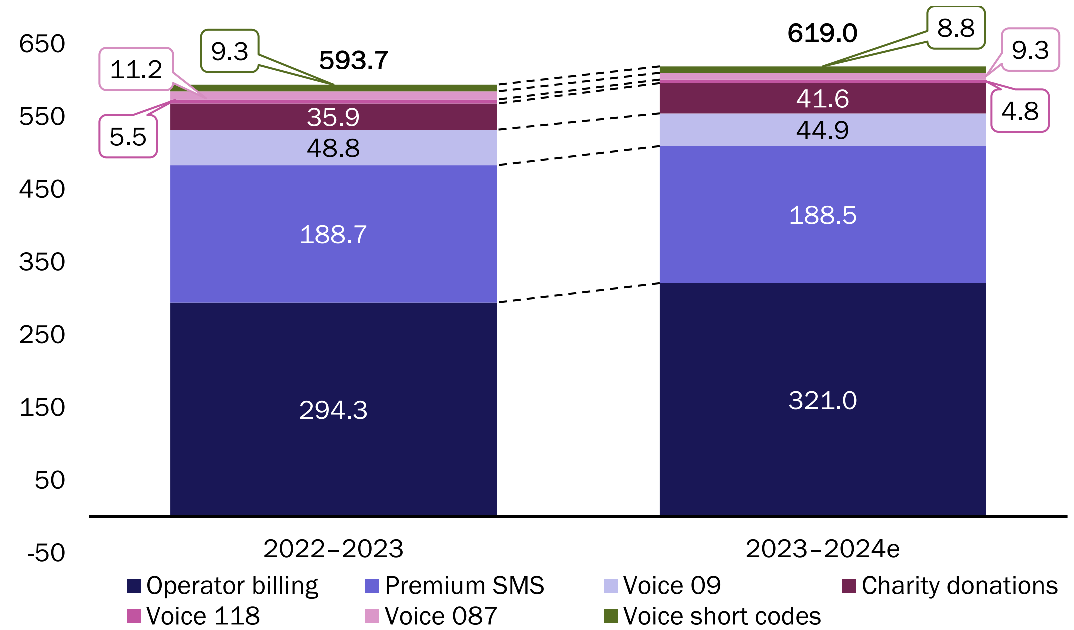
Sections 5.3 and 5.4 provide an overview of expected consumer spending for 2023–2024 split by payment channel and by service category.

5.3 Spend by channel

We expect consumer spending on operator billing will reach £321.0 million (+9.1% year-on-year), maintaining its position as the largest phone-paid services payment channel. By 2023–2024, we expect that operator billing will account for over half of all payments made via phone-paid service channels (51.9%, up from 49.6% in 2022–2023). Premium SMS spending is expected to remain relatively steady in 2023-2024, declining at a rate of 0.1% year-on-year to £188.5 million (which is a significantly slower rate than in 2022–2023, when it was –3.5% year-on-year). We forecast that charity donations will grow by 15.8% year-on-year to reach £41.6 million in 2023–2024, but consumer spending via all other payment channels will decline. The market share of voice 09, 118 and 087 numbers combined with voice short codes will fall from 12.6% in 2022–2023 to an estimated 11.0% in 2023–2024.

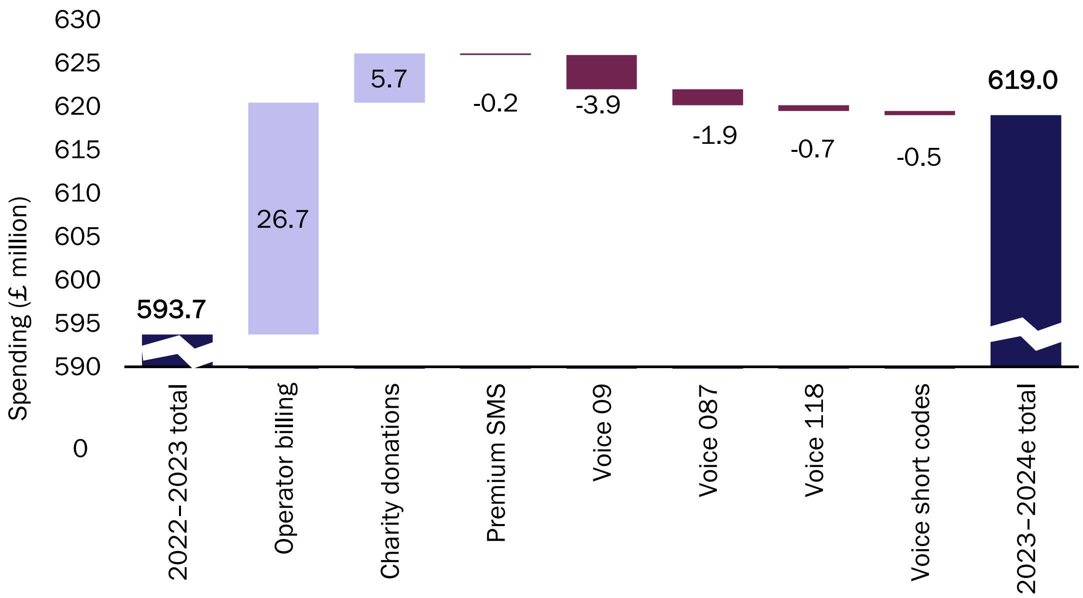
Figure 5.2 compares the breakdown of consumer spending by payment channel from 2022–2023 to the expected breakdown in 2023–2024. Figure 5.3 outlines the expected change in user spending between this year's figures and those forecast for 2023–2024.

Figure 5.2: End-user spending (excluding VAT) by spending channel, UK, 2022–2023 and 2023–2024e (estimated)



Source: Analysys Mason and Phone-paid Services Authority

Figure 5.3: Change in end-user spending (excluding VAT) between 2022–2023 and 2023–2024e (estimated), by spending channel, UK[17]



Source: Analysys Mason and Phone-paid Services Authority

The main drivers of these expected changes are discussed below.

- **Spending via operator billing will increase by £26.7 million (+9.1% year-on-year).** We expect that spending via this payment channel will grow strongly because an increasing number of games will be downloaded from app stores. Industry stakeholders shared in interviews that they expect consumer spending on games via operator billing to grow by approximately 10% in 2023–2024. We also expect spending to

17 This chart shows the total spend in 2022–2023 on the left-most bar and the total spend in 2023–2024e on the right-most bar. Bars in between show growth (in light purple) or decline (in dark red) in spending by service category.

increase for entertainment subscriptions, predominantly with video and music streaming players (for example, Paramount+ and Apple One) and in lifestyle subscriptions. This growth will be driven by more entertainment service providers entering the operator billing market and the increasing number of high-quality lifestyle subscriptions offered by merchants.

- **Consumer spending on charity donations is forecast to increase by £5.7 million to £41.6 million (+15.8%) in 2023–2024.** This growth will be largely due to the return of the biannual Stand Up to Cancer televised event, which did not run in 2022–2023. Telethons such as this account for the majority (generally 70–80%) of total phone-paid charity donations, and because of its biannual nature, it is traditional to see increased donations every other year. The amount of donations accumulated through the Stand Up to Cancer telethon has increased each year and this trend is expected to continue in 2023–2024. In 2021–2022, this event raised £31.2 million across all payment mechanisms and is forecast to reach £33.4 million in 2023–2024 (+7.0%). However, the phone-paid donations accrued through all other televised charity fundraising events declined year-on-year between 2022–2023. This is attributed to the cost-of-living crisis, which is expected to continue into 2023–2024. Therefore, we forecast a continuing trend of declining donations for these events. Figure 5.4 provides an estimate of the phone-paid donations made from each televised event. The charities that we interviewed noted that they were investigating the inclusion of more personalisation (for example, personalised thank you messages) to make donors feel valued and to incentivise recurring donations, which may encourage a higher rate of recurring donations.

Figure 5.4: Reported on-the-night donation totals for televised events (£ million), UK, 2017–2023 and estimated totals for 2023–2024e

Televised event	2017–2018	2018–2019	2019–2020	2020–2021	2021–2022	2022–2023	2023–2024e
Children in Need (November)	50.2	50.6	47.9	37.0	39.4	35.3	33.5
Red Nose Day (March)	-	63.5	-	52.0	42.8	31.9	30.3
Sports Relief (March)	38.2	-	40.5	-	-	-	-
Stand Up To Cancer (October)	-	24.6	-	26.3[18]	31.2	-	33.4
STV Appeal (September)	2.6	2.6	2.6	3.5	4.3	3.2	3.0
Soccer Aid (June)	-	6.7	7.9	11.6	13.0	15.7	14.6
Concert for Ukraine	-	-	-	-	13.4	-	-
BBC Big Night In (April)	-	-	-	27.3	-	-	-
Total	**91.0**	**148.0**	**98.9**	**157.7**	**144.1**	**86.1**	**114.8**

Source: Analysys Mason

- **Total spending via premium SMS will be similar in 2023-2024 to what it was in 2022-2023, decreasing slightly by £0.2 million (–0.1% year-on-year)**. Providers of these services will be moving to online platforms and will continue to diversify their suite of payment mechanisms to benefit from digital channels. These factors will contribute to an expected decline in all premium SMS service categories other than TV and radio broadcast competitions, where it acts to constrain growth. TV and radio engagement is expected

[18] 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.

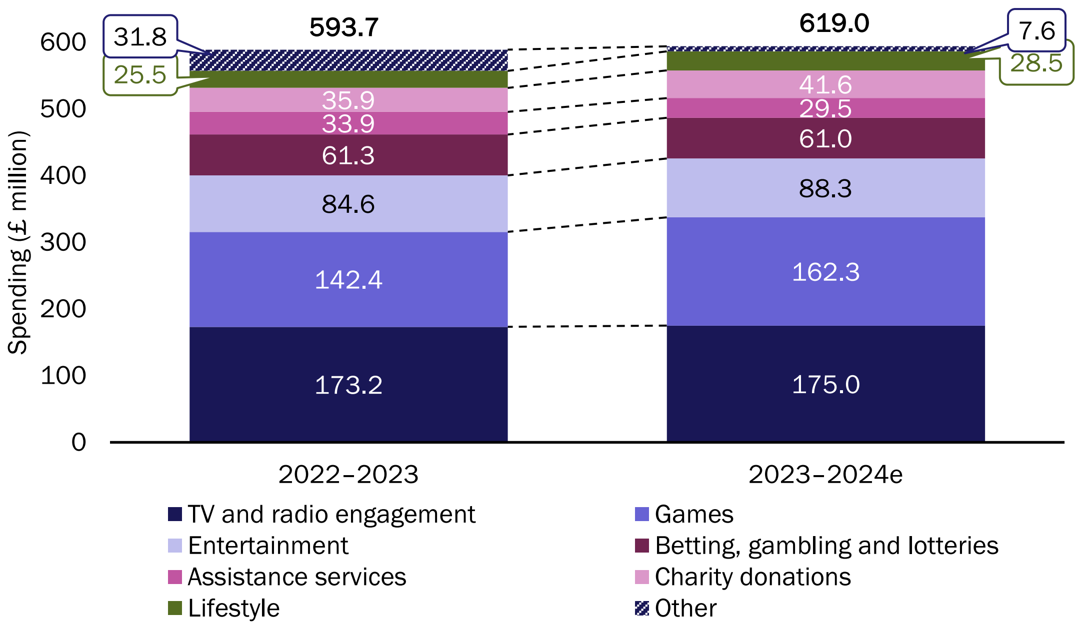
to remain the largest service category for premium SMS, and we forecast a 1.5% increase in consumer spending on these services in 2023–2024; uninterrupted competitions across the year will result in a relatively higher spend compared to the reduced spend seen this year (–1.9% year-on-year) due to the one-off period of national mourning following the death of the Queen.

- **We expect lower consumer spending on all voice-based services.** Since 2017–2018, there has been a year-on-year decline in spending across all voice-based payment channels (with the exception of voice 09 services in 2019–2020). We expect this trend to continue in 2023–2024 as more cost-effective or user-friendly alternatives (for example, online platforms) continue to gain traction among service providers. For all services, lower reductions are expected in 2023–2024 relative to 2022–2023, as these voice-based services near their core user base. The exception to this trend is voice 09, where a higher year-on-year decline in spending is expected (–8.0% in 2023–2024 compared to –4.7% in 2022–2023). A key driver for this is the PSA's consultation on draft regulation for ICSS, which will now come into effect in September 2023. These regulatory measures are designed to reduce consumer detriment and measures such as the cap on the cost of an individual call and are likely to result in reduced revenue overall. This will affect voice 09 services in particular.

5.4 Spend by service category

Figure 5.5 shows the breakdown in consumer spend by service category in 2022–2023 and the expected spend in 2023–2024. Spending on TV and radio engagement is increase by 1.0% (to an estimated £175.0 million in 2023–2024), to remain the largest service category in the phone-paid services market. Games are expected to grow to £162.3 million (+14.0%) and entertainment will grow to a forecasted £88.3 million (+4.3%), making these the second- and third-largest segments respectively. Consumer spending on donations (£41.6 million, +5.7 million) and lifestyle services (£28.5 million, +£3.0 million) are also expected to grow, while spending on all other service categories will decline.

Figure 5.5: End-user spending (excluding VAT), by service category, UK, 2022–2023 and 2023–2024e (estimated)



Source: Analysys Mason and Phone-paid Services Authority

Figure 5.6 provides a breakdown of the changes in user spending for key service categories between 2022–2023 and 2023–2024. The key trends are outlined below.

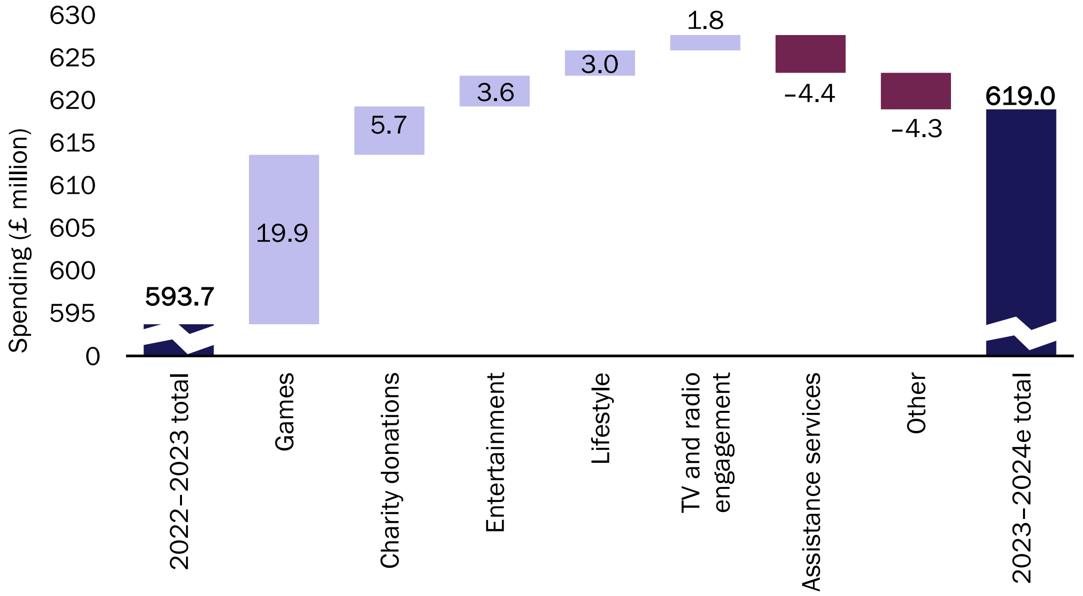
- **We expect consumer spending on TV and radio engagement to increase by £1.8 million.** This represents a partial reversal of the decline seen this year (–1.6% in 2022–2023 and +1.0% in 2023–2024). This is because competitions will be run all year in contrast to the interruptions in fundraising during September 2022 (as a result of a 2-week break from competitions due to national mourning, and the subsequent halting of momentum). However, declining TV viewership and the ongoing transition of radio and TV broadcast competitions to online platforms will slightly reduce the scale of this increase. Industry stakeholders expect this year's trend of growing radio listenership to continue, but they also reported radio broadcasters' plans to grow their online platforms, which will divert consumer spend away from phone-paid services and towards other payment mechanisms.

- **Spending on games is expected to increase by £19.9 million to a total of £162.3 million**. The main drivers of this expected growth are the continued growth of in the number of games and the increasing acceptance of operator billing as a payment method for these services. The growth rate in 2023–2024 will be lower than in 2022–2023 when new and existing partnerships between Apple and operators (including Vodafone and Three) helped to drive growth. However, these partnerships will remain a key contributor to the expected growth next year, as industry stakeholders expect to see an increasing number of consumers paying for games through Apple's App Store using operator billing. Industry stakeholders also mentioned in interviews that one-off payments for gaming subscriptions will become a key growth area.

- **User spending on entertainment services will grow by £3.6 million**. This forecasted increase is driven by anticipated new partnerships between video-on-demand providers and operators. These agreements are likely to emerge as intensifying competition in the video streaming market will incentivise market players to expand the range of payment mechanisms that they offer subscribers. Similarly to games, service providers will focus on increasing the number of subscriptions that can be taken using one-off payments. One operator mentioned that they will continue to bundle streaming services in an attempt to increase revenue.

- **Spending on all other services, including assistance services, betting, gambling and lotteries, sexual entertainment and personal and relationship services, will decline by £8.7 million.** Within these services, assistance services are expected to decline by £4.4 million, a continuation of previous trends. Betting, gambling and lotteries are expected to remain more or less static, with a £0.3 million decline in end-user spending forecast. This can be explained by the limited appetite from merchants, service providers and operators to onboard and promote gambling services due to the PSD2 spending limitation and other perceived regulatory pressures. Personal and relationship services and sexual entertainment services are expected to decline by £0.7 million each, as the use of these legacy services gradually erodes in favour of online platforms.

Figure 5.6 Change in end-user spending (excluding VAT), by service category, UK, 2022–2023 to 2023–2024e (estimated)[19]



Source: Analysys Mason and Phone-paid Services Authority

19 This chart shows the total spend in 2022–2023 on the left-most bar and the total spend in 2023–2024e on the right-most bar. Bars in between show growth (in light purple) or decline (in dark red) in spending by service category.

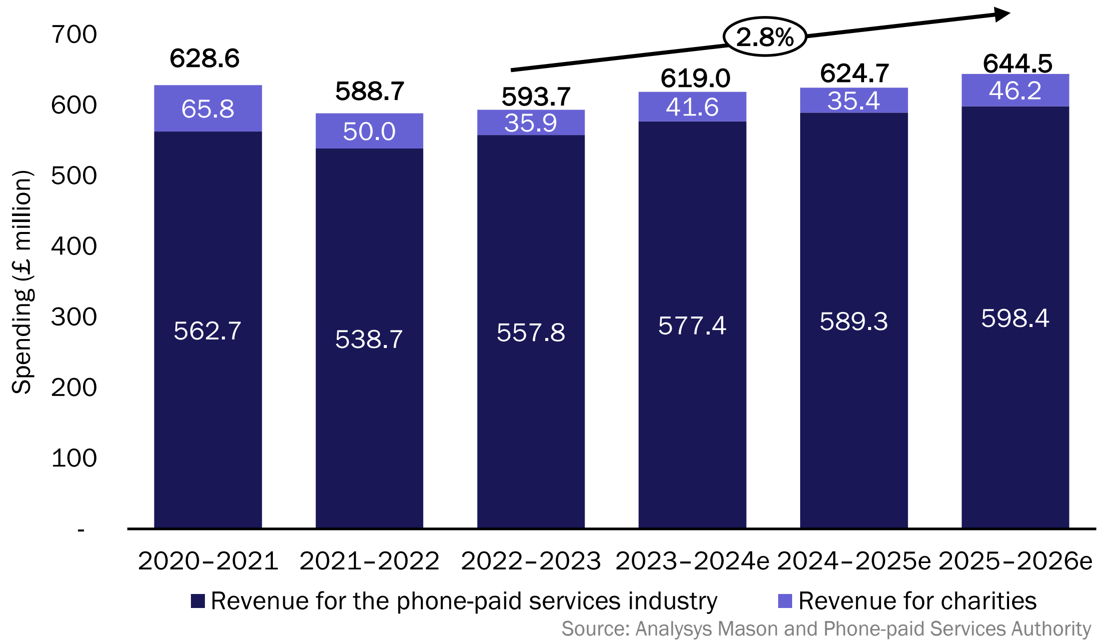
6. The phone-paid services market beyond 2023–2024

We forecast that between 2022–2023 and 2025–2026, the phone-paid services market will grow at a CAGR of 2.8% to reach £644.5 million in user spending by the end of the forecast period. Steady growth in operator billing and biannual growth in charity donations will drive this overall increase, with the former due to continued increases in consumer spending on games and the latter due to growing donations following the alleviation of the cost-of-living crisis. Spending via all other payment mechanisms will continue to decline, as legacy services reach their core user bases and TV and radio broadcast competitions move to online platforms.

6.1 Future evolution of consumer spend

We expect that consumer spending on phone-paid services will continue to grow from £619.0 million in 2023–2024 to £624.7 million in 2024–2025 (+0.9%), and to £644.5 million in 2025–2026 (+3.2%). This represents a CAGR of 2.8% between 2022–2023 and 2025–2026 (see Figure 6.1). Charity donations are expected to increase every other year, in line with the trend from previous years. We forecast that charity donations will drop to £35.4 million in 2024–2025 (–14.9% year-on-year) before increasing to £46.2 million in 2025–2026 (+30.5%). We forecast that spending on non-charity phone-paid services will increase steadily at a CAGR of 2.4% between 2022–2023 and 2025–2026.

Figure 6.1 End-user spending (excluding VAT) on phone-paid services, UK, 2020–2021 to 2025–2026e (estimated)

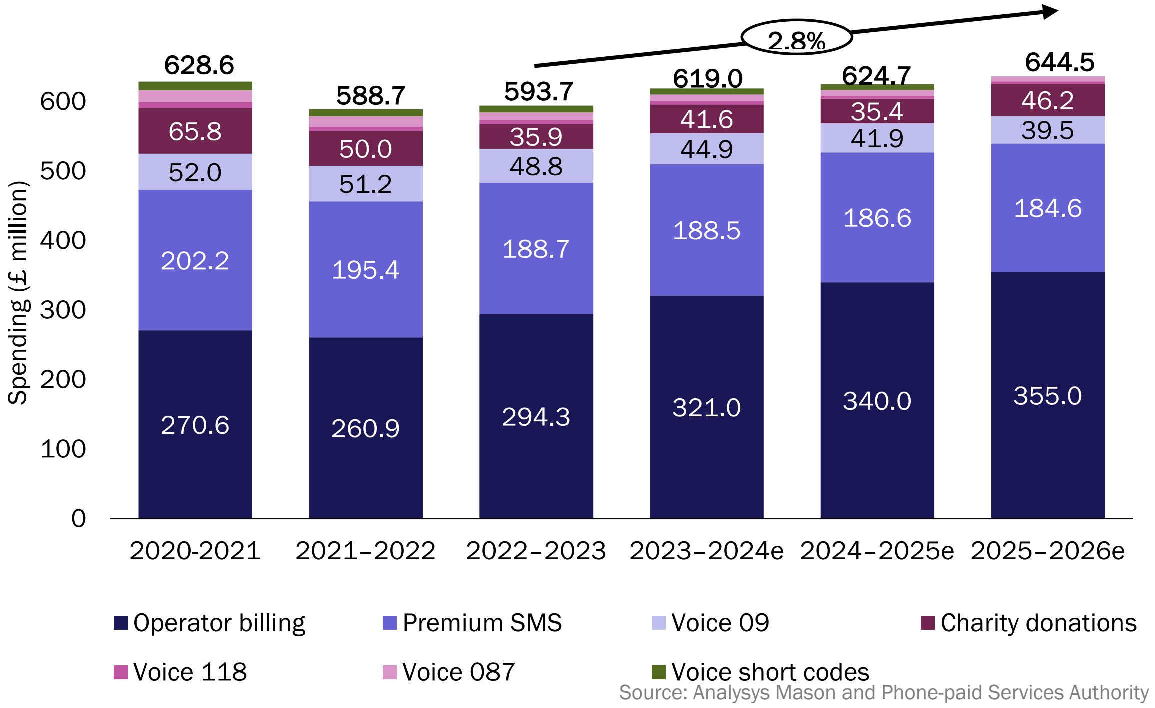


Section 6.2 discusses end-user spending trends by payment channel. Section 6.3 investigates these trends by service category.

6.2 Spend by channel

Operator billing will remain the largest phone-paid service spending channel. It will grow to account for 54.4% (or £340.0 million) of total user spending in 2024–2025 and 55.1% (£355.0 million) of total spending in 2025–2026. The proportion of phone-paid service spending via premium SMS will, however, decrease annually to 29.9% (£186.6 million) of total spending in 2024–2025 and 28.6% (£184.6 million) in 2025–2026. All other payment channels will see reduced consumer spending between 2022–2023 and 2025–2026, except charity donations which will increase every other year (as discussed in Section 6.1 above). Voice-based payment channels will account for 10.0% of the phone-paid services market in 2024–2025 and 9.1% in 2025–2026. Figure 6.2 provides a breakdown of consumer spending by payment channel.

Figure 6.2: End-user spending (excluding VAT) by spending channel, UK, 2020–2021 to 2025–2026e (estimated)



Source: Analysys Mason and Phone-paid Services Authority

The key changes within each spending channel and their respective drivers are detailed below.

- **Consumer spending via operator billing is forecast to grow at a CAGR of 6.5% between 2022–2023 and 2025–2026 to £355.0 million**. This growth will be driven the increasing popularity of games, which will lead to a higher number of games downloaded from app stores and to higher consumer spending on gaming console platforms. Entertainment subscriptions and subscription-based payments for higher-quality lifestyle services are also expected to drive growth. In particular, industry stakeholders reported in interviews that there are plans to add more streaming services to the phone-paid services market in the next 12 to 18 months, which suggests a positive outlook for the future of operator billing. Several industry stakeholders also mentioned in interviews that they are exploring the possibility of bringing new services to operator billing (for example, e-ticketing and carparking). However, most providers are at an early stage of exploration and, in some cases, the addition of these new services largely depends on a potential revision of the PSD2 spending limits. Any change to these limits would likely promote growth in the operator billing market and we would need to revise our forecast accordingly. However, a PSD2 consultation only began recently, and we do not anticipate any major regulatory changes or any significant market response to occur within the time of our forecast. Finally, we expect that the decline of spending on legacy and other subscription-based services will become increasingly insignificant, particularly in light of the expected growth in games payments via operator billing.

- **We anticipate that spending via premium SMS will decrease at a CAGR of 0.7% between 2022–2023 and 2025–2026 to £184.6 million.** After an increase in spending in 2023-2024 due to the return of uninterrupted, year-round competitions, spending on TV and radio broadcast competitions will decline due the continuing shift to digital payment methods, as more service providers move to online platforms in an attempt to offset increasing competition by digital service providers. We expect that consumer spending via premium SMS will decline across other service categories for similar reasons. We do not anticipate any large-scale adoption of new services, so spending via this payment channel will continue to decline. Premium SMS could be a good payment option for parking and other new service types in the long term, but few operators and service providers shared news with us of any plans to roll out these services on premium SMS. One interviewee reported that merchants that are looking to enter the phone-paid service market are turning to operator billing over premium SMS because the former channel is more conducive to repeat payments and subscriptions, whereas the latter is better suited to one-off payments.

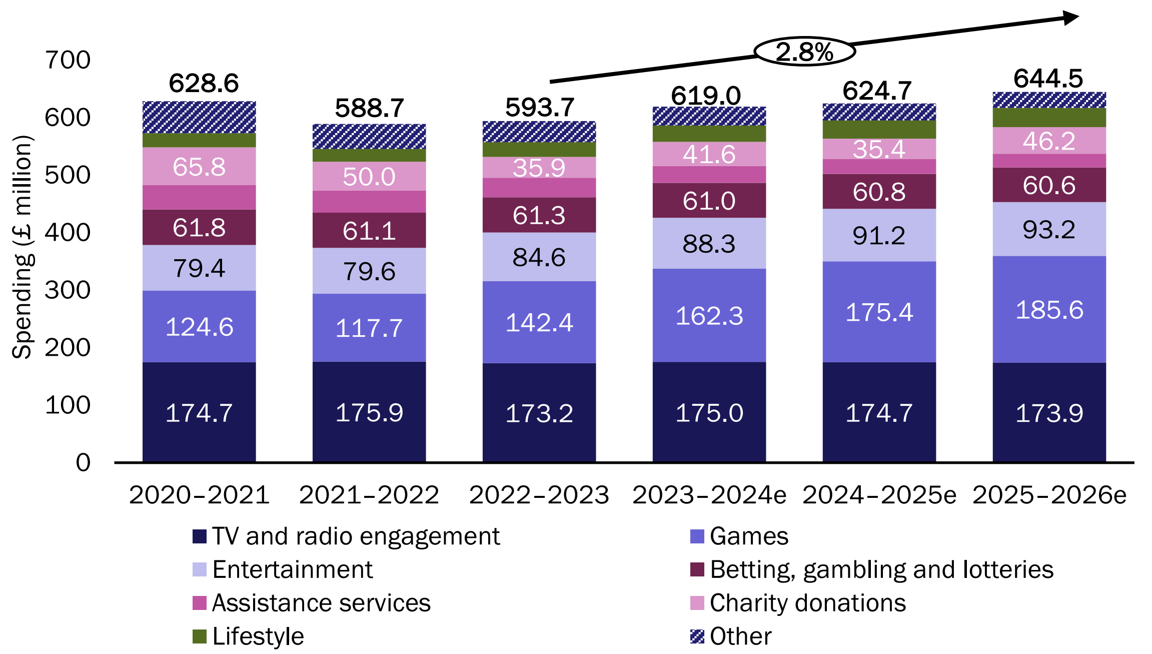
- **Charity donations will fall again in 2024–2025 but will increase once more in 2025–2026, although overall consumer spend will be lower than 2021–2022** (£46.2 million in 2025–2026 compared to £50.0 million in 2021–2022). The biannual nature of the Stand Up to Cancer telethon event is a key factor for these fluctuations in donations, with the trend of increasing donation amounts for this event expected to continue. Red Nose Day and Sports Relief are now run every year instead of every 2 years, which reduces the gap in charity donations created by the biannual nature of the Stand Up to Cancer event. However, Stand Up to Cancer is one of the largest events in the years when it does run (see Section 5.3 for more information) and therefore has a significant impact on donation amounts. We expect the cost-of-living crisis to have alleviated by 2025–2026, which explains why donations that year are forecast to be higher than those from 2023–2024 (comparable because the Stand Up to Cancer event will run in both periods). However, we do not expect charity donations to reach the high levels seen in 2020–2021 and 2021–2022 because charities are increasingly diversifying the payment channels that they offer to donors and are continuing to run an increasing number of online fundraisers. Declining TV viewership following the end of COVID-19 lockdowns, in line with longer-term trends, also explains why donation amounts are not expected to reach the amounts raised via phone-paid service payment channels in 2020–2021 and 2021–2022. Although the impact of the cost-of-living crisis is expected to persist in 2023–2024 and 2024–2025, it is important to note that the emergence of a significant cause (for example, the Turkey/Syria earthquake appeal or the invasion of Ukraine) will likely impact donation amounts. Historically, causes such as support for the NHS during the COVID-19 pandemic and Black Lives Matter saw significant donations raised, even during difficult macroeconomic conditions.

- **End-user spending via voice-based channels will continue to decrease.** The use of voice-based payment channels for legacy services will continue to be phased out, with many of these services in terminal decline, in favour of cheaper alternatives (for example, online platforms). This decline is relatively slow because most services are now used by core users with a strong preference for these services over alternatives. We expect voice 09 will continue to have the largest amount of consumer spending relative to the other voice-based channels, however we forecast that spending via voice 09 will decline at a CAGR of 6.9% between 2022–2023 and 2025–2026. This decline is largely due to the expectation that some form of regulatory pressure will be introduced for ICSS services in September 2023. The expected negative impact of this will be most notable for voice 09 services, but also for voice 087. Declining TV and radio engagement will also disproportionately affect voice 09 consumer spending (see Section 4.4 for a detailed explanation of the drivers of this decline). These same factors will cause spending on voice 087 numbers to decline at a CAGR of 13.6% between 2022–2023 and 2025–2026, although this will remain the second-largest voice-based spending channel. Consumer spending via voice 118 numbers will also fall, at a CAGR of 11.2% during this period, while voice short codes will decrease at a CAGR of 4.0%.

6.3 Spend by service category

End-user spending on games will continue to grow significantly, increasing at a CAGR of 9.2% between 2022–2023 and 2025–2026. By the end of our forecast period, we expect this category will overtake TV and radio engagement to make up the largest part of the phone-paid services market, accounting for 28.8% of total user spending (up from 24.0% in 2022–2023). Spending on TV and radio engagement will be slightly higher in 2025-2026 (£173.9 million) than in 2022-2023 (£173.2 million), though this represents growth to £175.0 million in 2023-2024 before decline from that point onwards (overall CAGR of +0.1%). It will account for 27.0% of total user spending by 2025–2026 (down from 29.2% in 2022–2023). Entertainment is expected to remain the third-largest service category and spending will grow at a CAGR of 3.3% between 2022–2023 and 2025–2026. Charity donations and lifestyle services will also grow between now and 2025–2026. Spending on other service categories including betting, gambling and lotteries, assistance services, and competitions and quizzes will continue to decline over our forecast period, as shown in Figure 6.3.

Figure 6.3: End-user spending (excluding VAT), by service category, UK, 2020–2021 to 2025–2026e (estimated)



Source: Analysys Mason and Phone-paid Services Authority

The key trends by service category are explained below.

- **By the end of the forecast period, spending on games will grow to £185.6 million and spending on entertainment will grow to £93.2 million.** The same factors that are expected to drive growth in these segments in 2023–2024 will also ensure longer-term growth. These factors include the increasing popularity of operator billing via app stores, which will drive a higher proportion of games-related payments via operator billing on Apple’s App Store and Google Play, as well as through physical console stores (for example, Microsoft Store on Xbox, Sony PlayStation Store). Service providers currently consider cloud gaming as a greater cost than an opportunity and therefore it is unlikely that this will be a key growth driver during the forecast period. New entertainment service providers are expected to enter the market, particularly video streaming providers. Netflix’s re-entrance into the phone-paid services market in

November 2022 demonstrates the potential of these payment mechanisms as a way for providers to attract new subscribers. As this market nears saturation, with households generally consolidating their streaming subscriptions and only retaining their most-valued subscriptions, video-on-demand providers need to differentiate themselves from their competitors, and providing a broad range of payment mechanisms is one possible way of retaining or attracting users.

- **Spending on TV and radio engagement will reach £173.9 million in 2025–2026.** Following the return to uninterrupted competitions and resulting growth in 2023-2024, this segment will begin decline once again in 2024-2025 and 2025-2056. This decline will make this service category the second-largest segment instead of the largest, as it is now. Service providers will increasingly move to online revenue streams and away from traditional TV and radio. This stems from the growing popularity of digital streaming services for both music (for example, Spotify) and video (for example, Amazon Prime video, Netflix, and Disney+). In order to compete with these online platforms, TV and radio broadcasters are releasing their own digital services (for example, ITV+ and Global Player). These platforms often better support digital payment mechanisms (for example, Apple Pay, Google Pay and PayPal) than phone-paid service payment channels and therefore user spending via phone-paid services will continue to decline. In addition, online competition platforms such as Omaze are gaining increasing traction among sections of the population that may have traditionally entered TV radio broadcast competitions due to their high-value prize pots (for example, the opportunity to win a house). In interviews, many of those providing TV and radio engagement services expressed no plans to compete with sites such as Omaze because they simply cannot match the higher entry fee required to provide such large prizes.

- **User spending on lifestyle services will continue to increase** as merchants continue to release higher-quality services.

- **User spending on all other services will decline**. Most of these are legacy services that will continue to fall at a consistent rate as they approach their core user bases.

7. Consumer analysis

Our consumer survey of 8067 UK consumers suggests that around 62% of the British population aged 16 or above used phone-paid services in 2022–2023, which is a small increase on last year's penetration rate of 60%. Survey respondents reported that the key drivers of the use of phone-paid services include convenience, affordability and impulse purchasing, which are the same as last year's drivers. Convenience in particular seems to be increasing in importance year-on-year, with both response rates (56% this year compared to 54% last year) and the margin between it and the second-most common driver (a +8% gap this year compared to +7% last year) both increasing. In general, individuals reported fewer issues with phone-paid services in 2022–2023 (24%) than in 2021–2022 (26%). The most commonly reported problem was the difficulty in accessing or using services, which was the same as last year. Similarly to last year, the most-problematic services appeared to be sexual entertainment services, with respondents reporting the greatest number of problems when using these services. Overall, the NPS was broadly unchanged from last year at –26. The service with the highest NPS was entertainment (–3) while competitions and quizzes had the lowest NPS (–45).

7.1 Demographics

We surveyed 8067 individuals in the UK and found that around 62% of those aged 16 or above in the UK used phone-paid services in 2022–2023. This represents an increase of 2% since 2021–2022's, when the reported figure was 60%. The following factors contributed to this increase.

- Take-up of operator billing services has increased, which is in line with the higher spending via this payment mechanism as discussed in see section 4.1.

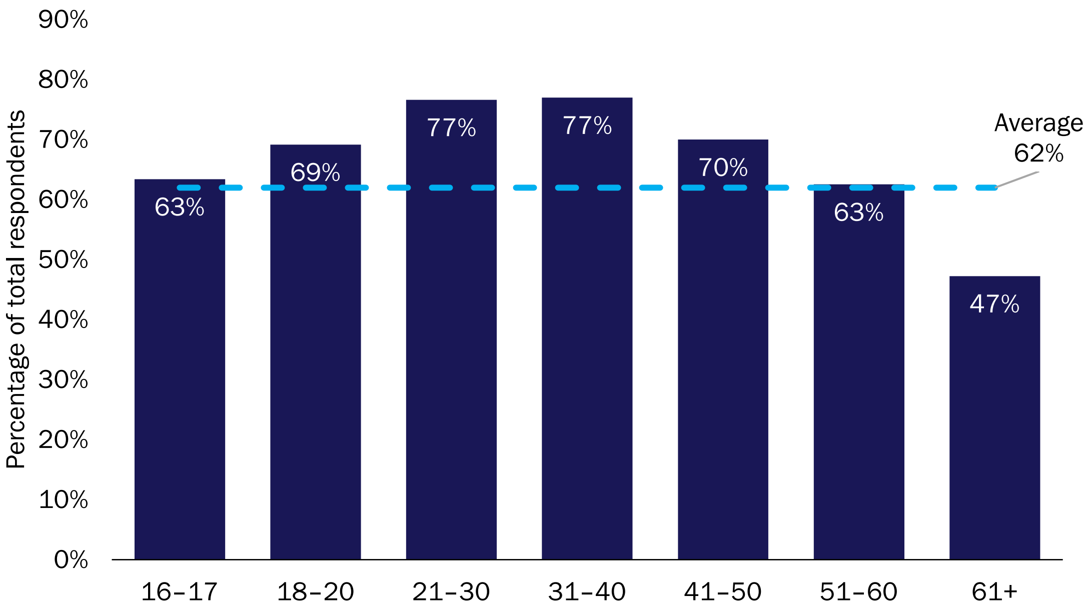
- The impacts from the COVID-19 pandemic experienced in 2020–2021 have continued to subside, with minimal effects reported by respondents this year. No post-COVID drop off was experienced, contrary to expectations, and although some services are declining, this is occurring at a steady rate and is generally slower than expected.

- The cost-of-living crisis may be contributing to people's reduced spending on non-essential activities and perhaps leading to more time spent in the home. As a result, people may be willing to engage in phone-paid services, such as entering competitions or subscribing to a new streaming service, which are comparatively more cost-effective than other activities.

Our annual market review survey was conducted online, in line with previous years' surveys. As such, it must be noted that this may invite a degree of bias into our results, with individuals who are more likely to be consumers of digital content and services probably overrepresented in our sample. This means that the penetration rate of phone-paid services as reported in our survey may be inflated relative to the actual penetration rate in the UK population. Although we have tried to maintain consistency in our survey sample in terms of age, gender and regional distribution, our respondent sample is likely to differ from the national population due to factors beyond our control. These include the availability of individuals to survey and the number of people exposed to the survey.

While the penetration rate of phone-paid services by age group has varied considerably in previous years, the survey results from 2022–2023 demonstrate a relatively consistent spread of phone-paid service usage among those aged 16–60. Those aged 21–40 years are most likely to report phone-paid service usage (77% of those within this age group cited using phone-paid services in 2022–2023). In general, penetration rates have decreased among those ages 16–50 relative to last year, with the largest decline seen among those in the 18–20 age bracket (69% reportedly used phone-aid services in 2022–2023 compared to 77% in 2021–2022). This is possibly due to a declining lack of awareness of the value of phone-paid services among younger individuals. Similarly to last year, phone-paid service penetration was the lowest among respondents aged over 61 years and even though the penetration rate increased from 41% in 2021–2022 to 47% in 2022–2023, this was still much lower than the average of 62%.

Figure 7.1: Penetration of phone-paid services, by age group, UK, 2022–2023[20]



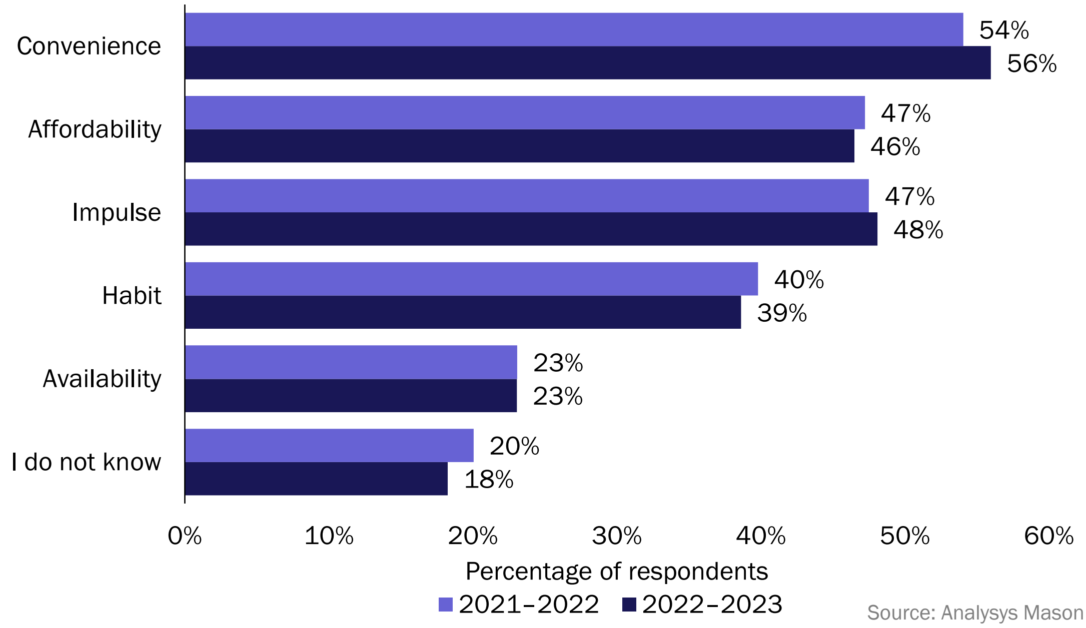
Source: Analysys Mason

7.2 Drivers of use

Figure 7.2 shows the key drivers of phone-paid services usage cited by respondents in 2022–2023, which. were the same as those reported in 2021–2022: convenience was the most-common driver reported this year (56% in 2022–2023 compared to 54% in 2021–2022). affordability was once again the second-most popular answer (48% in 2022–2023, compared to 47% in 2021–2022) and impulse purchasing the third-most common (46% in 2022–2023, compared to 47% in 2021–2022). The trends from the past 5 years have remained consistent, with convenience and habit continuing to have an increasing influence on customers' phone-paid service use.

20 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* = 8067).

Figure 7.2: Drivers of phone-paid service use among phone-paid service users, UK, 2021–2022 and 2022–2023[21]



Source: Analysys Mason

Our interviews with industry participants also indicated that consumer confidence in phone-paid services is high, which also acts as a driver of phone-paid service use. In general, those working in the industry report very few complaints regarding phone-paid services usage and have mentioned that the clear parameters introduced through Code 15 have helped to alleviate previous issues around consumer confidence in this area, which mostly centred on the adult and ICSS segments. Another beneficial consequence of Code 15 is the departure of problematic service providers (for example, scammers or those providing poor-quality services) from the market, which has also helped to improve consumer confidence.

7.3 Problems and impact

Key problems encountered

In 2022–2023, fewer phone-paid service users reported encountering service issues, with 24% reporting issues with at least one service this year compared to 26% in 2021–2022. Despite the positive change, this number remains roughly consistent with overall complaint level since 2018 (which is around 25%). It is unclear whether this indicates the start of a decline in complaint rates.

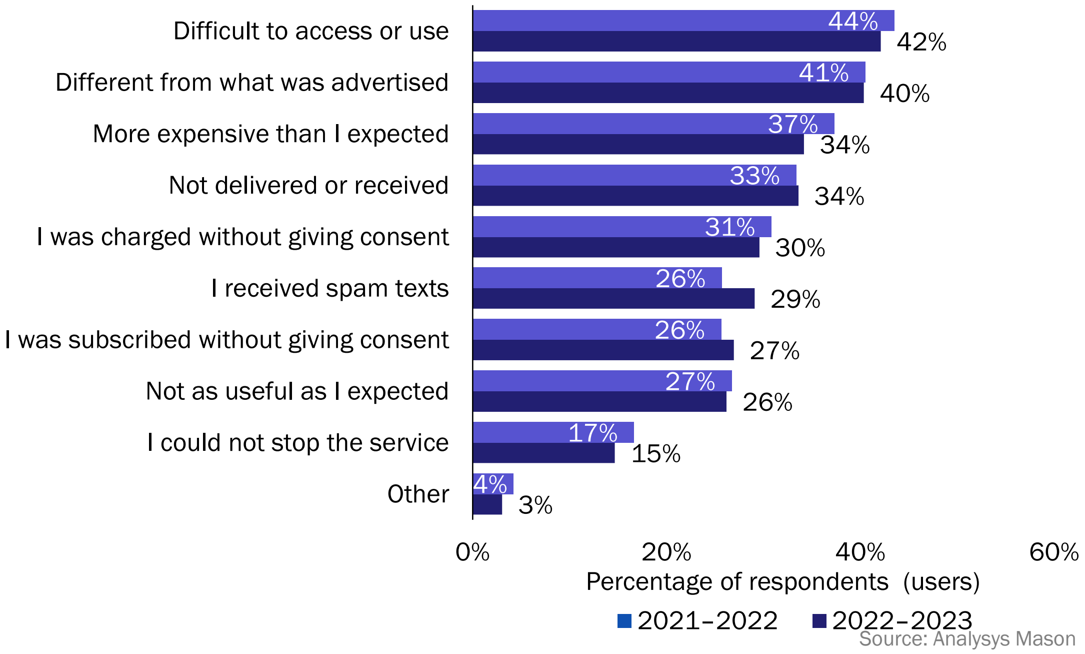
The most common problem encountered by phone-paid service users was the difficulty in accessing or using services. This is consistent with previous years, however the percentage of respondents that encountered such problems declined this year (42%, down from 44% in 2021–2022), which is also a continuing trend from last year. The second-most commonly reported issue was the perceived differences between the service advertised and the service received (40%, down from 42% in 2021–2022). The third most-commonly reported problem related to price misconceptions, where the service was more expensive than users had expected (34% down from 37% in 2021–2022). These issues may all be rectified by improved communication between phone-paid

21 Question: “Why did you use the service/content?” [multiple choice] (*n* = 5000; only respondents who have used the listed phone-paid services in the past 12 months)

service providers and customers. It is noteworthy that the rate of individuals that reported receiving spam texts increased from 26% in 2021–2022 to 29% in 2022–2023, a reversal of the trend observed in last year's survey.

Figure 7.3 shows a breakdown of respondents' problems with phone-paid services in 2021–2022 and 2022–2023.

Figure 7.3: Breakdown of the problems encountered by respondents, UK, 2021–2022 and 2022–2023[22]

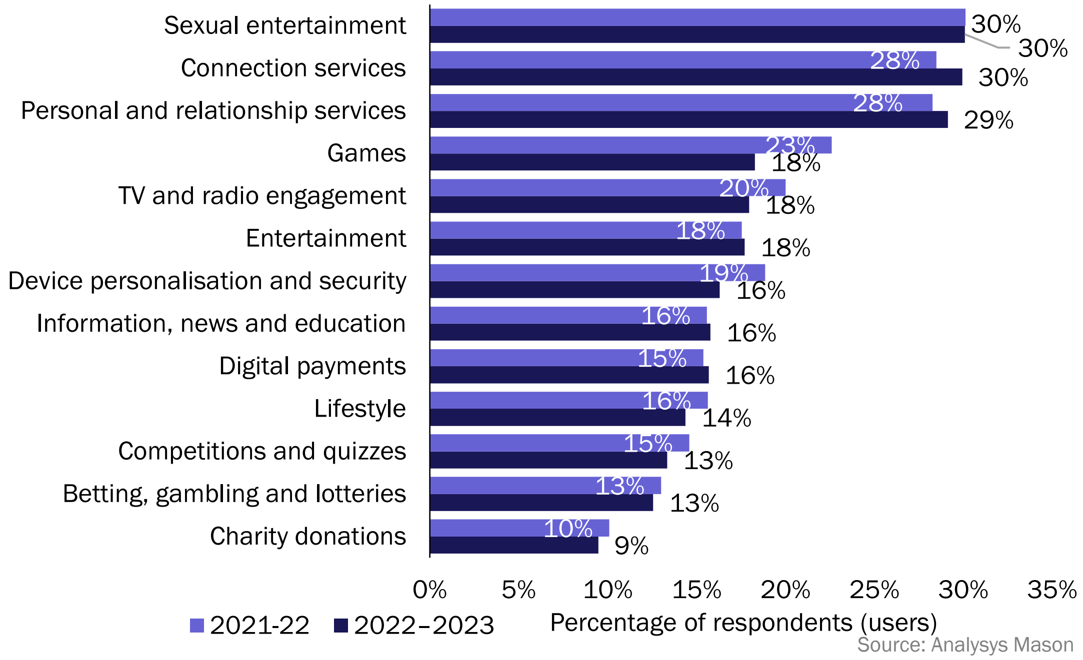


Source: Analysys Mason

As shown in Figure 7.4 below, sexual entertainment, connection services and personal and relationship services resulted in complaints from the largest proportion of respondents. This reflects the same pattern as last year. The percentage of respondents who encountered a problem with sexual entertainment services remained static year-on-year (30% in 2022–2023 and 30% in 2021–2022), but the number of those respondents who had issues with connection services (30% in 2022–2023 and 28% in 2021–2022) and personal and relationship services (29% in 2022–2023 and 28% in 2021–2022) increased compared with the previous year. The percentage of respondents reporting issues within all other service categories has, for the most part, either decreased or remained static since 2021–2022. One explanation for this is likely to be the removal of bad actors from the phone-paid service industry thanks to regulations such as Code 15.

22 Question: "Can you please identify from the following what this (these) problem(s) was (were)?" [multiple choice] (*n = 1214*; 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, 2021–2022 and 2022–2023[23]

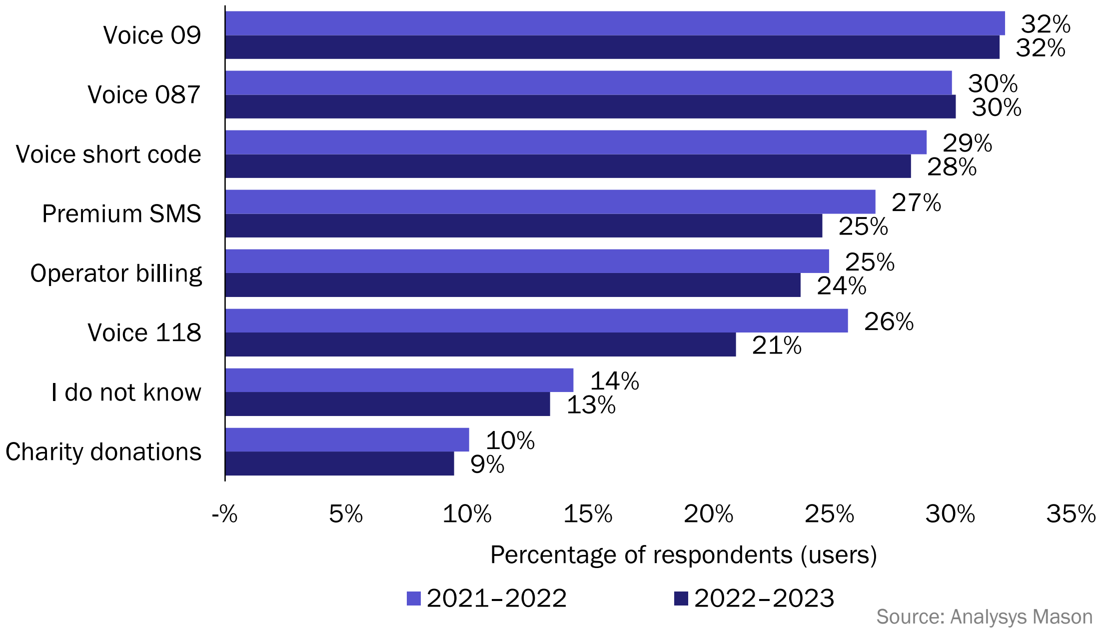


Source: Analysys Mason

Figure 7.5 depicts the type of spending channels where users most commonly encounter problems with phone-paid services. As in previous years, voice-based services were the most likely payment channel to cause issues, with individuals most often reporting issues when using voice 09 (32% in 2022–2023, no change from 2021–2022), voice 087 (30% in 2022–2023, no change from 2021–2022) and voice short code (28% in 2022–2023, down from 29% in 2021–2022). It is promising to note that the percentage of respondents reporting issues has either dropped or remained roughly static across all payment channels. In particular, the percentage of respondents who encountered with issues for voice 118 services has declined (21% in 2022–2023, 26% in 2021–2022, 2021–2022 saw an increase in individuals reporting a problem when using this payment channel). This could be due to reduced use of this channel, as interview results reveal that many services are phasing out voice 118 as a viable payment method. These changes could also reflect an anomaly in 2021–2022, when the proportion of complaints for voice 118 services substantially increased.

23 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, 2021–2022 and 2022–2023[24]



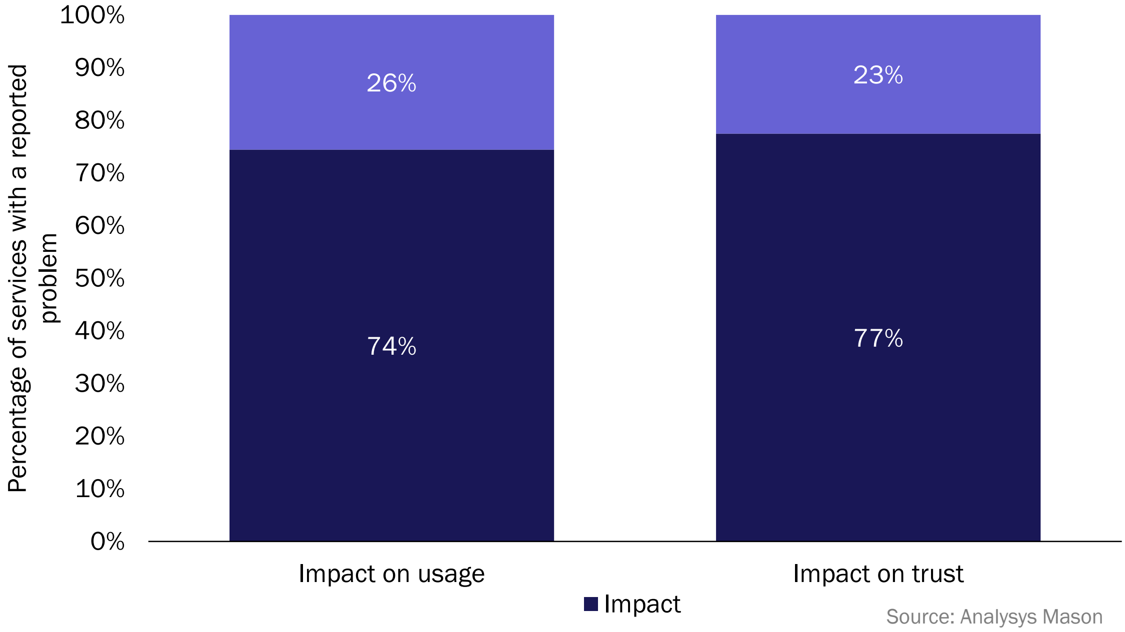
Source: Analysys Mason

Impact of problems on usage and trust

The impact of issues on users' trust in phone-paid services is identical to last year, with 77% of respondents reporting that their trust was affected when experiencing a problem with their phone-paid services (see Figure 7.6). The proportion of users that cited decreased usage of phone-paid services after experiencing an issue increased slightly (74% in 2022–2023, up from 73% in 2021–2022).

24 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, 2022–2023[25]



Source: Analysys Mason

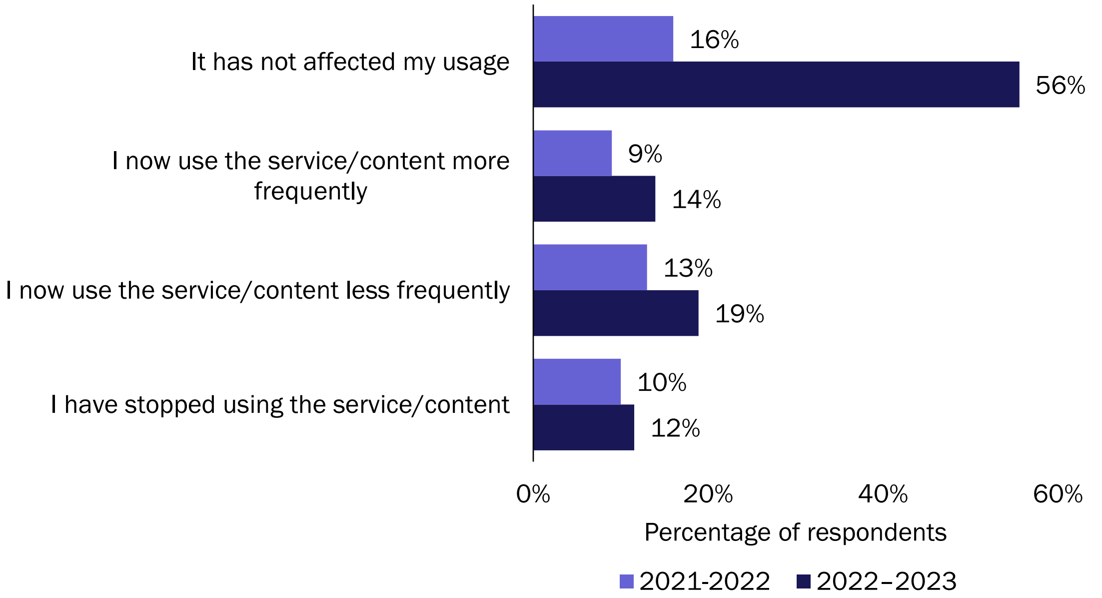
7.4 Impact of macroeconomic factors on usage

While the COVID-19 pandemic and its residual effects were seen to have affected phone-paid services in the past 2 years, the effect of the pandemic seems to have largely dissipated this year. While only 16% of respondents in 2021–2022 reported that the COVID-19 pandemic had not affected their service usage in the previous 12 months, that number jumped to over half (56%) of survey respondents in 2022–2023. Part of this increase may be explained by the removal of the response option 'I will stop using the service in the next 12 months', which represented 52% of users in last year's survey. We removed this option this year as we felt that it had been long enough since lockdowns had ended and it was no longer relevant to consider for future impacts.

We expected a decline in the use of phone-paid services based on our findings from previous years. However, Figure 7.7 shows an increased in both the proportion of respondents that cited using services less (19%, up from 13% in 2021–2022) and those that cited using services more (14%, up from 9% in 2021–2022). Interviews with industry stakeholders also revealed that although those working in the industry are seeing some decline in phone-paid service usage (varying by service type), this decline is generally much slower than they had anticipated following the pandemic.

25 Questions: "Has (have) this (these) problem(s) affected your level of trust in the service/content in the past 12 months?', 'How has (have) this (these) problem(s) affected your usage of the service?' *n* = 1214; 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, 2022–2023[26]

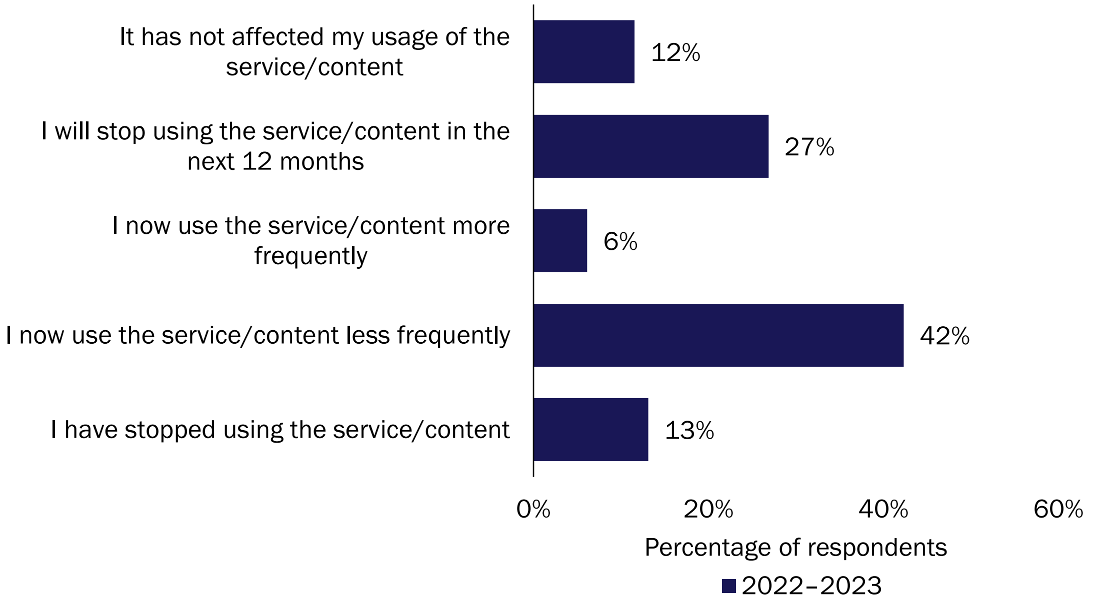


Source: Analysys Mason

This year we included a new question to investigate the effects of the cost-of-living crisis and inflation on phone-paid service usage, as the pressure caused by these factors has continued to amplify over the past year. Our survey results demonstrate that phone-paid services are not spared from these pressures, with 42% of users reporting reduced use of phone-paid services compared to the 12% that say that the cost-of-living crisis and inflation have not affected their use of these services (see Figure 7.8). Over a quarter (27%) of those surveyed say that they will stop using services within the next 12 months as a result of these economic issues. In our interviews, those working in the industry generally reported a minimal impact of the cost-of-living crisis and inflation on phone-paid services, but it is possible that the impact of this is delayed and may be experienced in the coming months. Generally, those working in the industry mentioned that the only effects that they have seen so far relate to decreased charity donations, which could also be attributed to the cyclical nature of large charity events, many of which are run biannually. The 6% of respondents who reported increased phone-paid service usage could be attributed to the substitution of more expensive activities (for example, cinema visits) with cheaper alternatives (for example, getting a new subscription service paid for via direct carrier billing) so it is possible that this proportion of respondents will increase as economic pressures worsen. The full extent of the impact the cost-of-living crisis and inflation will have on phone-paid services remains to be seen, however those working in the industry should be aware of consumers' concerns regarding this issue and, as pointed about by industry stakeholders in interviews, should continue to be cognisant of vulnerable customers at this time.

26 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* = 8067). The response option 'I will stop using the service in the next 12 months', which represented 52% of users in last year's survey, was removed this year as we felt it had been long enough since lockdowns had ended and it was no longer relevant to consider future impacts.

Figure 7.8: Impact of the cost of living/inflation crisis on service usage, UK, 2022–2023[27]



Source: Analysys Mason

7.5 Net Promoter Scores (NPS)

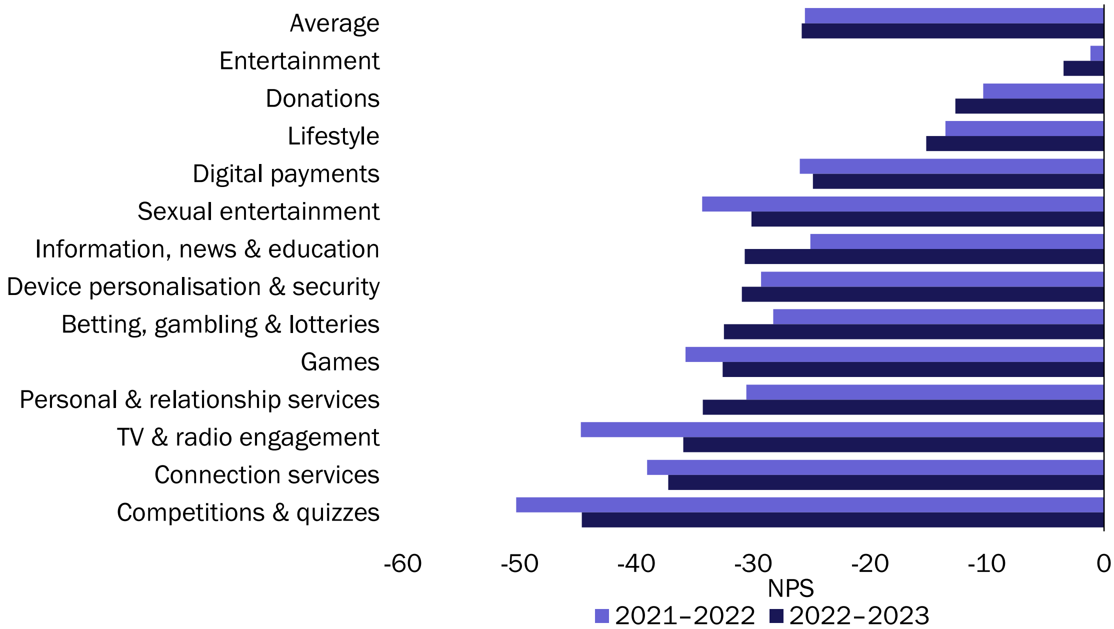
NPS measures customers' willingness to recommend products or services to other people. NPS is not directly linked to customer satisfaction because there may be reasons for customers to be relatively unwilling to recommend a product or service despite being satisfied with the service they have received.

NPS is calculated by asking users how likely they are to recommend each service to friends or family on a scale from 1 ('not at all likely') to 10 ('definitely'). These scores are used to estimate the number of promoters (respondents scoring 9–10) and detractors (respondents scoring 1–6) associated with each service. The final NPS is calculated by subtracting the percentage of detractors from the percentage of promoters. Note that the number of users providing a score of 7 or 8 does not feed into the calculation of the NPS.

The NPS for 2022–2023 showed little change from 2021–2022, remaining at –26. However, there were shifts in NPS for specific categories. Entertainment continued to maintain the highest NPS, but this decreased slightly from –1 in 2021–2022 to –3 in 2022–2023. Donations (–13, down from –10 last year) and lifestyle (–15, down from –14 last year) had the second- and third-highest NPSs. Digital payments (–25) was the only other service to have a score above the average NPS. NPS improved for many services including competitions and quizzes (–45, up from –50 last year), TV and radio engagements (–36, up from –45 last year) and sexual entertainment (–30, up from –34 last year). Competitions and quizzes (–45) and connection services (–37) were the services with the lowest NPSs, although both showed improvements from last year. Low NPS for competitions and quizzes is generally attributed to users' negative perceptions, as the majority tend not to win these. Poor customer service is most likely the key driver of low NPS for other services.

27 Question: "Have recent increases in inflation and cost-of-living affected your usage of the service?" [multiple choice] (*n* = 5000).

Figure 7.9: Net Promoter Score, by service category, UK, 2021–2022 and 2022–2023[28]



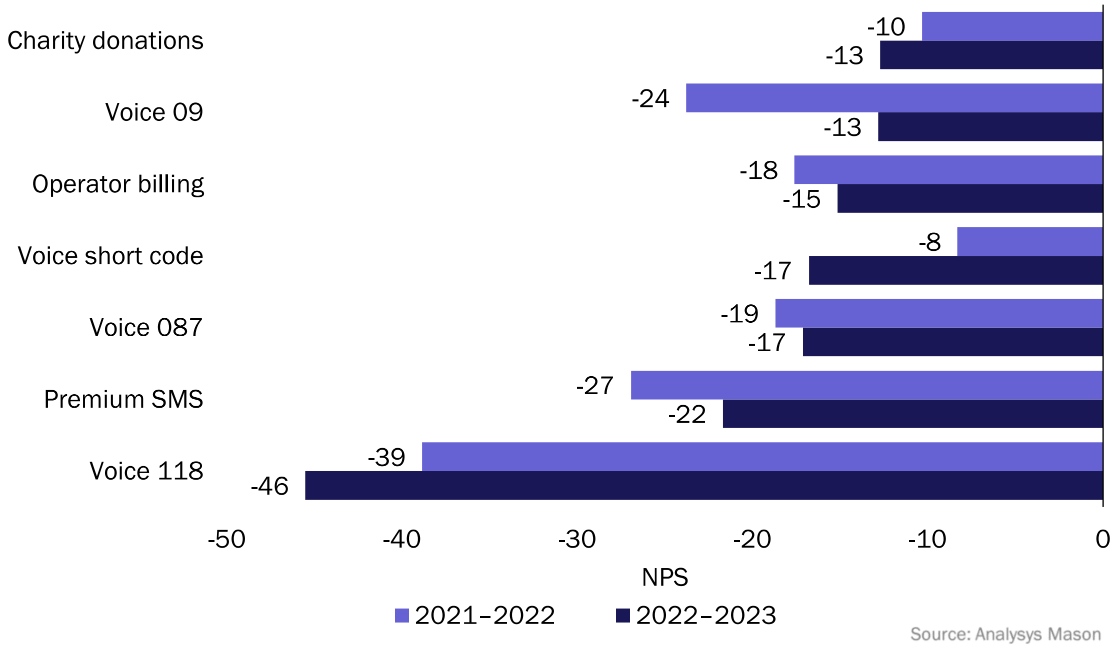
Source: Analysys Mason

Since Analysys Mason began conducting this survey 5 years ago, the overall NPS has remained relatively consistent, with an overall NPS of –26 reported in 3 of the 5 years, –27 reported in 2020–2021 and –17 reported in 2019–2020 (which is likely to be an outlier). This consistency in NPS demonstrates that users' perceptions of phone-paid services are relatively stable and have not been massively affected by changes in the market and/or the wider economy

Figure 7.10 shows that charity donations had the highest NPS, although this has declined slightly since last year (–13 in 2022–2023, down from –10 in 2021–2022). The channel with the second-highest NPS was voice 09, which showed considerable improvements in users' willingness to recommend this service (–13 in 2022–2023, up from –24 in 2021–2022). Some industry stakeholders mentioned in interviews that PSA regulations and subsequent regulation clarification has been beneficial in increasing consumer confidence in voice 09 services, which may contribute to this boosted NPS. The NPSs for operator billing (–15 in 2022–2023, –18 in 2021–2022), voice 087 (–17 in 2022–2023, –19 in 2021–2022) and premium SMS (–22 in 2022–2023, –27 in 2021–2022) also improved this year, which could be attributed to the declining use of legacy services such as voice short code and voice 118, which both showed lower NPS this year than in 2021–2022.

28 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* = 5000; only respondents who have used the listed phone-paid services in the past 12 months).

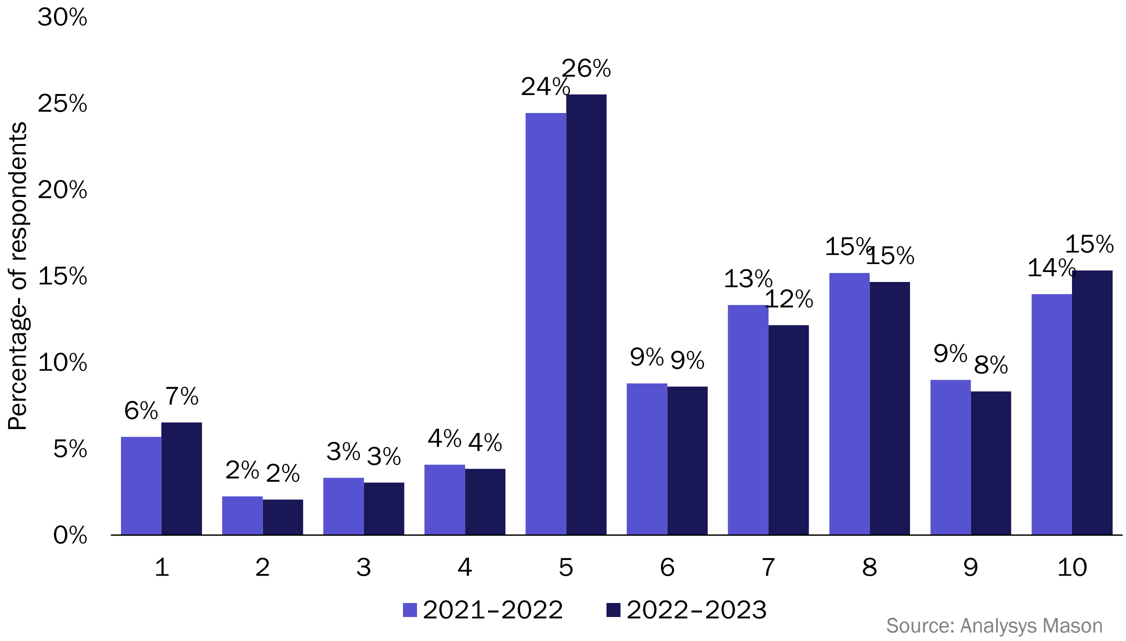
Figure 7.10: Net Promoter Score, by spending channel, UK, 2021–2022 and 2022–2023



Source: Analysys Mason

Figure 7.11 compares the distribution of respondents' scores for their likelihood to recommend a service for 2022–2023 relative to 2021–2022. This chart shows that the scores from users this year are very similar to those from last year, with the percentage of users in each scoring category changing by no more than 2%. Users are most likely to give a score of 5, which may be considered a neutral response towards recommending or not recommending this service, but this score is considered to be a 'detractor' in the NPS calculation. Scores of 10 and 8 are the second- and third-most popular responses, but while 8 may be considered a strong score, NPS only considers this a 'neutral' response. As with last year, overall NPS suffers in comparison to 2019–2020 when users were slightly more likely to give a score of 9 or 10. The minor difference in average scores (6.70 in 2019–20, 6.47 in 2021–2022 and 6.45 in 2022–2023) compared to significantly higher NPSs in 2019–2020 speaks to the sensitivity of NPS as a metric and also to a limitation of using this measure in this context, as individuals' likelihood or not of recommending a service is not necessarily indicative of their positive or negative attitude towards that service.

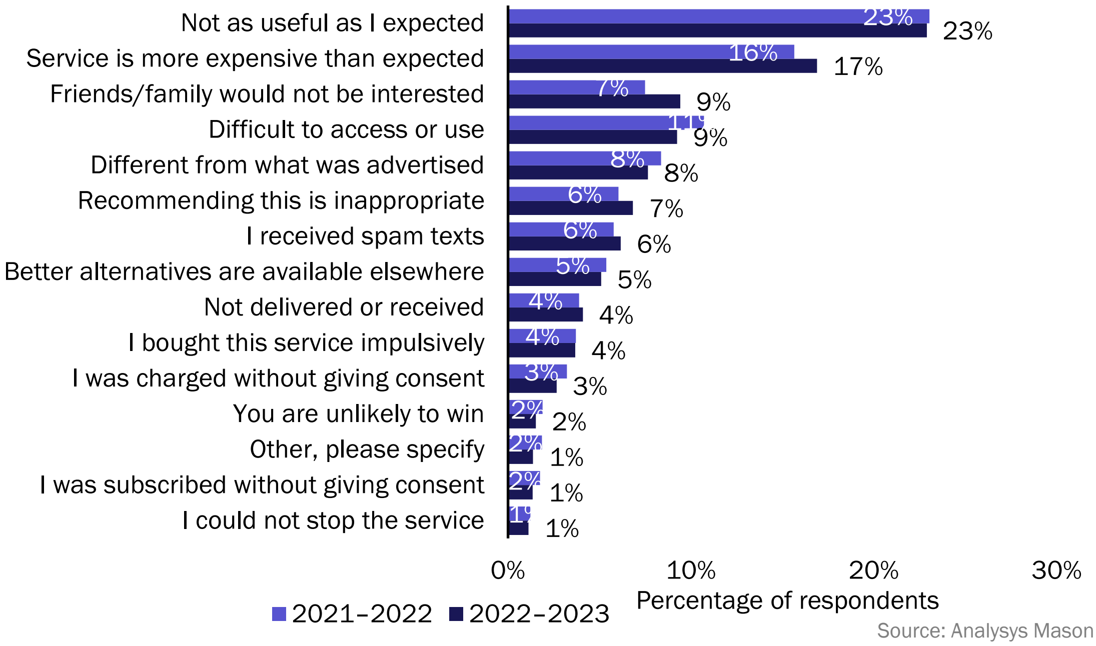
Figure 7.11: Likelihood of recommending a service, UK, 2021–2022 and 2022–2023



Source: Analysys Mason

Figure 7.12 outlines the reasons for not recommending a phone-paid service given by those that provided low scores (below 4) and also provides some context for the overall NPS. Similarly to last year, perceptions of a service as being less useful than expected was the most common reason given by this sample. A higher price point was the second-most common reason, with the rate of users who gave this answer increasing slightly from last year (17% in 2023–2022 and 16% in 2021–2022). This could partly be due to increased awareness and concerns around prices, heightened by the cost-of-living crisis and by people's associated need for frugality. This could also be attributed to historical misconceptions that phone-paid services are poor value for money. Our interview findings tell us that this misconception is, on the whole, declining, but some individuals may still retain this opinion and as such may provide this a key reason for not recommending phone-paid services.

Figure 7.12: Reasons given for not recommending a service, UK, 2021–2022 and 2022–2023 [29]

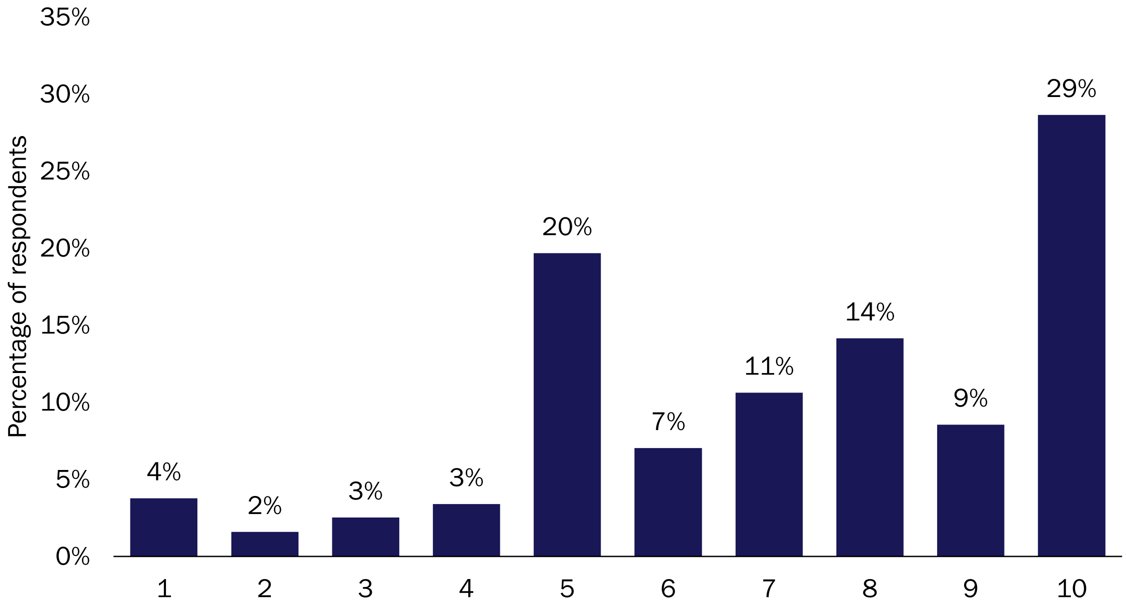


Source: Analysys Mason

This year's survey includes new questions following the request of industry stakeholders and with the input of AIMM. These questions relate to users' understanding of the phone-paid services payment mechanism and the level of convenience that it offers. Figure 7.13 below shows how well respondents felt that they understood the phone-paid services mechanism, on a scale from 1–10.

29 Question: "For each of the services selected, why are you unlikely to recommend this service to friends or family members?" *(n = 2228*; only respondents who provided a score of 4 or below).

Figure 7.13: Level of understanding of phone-paid services, UK, 2022–2023[30]



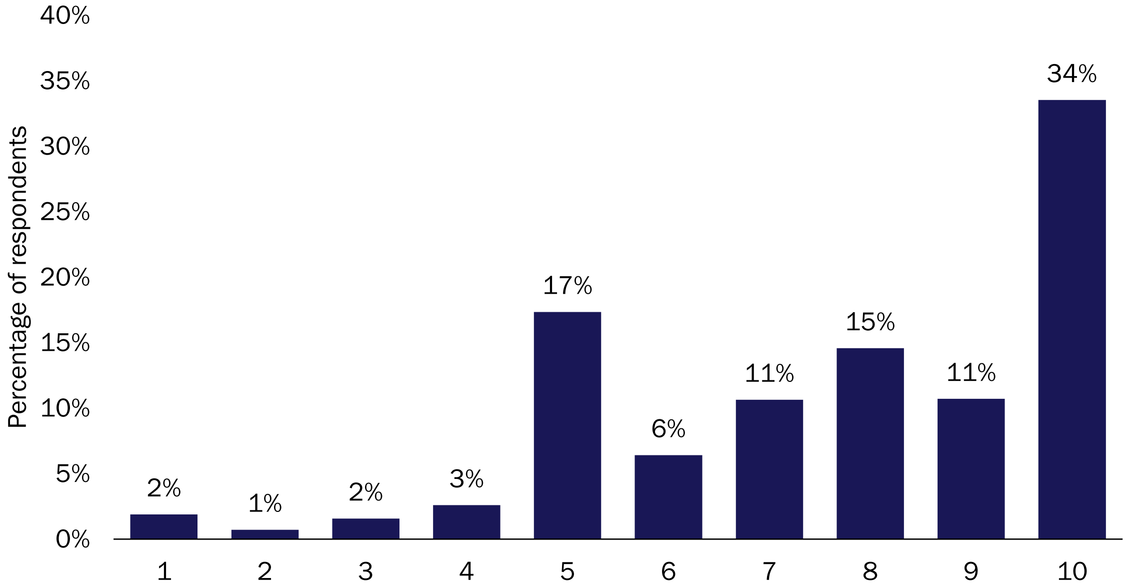
Source: Analysys Mason

The most common response to this question was 10, and the average is 7.2, which appears to be relatively positive. If we were to apply the same methodology using NPS calculations (with scores from 1–6 as negative and 9–10 as positive), we would find a result of –1, effectively a neutral score.

Figure 7.14 below shows how convenient respondents found the process of paying for their service via a phone-paid mechanism.

30 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* = 8067).

Figure 7.14: Perceived level of convenience of using phone-paid service, UK, 2022–2023[31]



Source: Analysys Mason

Once again, 10 is the most common response. The average score is even higher, at 7.7, and the use of weighted average calculation methodology similar to NPS would give a score of +14. Both of these questions somewhat support the industry view that the phrasing of the standard NPS methodology is not a good fit for phone-paid services (notably because individuals' likelihood or not of recommending a service is not necessarily indicative of their positive or negative attitude towards that service, and that many phone-paid services by their nature are less likely to be recommended). While the use of NPS is still a good metric to track changes in sentiment year-on-year, and best allows comparison to other brands and services due to the standardised methodology employed, industry stakeholders should be reassured and take confidence from the responses to our new questions.

31 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* = 8067).

Annex A Service taxonomy and data

This section contains a taxonomy of the phone-paid services assessed in this year's 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 2021–2022 report. It includes 13 service categories that have been broken down into 48 service types.

Figure A.1: Phone-paid services taxonomy, by service category and type, 2022–2023

Service category	Service type	Definition
Assistance services	Directory enquiries	• Voice service used to identify a specific phone number and/or address of a residence, business or public entity. • Accessed and paid for via a premium-rated, 6-digit number beginning with 118.
	Customer services	• Voice service to contact the customer service of an organisation. • Accessed and paid for via a premium-rated number beginning with 087 or 09, or presented as a voice short code.
	Information, connection and/or signposting services (ICSS)	• Voice service used to contact a specific business or service (for example, a lawyer or solicitor). • Accessed and paid for via a premium-rated number beginning with 087 or 09.
Betting, gambling and lotteries	Betting	• Entry to a sport-related competition to win prizes (for example, via an event, bookmaker or online) • Paid for via premium SMS or operator billing.
	Gambling	• Entry to a game of chance to win prizes (for example, mobile casino, arcade or bingo). Excludes bets and lotteries. • Paid for via premium SMS or operator billing.
	Lotteries	• Entry to a lottery/tombola typically organised by a business, charity or society to raise money. • Paid for via premium SMS or operator billing.
Charity donations	Charity donations	• Text-based donation to a charity (as part of a televised event, regular donations collected by charities, or specific appeals during humanitarian crises). • Paid for via premium SMS.
Competitions and quizzes	Online competitions	• Entry to competitions advertised online (for example, on a website or through email marketing). Excludes competitions run by TV or radio broadcasters. • Paid for via premium SMS or operator billing.
	Offline competitions	• Entry to competitions advertised offline (for example, on TV, in newspapers or on public billboards). Excludes competitions run by TV or radio broadcasters.

Service category	Service type	Definition
		• Paid for via premium SMS or using a premium-rated number beginning with 09.
Device personalisation and security	Ringtones, ring-back tones and wallpapers	• Purchase and download of ringtones, ring-back tones and wallpapers for device personalisation. • Paid for via premium SMS or operator billing.
	Security	• Purchase and download of software to protect a mobile device (for example, from viruses, hackers or other malware). • Paid for via premium SMS or operator billing.
Digital payments	Vouchers	• Purchase of discount codes (for example, that can be used at a retailer or supermarket). • Paid for via premium SMS or operator billing.
	Virtual gifts	• Purchase of virtual gifts on social media websites (such as virtual flowers). • Paid for via premium SMS or operator billing.
	Gift cards	• Purchase of gift cards (for example, to use at a retailer or supermarket). • Paid for via premium SMS or operator billing.
	Low-cost international or reverse charge calls	• Alternate call services typically with a charge per minute. • Accessed and paid for via a premium-rated number beginning with 087 or 09, or presented as a voice short code.
Entertainment	Music	• Subscription to music streaming services or one-off download of songs or music albums. • Paid for via premium SMS or operator billing.
	TV	• Subscription to niche TV channels or one-off download of TV shows. • Paid for via premium SMS or operator billing.
	Video	• Subscription to video streaming services or one-off download of short videos. • Paid for via premium SMS or operator billing.
	Film	• Subscription to film bundles/channels or one-off download of individual films. • Paid for via premium SMS or operator billing.
	Books	• Subscriptions to, or one-off downloads of, books and magazines. • Paid for via premium SMS or operator billing.
Games	Games downloaded from an app store	• 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). • Paid for via operator billing.
	Games played on social media	• Access to games playable on social media websites. • Paid for via premium SMS or operator billing.
	Games bundled as part of a monthly subscription	• Subscription service for game downloads (unlimited or limited to a certain number of games per time period) from online games portals.

Service category	Service type	Definition
		• Paid for via premium SMS or operator billing.
	In-game purchases	• 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). • Paid for via premium SMS or operator billing.
	In-game credit top-ups	• Purchase of in-game credit, such as gold and gems, which can be used to purchase in-game items or rewards. • Paid for via premium SMS or operator billing.
Information, news and education	Weather	• Voice service used to access weather information. • Accessed and paid for via a premium-rated number beginning with 087, 09 or presented as a voice short code.
	News	• Voice service used to access news information. • Accessed and paid for via a premium-rated number beginning with 087, 09 or presented as a voice short code.
	Travel	• Voice service used to access travel information. • Accessed and paid for via a premium-rated number beginning with 087, 09 or presented as a voice short code.
	Sport	• Voice service used to access information on sports results. • Accessed and paid for via a premium-rated number beginning with 087, 09 or presented as a voice short code.
	Stocks and shares	• Voice service used to access information on stocks/shares. • Accessed and paid for via a premium-rated number beginning with 087, 09 or presented as a voice short code.
	Alerts	• Service used to set up alerts at specific times. • 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.
	Educational services	• Service used to access information on educational services. • 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.
Lifestyle	Fitness, health and wellbeing	• Service used to access information, tips, advice or reminders on nutrition, dieting and exercise. • Paid for via premium SMS or operator billing.
	Food and recipes	• Subscription to, or one-off downloads of, information on foods and recipes. • Paid for via operator billing.

Service category	Service type	Definition
Personal and relationship services	Dating	• Access to dating services or in-app purchases (for example, credit or premium messaging) in free-to-use dating services. • 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.
	Flirting chat services	• Voice- or message-based (non-explicit) flirting chat with a service operator. • 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.
	Chat services	• Voice- or message-based chat with a helpline or friendship service. Excludes flirting chat services. • 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.
	Tarot/astrology services	• Service used to access services such as horoscopes and tarot card readings. • 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.
Sexual entertainment	Glamour pics	• Access to and/or download of revealing or nude photos. • Paid for via premium SMS or operator billing.
	Adult pics	• Access to and/or download of hardcore and explicit photos. • Paid for via premium SMS or operator billing.
	Adult videos	• Access to and/or download of hardcore and explicit videos. • Paid for via premium SMS or operator billing.
	Adult cams	• Purchase of tokens to access online video streams. • Paid for via premium SMS or operator billing.
	Adult chat (messaging)	• Message-based (explicit) chat service. • Paid for via premium SMS or operator billing.
	Adult talk services (voice)	• Voice-based (explicit) chat service. • Accessed and paid for via a premium-rated number (beginning with 087, 09 or presented as a voice short code).
TV and radio engagement	Radio broadcaster competitions	• Entry to an online or offline competition run by a radio broadcaster. • Paid for via premium SMS or operator billing or using a premium-rated number beginning with 09 or presented as a voice short code.
	TV broadcaster competition	• Entry to an online or offline competition run by a TV broadcaster. • Paid for via premium SMS or operator billing or using a premium-rated number beginning with 09 or presented as a voice short code.

Service category	Service type	Definition
	Voting on a TV/radio show	• Voting in the context of a TV or radio show (for example, voting for a favourite candidate). • Paid for via premium SMS or using a premium-rated number presented as a voice short code.
	Texting in to show host	• Text-based engagement with the presenter of a TV or radio show. • Paid for via premium SMS.

A.2 Service-level data

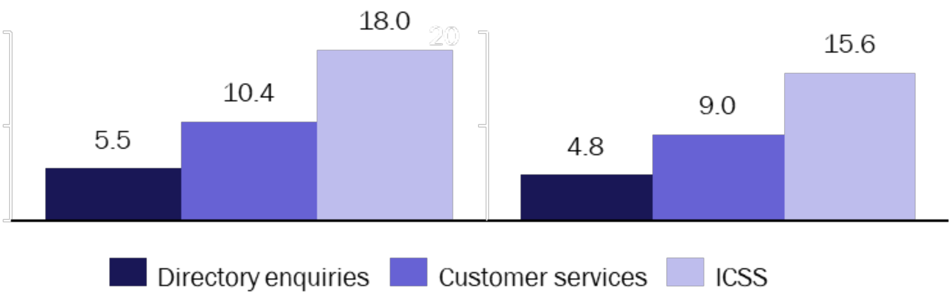
This sub-section provides additional market data across the 13 service categories.

- For each service category: the spend by service type in 2022–2023 and 2023–2024, and associated year-on-year growth rates.
- For each service type: the spend, number of users, implied yearly ASPU (average spend per user), the share of users that have reported encountering a problem in the previous 12 months, the share of users that have had their trust impacted as a result of encountering a problem, and the NPS score

ASSISTANCE SERVICES

SERVICE CATEGORY

2022–2023	2023–2024e
SPEND **£33.9 million**	SPEND **£29.5 million**



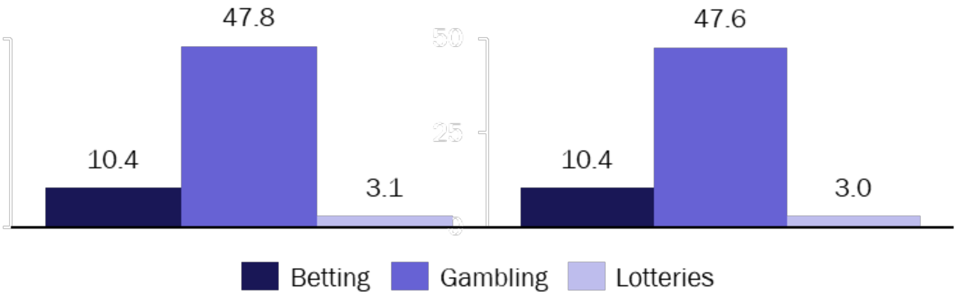
	2022–2023 SPEND	USERS	ASPU	Users w/problems	Users w/trust impacted	NPS
DIRECTORY ENQUIRIES	£5.5 million	0.5 million	£10.7	21%	6%	–46
CUSTOMER SERVICES	£10.4 million	2.4 million	£6.6	24%	10%	–40
ICSS	£18.0 million	1.2 million	£14.6	39%	8%	–26

Source: Analysys Mason and Phone-paid Services Authority

BETTING, GAMBLING AND LOTTERIES

SERVICE CATEGORY

2022–2023	2023–2024e
SPEND **£61.3 million**	SPEND **£61.0 million**



BETTING

2022–2023

SPEND **£10.4 million**	USERS **2.4 million**	ASPU **£4.3**
11% Users w/problems	5% Users w/trust impacted	−36 NPS

GAMBLING

2022–2023

SPEND **£47.8 million**	USERS **3.1 million**	ASPU **£15.3**
13% Users w/problems	4% Users w/trust impacted	−37 NPS

LOTTERIES

2022–2023

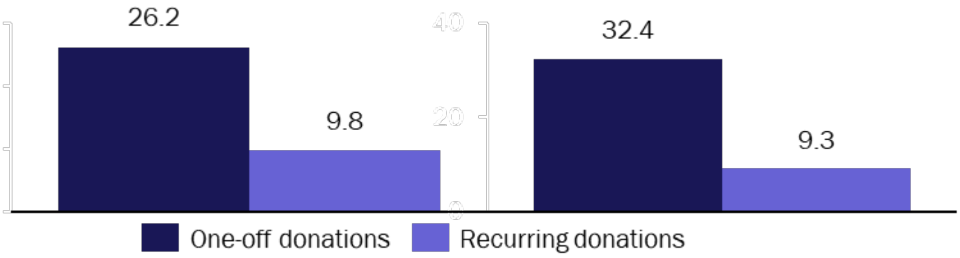
SPEND **£3.1 million**	USERS **1.3 million**	ASPU **£2.4**
9% Users w/problems	10% Users w/trust impacted	−27 NPS

Source: Analysys Mason and Phone-paid Services Authority

CHARITY DONATIONS

SERVICE CATEGORY

2022–2023	2023–2024e
SPEND **£35.9 million**	SPEND **£41.6 million**



DONATIONS

2022–2023

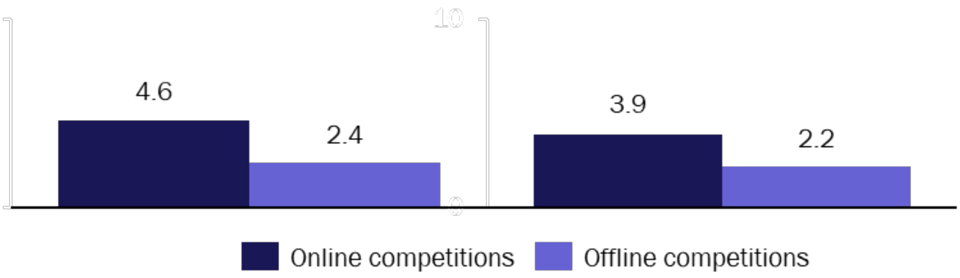
SPEND	USERS	ASPU
£35.9 million	**6.3 million**	**£5.7**
9% Users w/problems	13% Users w/trust impacted	–13 NPS

Source: Analysys Mason and Phone-paid Services Authority

COMPETITIONS AND QUIZZES

SERVICE CATEGORY

2022–2023	2023–2024e
SPEND **£7.0 million**	SPEND **£6.1 million**



ONLINE COMPETITIONS

2022–2023

SPEND **£4.6 million**	USERS **0.1 million**	ASPU **£54.1**
13% Users w/problems	**9%** Users w/trust impacted	**–42** NPS

OFFLINE COMPETITIONS

2022–2023

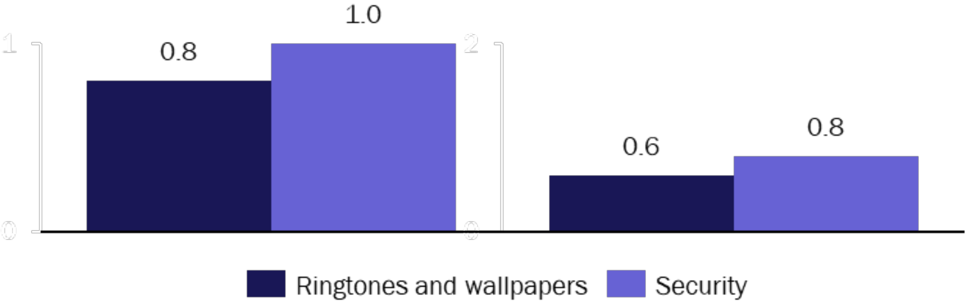
SPEND **£2.4 million**	USERS **0.9 million**	ASPU **£2.8**
12% Users w/problems	**8%** Users w/trust impacted	**–49** NPS

Source: Analysys Mason and Phone-paid Services Authority

DEVICE PERSONALISATION AND SECURITY

SERVICE CATEGORY

2022–2023	2023–2024e
SPEND **£1.8 million**	SPEND **£1.4 million**



RINGTONES AND WALLPAPERS

2022–2023

SPEND **£0.8 million**	USERS **0.6 million**	ASPU **£1.5**
11% Users w/problems	**4%** Users w/trust impacted	**–44** NPS

SECURITY

2022–2023

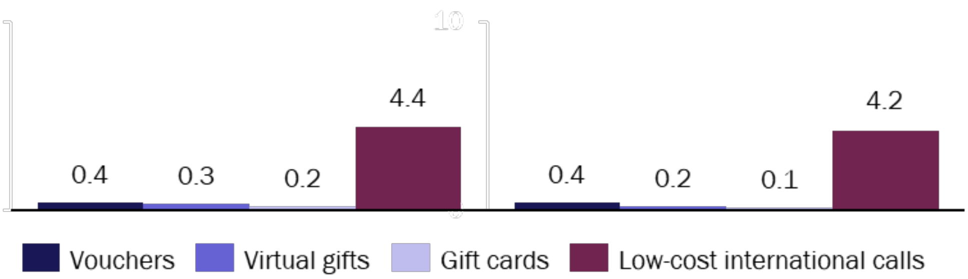
SPEND **£1.0 million**	USERS **0.3 million**	ASPU **£2.8**
23% Users w/problems	**12%** Users w/trust impacted	**–12** NPS

Source: Analysys Mason and Phone-paid Services Authority

DIGITAL PAYMENTS

SERVICE CATEGORY

2022–2023	2023–2024e
SPEND **£5.3 million**	SPEND **£4.9 million**



VOUCEHRS

2022–2023

SPEND **£0.4 million**	USERS **0.1 million**	ASPU **£3.3**
10% Users w/problems	**3%** Users w/trust impacted	**−27** NPS

VIRTUAL GIFTS

2022–2023

SPEND **£0.3 million**	USERS **0.4 million**	ASPU **£0.7**
18% Users w/problems	**7%** Users w/trust impacted	**−19** NPS

GIFT CARDS

2022–2023

SPEND **£0.2 million**	USERS **0.2 million**	ASPU **£1.0**
10% Users w/problems	**15%** Users w/trust impacted	**−23** NPS

LOW-COST INTERNATIONAL CALLS

2022–2023

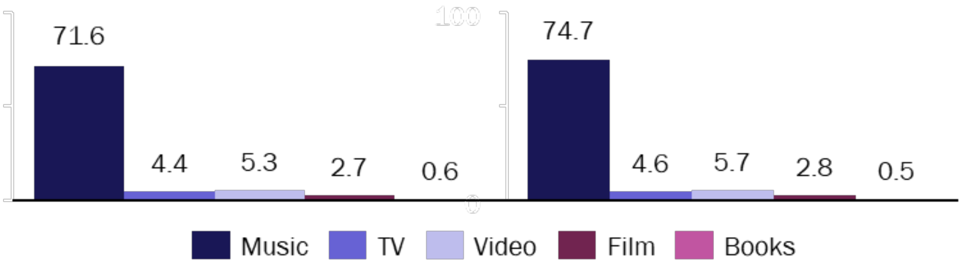
SPEND **£4.4 million**	USERS **0.6 million**	ASPU **£7.8**
29% Users w/problems	**4%** Users w/trust impacted	**−39** NPS

Source: Analysys Mason and Phone-paid Services Authority

ENTERTAINMENT

SERVICE CATEGORY

2022–2023	2023–2024e
SPEND **£84.6 million**	SPEND **£88.3 million**



MUSIC

2022–2023

SPEND **£71.6 million**	USERS **1.2 million**	ASPU **£58.4**
10% Users w/problems	**3%** Users w/trust impacted	**+10** NPS

TV

2022–2023

SPEND **£4.4 million**	USERS **0.9 million**	ASPU **£4.9**
19% Users w/problems	**7%** Users w/trust impacted	**–10** NPS

VIDEO

2022–2023

SPEND **£5.3 million**	USERS **1.6 million**	ASPU **£3.4**
11% Users w/problems	**10%** Users w/trust impacted	**–13** NPS

FILM

2022–2023

SPEND **£2.7 million**	USERS **1.0 million**	ASPU **£2.6**
16% Users w/problems	**6%** Users w/trust impacted	**-6** NPS

BOOKS

2022-2023

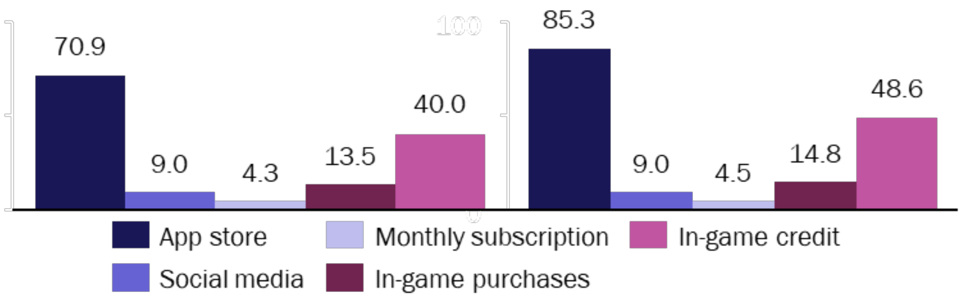
SPEND	USERS	ASPU
£0.6 million	0.2 million	£3.8
10% Users w/problems	12% Users w/trust impacted	-5 NPS

Source: Analysys Mason and Phone-paid Services Authority

GAMES

SERVICE CATEGORY

2022-2023	2023-2024e
SPEND **£142.4 million**	SPEND **£162.3 million**



GAMES FROM APP STORES

2022-2023

SPEND **£70.9 million**	USERS **9.5 million**	ASPU **£7.5**
12% Users w/problems	**10%** Users w/trust impacted	**-33** NPS

PLAYED ON SOCIAL MEDIA

2022-2023

SPEND **£9.0 million**	USERS **3.0 million**	ASPU **£3.0**
17% Users w/problems	**7%** Users w/trust impacted	**-33** NPS

BUNDLED IN SUBSCRIPTION

2022-2023

SPEND **£4.3 million**	USERS **0.1 million**	ASPU **£35.6**
21% Users w/problems	**5%** Users w/trust impacted	**-23** NPS

IN-GAME PURCHASES

2022-2023

SPEND **£13.5 million**	USERS **3.0 million**	ASPU **£4.6**
18% Users w/problems	**4%** Users w/trust impacted	**-33** NPS

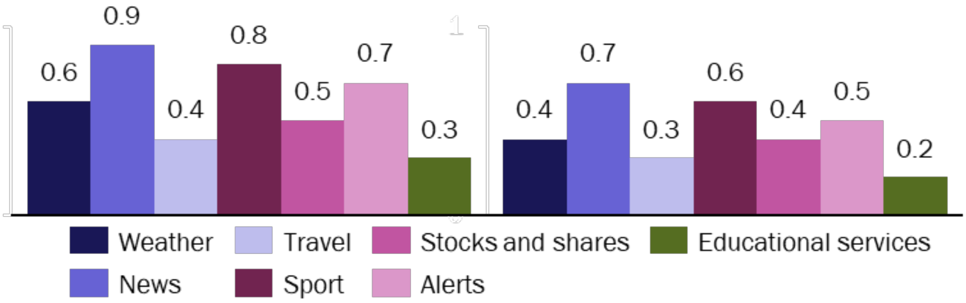
IN-GAME CREDIT TOP-UP	2022-2023		
	SPEND **£44.7 million**	USERS **3.4 million**	ASPU **£13.2**
	16% Users w/problems	**10%** Users w/trust impacted	**-38** NPS

Source: Analysys Mason and Phone-paid Services Authority

INFORMATION, NEWS AND EDUCATION

SERVICE CATEGORY

2022-2023	2023-2024e
SPEND **£4.1 million**	SPEND **£3.1 million**



WEATHER

2022-2023

SPEND **£0.6 million**	USERS **0.2 million**	ASPU **£3.0**
8% Users w/problems	**15%** Users w/trust impacted	**-37** NPS

NEWS

2022-2023

SPEND **£0.9 million**	USERS **0.2 million**	ASPU **£4.2**
7% Users w/problems	**6%** Users w/trust impacted	**-34** NPS

TRAVEL

2022-2023

SPEND **£0.4 million**	USERS **0.1 million**	ASPU **£2.8**
10% Users w/problems	**9%** Users w/trust impacted	**-30** NPS

SPORT

2022-2023

SPEND **£0.8 million**	USERS **0.1 million**	ASPU **£5.3**
10% Users w/problems	**8%** Users w/trust impacted	**-25** NPS

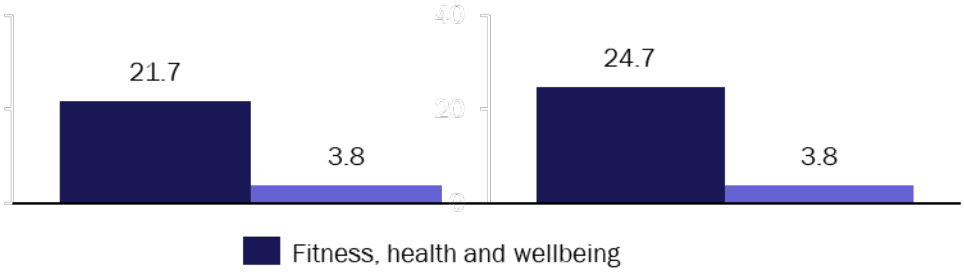
STOCKS AND SHARES	2022-2023	SPEND £0.5 million	USERS <0.1 million	ASPU £10.3	16% Users w/problems	14% Users w/trust impacted	-27 NPS
ALERTS	2022-2023	SPEND £0.7 million	USERS 0.3 million	ASPU £3.0	14% Users w/problems	4% Users w/trust impacted	-39 NPS
EDUCATIONAL SERVICES	2022-2023	SPEND £0.3 million	USERS 0.1 million	ASPU £4.0	18% Users w/problems	8% Users w/trust impacted	-8 NPS

Source: Analysys Mason and Phone-paid Services Authority

LIFESTYLE

SERVICE CATEGORY

2022–2023	2023–2024e
SPEND **£25.5 million**	SPEND **£28.5 million**



FITNESS, HEALTH AND WELLBEING

2022–2023

SPEND	USERS	ASPU
£21.7 million	**0.5 million**	**£40.1**
16% Users w/problems	**13%** Users w/trust impacted	**–12** NPS

FOOD AND RECIPES

2022–2023

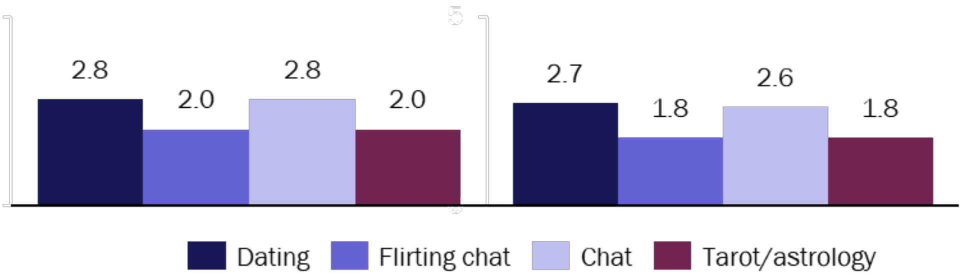
SPEND	USERS	ASPU
£3.8 million	**0.6 million**	**£7.1**
11% Users w/problems	**7%** Users w/trust impacted	**–19** NPS

Source: Analysys Mason and Phone-paid Services Authority

PERSONAL AND RELATIONSHIP SERVICES

SERVICE CATEGORY

2022-2023	2023-2024e
SPEND **£9.6 million**	SPEND **£8.9 million**



DATING

2022-2023

SPEND	USERS	ASPU
£2.8 million	**0.3 million**	**£9.3**
22% Users w/problems	**13%** Users w/trust impacted	**-46** NPS

FLIRTING CHAT SERVICES

2022-2023

SPEND	USERS	ASPU
£2.0 million	**0.2 million**	**£11.6**
31% Users w/problems	**5%** Users w/trust impacted	**-33** NPS

CHAT SERVICES

2022-2023

SPEND	USERS	ASPU
£2.8 million	**0.3 million**	**£8.0**
29% Users w/problems	**13%** Users w/trust impacted	**-24** NPS

TAROT/ ASTROLOGY

2022-2023

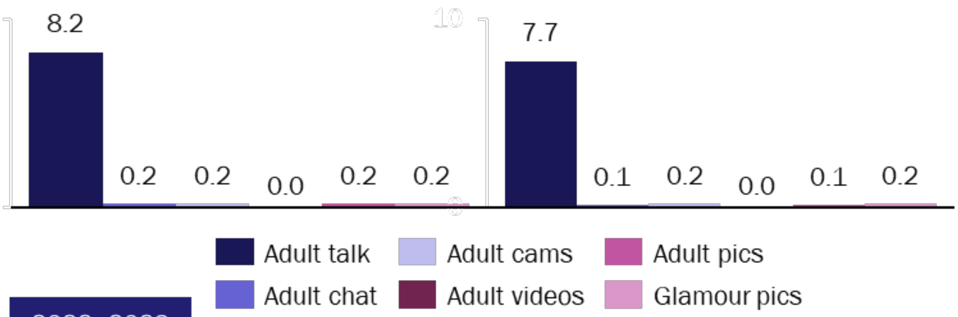
SPEND	USERS	ASPU
£2.0 million	**0.1 million**	**£25.4**
36% Users w/problems	**14%** Users w/trust impacted	**-26** NPS

Source: Analysys Mason and Phone-paid Services Authority

SEXUAL ENTERTAINMENT

SERVICE CATEGORY

2022-2023	2023-2024e
SPEND **£9.0 million**	SPEND **£8.3 million**



ADULT TALK SERVICES

2022-2023

SPEND **£8.2 million**	USERS **0.2 million**	ASPU **£38.8**
29% Users w/problems	**8%** Users w/trust impacted	**-18** NPS

ADULT CHAT (MESSAGING)

2022-2023

SPEND **£0.2 million**	USERS **0.1 million**	ASPU **£2.3**
31% Users w/problems	**13%** Users w/trust impacted	**-28** NPS

ADULT CAMS

2022-2023

SPEND **£0.2 million**	USERS **0.1 million**	ASPU **£2.2**
32% Users w/problems	**19%** Users w/trust impacted	**-25** NPS

ADULT VIDEOS

2022-2023

SPEND **<£0.1 million**	USERS **<0.1 million**	ASPU **£27.5**
18% Users w/problems	**8%** Users w/trust impacted	**-36** NPS

ADULT PICS	2022-2023		
	SPEND £0.2 million	USERS 0.1 million	ASPU £1.8
	21% Users w/problems	14% Users w/trust impacted	-29 NPS

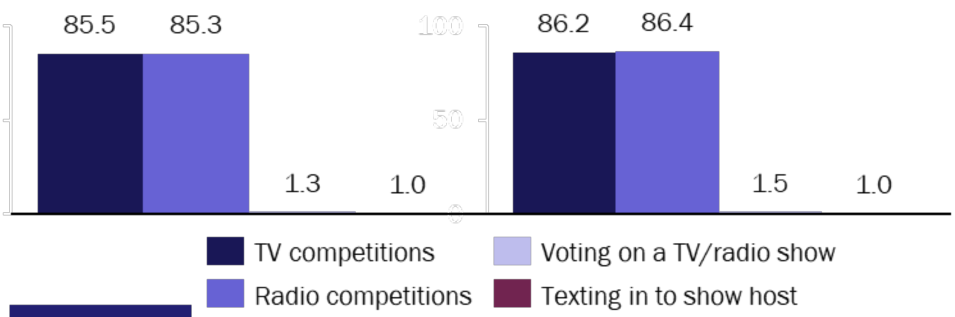
GLAMOUR PICS	2022-2023		
	SPEND £0.2 million	USERS 0.2 million	ASPU £1.1
	26% Users w/problems	26% Users w/trust impacted	-37 NPS

Source: Analysys Mason and Phone-paid Services Authority

TV AND RADIO ENGAGEMENT

SERVICE CATEGORY

2022–2023	2023–2024e
SPEND **£173.2 million**	SPEND **£175.0 million**



Service category (2022–2023)	SPEND	USERS	ASPU	Users w/problems	Users w/trust impacted	NPS
TV COMPETITIONS	£85.5 million	7.2 million	£11.8	14%	5%	−38
RADIO COMPETITIONS	£85.3 million	5.6 million	£15.3	13%	5%	−33
VOTING ON SHOW	£1.3 million	1.1 million	£1.2	15%	3%	−40
TEXTING IN TO SHOW HOST	£1.0 million	0.8 million	£1.2	24%	5%	−31

Source: Analysys Mason and Phone-paid Services Authority

Annex B Market sizing methodology

Our approach to estimating the end-user spend on phone-paid services in 2022–2023 and until 2025–2026 was based on the following four-step process.[32]

- 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 outpayments 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 2022–2023, 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, since 2017–2018, network operators have reported the total value of charity donations that has passed through their networks to the Phone-paid Services Authority.

To further break down end-user spend across spending channels by service category (13 categories) and service type (48 types) and forecast the evolution of the market up to 2025–2026, we have considered the following steps.

B.2 Step 2: online consumer survey

We have conducted a survey of consumers to generate quantitative data on the adoption of phone-paid services, reasons for use/non-use of phone-paid services and the key underlying factors affecting usage and overall satisfaction. Fieldwork was conducted online by Cint between March and April 2023. 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 8067 individuals and was broadly representative of the UK population aged 16 years and above, by gender and age.[33] Figure B.1 and Figure B.2 provide a comparison of the distribution by age group and gender of the UK population and the sample of individuals surveyed.

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32 While steps are presented sequentially for clarity, some activities (such as the market modelling exercise) were relevant at all stages of the project.

33 Office of National Statistics (April 2023), *Population estimates for the UK, England, Wales, Scotland and Northern Ireland: mid-2021*. Available at: https://www.ons.gov.uk/peoplepopulationandcommunity/populationandmigration/populationestimates/bulletins/annualmidyearpopulationestimates/mid2021

Figure B.1: Distribution by age group of the population and of survey respondents, UK, 2022–2023, Office of National Statistics (ONS)

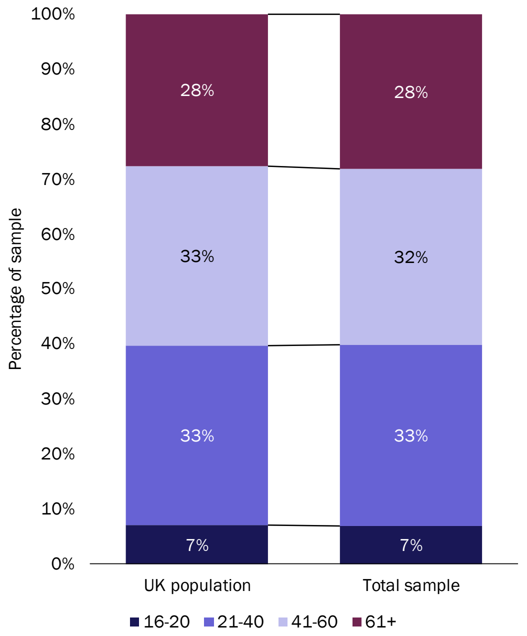
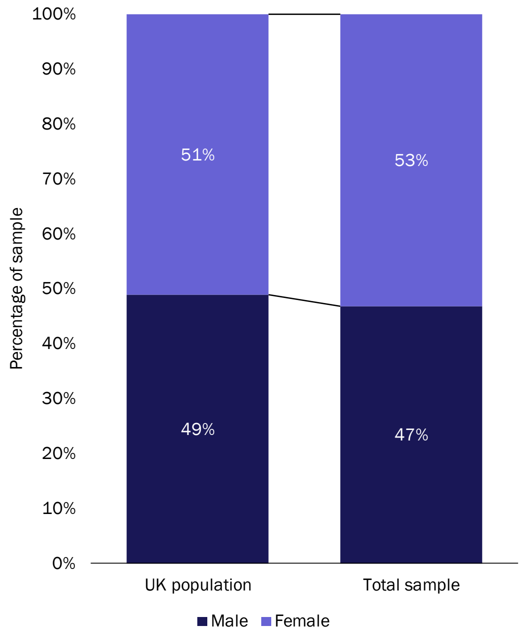


Figure B.2: Distribution by gender of the population and of survey respondents, UK, 2022–2023, Analysys Mason



5000 of 8067 used at least one phone-paid service in the past 12 months (equivalent to a 62% 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 below.

Figure B.3: Demographic segmentation of phone-paid services users, UK, 2022–2023

Region	Percentage of respondents
England (South)	36%
England (North)	23%
England (Midlands)	25%
Scotland	8%
Wales	5%
Northern Ireland	3%

Sources: Analysys Mason, 2023

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 impacting 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 2023–2024, 2024–2025 and 2025–2026.

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.4 provides an overview of the number of interviews completed, by type of industry participant.

Figure B.4: Number of interviews completed, by type of industry participant, UK, January 2023–June 2023

Type of participant	Number of organisations interviewed
Mobile network operator	4
Fixed network operator	2
Level 1 provider	5
Level 2 provider	5
Trade association	1

Source: Analysys Mason, 2023

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 2023–2024, 2024–2025 and 2025–2026. 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), as well as 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 the periods between 2022–2023, 2023–2024, 2024–2025 and 2025–2026.