



Current & Future Market for PRS 2011



This is the 2011 edition of an annual study into the current and future market for premium rate services (PRS) carried out on behalf of PhonepayPlus. This report focuses on developments in the market in 2011 and expectations for near- to mid-term developments. It is intended both to assist PhonepayPlus in its understanding of developments in the market and to provide the industry with insight as well as market- and consumer-data.



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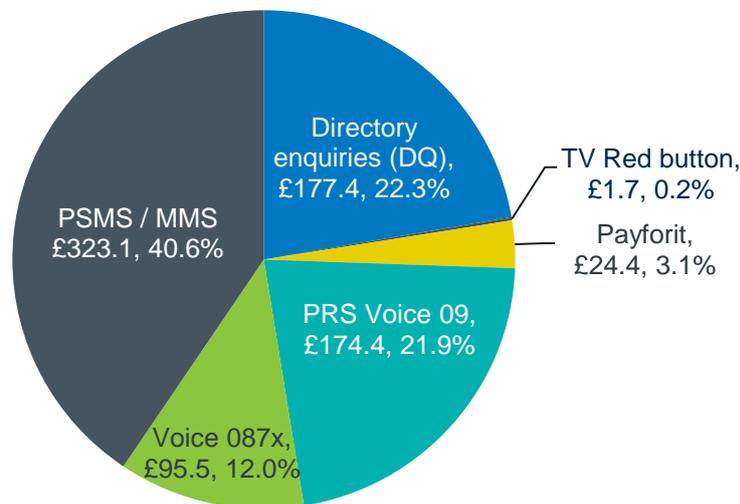


E.1 2011 market size

Overall, premium rate services are estimated to have generated revenues of £796.5 million, excluding VAT, in 2011. This figure includes charity donations that have zero-rated revenue shares.¹ The largest single PRS payment type is premium text (PSMS) and multi-media messaging service (MMS) which also includes mobile voice shortcodes. The category as a whole makes up 40.6% of the total in 2011 PRS market. This is followed by directory enquiries, at £177.4 million (22.3%) and 09 voice at £174.4 million (21.9%).

A like-for-like comparison with the total market value in Analysys Mason's report on the 2010 market (e.g. excluding zero-rated charity services) shows an overall market decline of 6.4% in 2011 compared to 2010.

2011 UK Premium revenues by payment type (mil.)



Source: PRS market sizing for PhonepayPlus. Revenues exclude VAT and are PRS only, i.e. do not include any operator surcharges occurring as a result of PRS activity

E.2 Major trends in the PRS market in 2011

2011 saw the continuation and intensification of several trends already evident in 2010. The continued rapid take-up of smartphones throughout the year (penetration reached 46.9% at end-September)² coupled with increased use of PRS as a payment method for web-based services, were some of the trend-accelerators identified in previous versions of this report.

Important trends in 2011 are closely linked to the increased decoupling of PRS – in other words, the use of PRS as a 'pure' payment mechanism rather than a closely integrated payment-and-delivery method. This opens up new opportunities for PRS, but also pits it squarely against other micropayment options.

¹ Operators do not take a share of the PRS revenues for these activities and therefore these are not reported in the PhonepayPlus returns.

² Source: comScore MobiLens, Three months to end-September 2011

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Trends linked to this development include:

Increased market internationalisation

Intermediaries such as Boku or Zong (now owned by PayPal) have found a new niche in the market by facilitating mobile payment access across a range of markets for global sites such as Facebook or Stardoll. While country-by-country deals are obviously struck with aggregators to enable these firms to serve as payment facilitators, they have made it easier for web-players to use mobile billing internationally. In turn, these developments have given PRS an international dimension it previously lacked. In addition, the PRS market is getting more international in another respect: the continued consolidation of the UK aggregator space means that most of the country's aggregators are now part of international consortia.

Shift in mobile operator attitudes to PRS

The expectation among many interviewees is that operators will now increasingly treat PRS as a "payment mechanism like others." Previously, many in the PRS value-chain complained about low out-payment rates, but this is now often something they expect to be addressed. However, opinions diverge on whether revenue shares closer to other payment alternatives will only be available for Payfort or also cover payment by text (PSMS). Underpinning all of this appears to be a clear shift in operator attitudes to PRS.

In addition, the **rise of a variety of alternative distribution channels** for content and services is accelerating the decoupling of PRS.

Alongside the causes and effects of decoupling, other key developments in 2011 include:

In general, **the economic climate** has had, overall, a negative impact on the sector. Industry opinion differs on how the general financial situation is affecting consumer spend, but there are signs that PRS spend is completely discretionary for consumers. Among 873 PRS users in our quantitative survey who said they used PRS less in the past six months than they had done in the previous six, 38% said this was because they could no longer afford them, for example.

An operator interviewee noted that consumers are displaying much more caution in mobile spend – this interviewee suggested that a donation to charity may mean no mobile content is purchased by a regular content-buyer that month. The 'spend block' services limiting mobile spend available from operators are also said to be proving popular well beyond the teen audience they were intended for.

Innovative solutions often come from relatively new players

Many interviewees pointed out that traditional companies in the PRS sector are suffering as revenues from previously successful services are eroded by the internet or non-PRS-paid applications. The companies carving out new, lucrative PRS revenue streams instead appear to be newcomers to the sector. This includes Boku and Zong (now owned by PayPal), who have taken advantage of the global reach of the web, removing an obstacle to PRS by providing one interface that can reach millions of mobile users across a number of markets.

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PRS is building new income streams for some established markets

It seems that in the case of services such as gambling and charity, the ability to use PRS payment is bringing in audiences that would otherwise not be using these services.

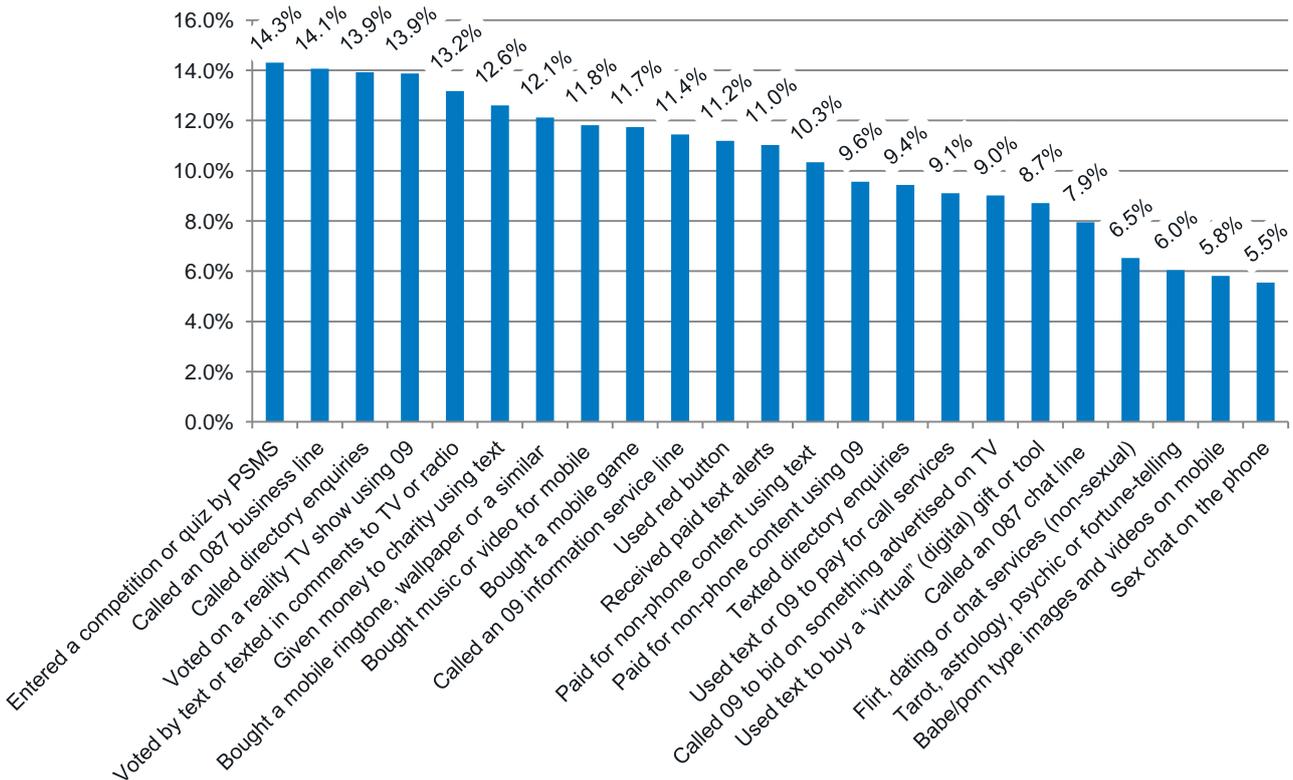
Smaller players are exiting the market

Several interviewees commented that smaller players are exiting the PRS market. This was remarked upon concerning several levels in the industry. Smaller players are vulnerable to the disruptive market changes and are unable to compete with larger players who can secure bulk discounts and similar advantages.

E.3 PRS service usage and revenues

The PRS services most commonly used by respondents to the quantitative study carried out in December 2011 were competition and quizzes, followed by 087 business lines and 118 directory enquiries.

Consumer usage of specific premium rate services, second half of 2011



Source: PhonepayPlus quantitative consumer study, December 2011. Base: Responses from 4,018 PRS users applied to a total 16,251 entering the survey

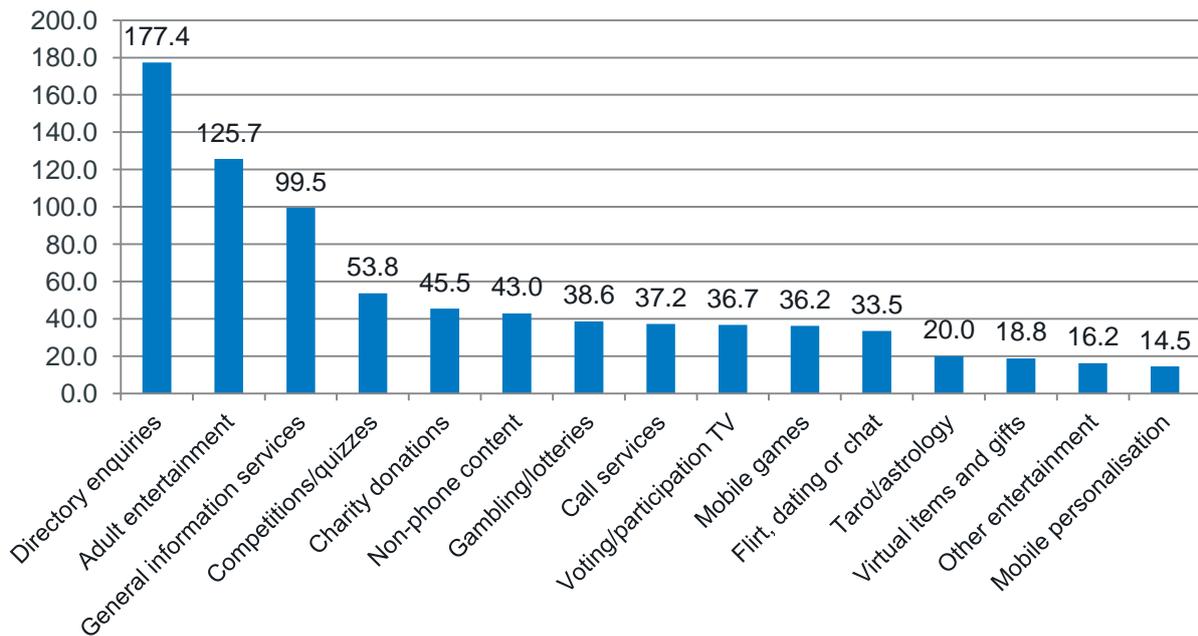
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Directory enquiries (DQ) remained the PRS service segment generating the greatest amount of revenues in 2011, followed by adult, information services, competition/quizzes and charity donations. Together with virtual gifts, the value of the non-phone content category (though it encompasses a range of services) demonstrates the increasing importance of internet-originated payments for PRS.

Market value by type of service, 2011 (£ mil.)



Source: PRS market sizing for PhonepayPlus

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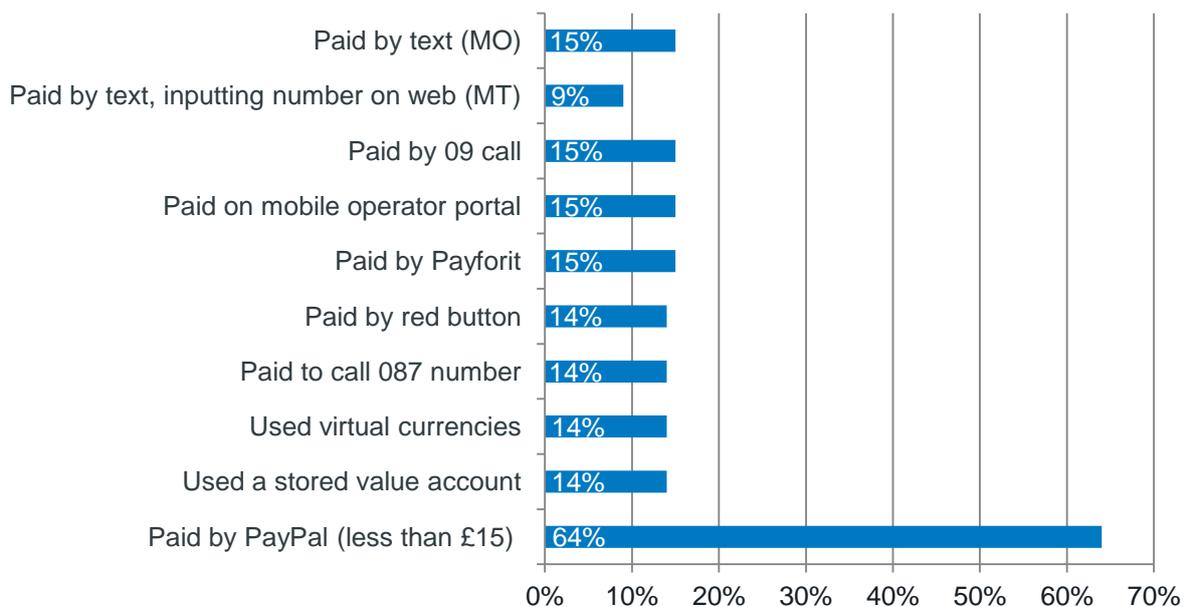


E.4 PRS and other micropayment mechanisms

Some 9% of all initial respondents to the quantitative study (a base of 16,251 consumers) had paid by putting in their mobile number online and receiving premium text messages (MT PSMS), while usage of other micropayment and PRS methods were in the 14 -15% range. PayPal usage stood in stark contrast to these figures – 64% of respondents said they had used the payment system to pay for something worth less than £15.

Overall, users' comfort level with different types of payment mechanisms unsurprisingly corresponds to their usage. PRS users were by far more comfortable with the different types of PRS payment methods than respondents to the micropayment questionnaire. For example, only 9% of micropayment questionnaire respondents thought paying by 09 was safe or fairly safe, while 20% thought paying by text was safe or fairly safe. Among PRS users, the equivalent figures were 42% and 66%, for 09 and PSMS respectively.

Consumer usage of micropayment methods



Source: PhonepayPlus quantitative consumer study, December 2011. Base: 16,251 consumers.
(MO=mobile originated; MT=mobile terminated)

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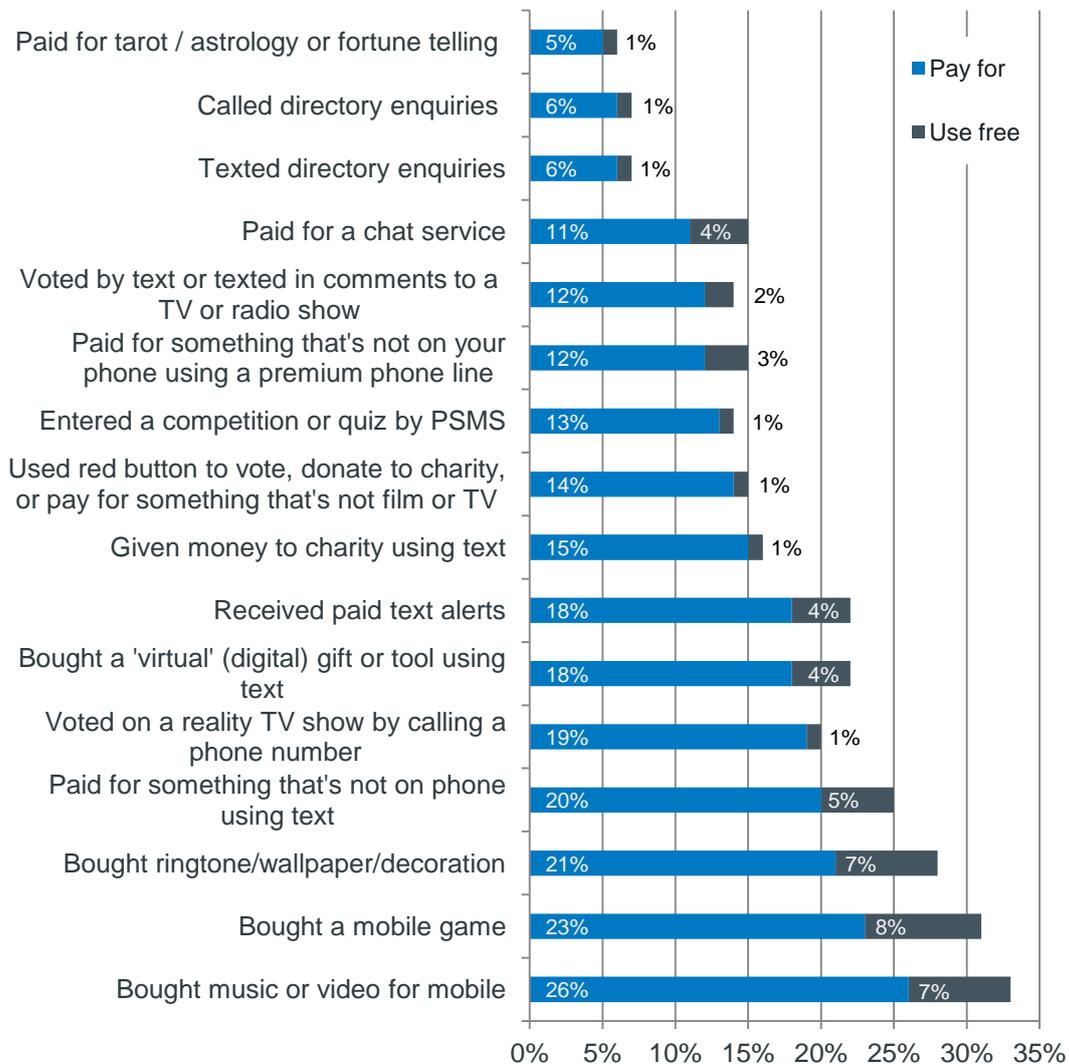
E.5 Children and PRS

The study this year placed additional focus on children, their use of PRS and other micropayments and potential for harm to be caused.

Although it was clear from qualitative research with children that many focused on finding and using free content and apps, an in-school survey of 11-16 year olds found that 65% of children surveyed who had phones had used one of the types of PRS considered. While entertainment services were most common, a large proportion had paid for something not on their phone or to acquire virtual gifts or tools using text.

Most children using PRS had not had any problems when using services, but 27% had. Most commonly, they had received unwanted marketing messages or been charged more than they had expected.

PRS usage, children 11-16 years old



Source, PhonepayPlus in-school quantitative survey of children 11-16 years old, December 2011.
 Base: 416 children who have mobile phones. Please note category names have been modified to fit chart – explanations to children were more detailed

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The qualitative research showed that while many of the children considered themselves quite digitally savvy and able to see through potential scams, several still had had some sort of problems with services.

Only 12% of children responding to the in-school survey had used virtual currencies, while 31% had paid for a mobile application. While this usage level is relatively low, both our quantitative and qualitative research suggests that children often have problems understanding exactly how much they are spending when buying items or services using virtual currencies. They do not necessarily see this as an issue, however – to their minds, the buying of a virtual currency is something of an upfront, sunk cost.

While the confusion about actual spend of virtual money is a concern, the frequent use of free content and apps was not without cost to children.

The majority of the children in our sample had come across things they said “weren’t for people their age” – but this was not because they were looking for it and it was not actual content that was classified 18 plus. Rather, many of them played free, ad-funded games, and they complained of inappropriate advertisements featuring in these. Seeing advertisements for dating and scantily-clad women clearly made them feel uncomfortable. In addition to advertisements, including what one boy referred to as “censored stuff,” that they “shouldn’t see”, the children were also exposed to more salubrious advertisements that were simply intended for grown-ups, such as insurance or banking products.

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Methodology



1.1 About this study

This is the 2011 edition of an annual study into the current and future market for premium rate services (PRS) carried out on behalf of PhonepayPlus. Details about the value-chain and the different PRS available can be found in reports from previous years and are therefore not replicated here. This report focuses on developments in the market in 2011 and expectations for near- to mid-term developments. It is intended both to assist PhonepayPlus in its understanding of developments in the market and to provide the industry with insight as well as market- and consumer-data.

1.2 Methodology

The methodology is similar to previous years' surveys. We have carried out:

- Desk research
- Interviews with more than 22 industry executives, from throughout the value-chain and beyond, between November 2011 and January 2012. Interviewees included (but were not limited to) representatives from companies including: Three, 4D Interactive, AIME, Cherry Media, Children's Charities Coalition, Com&Tel, Everything Everywhere, MEF, MIG, New Call Telecom, nfpSynergy, Openmarket, Probability, SOA Networks, and Vodafone. Interviewees could choose to remain an anonymous contributor.
- An online quantitative consumer study of a UK online sample of 4,018 PRS users and 1,201 users of other micropayment systems, aged between 11 and 65 years old. The two groups responded to separate surveys. The study was carried out by SSI in December 2011.
 - Unlike earlier years, respondents were first asked whether they had used a number of different PRS and other micropayment methods and then channelled into the relevant survey based on this (targeting 4,000 PRS users and 1,000 micropayment users). This means that the raw data for usage by service category comes from a base of those who said they had used PRS. We have used this to calculate usage data for the population as a whole, based on the number of people (16,251) answering the question on usage of the variety of PRS and other micropayment methods.

1.3 PRS market sizing

Total market size and the breakdown into the different service segments were calculated using a top-down and bottom-up approach.

- Top-down: Outpayment figures available from PhonepayPlus have been used to calculate the total market size and the break-down into the main payment types. Actual figures were available up to September 2011, with last-quarter totals forecasted based on previous years and feedback from industry. We have added to this total an estimated amount of text to dedicated charity shortcodes – since these do not carry revenue share with operators from the time they became zero-rated, these are not part of the PhonepayPlus data.

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- Bottom-up: The split of PRS total market size into service categories was done by applying usage frequency, spend and payment channel data from the quantitative consumer study to the market sizing and adjusting these using insight from desk research and interviews. Figures were then sense-checked with industry where possible.

1.4 Service taxonomy

The taxonomy of services that can be paid for using premium rate is consistent with that used in the previous two years:

Taxonomy – premium rate services		
Service Area	Service Type	Description
Information		All services classified as directory enquiries
	Information Services	Including sports and news updates, sports scores and tipster lines and a wide range of specialised information services such as legal or technical advice, as well as text-information services such as AQA and location-based information services (e.g. find-the-nearest, paid maps etc.), including mobile video news, finance information etc.
Calling	Call services	International call routing, international calling cards, reverse charge services etc.
Entertainment	Adult entertainment	All content of a sexual nature, including adult chat, video, images, recorded stories and adult content paid through premium rate on non-phone platforms
	Competitions and quizzes	Competitions and quizzes which participants engage in via call-in or text-in action (regardless of origin of call-to-action)
	Voting and other participation TV	All phone-paid participation TV activity, including voting (via red button, call-in or text-in) text-to-screen
	Flirt/date/chat	All phone-paid chat and dating services of a non-sexual nature. Includes chat on 087x
	Gambling, lotteries	All kinds of phone-paid gambling and lottery activity (including scratchcards, casino etc.)
	Games	All phone-paid gaming activity including purchase of game applications paid for by phone, one-off access to a game, purchase of game levels etc.
	Tarot/astrology/ psychic	Fortune-telling services, including tarot, astrology and psychic services
	Other entertainment	Music, video, TV and other entertainment content paid for by phone, whether streamed, downloaded (via a fixed or mobile broadband connection or TV set-top box) or accessed through mobile applications
Personalisation and gifts	Mobile personalisation	All mobile personalisation services - predominantly ringtones and graphics
	Virtual items and gifts	Phone-paid payments for the purchase of virtual objects, services or tools within community/social media sites (outside the chat/flirt/date activity). Purchasing virtual gifts for friends, or virtual accessories or objects for use within a social media environment
Payments	Charity donations	Donations made using premium text or calls
	Payment of non-phone based content and services (excluding adult)	Payment for non-phone-based content and services, including payment for internet content, WiFi access etc. - excluding virtual gifts on social media

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1.5 Children and PRS

The study this year places specific focus on how children and teens use PRS. In addition to the data available for the 11-17 year-old segment from the main, online quantitative research study, specific research was dedicated to this area. We interviewed a children's charity, as well as doing:

1. In-school quantitative research with 400 children aged 11-16, carried out by Childwise between November and December 2011. In-school research can reach young people who may not usually respond to surveys, but results are more geographically clustered than in a conventional online study.
2. Qualitative research in order to better understand any issues affecting this age group. We did in-depth, in-home interviews with eight friendship pairs of children, followed by a quick check-back with a parent to get their views. The interviews were carried out in November-December 2011.

1.6 Qualitative research sample

The children and young teens interviewed for this study lived in Greater London and came from a range of social classes. The majority lived with both parents, but some were from single-parent households and others lived with a parent and their new partner as well as step-sisters and brothers. All of them had siblings.

Qualitative sample – Depth interviews with children

8x Friendship pairs:	3x11-12 years old	Good mix of social classes
4x Male	3x13-14 years old	All using phone for more than communications
4x Female	2x15-16 years old	At least half used PRS in past two months
+ Quick check-back with parent of 'lead' interviewee		

Their interests and lives were broadly typical for their age groups. Sports, gaming, music and fashion all featured, as well as interest in the army as a career from boys in the older segment. Friends were clearly an important part of their lives. They all had a very close relationship with their mobile phones (this is explored in more detail in chapter 6). The majority of them (three quarters) had Blackberry handsets, but other smartphones and feature phones were also present. In most cases, parents paid for the children's mobile charges, but they frequently had an upper limit. In some cases, the children paid themselves, shared costs with their parents or paid for their handset while parents paid for usage. For some, spend limits were enforced through a block provided by the operator.

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2.1 Major trends linked to PRS decoupling

2011 saw the continuation and intensification of several trends already evident in 2010. The continued rapid take-up of smartphones throughout the year (penetration reached 46.9% at end-September)³ coupled with increased use of PRS as a payment method for web-based services were some of the trend-accelerators identified in previous reports. Trends in the different premium rate payment mechanisms are considered further in Chapter 3.

Important market trends are closely linked to the fact that the focus of PRS has moved from being a 'payment-and-delivery' bundle to a 'payment mechanism' similar to others. That is to say, rather than both using and paying for the service through the same mechanism (in a PRS call or PSMS) or paying by PRS as the only viable payment channel for content to be consumed on the mobile phone, consumers are now increasingly using PRS as a mode of payment among a range of other payment options.

This means that while PRS is used as payment for a wider range of goods and services, other mechanisms are also encroaching on the areas where PRS was previously dominant. PRS is no longer a mechanism 'apart' the way it once was, but directly competes on its merits against other means of payment. This trend of decoupling has been underway for some time, but the scale is now tipping. Two important developments, in particular, are linked to this shift in the nature of PRS.

Increased market internationalisation

Intermediaries such as Boku or Zong (now owned by PayPal) have found a new niche in the market by facilitating mobile payment access across a range of markets for global sites such as Facebook or Stardoll. While country-by-country deals are obviously struck with aggregators to enable these firms to serve as payment facilitators, they have made it easier for web-players to use mobile billing internationally. In turn, these developments have given PRS an international dimension it previously lacked. In addition, the PRS market is getting more international in another respect: the continued consolidation of the UK aggregator space means that most of the country's aggregators are now part of international consortia.

Shift in mobile operator attitudes to PRS

The expectation among many interviewees is that operators will now increasingly treat PRS as a "payment mechanism like others." Previously, many in the PRS value-chain complained about low out-payment rates, but this is now often something they expect to be addressed. Opinions diverge, however, on whether revenue shares closer to other payment alternatives will only be available for Payfort or also cover payment by text (PSMS).

Underpinning all of this appears to be a clear shift in operator attitudes to PRS. Previously it was regarded as something of an operator side-business, which did not bring in enough revenues to merit much investment. Possibly due to the increasing attention that payment capabilities are receiving from operators, coupled with the decline in traditional PRS services, mobile operators are getting more engaged and flexible with regards to PRS. It remains to be seen, however, whether PRS eventually becomes integrated into operators' other payment initiatives – such as the joint venture for payments established by Everything Everywhere, Vodafone and O2. Currently, these types of initiatives are organisationally separate.

³ Source: comScore MobiLens, 3 months to end-September. 2011

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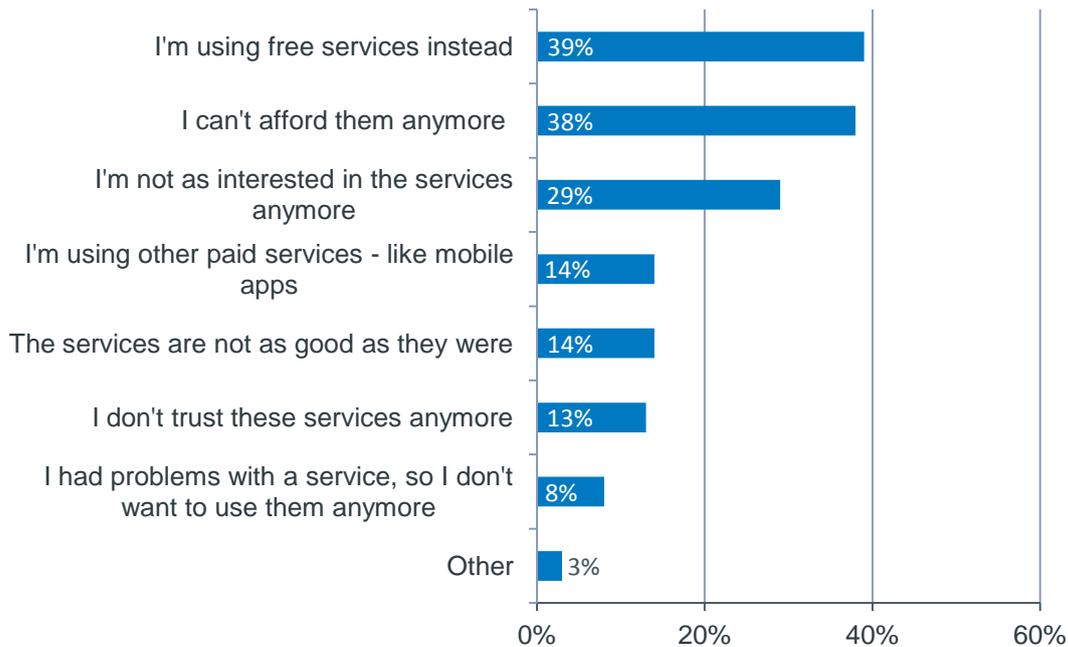


2.2 Further key developments in 2011

The economic climate is likely to have had a negative impact on the sector. It is impossible to consider any market in today's economy without reference to the economic situation. It is worth noting that industry opinion differs on how the general financial situation is affecting consumer spend.

The most common view is that, considering mobile and digital services overall, the general growth in the sector means the economic situation has less obvious impact. This view tends to come from a consideration of the sector as a whole, however, and be more linked to the app-economy, where PRS currently does not play a big part. Conventional wisdom is that 'small perks' like PRS often remain unaffected by economic downturns, but there are signs that this may not necessarily be the case this time. Among 873 PRS users who said they are using PRS less in the past six months than they had done in the previous six, 38% said this was because they could no longer afford them.

Reasons for decline in PRS usage



Source: PhonepayPlus quantitative consumer study, December, 2011. Base: 873 current PRS users who said they were using services less in the past six months compared to the preceding six months

Among a smaller sample (100) of users of other micropayment methods who had not used PRS in the past six months, but previously had used these services, 35% said they use free services instead.

An operator interviewee furthermore notes that consumers are displaying much more caution in mobile spend. A donation to charity may mean no mobile content is purchased by a regular content-buyer that month. The 'spend block' services limiting mobile spend available from operators are also said to be proving popular well beyond the teen audience they were intended

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for. Such spend-limits will have a direct impact on PRS, since it is typically a question of not allowing spend beyond allocated minutes, text and data available within a subscription. Consumers appear to be watching spend more closely than before.

It should be noted that a small sub-set of PRS service types could be said to be 'acyclical' or even 'counter-cyclical.' In particular, call services see an uplift during a tough economic climate, as PRS-paid international calling represents a significant saving on making the same calls in the conventional manner. Considering how the economic situation is affecting industry behaviour, many interviewees say they are seeing a variety of reactions. Some companies choose to invest – albeit in a more limited fashion than what may previously have been possible – while others knuckle down to weather the storm. As in other sectors, more limited availability of credit is forcing increased caution in investments.

When asked about the general mood in the sector, our interviewees shared the full range of moods – from “quite depressed” through “cautiously optimistic” to “buoyant” as well as “bullish” for the future. Attitudes could, but did not always, depend on where in the sector they were active. It is fair to say, however, that there is a sense that the most buoyant – but also, due to malpractices, the most complicated – years of PRS are over. Generating substantial revenues from PRS is simply not as easy as it once was. In some sense – if this can be said about an industry that has generated revenues of more than £800 million per year for some time – PRS is 'growing up.'

Innovative solutions are often coming from relatively new players

Many interviewees point out that traditional companies in the PRS sector are suffering as revenues from previously successful services are being eroded by the internet or applications (see above). The companies carving out new, lucrative PRS revenue streams instead appear to be newcomers to the sector. This includes Boku and Zong (now owned by PayPal), who have taken advantage of the global reach of the web, removing an obstacle to PRS by providing one application programming interface (API) that can reach millions of mobile users across a number of markets. There is also some concern among interviewees that there are levels at which regulation stifles PRS innovation. They say that some companies do not want to go through the hassle of registration, as well as being afraid of mistakenly breaking rules potentially resulting in big fines (see 'Impact of regulation', below). Instead, they choose to use other payment mechanisms, resulting in less PRS innovation.

PRS is building new income streams for some established markets

SMS charity giving came of age in 2011, when operators across the board zero-rated their revenue shares. Fears that text donations would cannibalise charities' existing, typically larger donations, appear to have abated. Instead, text-donations seem to represent a new source of income for charities, in particular from young age groups that were previously hard for them to reach. At a different end of the spectrum, mobile gambling (often in the form of low-cost lotteries) has brought a new audience to digital gambling. One mobile gambling company said that 80% of its users do not have an online gambling account.

Smaller players are exiting the market

Several interviewees commented that smaller players are exiting the PRS market. This was remarked upon concerning several levels in the industry. On an aggregator level, business becomes increasingly difficult for smaller

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players as they struggle to get the volume discounts which larger companies can obtain; additionally, the smaller aggregators tend to have smaller, less innovative and less well-funded content producer clients who are more vulnerable to the disruptive change happening to the digital content space.

2.3 Key market drivers and barriers

Smartphones, app stores & browsers

The vast majority of interviewees point to the continued growth of smartphones as the most important development during the year. The fact that half the UK population – and an even greater share of the younger age groups – are walking around with small computers in their pockets has turned the sector upside down. Furthermore, having a smartphone rather than a feature phone is now becoming the norm, rather than the exception, further normalising the use of such devices.

As has been noted in previous editions of this study, smartphones are a double-edged sword for PRS. Content consumption on the handset becomes more ubiquitous, but so does the ready availability of free content. In addition, paid content is typically accessed through app-stores and generally charged for through non-PRS payment mechanisms.

This is particularly the case when it comes to devices from Apple. While competing payment systems can be used to bill for iPhone apps, Apple always charges for the use of its system (30% if paid through Apple, 15% if paid through other methods). The installed base of iPhones is furthermore on the rise - one UK operator is seeing 50% of new subscribers buying an iPhone.

There is some hope that HTML5 and browser-based apps may help alleviate this issue. The most well-known brand to have gone down this route is the Financial Times, but the jury is still out on whether consumers will find their way to browser-based applications from less well-known brands.

While the closedness of Apple's platform frequently leaves PRS out of contention, the openness of Android is potentially posing other problems. In 2011, the first trojanised Android apps started to appear. Without consumer consent, these applications access the handset's messaging software in order to send PSMS messages to pre-determined numbers. It is a development causing considerable concern. Potentially, argue some, wider spread of these trojans could shut the PSMS industry down.

On the other hand, it could serve as a catalyst for greater consumer care about which applications they download and a demand for certified trusted applications.

There is, after all, an additional privacy consideration here: when downloading an application, users typically agree to the application making use of a number of features on the handset. Many consumers do not even look at the list, but for those who do it can be quite difficult to discern exactly what it is you are agreeing that application can do with the handset. Typically, it also is not clear why and in what circumstances an application would be using the permissions it is requesting and the user does not have an option of saying no to any of the permissions.

While a qualitative sample is necessarily small, the children and parents interviewed for this study clearly felt that app stores were inherently safe and were not questioning them in any way. The trust largely rested on the stores

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being offered by big brands – so they “had to” be safe. It is unlikely that Android is seen as a “smaller” brand than, for example, Blackberry among consumers.

Increasing smartphone penetration, increased comfort with app stores, growing use of mobile search and the rise of freemium/F2P (free-to-play) business models are together leading to a proliferation of free mobile content. This free content is putting significant pressure on business models which are based on the tight coupling of PRS payments with the distribution of paid-for content or information.

The rise of alternative distribution channels

The rise of alternative distribution channels for content is also accelerating the speed of the decoupling of PRS as a payment mechanism from a distribution mechanism. Particular distribution channels of note include:

- Mobile application stores – where the distribution channel is effectively integrated into the mobile operating system, making the download of content very uncomplicated and convenient. Content providers now typically have an app store strategy alongside, or even as a replacement of, their PRS business.
- Voice over internet protocol (VoIP) including click-to-call – providers of voice-based PRS are increasingly moving towards a decoupled approach, where a payment is taken online and the voice component of the transaction is delivered over VoIP, with or without a video element.
- Mobile search and browsing – the smartphone operating systems vary in their support for web-based content downloads, but this is still a substantial path to getting content for many smartphone users.
- Sideloaded – where content is loaded onto the device, using iTunes or simply MP3 content for music.

Changes in marketing

The ongoing rise of online media together with social networking is changing the way that mobile and voice content providers operate. Instead of a traditional mix of print and TV encouraging direct calls to action (e.g. text in or call this number), a broad mix of advertising media (including mobile and online as well as the traditional print and TV) is increasingly pushing users to a web site where a content sale is initiated.

While print is now less prevalent, and a wider marketing mix is becoming the norm, TV is far from gone as a driver for PRS, however. The mobile gambling company, Probability, ascribes much of its growth to its use of TV advertisements to reach a broader market, for example.

One interviewee stressed that in the cases where services are not delivered on the mobile phone, it is problematic to follow PRS regulation when advertising services on the mobile web. While services that are also being delivered on this platform can provide further information after click-through, this option is not necessarily open to those advertising for example voice PRS.

Prevalence of micropayment mechanisms (Please note that PRS in relation to other micropayment mechanisms is discussed in more detail in Chapter 4).

As mentioned above, PRS is nowadays increasingly coming up directly against other micropayment mechanisms. When buying Facebook credits, for example, a user can choose from a vast array of options, from credit cards or vouchers bought in-store to PayPal or mobile payment.

Current & Future Market for PRS 2011

Major Trends



The PRS micropayment competitors are becoming increasingly aggressive. PayPal, for example, has been heavily pushing its micropayment mechanisms this year. In our quantitative survey, 65% of respondents said they had used PayPal to pay for something costing less than £15. It is likely that a significant share of these transactions were for real-world goods, where PRS has traditionally not had a strong role, but it reflects a significant comfort-level with the mechanism among users. PayPal was, by some distance, the digital payment mechanism that consumers surveyed trusted most.

It remains to be seen whether the PRS revenue share levels will be adjusted, potentially enabling it to participate in the growth in micropayments which these other payment mechanisms are now enjoying.

Impact of regulation

PhonepayPlus' new principles-based Code of Practice, a major change in regulatory approach, came into force in 2011 after extensive consultation with industry. This also included a Registration Scheme, in which all companies offering PRS-billed services to consumers need to register. The two components to a certain degree shift responsibility for regulatory compliance. Previously, the aggregators could be held solely responsible for consumer-harm caused by their clients. Aggregators still have the obligation to ensure that companies offering services to consumers stick to the rules. However, since the company providing and marketing services to consumers is known, it can be held accountable. The Registration Scheme also makes it easier for aggregators to ascertain which companies have previously not complied with regulation.

The revised regulation has broad support. There has long been general agreement that tighter regulation, coupled with significant fines imposed on those found guilty of wrongdoing, has helped weed out providers who make money by misleading consumers and has created a healthier market where consumer trust can be increased.

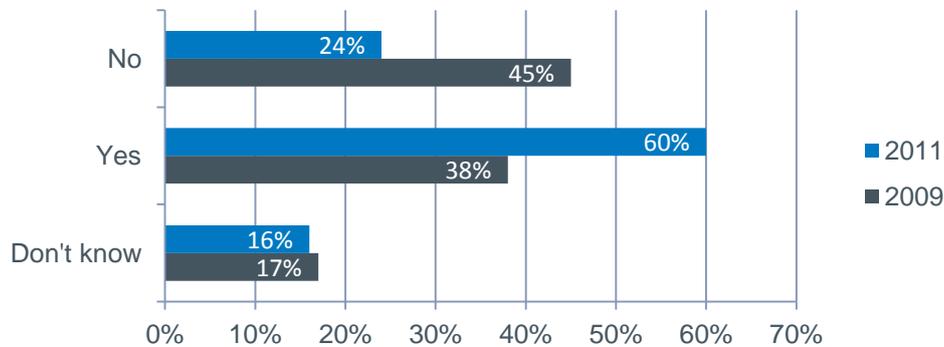
Regulation clearly has helped increase transparency for consumers. The majority of PRS users in our quantitative study say they are clear over how much services will cost them. This is a significant shift from consumer attitudes two years ago (see chart below). Furthermore, of the 40% of 2011 respondents who answered 'No' or 'Don't know' to whether pricing information for PRS was typically clear, 60% said the lack of clarity had stopped them using a service. This indicates the commercial cost that lack of transparency brings.

Current & Future Market for PRS 2011

Major Trends



Perception of PRS pricing clarity, 2009 vs. 2011



Source: PhonepayPlus quantitative consumer study, December 2011; compared to results to equivalent question in 2009 Current & Future Market report by Thinktank International Research. Question: When advertised, were you certain on how much would be charged by the service?

Inevitably the revenues generated by 'rogue' providers who have now exited the PRS market have also disappeared from PRS overall, but this is accepted as something necessary.

It should be noted that while interviewees quite naturally bring up regulation when they know the organisation behind this study is PhonepayPlus, this was much less the case than it has been in previous years. Regulation does seem to be less of a concern – replaced among some producers by concern about the rules and review processes imposed by content app stores. In some ways, this also reflects the way the industry's focus is shifting.

According to some interviewees, some companies generating only small volumes through PRS have also chosen to exit the market rather than go through the registration process. Others note that the size of fines over the last few years means many companies are wary of using PRS, preferring to consider other payment options.

One interviewee, however, pointed out that the fact that Tribunal proceedings have become more transparent and regulation clearer has prompted previously reluctant international companies to now consider looking at entering the market in the UK. Most of the people we spoke to, however, say the large fines are still a deterrent and means that companies prefer to look at other options of payment. Often, interviewees stress, these are companies that do not have bad intentions, but are simply too afraid of doing something wrong and incurring a fine. It is possible that knowledge around the increased clarity noted by some simply has not reached the wider market.

At the same time, there are a small minority of players either near to non-compliance or already failing to comply. In such cases, each aggregator clearly makes its own risk-reward assessment of clients.

Current & Future Market for PRS 2011

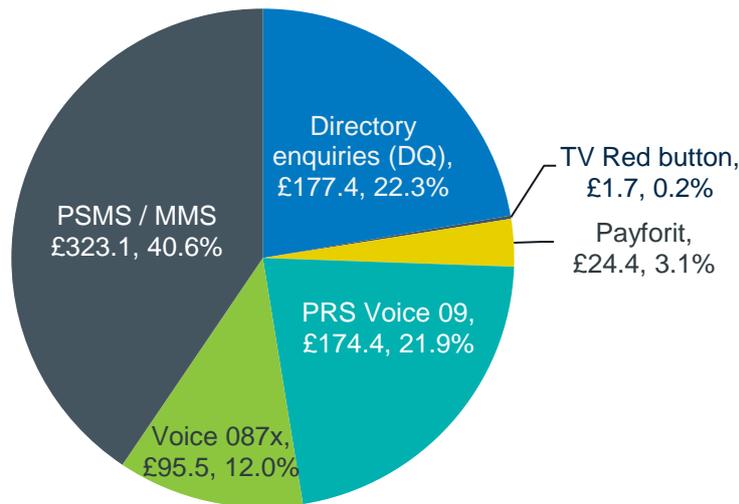
PRS market in 2011 – size and usage



3.1 Overall market value

Overall, premium rate services are estimated to have generated revenues of £796.5 million, excluding VAT, in 2011. The largest single PRS payment type is PSMS/MMS, which also includes mobile voice shortcodes. This category as a whole makes up 40.6% of the total 2011 PRS market. This is followed by directory enquiries, at £177.4 million (22.3%) and 09 voice at £174.4 million (21.9%).

2011 UK Premium revenues by payment type (mil.)



Source: PRS market sizing for PhonepayPlus. Revenues exclude VAT and are PRS only, i.e. do not include any operator surcharges occurring as a result of PRS activity

Below, we compare the 2011 market size to the 2010 estimates from Analysys Mason, for reference. However, as noted in the table, the total market size in 2010 was based on the PhonepayPlus return figures only and did not include charity donations as these do not carry revenue share. Comparing the totals based solely on PhonepayPlus returns, the data shows a market decline of 6.4% in 2011.

Current & Future Market for PRS 2011

PRS market in 2011 – size and usage



PRS Market Size 2010 vs. 2011 (£ mil.)				
Payment Type	2010	2011	Change	Comment
Directory enquiries	£206.4	£177.4	-14%	
PSMS/MMS (including mobile voice shortcodes)	£297.4	£323.1	8.6%	Note that in 2010, market value did not include zero-rated charity donations, which predominantly fall within this segment – in reality the market is more stagnant or growing only slightly
Payforit	£18.3	£24.4	33.6%	
Voice 09	£195.3	£174.4	-10.7%	
Voice 087	£96.7	£95.5	-1.2%	
TV Red button	£2.0	£1.7	-15.6%	
Total	£816.0	£796.5	-2.4%	
2011 total excluding estimated zero-rated charity add-on	£816.0	£764.0	-6.4%	The 2011 total market size includes estimated revenues generated through zero-rated charity donations, which was not the case in 2010

Current & Future Market for PRS 2011

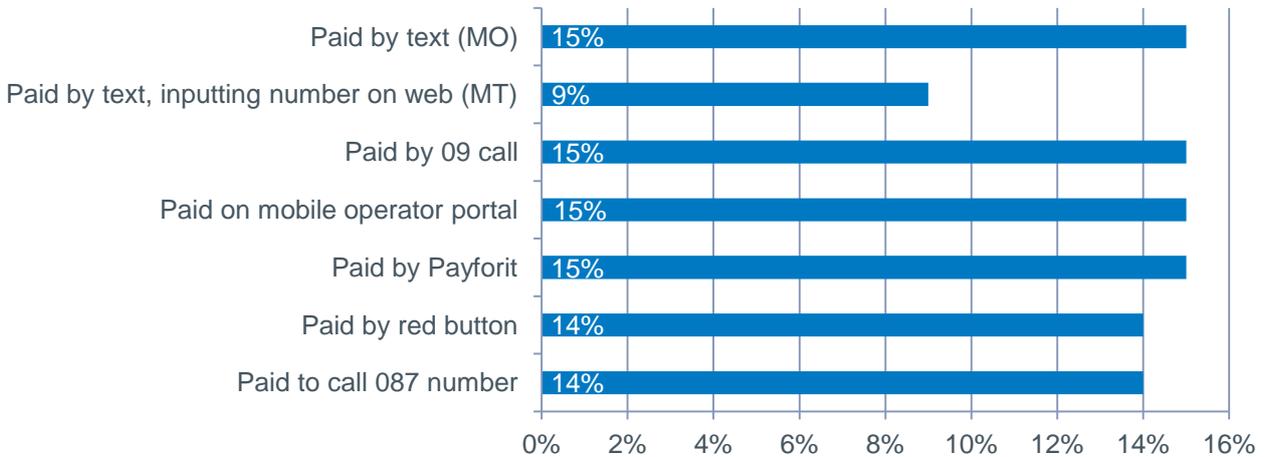
PRS market in 2011 – size and usage



3.2 Consumer PRS usage

Among respondents entering the quantitative study, usage of individual PRS payment mechanisms ranged from 9% to 15%. While every effort was made to ensure that the description of each type of mechanism was clear and understandable to the respondents, it should be noted that many types of payment mechanisms (e.g. paying on operator portal or paying using Payfortit) can appear similar to consumers, who typically do not connect very strongly with payment facilities.

Consumer usage of PRS payment mechanisms

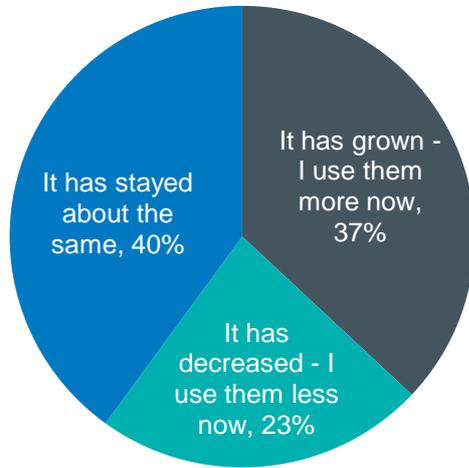


Source: PhonepayPlus quantitative consumer study, December 2011. Base: 16,251 consumers. (MO=mobile originated; MT=mobile terminated). Descriptions for each payment mechanism were more detailed when question were put to consumers

PRS revenues overall are decreasing year on year, but the consumers that are currently using PRS typically say they are using these services more or at about the same level that they did before. Among those who use services less, 8% say it was due to having a problem with a service – but by far the biggest shift (as noted in Chapter 2) is towards free services and the fact that consumers can no longer afford services. 14% say they are using other paid services instead.



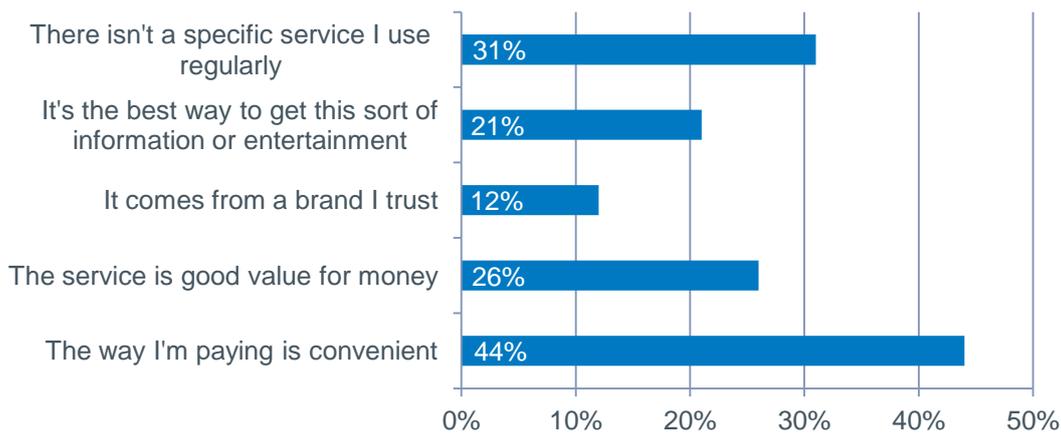
PRS users' level of PRS use in past six months compared with the previous six months



Source: PhonepayPlus quantitative consumer study, December 2011. Base: 3,785 current PRS users

Furthermore, a significant majority of consumers using PRS are regular users of one or more services. Only 31% of consumers using PRS said they did not use any service regularly, leaving 69% who do. Convenience is predictably a big driver of usage: the most common reason for regular use was the convenience of the payment method (44%), followed by the fact that it is the best way to get this form of service (21%).

Reasons for using a PRS service regularly



Source: PhonepayPlus quantitative consumer study, December 2011. Base: 3,785 PRS users. Question: Is there one or more of these services you pay for through mobile or pay-as-you-go that you use regularly and pay for every time? What makes you want to use it repeatedly?

Current & Future Market for PRS 2011

PRS market in 2011 – size and usage



3.3 Directory enquiries and 09 voice

Premium voice services, be they directory enquiries calls or 09 services, are continuing a steady decline, but one that is perhaps less steep than our interviewees expected.

The 09 voice segment generated total revenues of £174.4 million in 2011, down from £195.3 million in 2010, while directory enquiries generated £177.4 million. Some 15% of respondents to our quantitative survey said they had used a 118 or 09 number in the past six months – the equivalent proportion to those saying they had paid by text.

There is a general sense among interviewees that 09 is a dwindling market – comments from industry suggested a far bigger drop than that evident from the PhonepayPlus returns. One interviewee mentioned that many services are getting shut down, but there is clearly still a market for others. The *Racing Post*, for example, features advertisements for a range of 09 racing tipster services, newspapers still offer 09 services to dial for your daily horoscope and so on. Possibly these are catering for a clientele which is not yet looking for this information on the internet or through apps or smartphone browsers.

Some services were previously hard to offer using any other payment method – for example chat services – but with alternative distribution channels coming to the fore, this is clearly no longer the case.

The prevalence of mobile as a tool for voice services is one factor that has contributed to the decline of 118 and 09 services over the past few years, since mobile operators, as well as non-BT fixed-line operators, add a mark-up which makes pricing non-transparent to users. One interviewee stresses that decline is not as steep in markets where there is greater clarity in pricing.

3.4 0871/2/3 voice

087x lines, priced at up to £0.10 per minute, are typically used for low-cost business information, customer service or booking lines, chat services and call services. Some 14% of consumers said they had called paid numbers starting with 087x in the past six months.

The 087x segment generates a fairly substantial part, (12%), of PRS revenues. 2011 revenues have only declined slightly, in contrast to the fairly big dips experienced by the 09 and 118 number ranges. It is possible that the transition from 087x to 084x ranges predicted when PhonepayPlus took over regulation of these ranges failed to materialise and that the greater pricing clarity that regulation helps deliver, is keeping the 087 sector healthy.

3.5 PSMS/PMMS (including mobile voice shortcodes)

In the 2010 report by Analysys Mason, the estimate for charity donations does not appear to have included the donations that were zero-rated by operators in 2010. Typically the zero-rated appeals were the big charity telethons, which represented the bulk of donations in that year. Therefore, although the figures suggest an 8.6% increase in PSMS/PMMS revenues, the market increase will in reality have been considerably smaller. Growth, furthermore, is coming from specific market segments.

Although some interviewees feel there simply is not much growth to be had in the PSMS market, there is some innovation in this sector. Apart from the online market, opened up by global mobile payment facilitators, companies

Current & Future Market for PRS 2011

PRS market in 2011 – size and usage



are also experimenting and trialling, using it as payment for non-digital goods. Marks & Spencer, for example, invited parents to get name-tapes for their children's school uniforms by texting details, at a £5 PSMS charge. In addition, pizzas have been paid for by PSMS and MTV lets users unlock catch-up content using PSMS. Both charities and gambling/lottery providers meanwhile appear to be finding new target markets through PSMS.

Of respondents to the quantitative survey, only 15% said they had paid by texting in the past six months, while 9% said they had done so by entering a mobile number on a website and consequently receiving billing-messages.

Mobile voice shortcodes are also accounted for within the total for PSMS/PMMS, due to them being billed through this mechanism. With the increasing prevalence of mobile as many people's main phone line, the importance of mobile voice shortcodes is growing, since they help avoid the additional charges levied by non-BT operators for non-geographic calls. However, several industry interviewees complained of much higher revenue shares for mobile voice codes than for 09, as well as longer waiting times for payments. Despite the increased clarity of pricing for consumers, some providers of services are shying away from mobile shortcodes and instead continuing with 09 for that reason.

3.6 Payforit

Payforit has grown substantially in 2011, but, compared to other mechanisms, this growth comes from a low base. In 2011, the mechanism generated £24.4 million, a 33% increase on 2010.

Our interviews suggest there remains some concerns about Payforit. Operators have been criticised for not marketing it to build trust, not fully mandating it and making users go through too many clicks to get to their goods. Several of our interviewees this year remain fairly sceptical about Payforit. However, it is also the mechanism that the greatest number of interviewees expect will see drastic revenue-share changes, as operators are expected to position it more competitively against PayPal and other methods.

There are also some strong Payforit supporters, who feel the payment scheme is criticised unfairly. One interviewee also pointed out that some customers are brought into subscription services through Payforit, but only charged the first payment through the scheme, with the remainder charged and therefore regarded as MT PSMS revenues. The industry is currently awaiting the next release of Payforit, which will include a more streamlined billing process.

The range of services for which Payforit is being used as a billing mechanism is growing. While adult is the biggest Payforit-billed segment by some margin, it is being used for a range of services including WiFi access and call services.

3.7 Red button

Red button as a sector typically is regarded as not having much of a future, as broadcasters are largely giving up on the method. Nevertheless, 14% of respondents to the consumer survey said they had used this method of paying for something that was not video or TV.

It is a small market that continues to dwindle – in 2011, an estimated £1.7 million was spent through red button transactions, a 15.6% decline compared to 2010.

Current & Future Market for PRS 2011

PRS and other micropayment mechanisms



4.1 Market situation

The rapid growth in smartphone penetration has introduced a range of non-PRS micropayments to the mobile market, in which PRS was previously dominant. The potential for PRS to regain a position on smartphones depends on the device, with Apple's iPhone presenting a much more closed environment than Android or Windows Mobile devices. The app-economy is growing rapidly in the UK, but PRS is currently not forming part of this trend.

Competition for payment on mobile overall – including the mobile web - is also intensifying. A range of micropayment systems are available for consumers to use and some argue that, with one-click ordering becoming available, the advantage PRS has always had of being more convenient than other methods is also being eroded.

PayPal, in particular, has continued to make great strides in mobile payments and this year ramped up its efforts in micropayments, in particular, alongside continued advertising to increase consumer awareness. PayPal now offers reduced rates for micropayments (up to £5), at 5% per transaction + £0.05. In addition, in 2011 it acquired Zong, one of the leading companies offering mobile payment interfaces for global websites, linking back to PRS payments. In other words, PayPal is now also active in the PRS space.

Globally, PayPal's mobile revenues vastly surpassed its own expectations in 2011. The payment facilitator generated mobile payment revenues of US\$4 billion during the year – compared to US\$750 million in 2010, which the company had expected to double, but this includes e-commerce over iPad.

On the internet, where much of PRS' growth and innovation is currently originating, it is also pitted squarely against other payment mechanisms. For example, while mobile payment is one way of acquiring Facebook Credits, consumers can choose to pay for them using credit cards, online payment systems such as PayPal and CashU, as well as Ukash, which allows users to acquire e-money through physical payments.

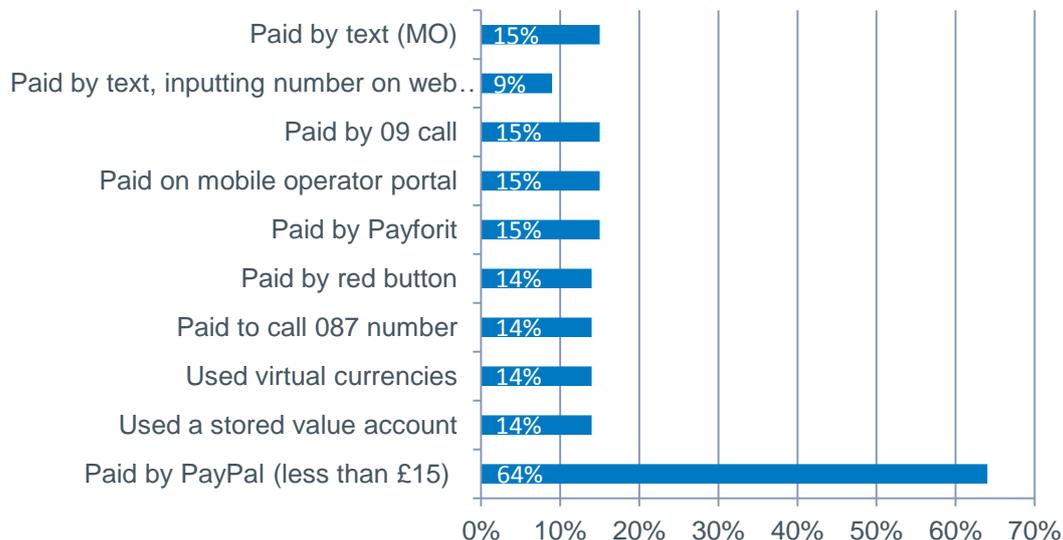
Virtual currencies are also continuing to grow in importance. These can, in one sense, compete with PRS for micro-transactions, but can also (as in the case of Facebook Credits or Stardollars) be charged using PRS.

4.2 Consumer usage and trust in mechanisms

Some 9% of all initial respondents to the quantitative study (a base of 16,251 consumers) had paid by putting in their mobile number online and receiving MT PSMs, while usage of other micropayment and PRS methods were in the 14-15% range. PayPal usage stood in stark contrast to these figures – 64% of respondents said they had used the payment system to pay for something worth less than £15.



Consumer usage of micropayment methods



Source: PhonepayPlus quantitative consumer study, December 2011. Base: 16,251 consumers. (MO=mobile originated; MT=mobile terminated)

Micropayment options beyond credit cards appear to be used less to pay for services where PRS options are also available. In the quantitative consumer study, users were channelled to the micropayment part of the questionnaire by saying they had used one of the non-PRS micropayment methods listed (see table above). However, only a very small proportion had paid for any of the services they were then asked about (where PRS would typically have been a different option). By far the most common payment method for those that had used services was credit or debit card. We can speculate that the high degree of PayPal payment usage, for example, is more likely to be for physical goods.

Overall, users' comfort level with different types of payment mechanisms unsurprisingly corresponds to their usage. PRS users were by far more comfortable with the different types of PRS payment methods than respondents to the micropayment questionnaire. For example, only 9% of micropayment questionnaire respondents thought paying by 09 was safe or fairly safe, while 20% though paying by text was safe or fairly safe. Among PRS users, the equivalent figures were 42% and 66%, for 09 and PSMS respectively.

However, PRS users appear to be more comfortable with digital payments overall. Their comfort levels with virtual currencies and stored value accounts are also higher than those of users of other micropayment systems.

Current & Future Market for PRS 2011

PRS and other micropayment mechanisms

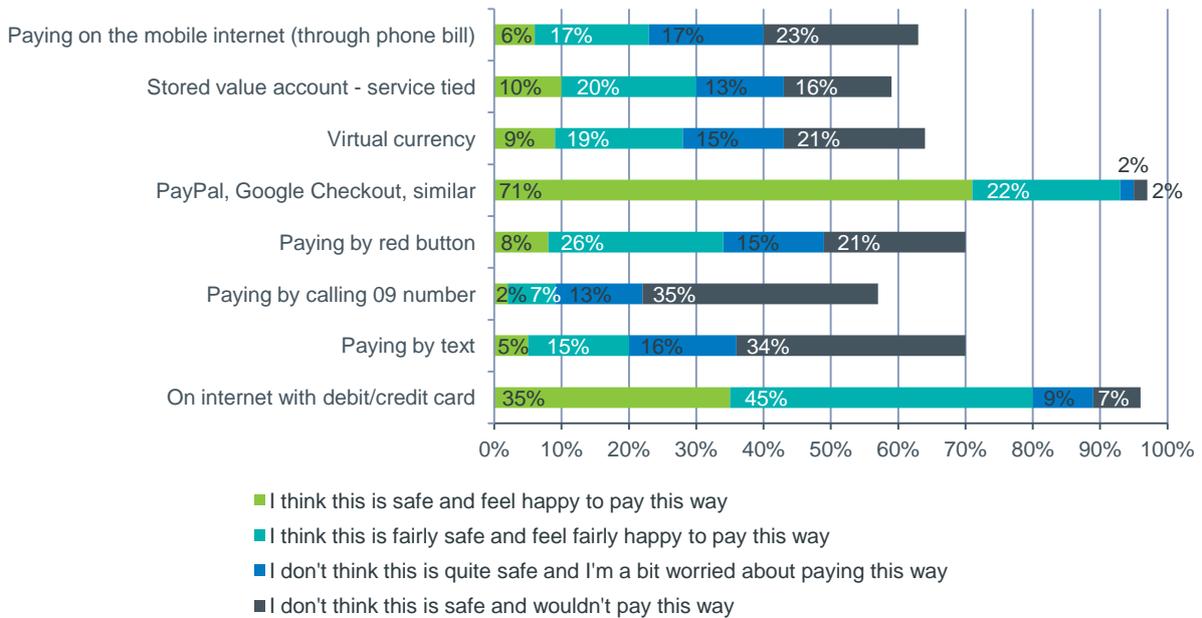


Trust in payment mechanisms, PRS users



Source: PhonepayPlus quantitative consumer study, December 2011 Base: 4,018 PRS users. Question: How comfortable are you paying for things using the following methods?

Trust in payment mechanisms, users of other micropayment methods



Source: PhonepayPlus quantitative consumer study, December 2011 Base: 1,250 users of other micropayment systems. Question: How comfortable are you paying for things using the following methods?

Current & Future Market for PRS 2011

PRS and other micropayment mechanisms

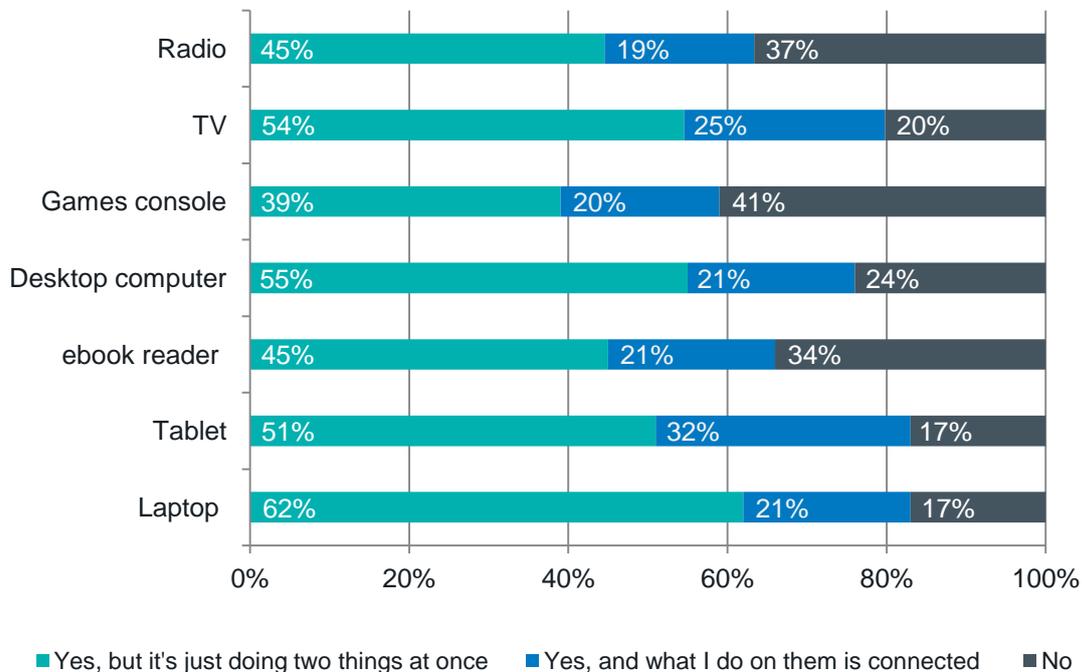


4.3 Users and mobile devices

There were also clear differences in how PRS users and users of other micropayment systems used their mobile phones in conjunction with other devices, suggesting that PRS users are much closer to their mobiles than non-PRS users. PRS users were consistently much more likely than the micropayment sample to use their mobiles at the same time as other devices, or while consuming media.

Coupled with the level of trust in digital payments overall, this indicates that PRS users may be generally closer to and more comfortable with digital channels overall than those that only use other micropayment methods.

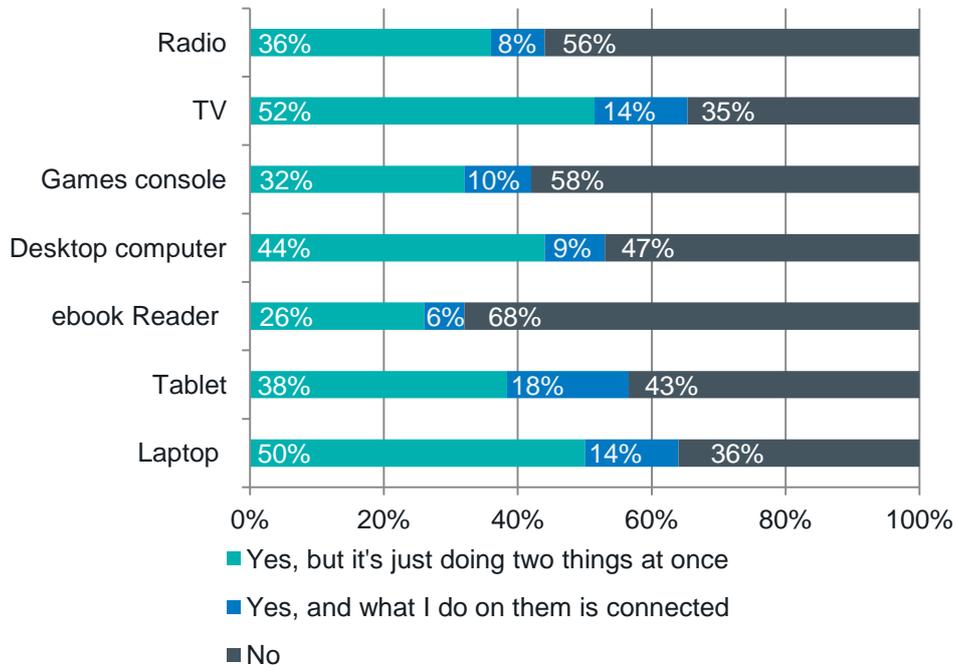
Use of mobile phone in conjunction with other media – PRS users



Source: PhonepayPlus quantitative consumer study, December 2011 Base: 4,018 PRS users. Question: Do you use your mobile at the same time as using radio, TV, games console, ebook reader, tablet, laptop?



Use of mobile phone in conjunction with other media – users of other micropayments



Source: PhonepayPlus quantitative consumer study, December 2011 Base: 1,250 users of other micropayment systems. Question: Do you use your mobile at the same time as using radio, TV, games console, ebook reader, tablet, laptop?

Current & Future Market for PRS 2011

PRS and other micropayment mechanisms

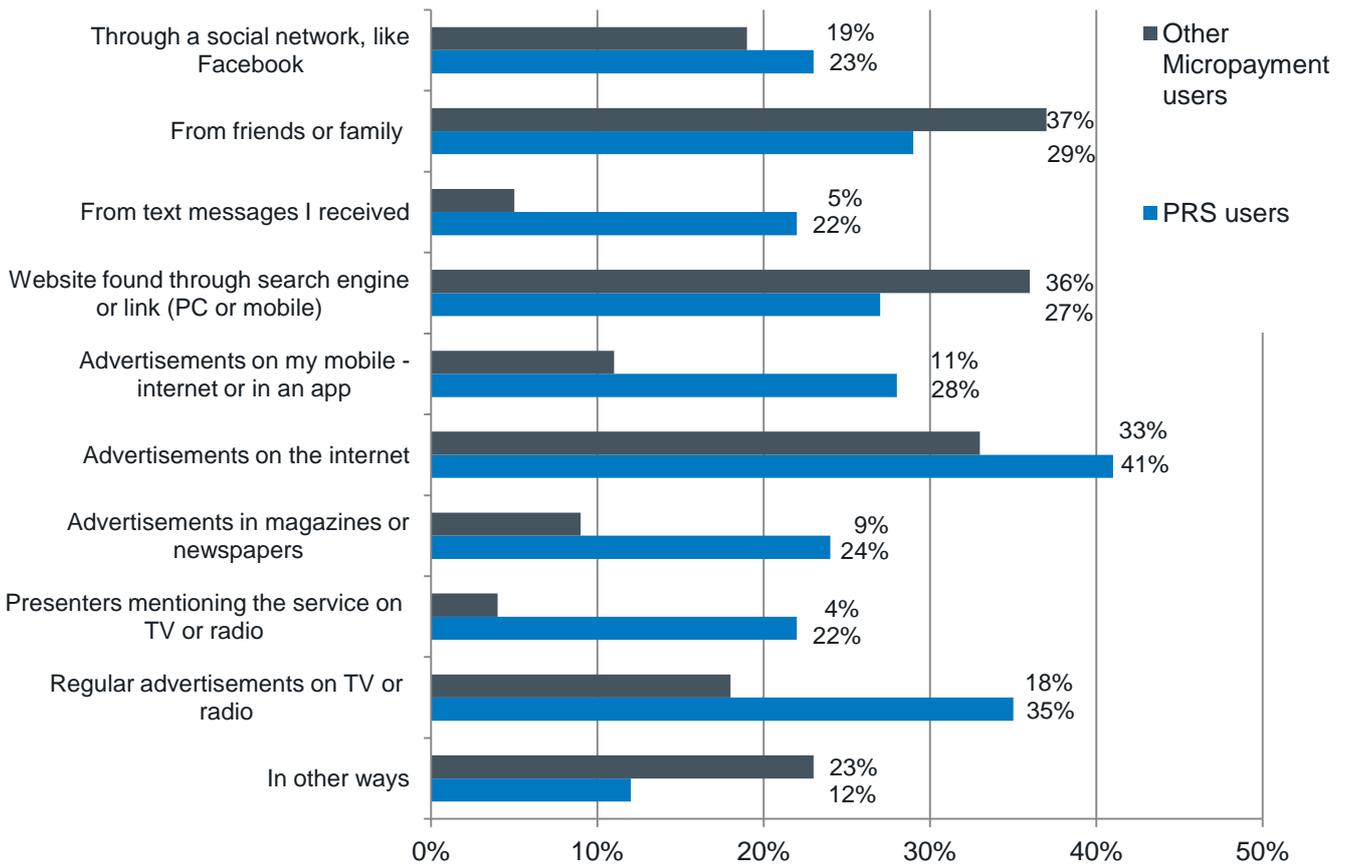


4.4 Service discovery

There is a marked difference in the ways consumers are discovering PRS services versus how they are discovering services paid through other micropayment methods. It is not surprising that it is much more common for PRS users to discover services through advertisements on their mobiles, but they also more commonly found their way to services through advertising generally than other users of micropayments did. Users of other micropayment mechanisms were more likely to discover services through word-of-mouth or on the web.

The importance of social networks as a discovery mechanism for PRS has increased exponentially compared to the 2010 report, carried out by Analysys Mason. Then, only 4.3% said they had found their way to the PRS they use through social networks – this year, 23% said that is how they had discovered the service. Similarly, internet advertisements are cited much more frequently as a source of discovery – 41% this year compared to 19.6% last year.

Ways in which services are discovered



Source: PhonepayPlus quantitative consumer study. Base: 3,785 PRS users; 717 users of services paid for through other micropayment mechanisms. Question: "Thinking about these services you paid for...how did you find out about them?"

Current & Future Market for PRS 2011

PRS by service segment



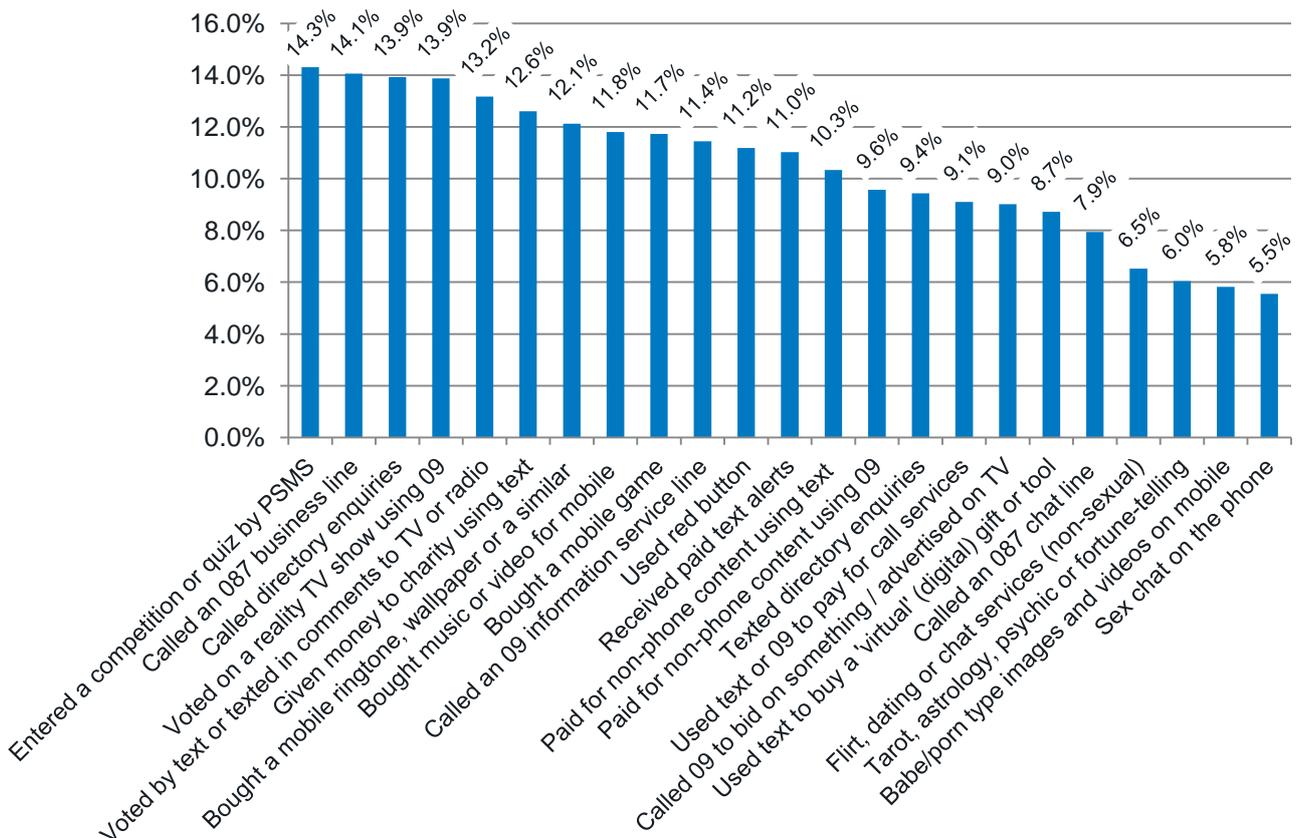
5.1 Consumer usage and revenues

Premium rate is, in the end, a payment method. PRS' key benefits of simplicity and immediacy at times gives it advantages over other ways of paying, but its success is ultimately dependent on the attractiveness of the services for which PRS can be used as a payment method.

The services most commonly used by respondents to the quantitative study was competition and quizzes, followed by 087 business lines and 118 directory enquiries (see table below).

In the quantitative study, consumers were asked whether they had used the services and been charged for them on their phone bill or pay-as-you-go credit in the past six months. Descriptions of the services were typically more extensive and explanatory than those appearing in the charts below. Please note that the consumer usage figures are calculated by dividing the number of users of a PRS service by the total number of consumers that entered the two-track questionnaire. Consumer usage figures may therefore be slightly understated. For further details on the quantitative study, please see the methodology section.

Consumer usage of specific premium rate services, second half of 2011



Source: PhonepayPlus quantitative consumer study, December 2011. Base: Responses from 4,018 PRS users applied to a total 16,251 entering the survey

Current & Future Market for PRS 2011

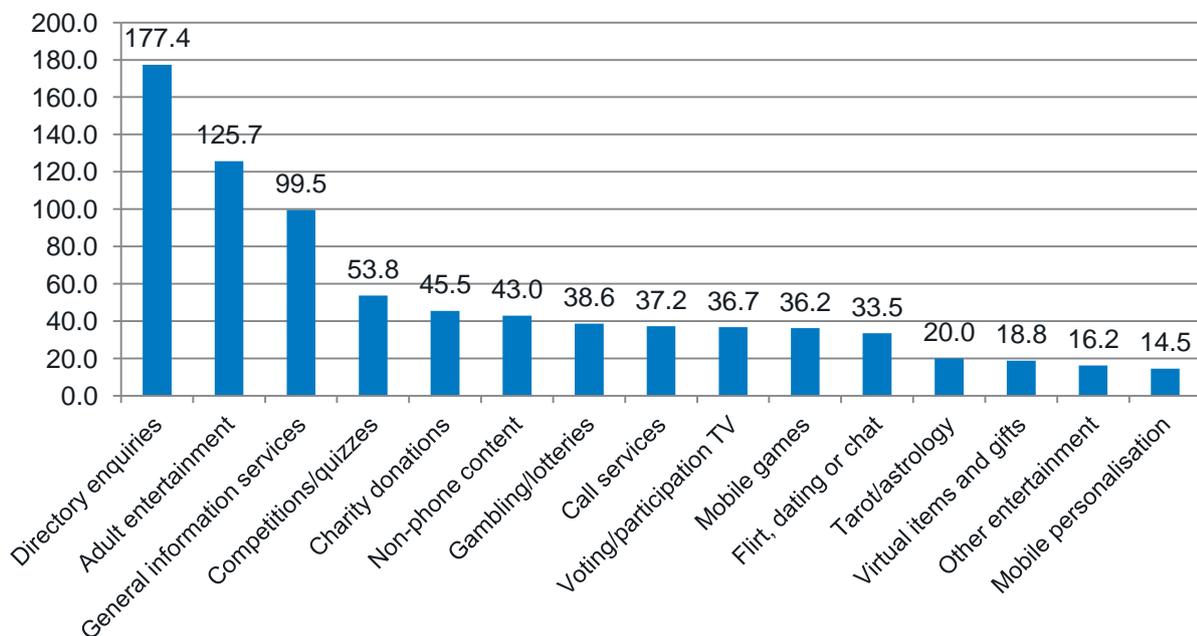
PRS by service segment



Directory enquiries remains the PRS service segment generating the greatest amount of revenues in 2011, followed by adult, information services, competition/quizzes and charity donations. Together with virtual gifts, the non-phone content category demonstrates the increasing importance of internet-originated payments for PRS.

It should be noted that following our research, we believe that the value of certain market segments - such as call services, gambling, other entertainment and charity donations - were under or over-stated, or calculated differently in 2010. The equivalent figure for 2011 is therefore not directly comparable to that published for 2010. Where relevant, this is pointed out in the section on each service.

Market value by type of service, 2011 (£ mil.)



Source: PRS market sizing for PhonepayPlus

5.2 Directory enquiries (DQ)

Phone-based directory enquiries have been declining over several years, following a number of boom-years for the segment after deregulation in 2003. The decline is largely due to ready availability of information for free, but exacerbated by consumer uncertainty over pricing depending on which network they are calling from. This is not only a problem for consumers calling from mobile phones – non-BT fixed-line networks can also add significant charges. Consequently, the sector is awaiting the outcome from Ofcom's current consultation on non-geographic numbers, anticipating further pricing clarity to arise from this.

There is no doubt that significant additional revenues are being generated through operator surcharges on directory enquiries. Ofcom estimated in its non-geographic call service review that total revenues generated through directory enquiries, including surcharge revenues, totalled £500 million in 2009. According to PhonepayPlus' figures for the same year, the PRS

Current & Future Market for PRS 2011

PRS by service segment



element of this total (e.g. revenues due to directory enquires) was £220.5 million.

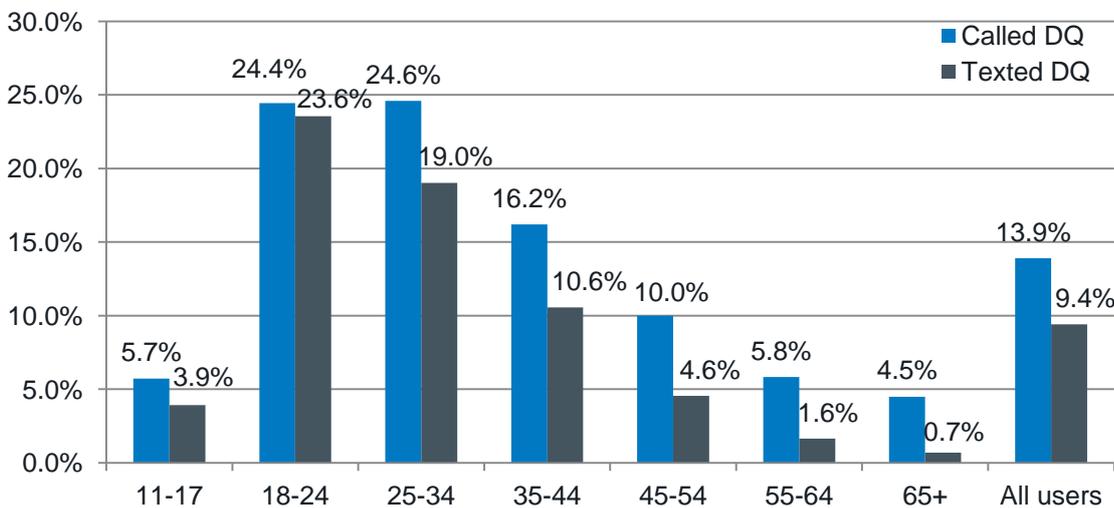
In addition, one interviewee stresses that the decline in directory enquires revenues is substantially lower in markets where there is greater pricing transparency for consumers.

Despite the decline, there is clearly still a market for directory enquires – several interviewees point out that there will always be instances when people do not have time to search for numbers or simply want a certain level of trust in the response they are finding.

Alongside the market-dominant services from BT (118 500) and The Number (118 118), some smaller providers continue to operate directory enquiry services, but have nowhere near the advertising power of the big two. Most of the mobile networks also have their own directory enquiries numbers, while smaller providers include dq4mobile, which provides a text-in service only at £0.25 per enquiry.

Some 13.9% of consumers entering the quantitative survey said they had called directory enquiries in the past six months, with men (16.8%) more likely than women (11.5%) to do so. In addition, 9.4% said they had texted directory enquiries, with far more men (12.4%) doing so than women (7%). As much as 56% of PRS users had called directory enquiries.

Consumer usage – called and texted directory enquiries, by age



Source: PhonepayPlus quantitative consumer study, December 2011. Base: Responses from 4,018 PRS users applied to a total 16,251 entering the survey

5.3 Information services

As is the case in several categories, traditional PRS information services are declining as consumers increasingly have a greater range of information accessible for free at their fingertips via their smartphones. This segment was highlighted by several interviewees as one experiencing quite significant decline.

Current & Future Market for PRS 2011

PRS by service segment

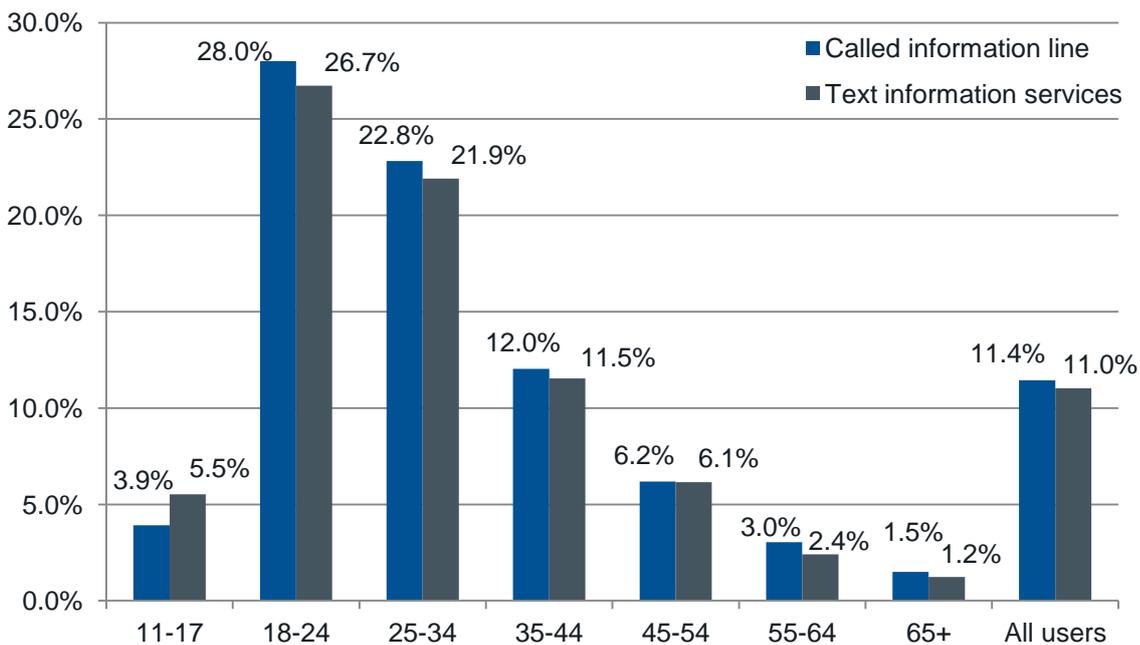


However, Weatherquest still operates a forecast information line and the *Racing Post* each week features a range of PRS tipster lines available to call for those interested in betting. You can still get SMS goal alerts through a service from Sky, and traffic information services are said to perform fairly steadily. These services are perhaps reflecting an enduring market for users who prefer traditional ways of accessing information.

Information services using PSMS in new ways are also cropping up, however. One interviewee, for example, mentioned a PSMS audition alert service. Time-critical alert services such as this could still have a growing role while many information services will inevitably continue to decline in the face of widely available free information.

Of the consumers entering our quantitative study, 11.4% had called an information service line in the past three months, with men (14.7%) more likely than women (8.7%) to have done so. Eleven percent of respondents had received paid text alerts – again more frequently men (14.5%) than women (8.1%). Some 46% of PRS users said they had called a business information line, and 45% of them had received paid text alerts in the past six months.

Consumer usage – called an information line/used text alerts or text information services



Source: PhonepayPlus quantitative consumer study, December 2011. Base: Responses from 4,018 PRS users applied to a total 16,251 entering the survey

5.4 Call services

Call services billed through some form of PRS generated estimated revenues of £37.2 million in 2011. PRS is said to represent some 40% of the total indirect international calling market, but use of PRS numbers (09 and 087) is steadily declining in favour of 084 and similar number ranges. It is worth noting that this market segment is not likely to have grown since 2010, but we

Current & Future Market for PRS 2011

PRS by service segment



understand that the 087x element did not form part of the total call services estimate for that year.⁴

This part of the market encompasses two main strands of service:

- Indirect international calling. In the PRS portion of the market, a user dials an 09 or 0871 access number followed by the international number they want to reach, or uses PSMS to 'pre-pay' for access that is then used by calling a regular number.
- Reverse charge calling services, principally 0800MUMDAD, where the access is an 0800 number but the billing is done through PSMS.

A significant portion of this market consists of non-PRS services. It is important to note that some very closely related services are not included in the estimated PRS market total – this includes:

- Indirect international calling using 0844 numbers (unless billed by PSMS)
- International calling using physical calling cards
- International calling using alternative SIM cards, such as those provided by Lebara Mobile or Lyca Mobile

While the PRS reverse charge calling market is dominated by 0800MUMDAD, a number of companies offer indirect international calling. For the consumer, the range appears even wider than it actually is, as some companies run several front ends for their services. Providers include:

- New Call Telecom (planet-talk.co.uk)
- Finarea SA (discountdial.co.uk, telediscount.co.uk, dialwise.co.uk)
- Wavecrest (firstnumber.co.uk, justcall.co.uk)
- Call Communication Services Ltd (italk247.com, yourcallworld.com)
- Intelli-Call (juvino.com)

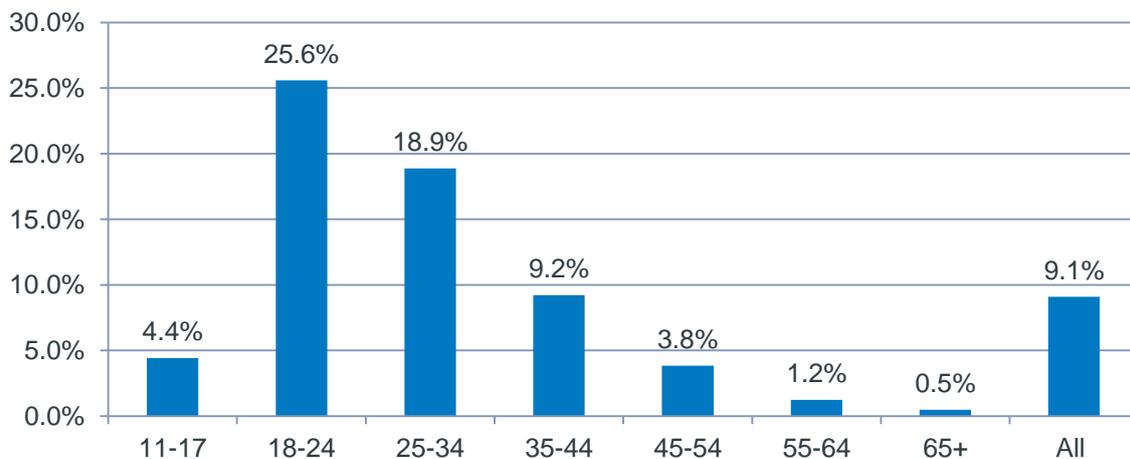
Although calling services are an anti-cyclical segment – because they provide cost savings and people are more likely to use them hard times – the market is under pressure from a range of free and low-cost calling services. With the growth of smartphone ownership coupled with flat-rate data plans, services have migrated to mobile (e.g. Skype) or are mobile specific (e.g. Viber). While smaller providers in the sector are said to be struggling, larger providers are innovating by also moving onto the mobile platform by offering applications which provide an easier user experience. There are also moves to provide further services to what is often a migrant audience – such as money transfer and similar.

Of consumers entering the quantitative survey, 9.1% said they had accessed call services using 09 numbers or paid for by PSMS, with men (12.2%) almost twice as likely as women (6.5%) to have done so.

⁴ In other words, although the market size for call services is higher for 2011 than it was in the 2010 estimate, we believe this is due to an undervaluation in 2010, due to the exclusion of 087x



Consumer usage – call services



Source: PhonepayPlus quantitative consumer study, December 2011. Base: Responses from 4,018 PRS users applied to a total 16,251 entering the survey

5.5 Adult entertainment

The adult PRS sector has been declining for several years due to the increased availability of free adult content over the internet, which brings both direct competition and pressure on pricing, as well as proliferation of other types of billing mechanisms. This type of content is available on smartphones, too, but can be more limited in the application space. Apple, for example, does not allow adult entertainment in its app store.

Voice-based adult chat services are meanwhile facing competition from internet-chat, featuring video links.

While the majority of providers are operating within the regulatory framework, it is an area where some providers can operate on the fringes. One aggregator said they recently turned down working with an adult provider due to the regulatory risks involved, despite the potentially lucrative income. But despite market pressures, the sector is certainly not gone: a substantial amount of business in adult content is still made using PRS payment. While adult images can be found on the internet, companies such as Babestation offer adult photos for a subscription charge and it was pointed out to us that “passing traffic” still keeps more ad-hoc premium rate picture services in business. Mobile shortcodes are meanwhile helping to extend the life of voice-based services beyond 09.

Some of the most lucrative mobile adult business, however, is billed for by other means – this includes video chat, which is said to have an average revenue per user (ARPU) of US\$50. Interestingly, however, one interviewee points out that while adult is typically a technology leader, it seems to have failed to play this role on mobile. This may be due to the greater control and regulation of mobile content.

Adult represents the single biggest service sector paid for through Payfort, with an estimated £9.6 million generated through the platform, forming part of the £125.7 million the adult segment generated in 2011. Consumers frequently under-report use of adult services, but 5.5% of respondents said they had used sex chat lines, while 5.8% said they had bought adult images or

Current & Future Market for PRS 2011

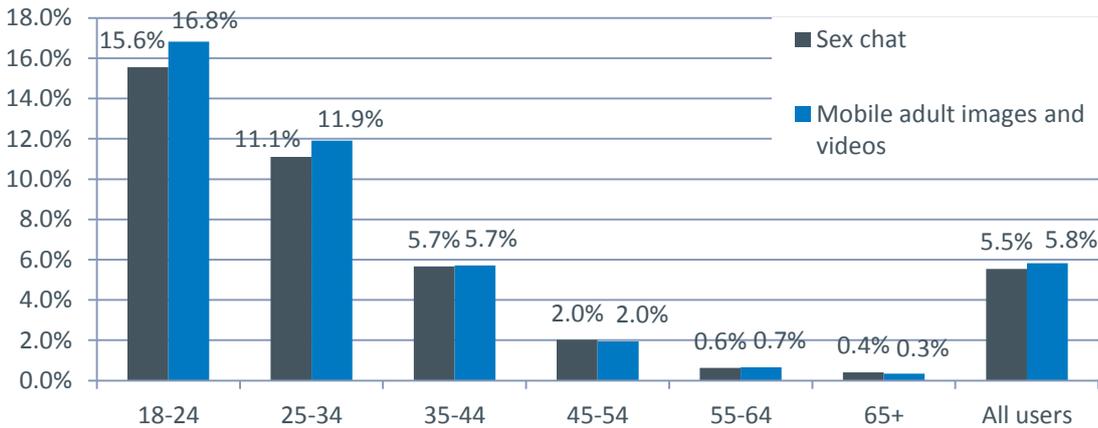
PRS by service segment



videos using PRS. Use is substantially higher in the 18-24 year old age bracket.

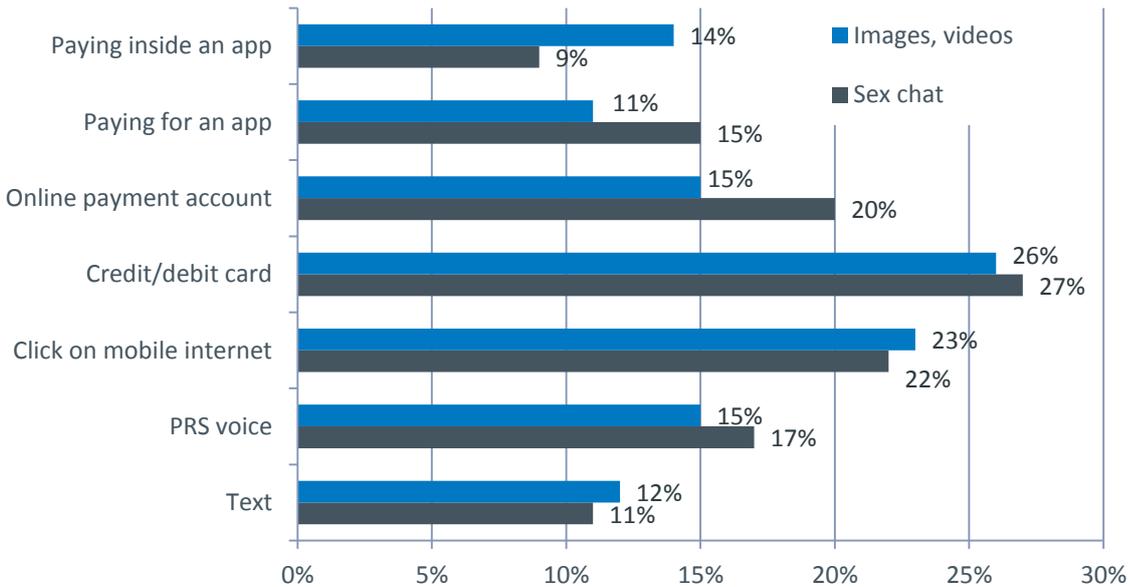
Those who said they had used adult PRS services were also using adult services and paying by other means. Credit and debit cards were the most common means of payment, followed by clicking directly on the mobile internet (e.g. on Payforit or the operator portal).

Consumer usage – sex chat on phone and mobile adult images and videos



Source: PhonepayPlus quantitative consumer study, December 2011. Base: Responses from 3,822 18+ PRS users applied to a total 15,256 entering the survey

Payment methods used – sex chat on phone and mobile adult images and videos



Source: PhonepayPlus quantitative consumer study, December 2011. Base: 18+ PRS users who had used the above services in the past six months

Current & Future Market for PRS 2011

PRS by service segment



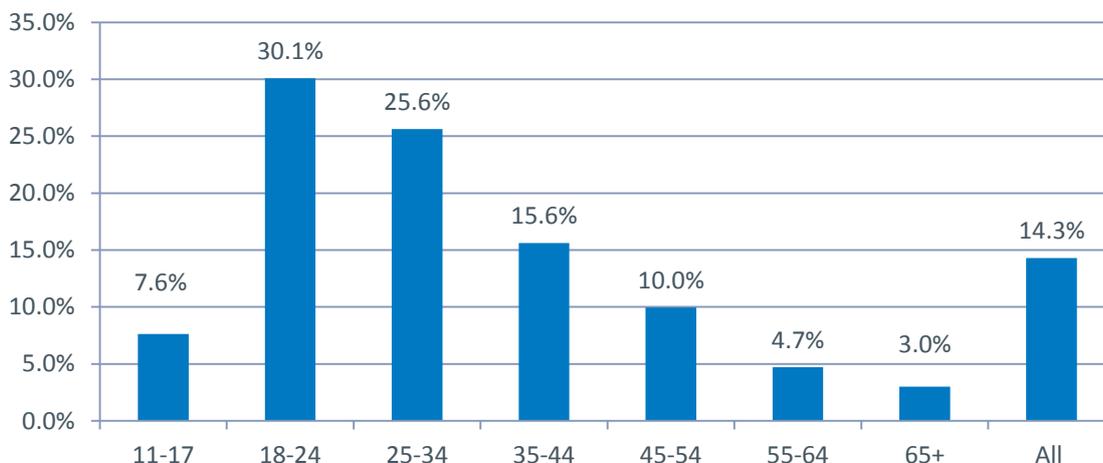
5.6 Competition and quizzes

Some interviewees suggest that the PRS competition and quiz area have slowed down somewhat, but usage and revenues are remaining steady, according to our estimates. Income totalled £53.8 million for the year, a slight drop from last year's estimate of £54 million. The segment was the most actively used of all the services considered, with 14.3% of the quantitative sample having entered competitions or quizzes via PRS in the past six months. Men (17.4%) were far more likely to have done so than women (11.7%).

It is an area where PRS is a natural choice of billing mechanism, providing ease of access for the user with an integrated way to bill for the provider. Text-in competitions have typically replaced the traditional mail-in equivalent, but there are also still 09 voice-entry competitions. Our estimates suggest 09 call-in competitions generated revenues of £12.6 million in the year, compared to PSMS income of £39 million.

Ultimately, it is the attractiveness of prizes on offer that will determine success or failure of businesses in this area. In our qualitative work with children, for example, the vast range of gadgets featured in the prize pot for the £1.50 text-in competition for Channel 5's *The Gadget Show* felt almost too hard to resist.

Consumer usage – entered a competition or quiz by text



Source: PhonepayPlus quantitative consumer study, December 2011. Base: Responses from 4,018 PRS users applied to a total 16,251 entering the survey.

5.7 Voting and other participation TV

TV voting on reality shows and other participation TV – ranging from text-to-screen services to the ability to bid for items advertised on TV using PSMS – generated revenues of £36.7 million in 2011, a decline of 14.7% compared to the £48 million it is estimated to have generated in 2010.

Several interviewees point out that voting services this year are suffering from the fact that several of the previously most successful formats featuring voting (such as *X-Factor*, *Britain's Got Talent*) have now been around for a few years and are losing audience. It is true of all service categories that the payment method is only as successful as the service it offers, but perhaps this is even more prevalent a truth in participation TV.

Current & Future Market for PRS 2011

PRS by service segment



The industry is waiting for text-voting to make a comeback and this is expected to happen in 2012. Broadcasters now have a clearer idea of what text voting can and can not do and the expectation is that they will incorporate the use of the mechanism in a way that does not risk generating problems.

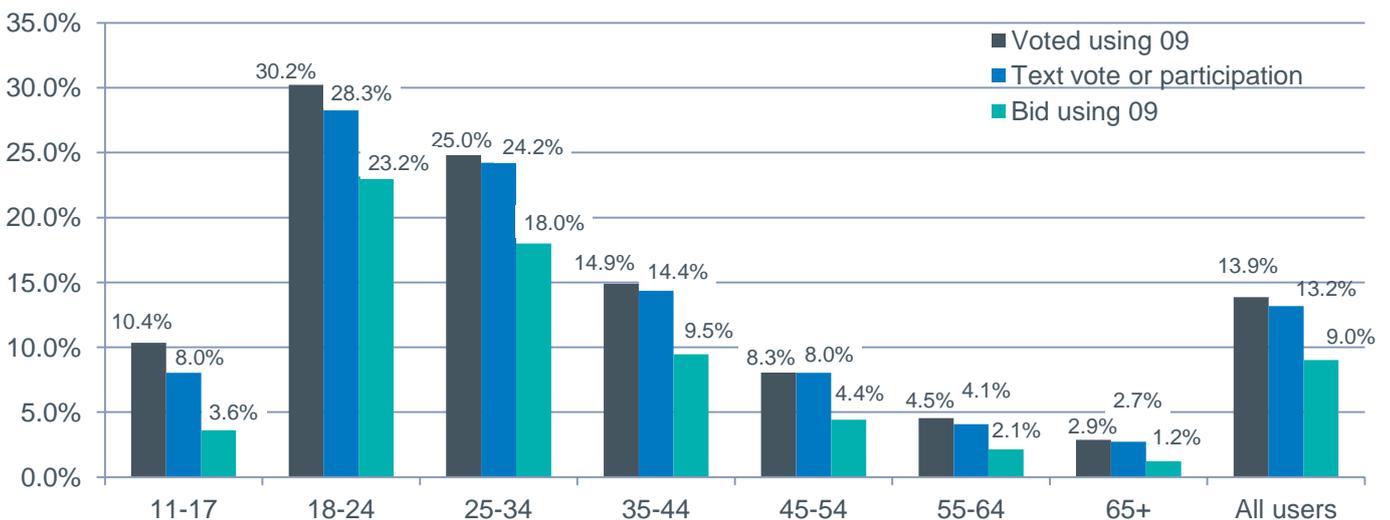
Broadcasters are also interested in trying out new platforms for voting and interactions – such as Facebook, for example. Given that these are largely untested, however, the TV companies remain concerned that they are not robust enough. So, while there has been some use of Facebook as a channel for voting, most notably around Channel 5's *Big Brother*, these activities are likely to remain experimental for now. Having had trust dented through the original text-voting problems, they want to be certain that any channel is reliable.

Other participation TV methods have also been hit by market developments. As use of Twitter has increased, there is no longer as much need for text-to-screen discussions about content, for example.

Slightly more than 13% of respondents to the quantitative survey said they had texted to vote or used text-to-screen services in the past six months, with men (16.1%) more active than women (10.7%). A slightly greater share – 13.9% - said they had called an 09 number to vote on a reality TV show. Again, men (16.1%) were more likely to have done so than women (12%).

Some 9% of respondents had bid for something advertised on TV through an 09 number, with men (12.1%) nearly twice as likely as women (6.5%) to do so.

Consumer usage – voted on reality TV by 09, text-based voting or participation TV/radio and bid on TV-advertised goods using 09



Source: PhonepayPlus quantitative consumer study, December 2011. Base: Responses from 4,018 PRS users applied to a total 16,251 entering the survey.

Current & Future Market for PRS 2011

PRS by service segment



5.8 Flirt, date and chat

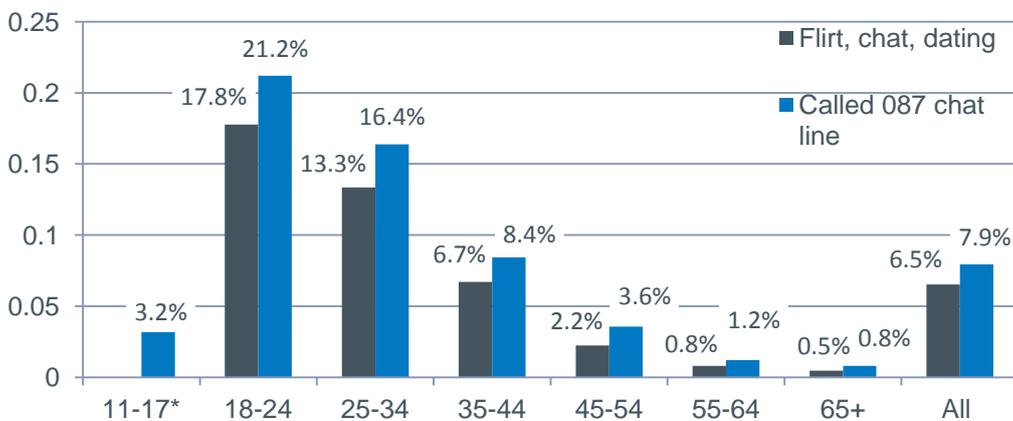
The flirt, date and chat service segment is estimated to have generated PRS revenues of £33.5 million in 2011, which represents a slight decline from the 2010 estimate of £35 million.

This segment includes mobile flirt services such as Flirtomatic and voice-based 09/087 services such as FlirtXchange (run by Virtual Universe), but also the more 'serious' contact and dating or 'Lonely Hearts' services still run by many media companies. They are all reliant on critical mass to offer successful services to end-users.

PRS is in slight decline as other methods are growing in importance, but the segment is holding up relatively well. One interviewee estimates that the business of contact/voicemail dating is declining around 10% year-on-year due to the competition from non-PRS paid internet dating services. Credit/debit card payment is predictably the non-PRS payment method respondents to our survey have also used to pay for these types of services. Dating services promoted over TV are said to have been relatively stable over the past few years.

Of respondents to the quantitative survey, 6.5% said they had used flirt, chat and dating services, while 7.9% said they had used an 087 chat line.

Consumer usage – flirt, date and chat (non-sexual)



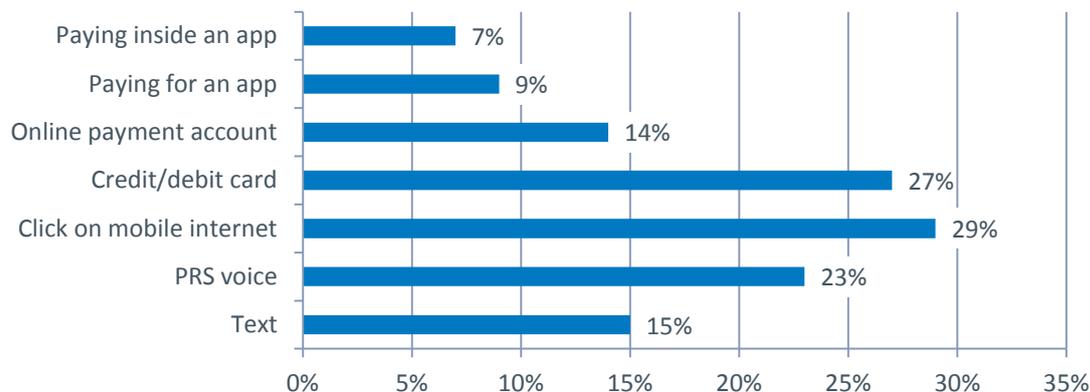
Source: PhonepayPlus quantitative consumer study, December, 2011. Base: Flirt, chat dating: Responses from 3,822 18+ PRS users applied to a total 15,256 entering the survey. Base: 087 chat: Responses from 4,018 PRS users applied to a total 16,251 entering the survey. *Note: Under 18s were not asked about flirt, chat and dating.

Current & Future Market for PRS 2011

PRS by service segment



Payment methods used – flirt, dating and chat



Source: PhonepayPlus quantitative consumer study, December 2011. Base: PRS users who had used the above services in the past six months.

5.9 Gambling and lotteries

Gambling and lotteries using PRS payments are estimated to have generated revenues of £38.6 million in 2011.⁵ PRS gambling and lotteries are on a growth trajectory and, in addition, appear to be building new business for the gambling sector as a whole. While established gambling brands are typically launching mobile services that allow gamblers to access or initiate their accounts on mobile, PRS tends to not form part of their line-up. Instead, new companies have launched mobile lotteries and simple plays-for-money. It should be noted, however, that since major app stores do not allow gambling apps, they have to find other routes to the user.

These include Probability, which runs a number of services, including LadyLucks. It has seen the opportunity for mobile gambling services increase exponentially with the rise in smartphone penetration. The prevalence of smartphones has enabled it to invest in TV advertising, reaching a greater audience. According to its results for the last quarter of 2011, over £1 million was wagered through its systems on Christmas eve alone, and net revenues were up 27% on the preceding year.⁶

While the immediacy of PRS means that it is an important way to attract customers to a gambling service, loyal customers are typically transitioned to other forms of payment and the majority of funds are deposited in accounts through debit or credit cards. Of the PRS gambling users, 37% had paid for this type of service using debit or credit cards.

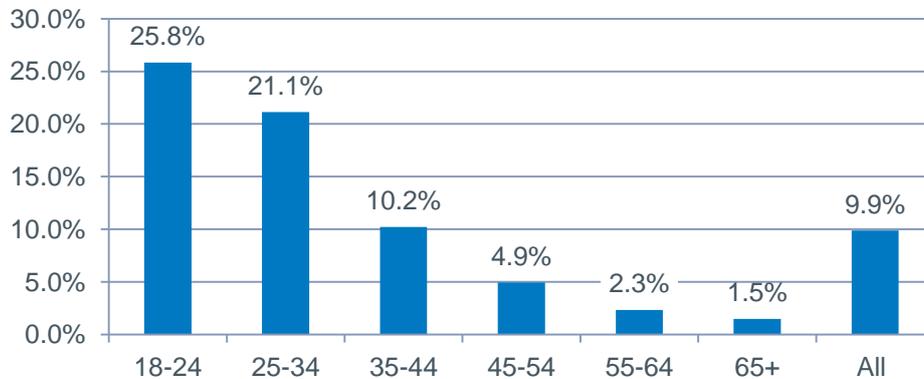
The efforts made to transition users are due to more favourable revenue shares as well as the complications involved in paying out winnings to PSMS-paying clients. While those paying by debit or credit cards can have their accounts credited, PSMS users get paid by cheque. One interviewee furthermore stresses that plans by the UK government to introduce an additional gambling tax (levied when someone plays in the UK) will mean that the financials for PSMS payment for gambling services will not stack up.

⁵ Our research suggests that the PRS gambling market size was overestimated in the 2010 figures and that the market has grown in the past year, but from a lower base than that estimated in the previous report.

⁶ Source: www.probability.co.uk

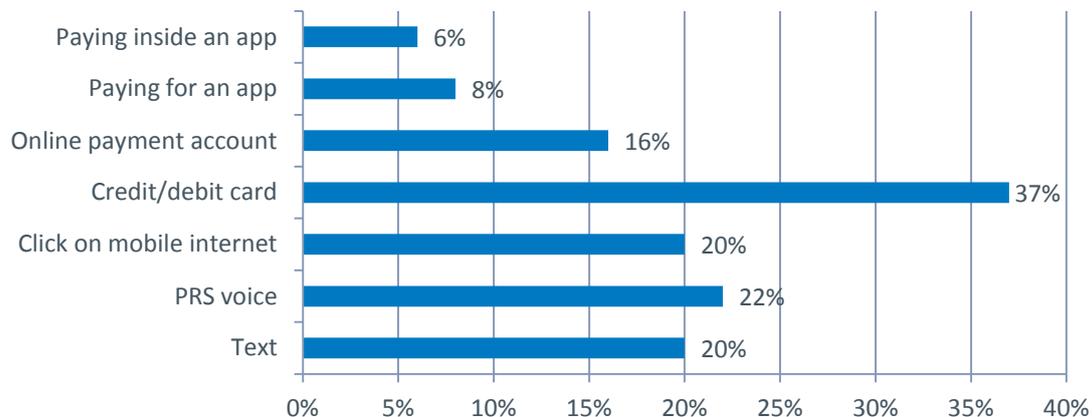


Consumer usage – gambling, lotteries, betting



Source: PhonepayPlus quantitative consumer study, December 2011. Base: Responses from 3,822 18+ PRS users applied to a total 15,256 entering the survey.

Payment methods used – gambling, lotteries, betting



Source: PhonepayPlus quantitative consumer study, December 2011. Base: PRS users who had used the above services in the past six months.

5.10 Games

With so much focus on app stores, it is easy to forget that half the UK population still has mobiles that are not smartphones. There is still a market for Java games for feature phones, for example. Java also runs on BlackBerry, still a favourite handset among young people, although typically not as popular for gaming as touch-screen handsets.

Much mobile gaming activity and transactions have, however, moved into the app-domain and typically away from PRS payment. It is telling that 20% of those that had paid for games using PRS have also done so in an app store. Growth in the PRS part of the games sector, then, is instead coming from mobile payments for games or game accessories on the internet, in particular Facebook. These revenues form part of the non-phone content and virtual items and gifts service segments.

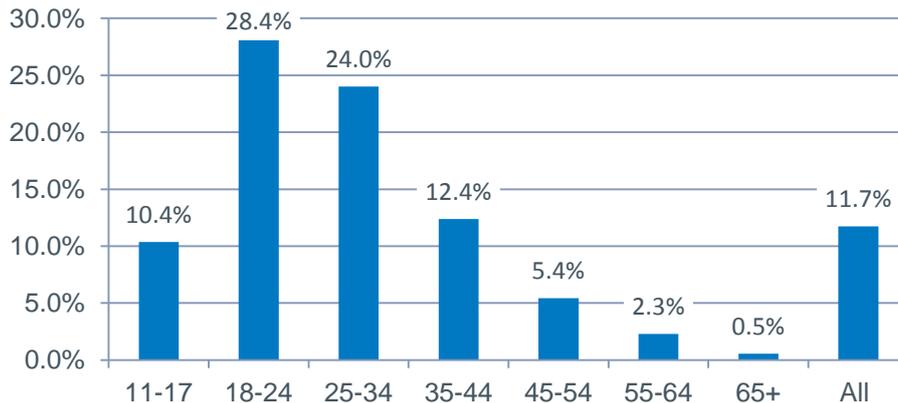
Current & Future Market for PRS 2011

PRS by service segment



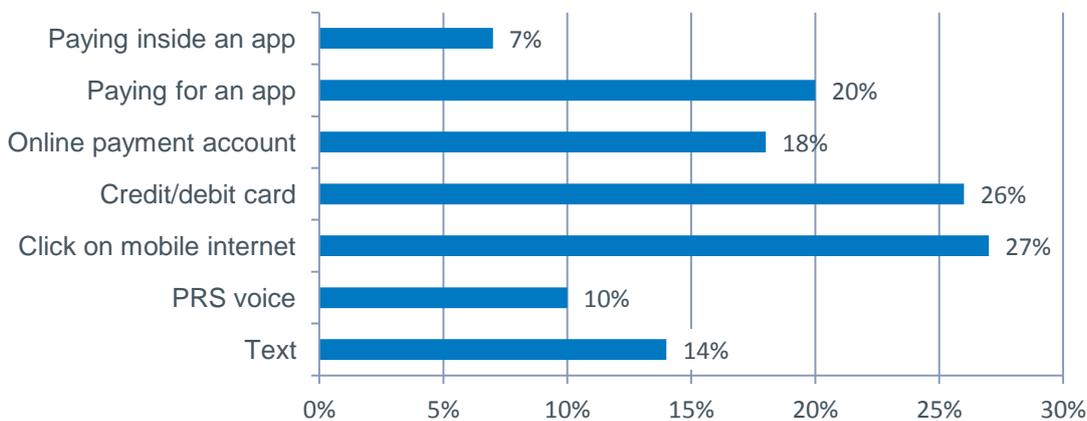
Of respondents to our quantitative study, 11.7% said they had paid for a mobile game through PRS, with a considerably higher proportion of males (14.7%) than females (9.3%) having done so. Some 42% of those paying for mobile games through PRS said they spent £1-3 each time, while 24% said they spent £4-6.

Consumer usage – bought a mobile game



Source: PhonepayPlus quantitative consumer study, December 2011. Base: Responses from 4,018 PRS users applied to a total 16,251 entering the survey.

Payment methods used – buying a mobile game



Source: PhonepayPlus quantitative consumer study, December 2011. Base: PRS users who had used the above services in the past six months.

5.11 Tarot/astrology/psychic services

Tarot/astrology and psychic services is one of the sectors where 09 numbers are still fairly widely used – it is not unusual for papers to have phone-in astrology lines on the back pages, for example. PRS revenues from this segment are fairly stable, at £20 million.

An estimate from one interviewee puts phone-paid revenues at roughly 40% of this market, with the remainder typically made through credit cards. There is no doubt that online voice or video consultations are putting pressure on

Current & Future Market for PRS 2011

PRS by service segment



revenues, however, although the transition to credit-card billing is said to be slow but steady. Interestingly, one interviewee says the migration to credit card for these services is driven more by consumers than by the companies active in the space.

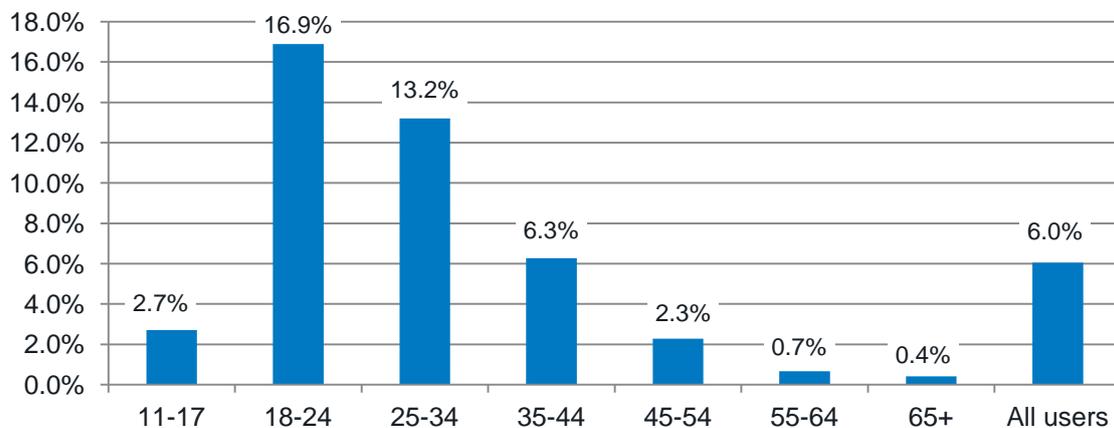
Providers are increasingly putting more emphasis on customer relationship management (CRM) than capturing new users. While credit-card customers can be more engaged than those paying by PRS, premium rate options still have a key role to play due to the convenience of payment.

The market is fairly fragmented, with a range of companies providing consultation services to consumers.

Psychic consultations are typically live, making premium voice an important channel, with users typically spending 12-13 minutes on the phone for a consultation. While use of mobile voice shortcodes could help prolong this market, providers complain about the much less favourable level of revenue share.

One interviewee points out that providers in this part of the market tend to be more followers than innovators, partly due to the fact that this is the nature of its main audience. Some new products are being trialled, however, such as multi-chat, with consultations taking place in a group.

Consumer usage – tarot, astrology, psychic or fortune-telling



Source: PhonepayPlus quantitative consumer study, December 2011. Base: Responses from 4,018 PRS users applied to a total 16,251 entering the survey.

PRS users of these services had also used other payment methods, with debit or credit card payments the most common option. Psychics using websites to advertise paid-for call services often offer the option of paying through credit card or premium rate lines – with the latter typically priced at £1.53 per minute. For example, the Circle of Clairvoyants charges a flat fee of £38 for a 20-minute consultation paid by credit card – the equivalent paid through 09 would total £30.60 from a BT line, while Tony Hyland charges £30 for 20 minutes. Users can also text in questions to some services (typically priced at £1.50).

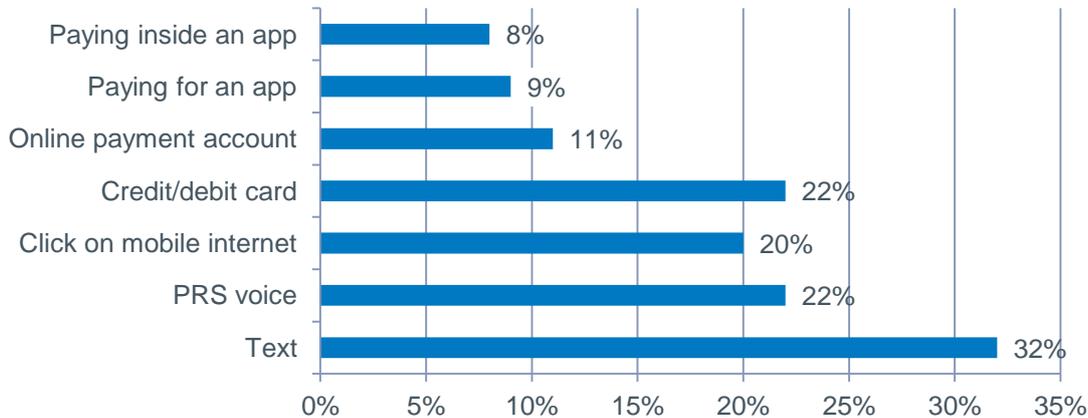
Only 7% of PRS users of these sorts of services said they spent more than £10 when accessing services. Most commonly, the spend was more modest, with 44% of users saying they spent £1-3.

Current & Future Market for PRS 2011

PRS by service segment



Payment methods used – tarot, astrology, psychic or fortune-telling



Source: PhonepayPlus quantitative consumer study, December 2011. Base: PRS users who had used the above services in the past six months.

5.12 Other entertainment

The other entertainment services segment includes purchase of music and non-adult videos using PRS. While there are some services available – one music download service bills through Payforit, for example - this is a dwindling market for PRS.

Competition is coming from several directions. Music is often side-loaded onto mobile devices, or accessed through non-PRS paid services such as iTunes for iPhones or Spotify for other smartphones.

Longer videos are also typically side-loaded, while shorter clips tend to come from sources such as YouTube, where no payment is required.

The segment as a whole is estimated to have generated revenues of £16.2 million in 2011, with £10.6 million emanating from PSMS, £4.8 million from premium voice and £0.9 million from Payforit. Note that we believe revenues for this segment may have been overstated for 2010.

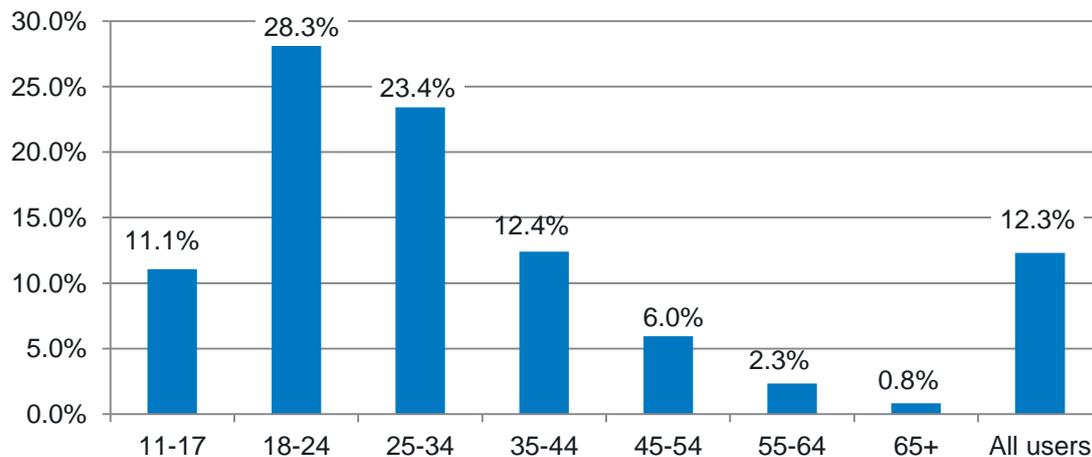
Of those responding to our quantitative survey, 12.3% said they had used PRS to pay for music or video on mobile.

Current & Future Market for PRS 2011

PRS by service segment

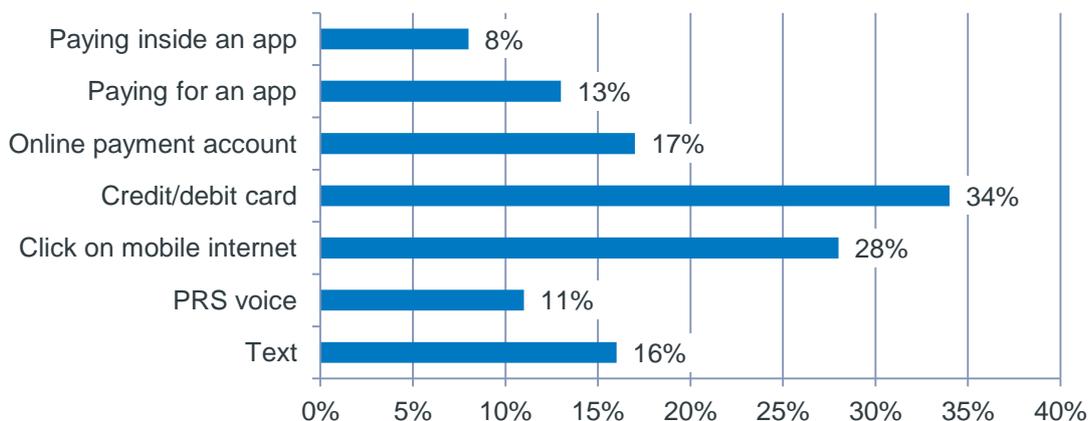


Consumer usage – bought music or video on mobile (downloaded or streamed)



Source: PhonepayPlus quantitative consumer study, December 2011. Base: Responses from 4,018 PRS users applied to a total 16,251 entering the survey.

Payment methods used – bought music or video on mobile (downloaded or streamed)



Source: PhonepayPlus quantitative consumer study, December 2011. Base: PRS users who had used the above services in the past six months.

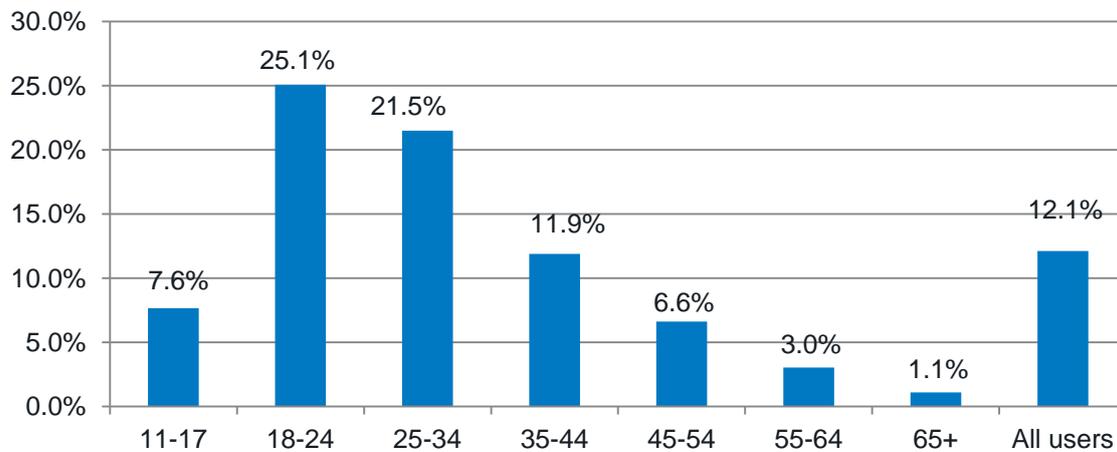
5.13 Mobile personalisation

Mobile personalisation was once the cornerstone of mobile entertainment services. Access to free content and images alongside the ability to set any piece of music or sound recorded as a ringtone has impacted this market, however. While there are still paid-for services, price points are nowhere near the £4.50 charge per ringtone that was once prevalent. Mobile personalisation services are estimated to have generated £14.5 million in 2011, a mere 1.8% of the total PRS market.

An average 12.1% of respondents said they had paid for some form of mobile personalisation in the past six months. Males (15%) were far more likely than females (10%) to have done so.



Consumer usage – mobile personalisation



Source: PhonepayPlus quantitative consumer study, December 2011. Base: Responses from 4,018 PRS users applied to a total 16,251 entering the survey.

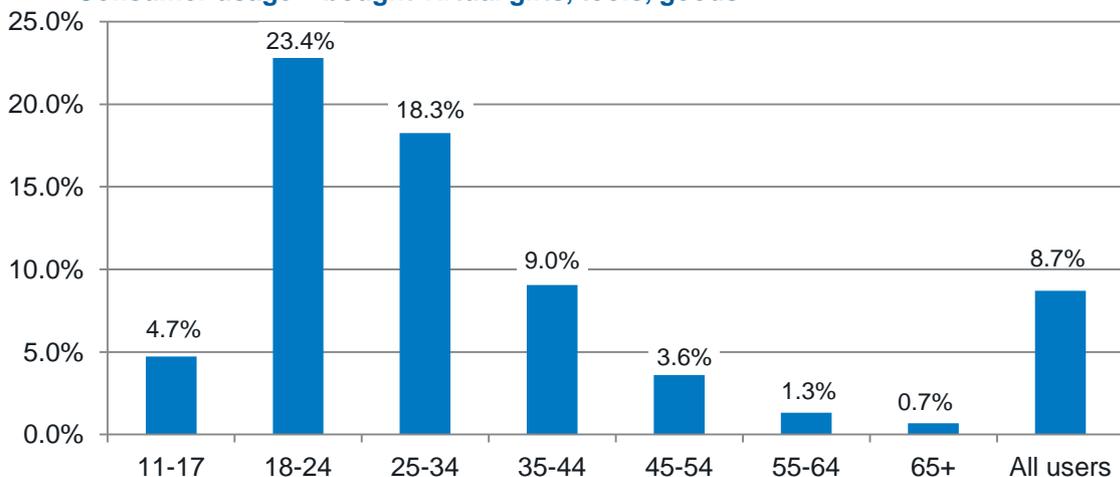
5.14 Virtual gifts

Coupled with non-phone content (with which it is closely linked), virtual items and gifts is one of the areas that have seen significant growth over the past year. The segment is estimated to have generated £18.8 million. As a comparison with the overall market, Moneybookers.com estimated that the UK market for virtual goods in games to be worth £116 million in 2011.

Of respondents to the quantitative survey, 8.7% said they had bought virtual gifts and tools in the past six months.

While some of this activity will be phone-based, much of the growth is driven by virtual gifts, tools and items used on social networks, within or outside games. For example, sites such as Stardoll, aimed at young girls, is focused on dressing and styling a virtual doll with virtual items. PRS is one of several ways to pay for Stardollars on the site.

Consumer usage – bought virtual gifts, tools, goods



Source: PhonepayPlus quantitative consumer study, December 2011. Base: Responses from 4,018 PRS users applied to a total 16,251 entering the survey

Current & Future Market for PRS 2011

PRS by service segment



5.15 Payment of non-phone-based services

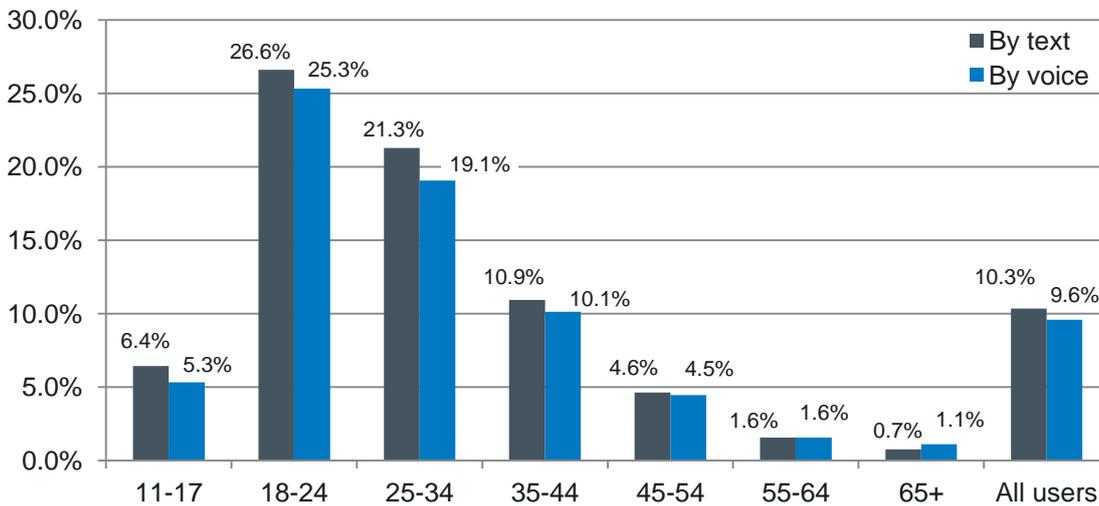
This part of the market is a growth area, with the increasing use of MT PSMS as a micropayment method alongside other billing methods on the internet. It is typically one of many options for buying virtual currencies – including for example Facebook Credits, which can be used for a range of services on the site. As such, this segment is closely linked to the virtual items and gifts segment. Non-phone content is estimated to have generated revenues of £43 million in 2011 – the majority through PSMS.

As paying by text, in particular, is becoming ever-more accepted and higher price points allowed, it is also being used for a range of new services outside social media and virtual currencies. A number of interviewees note that there have been trials of paying for pizza and other real-world goods. Other innovative uses include Marks & Spencers' £5 text-in service for parents to get their children's name-tapes for school uniforms, as mentioned in Chapter 2.

Payforit also has a clear role here, and its presence looks likely to grow. For example, WiFi access on Virgin Trains is paid for through Payforit, which is also used by a flat-sharing website to bill for premium access when users want to get in touch with prospective flatmates.

10.3% of respondents to the quantitative survey said they had paid for something that is not on their phone using text, with a greater amount of activity among men (13.1%) than women (8%). In addition, 9.6% said they had made such payments through an 09 line, with men (12.9%) nearly twice as likely as women (6.9%) to have done so.

Consumer usage – paid for non-phone content



Source: PhonepayPlus quantitative consumer study, December 2011. Base: Responses from 4,018 PRS users applied to a total 16,251 entering the survey

Current & Future Market for PRS 2011

PRS by service segment



5.16 Charity donations

Charity donations are estimated to have generated PRS revenues of £45.5 million in 2012,⁷ with the vast majority coming from PSMS donations. This represents significant growth for donations using PRS, but is a very small part of overall charitable donations from individuals in the UK, which is estimated to have totalled £10.6 billion in 2010.⁸ Overall, the charity sector has been hit by reductions in contributions from government, but according to consultants, nfpSynergy, donations remain steady for many organisations.

As before, the big fundraising campaigns, including telethons are dominating. For example, Red Nose Day 2011 generated more than £15.1 million through mobile.⁹

A substantial text element has become a core part of any telethon fundraiser, culminating in ITV's *TextSanta*, which was focused entirely on text donations. However, the number of charities using PSMS as a fundraising tool has boomed during 2011, as one by one, the operators zero-rated charity donation shortcodes. By July, all operators were on board, while the issue of gift aid in relation to dedicated charity shortcodes had also been solved. According to research by nfpSynergy published in July, 34% of charities surveyed were already then using text fundraising.¹⁰

The more beneficial environment means a greater number of companies are coming up with solutions enabling charity giving over mobile. Among these are JustTextGiving, run by JustGiving and funded by Vodafone for the first two years, but also a string of mobile service providers, including for example Ping Corporation and CoreThree, which are providing an app-based solution to Cancer Research UK.

Text giving remains a new area for most charities, however. While charity telethons have proved that text giving can be lucrative, many organisations are still figuring out how to best use text in fundraising work outside of the times when a call-to-action comes to people's living rooms. This includes understanding not only how to generate the donation per se, but finding a way to continue a dialogue using mobile.

JustTextGiving, for example, is said not to give charities the mobile numbers of those that have donated – possibly welcomed by those giving but not popular among charities.

Some concerns seem to remain among charities that lower-value SMS-donations could cannibalise higher-value donations, although this is lessening. Text giving appears to have opened up a whole new group of charitable donors, however. Soccer Aid, for example, which raised £2 million by text, was said to have brought in this amount from people who simply would not have picked up the phone to call in with a larger donation.

Younger age groups have traditionally been hard for charities to reach, but they have embraced text-donations. Out of the total number of consumers entering our quantitative survey, 12.6% had donated to charity using text in the past six months. Males were slightly more likely than female to have done

⁷ Please note that charity donations that are zero-rated do not appear in the PhonepayPlus returns and an additional value has therefore been estimated. We believe that in 2010, only charity donations that were visible in the PhonepayPlus returns were reported.

⁸ Source: NCVO/CAF

⁹ Source: www.charitytext.org <http://www.charitytext.org/news/text-donations-raise-over-15-1m-for-red-nose-day>

¹⁰ Source: nfpSynergy – Sending out an SMS, July 2011. www.nfpsynergy.net

Current & Future Market for PRS 2011

PRS by service segment

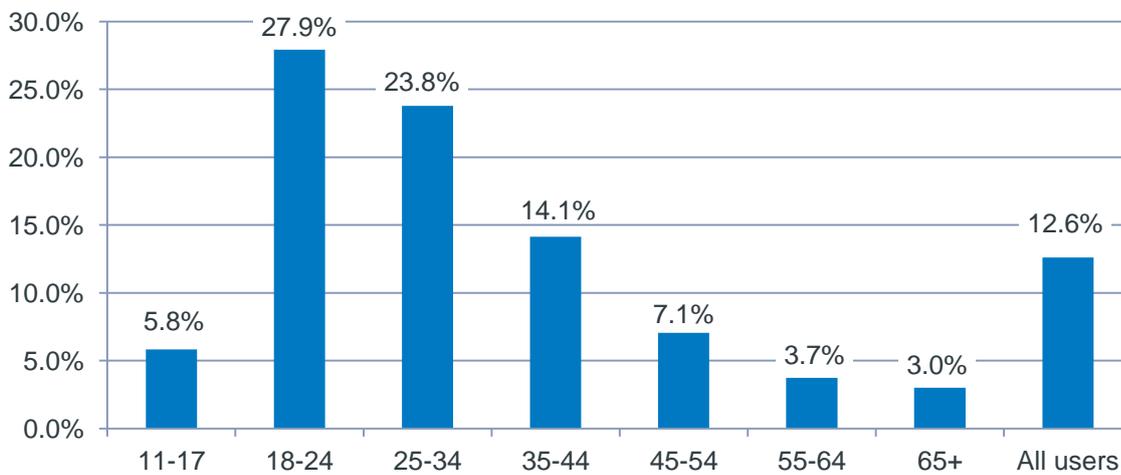


so (14.6% vs 12.6%) and the age groups most likely to have donated by text were 18-24 year olds (27.9%) and 25-34 year-olds (23.8%). Some 2.3% of 18-24 year-olds said they donated by text more than once a week.

In addition, several of the 11-16 year-olds interviewed as part of the work for this report talked about how they had donated to Children in Need during the TV broadcast.

Given the harsher economic environment, text donations may have a negative effect on other PRS, however. As mentioned previously, one industry interviewee indicated that those who choose to donate to charity via text hold back on other PRS spend.

Consumer usage – donated to charity by text



Source: PhonepayPlus quantitative consumer study, December 2011. Base: Responses from 4,018 PRS users applied to a total 16,251 entering the survey

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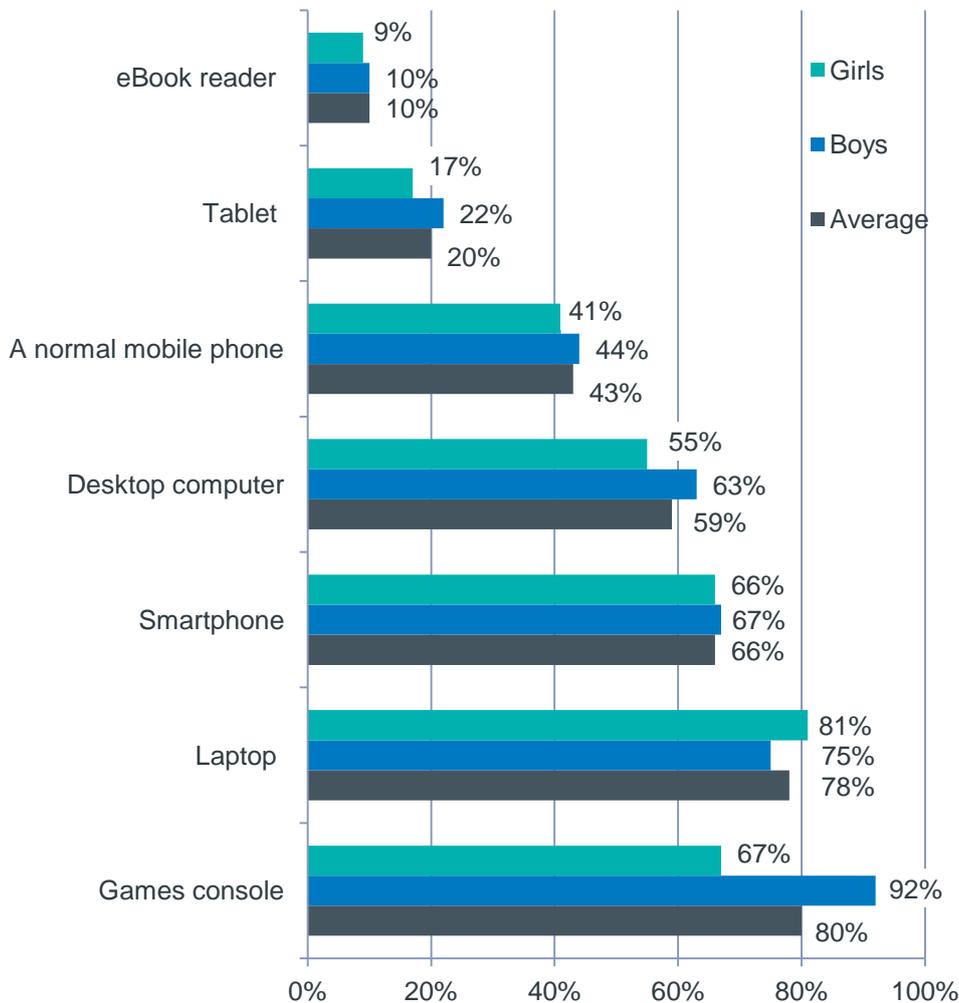


6.1 Young people and digital devices

For full details on the research with children, see Chapter 1 Methodology. Please note that the qualitative research findings in this chapter are based on the perceptions of the children interviewed rather than investigation into the services they say they were using

Young people have an increasing number of digital devices available for their own use (see chart below), but there is no doubt the mobile phone is the most important. Smartphone ownership is prevalent – in the Childwise in-school quantitative study, 66% said they had this type of device. Smartphone ownership is highest among those who say they also have a tablet – among tablet-owning children, 87% have a smartphone.

Digital device ownership (for own use), children 11-16 years old



Source, PhonepayPlus in-school quantitative survey of children 11-16 years old, December 2011 .Base: 466 children

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Having a mobile phone equals freedom and independence for the children we spoke to in our qualitative research. It also enables them to be in constant contact with their friends and what is going on – both essential parts of life for this group.

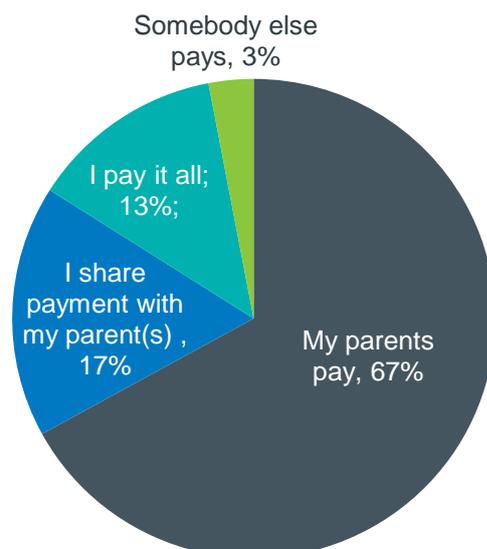
Parents see mobiles as an ‘independence-enabler’ for their children and a tool bringing peace of mind for themselves. Being able to know where their children are and knowing that the child can contact them at any time makes them feel safer when the children are not at home and in turn enables them to give the children independence.

Our interviewees typically got their handset when starting secondary school, because that would mean they travel further from home. Some parents thought their children were too attached to their mobile phones, but generally they were not very concerned about their children’s mobile use. This echoes the findings in recent research from Ofcom.¹¹ Any concern shown by parents we spoke to was more focused on physical risks, e.g. that a smartphone would attract muggers, for example.

The vast majority of children in our qualitative sample had BlackBerry devices. Predictably, this was often driven by BlackBerry messenger, which alongside Facebook was an important way for them to keep in touch with friends. Other handsets featured in our sample included Android handsets, an iPhone and a Samsung feature phone.

It is by far most likely that parents pay for children’s mobile phones, according to the in-school study. Smartphone owners are slightly more likely (72% vs. 67%) to have their phone-bill or pay-as-you-go fully paid by their parents. This was also the case in our qualitative sample, but some shared responsibility for the bill, or the child paid themselves or had bought their phone while parents paid for the usage.

Who pays for your mobile bill or pay-as-you-go credit?



Source, PhonepayPlus in-school quantitative survey of children 11-16 years old, December 2011 Base: 416 children who have mobile phones.

¹¹ Children and parents: media use and attitudes, October 2011.

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6.2 PRS usage

Our qualitative interviews suggest that children's use of and approach to PRS depends on three key factors: the child's personality, parental influence and – to a lesser extent – who pays for the phone bill. The impact of payment could vary – one interviewee who paid themselves spent more for that reason, while another assumed their parent would not notice extra spend. Generally, however, the children were conscious of not spending more than they should.

Most commonly, our interviewees had used PRS such as TV voting, charity donations (the interviews were done not long after Children in Need, which several of them had texted to donate), or paying for games. Less common uses were paying for virtual currencies, for example. In the in-school survey, buying music, videos and games were the most common PRS activities.

The majority of children we spoke to said they would ask their parents before doing something they knew would cost money outside their regular communications contract. This could be due to the personality of the child – some are more careful than others – or rules and limitations set by the parent and simple awareness that if they spent more, the parent is the one that would pay. Rules or limitations by the parent were fairly common – sometimes imposed through a spend limit set in their mobile contract. According to Ofcom research, 23% of parents have a rule against their children calling premium rate lines, while 22% have rules against premium texts.¹²

It was very common for our young interviewees to be looking first and foremost for free content, however. Often they found free applications on app stores. The most common sources of information about what to download was their friends or the app store top-lists. Apart from the obvious benefit of not having to pay, the preference for free content could be driven by a range of factors, often including a sense that what came free was “good enough” or that there was not really much that was worth paying for.

“It's better to use your money for something that's going to last for a long time”
Girl, 15

Nevertheless, in the in-school survey, 65% of the mobile-phone owning children responding said they had used one of the types of PRS considered. While entertainment services were most common, a large proportion had paid for something not on their phone or to acquire virtual gifts or tools using text.

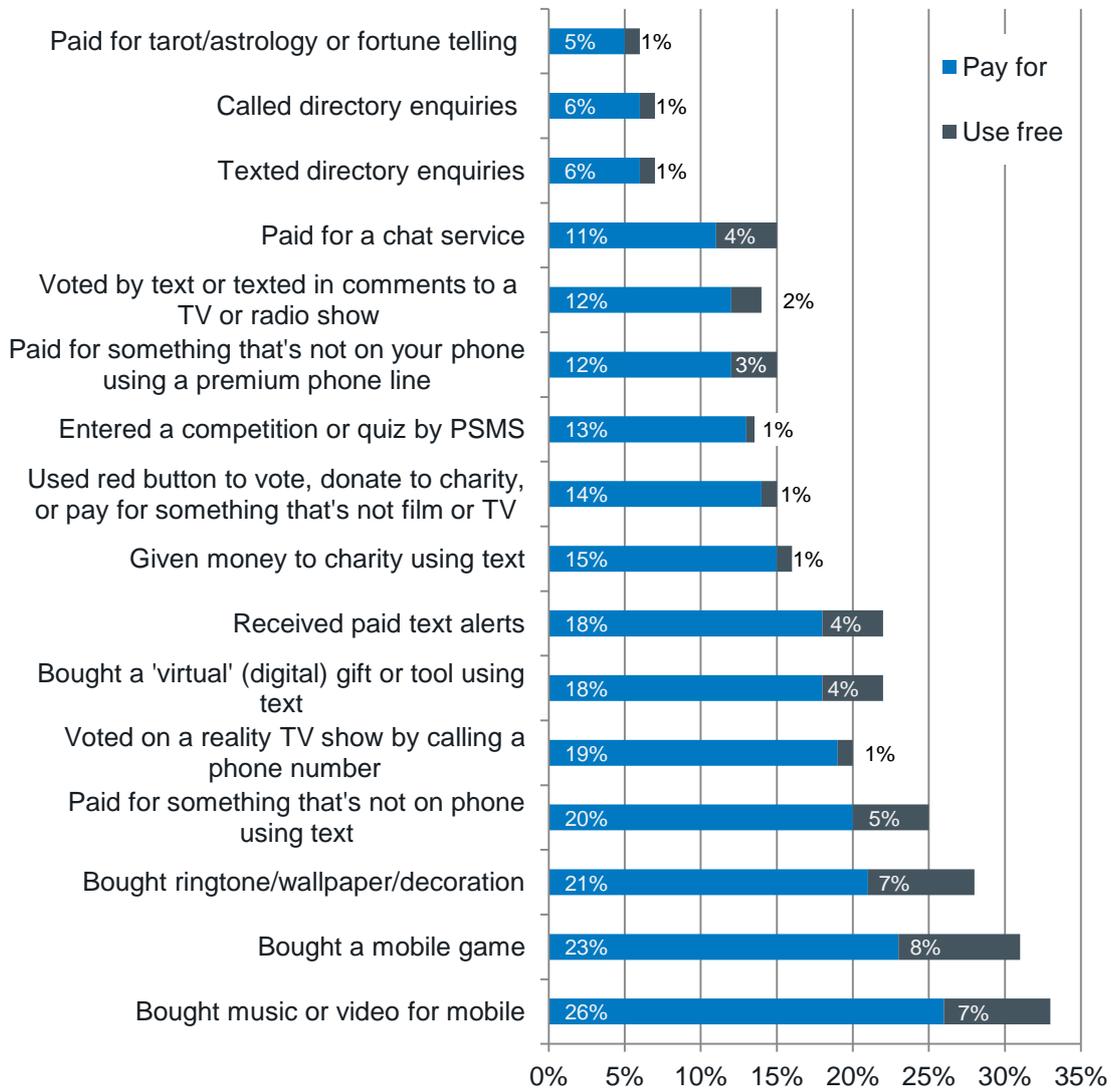
¹² Children and parents: media use and attitudes, October 2011

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PRS usage, children 11-16 years old



Source, PhonepayPlus in-school quantitative survey of children 11-16 years old, December 2011. Base: 416 children who have mobile phones. Please note category names have been modified to fit chart – explanations to children were more detailed.

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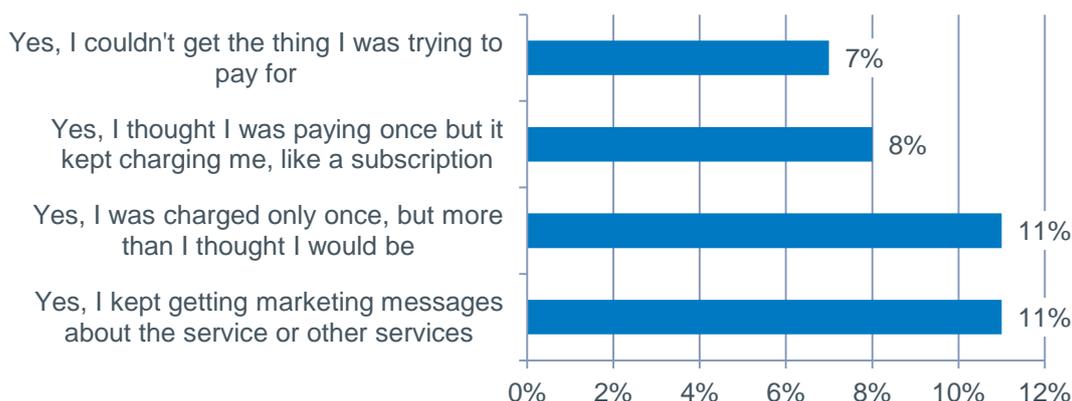
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6.3 Problems with PRS and clarity of costs and information

In the in-school quantitative survey, 27% of children said they had had problems with the PRS services they have used. Unwanted marketing messages and over-charging were the most common issues. However, 69% said they had had no problems (the remainder chose not to answer).

Problems with PRS



Source, PhonepayPlus in-school quantitative survey of children 11-16 years old, December 2011. Base: 272 PRS users.

All the young people we interviewed in our qualitative study showed a certain savvy around digital channels – some more than others. They talked about how they thought some offers were clearly “a bit of a con” and that it was sometimes “obvious” that sites were not legitimate. Many said they took care not to click on links on sites on their mobile, but one or two had done so and unexpectedly been charged. As is often the case, they automatically trusted sites from brands they considered “well-known”.

“Some things say free and I’ve clicked on it before and it makes you pay. You have to be careful”

Girl, 14

“I’m pretty sure you can text them back saying “Don’t send me these messages”

Boy, 13

Some, but not all, had been taught how to take care on the internet in school, but this focused more on personal safety and viruses than risk of being charged.

It was relatively common that the children felt quite confident that they knew what they were doing and how much things would cost them, but nevertheless would at some point have a problem with being charged for something they had not expected, or been charged more than they had thought they would be.

The perception of pricing clarity could also go hand-in-hand with their trust or preference for content. One interviewee, for example, said prices for voting on one reality music competition was clear, while another was not.

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Channel 5's *The Gadget Show*'s text-in competition seems to have particular allure to this age group – it came up in every interview as an example of something they either entered or had considered entering. The vast amount of gadgets on offer as prizes was clearly a major draw. Recollections of what texting in might cost could be a bit hazy, however – they ranged from £1.50 (the actual price) to £3.

Overall, the children's perception tended to be that most of the time it was clear to them how much they would be charged for PRS services, or for application downloads through app stores, but some said there were some exceptions to this.

6.4 Virtual currencies confuse

Several of the children we spoke to largely avoided both paid apps and in-app billed items, but some played games on Facebook and paid for items there, or paid for PSP or Xbox Live points. The ones that used these services seemed to view the initial buying of the corresponding virtual currencies as something of a sunk cost. They did not worry too much about how that broke down in terms of spend as they used them.

Typically, however, they were not really clear over what an item bought with a virtual currency was costing them in "real money". Some had also noticed the variety of price points on offer.

"It had buckets, with food in. And you might get 5 for a pound but sometimes it changes – you might get 4 buckets for 3 pounds. So you need to be really careful"

Girl, 14

Discussing the respective currencies of PSP and Xbox with two 15-year old boys who used both, it was clear that they were much more comfortable with, and certain of their spend on the PSP, where the amount could be seen in pounds, than Xbox, which dealt solely in points.¹³ The point system made them think things they bought on the system were cheaper than they were. This was not a worry for them, however, and did not stop them using the service.

In the quantitative study, only 12% of children had used virtual currencies, while 31% had paid for a mobile application. While the low share of users means the base is low (50 children), 24% of virtual currency users said they had no idea how much 'real' money they were spending. 18% said they were a bit uncertain, while 56% said they knew how much they were spending in real money.

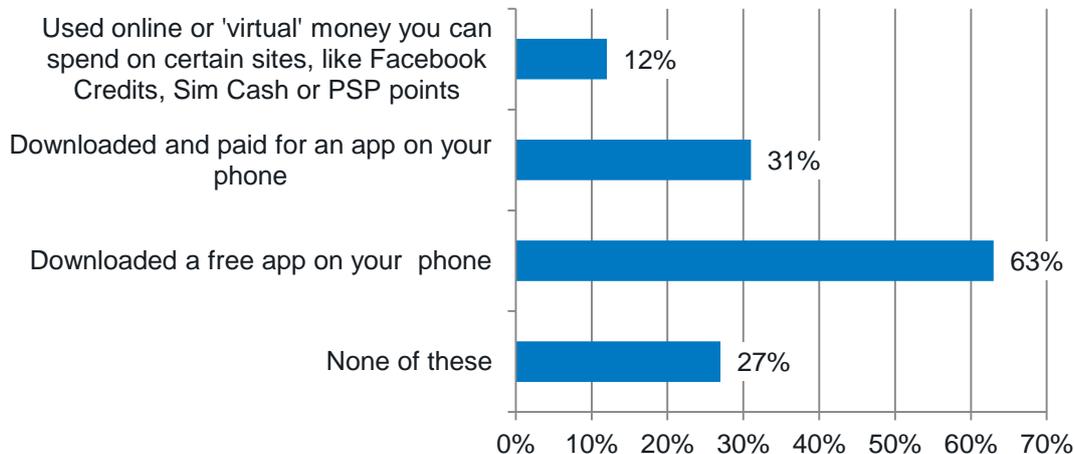
¹³ Note that Xbox is also moving to display prices in real currency

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Application and virtual currency usage in the past six months



Source, PhonepayPlus in-school quantitative survey of children 11-16 years old, December, 2011. Base: 416 children with mobile phones.

6.5 'Free' at a price – inappropriate advertisements

The Independent Mobile Classification Body (IMCB), set up by UK mobile operators in order to self-regulate around content has been in place in the UK for some time, as have the initially controversial decision by mobile operators to automatically put in a block on content rated 18+ on mobile phones.

Nevertheless, none of the parents we spoke to had any idea that child protection exists on mobiles. They were, however, keen to see some implemented – many of them said they had child locks on computers in the house and wished there was something similar for mobile. Communication about the child protection measures simply do not seem to be reaching parents.

The majority of the children in our sample had come across things they said “weren’t for people their age” - but this wasn’t because they were looking for it and it was not actual content that was classified.

“There can be some inappropriate ones sometimes... censored things”
Boy, 11

Rather, many of them played free, ad-funded games, and they complained of inappropriate advertisements featuring in these. Seeing advertisements for dating and scantily-clad women clearly made them feel uncomfortable. In addition to advertisements including what one boy referred to as “censored stuff” that they “shouldn’t see”, the children were also exposed to more salubrious advertisements that were simply intended for grown-ups, such as insurance or banking products.

There has been a known problem of BlackBerry devices from the majority of UK operators not having an over-18 content block – this was the main concern around PRS raised by a children’s charity interviewed for this report. Advertising, however, can be quite separate from content delivery and it should be noted that problems with inappropriate advertisements were not limited to BlackBerry users.

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6.6 Perception of safety and trust

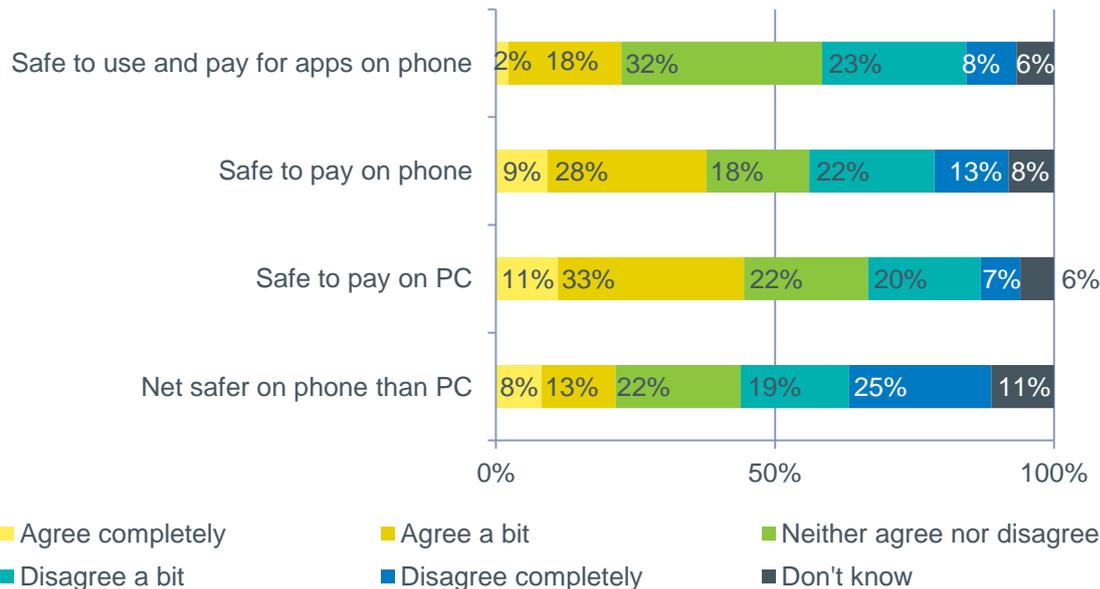
In our qualitative study, several of the children felt that the internet on the mobile phone was safer to use, with less risk for viruses or privacy problems, than the fixed internet. It may be that this is driven by the emotional proximity they have to their devices, although of course the experience they have had of using mobiles compared to PCs plays a role here.

Typically, it was just something they felt to be the case, rather than driven by rational explanations, however. For others, the risk of mobile phone viruses could seem real even if they had not had such problems – they readily ascribed any problems with a smartphone malfunctioning or losing data as due to “viruses”.

Both parents and children in the qualitative sample were completely comfortable with app stores – there was no sense that they may download anything harmful there. Typically, this was in no small part due to brand affinity – e.g. since BlackBerry is a big brand, it would not allow anything “bad” on its store and if something did go wrong, there was someone they could contact.

In the quantitative survey, however, both these points were more ambiguous. A greater share of children disagreed than agreed that it was safe to use and pay for apps and the children generally did not think that the internet was safer to use on the phone than on a PC.

Perception of safety – mobile vs. PC



Source, PhonepayPlus in-school quantitative survey of children 11-16 years old, December 2011 Base: 416 children with mobile phones.

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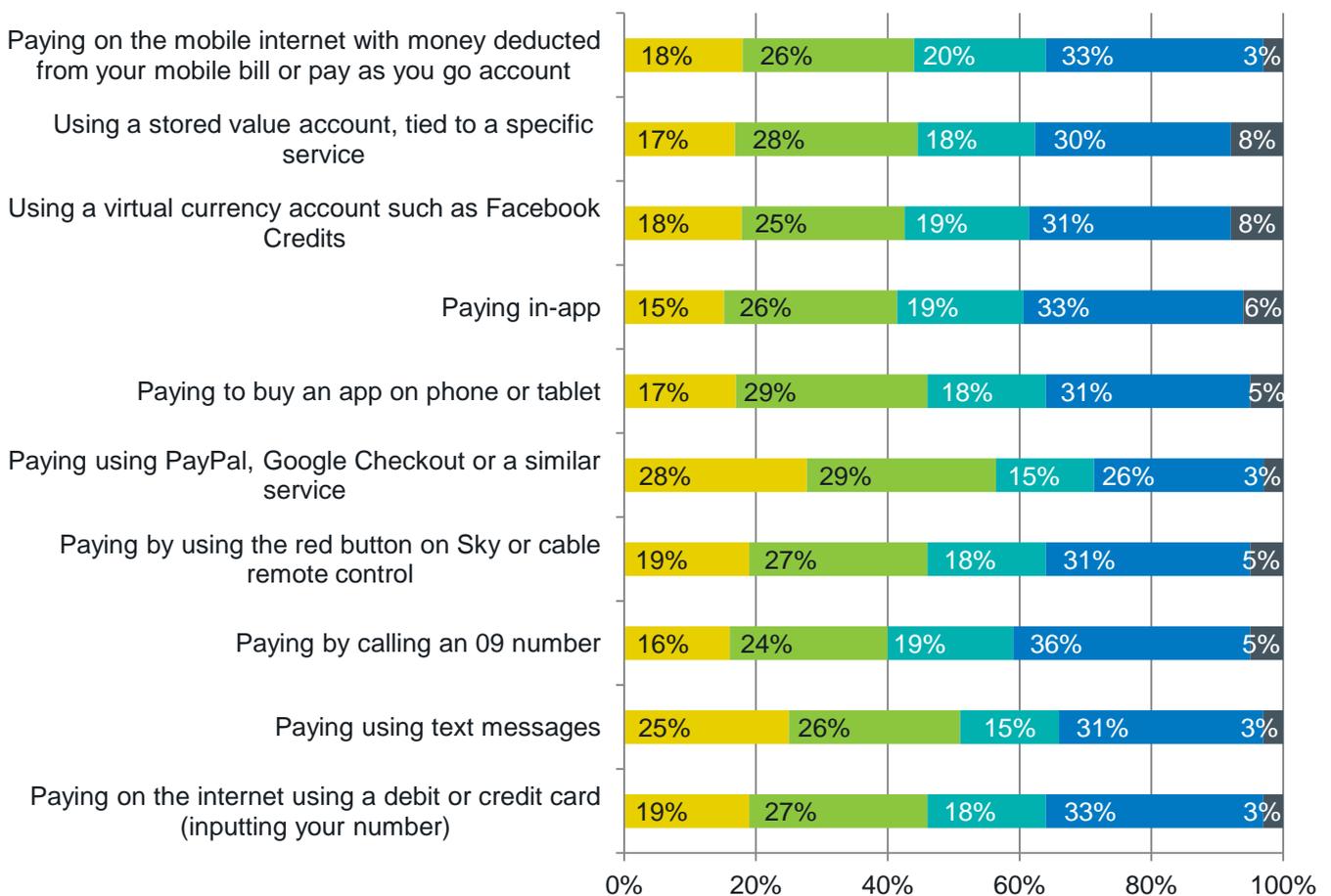
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In the main online quantitative survey, we asked parents how comfortable they were with their children paying using a variety of payment methods. While some of these clearly could not be used without the parent's permission or access to the parent's payment card, results give an indication of which forms of payment parents feel are safer or clearer, so that their children could use them.

PayPal was the most trusted mechanism for children to use, but paying by text was not far behind with this audience.

Parents' level of comfort with children using payment methods



- I think this is safe and feel happy for them to pay this way
- I think this is fairly safe and feel fairly happy for them to pay this way
- I don't think this is quite safe and I'm a bit worried about them paying this way
- I don't think this is safe and wouldn't want them to pay this way
- I haven't heard of this service

Source: PhonepayPlus quantitative online study, December 2011. Base: 1,861 parents who use PRS. Question: How do you feel about your children paying using the following methods?