



PhonepayPlus

Current and Future Market for PRS 2012-2013



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Executive Summary



1. EXECUTIVE SUMMARY

This report provides an overview of the current and projected outlook for the premium rate services (PRS) industry. These insights are gleaned from interviews with businesses supplying PRS (both direct to consumers as well as to other businesses), combined with consumer spending and industry output data. The precise methodology is detailed on pages 5-8.

PRS revenue figures for 2012, provided by the industry, show a reported market size of £763.8m (ex VAT), 4% lower than the reported 2011 total, which suggests that many areas of PRS revenue are in decline. With the proliferation of smartphones, and hence access to online content which may be free of charge or accessed via other payment methods, many 'traditional' PRS services are being catered for elsewhere. This retrenchment in telecoms spend (at an overall level) is also noted by Ofcom in their Communications Market Report for 2012 (total UK telecoms revenues decreased by 1.8% in 2012 to £38.8bn).¹

Looking at individual services; demand for 'Directory Enquiries', 'Dating or Flirt' and 'Tarot or Astrology' have each fallen and in the opinion of the businesses currently supplying these to consumers, are anticipated to continue falling. This generally fits with the reported revenue and consumer usage data for 2012.

In contrast there is optimism amongst businesses supplying services for 'voting and other TV/radio interaction', 'charity donations', 'betting or gambling' and 'games'. Indeed 'games on social networks' have attracted the interest of a number of businesses not currently supplying them.

The challenge for the industry seems to be on the one hand to manage the decline of traditional services, while exploiting emerging opportunities elsewhere.

Looking in more detail at PRS payment mechanisms, premium voice shortcodes saw the most optimism as an area for growth. Some of this growth may be at the expense of premium 09 numbers and SMS, usage of which was anticipated by more merchants to fall in the future rather than climb.

The research indicates that future usage of PRS payment cannot be automatically assumed, even for services for which it has traditionally been the major payment mechanism. There is a positive outlook for non-PRS payment methods such as credit/ debit cards and online accounts.

Merchants' assessments of advantages and disadvantages of the different payment mechanisms tends to focus on ease of customer use, receipt of revenue/promptness, as well as transparency of costs to the consumer.

The views of these advantages and disadvantages are reflected in businesses' actual choice of payment option that they use. Share of revenue and reduced regulatory burdens are attractive drivers for businesses, however, at present for many, the key advantage of the mechanisms used is related to ease of consumer use.

¹ <http://stakeholders.ofcom.org.uk/market-data-research/market-data/communications-market-reports/cmr13/uk/>

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The interviews with merchants highlighted that there is an uneven regulatory playing field between PRS and other payment mechanisms, as only PRS are subject to a higher level of regulation through PhonepayPlus. This additional regulation can be beneficial where it helps to drive out scams, improve price transparency and build consumer confidence. However, it can also mean some added costs and barriers to merchants offering PRS that don't apply to merchants offering other payment mechanisms. Whilst merchants' choice of payment mechanisms were determined by a range of factors, the added regulatory costs and barriers around PRS may be a material influence for some merchants in deciding which payment mechanisms to offer.

Newer payment mechanisms such as Payforit, voice shortcodes and micropayment opportunities with mobile apps have good awareness levels among merchants, and there is interest amongst some merchants in offering these options to customers in future. However, inertia, share of revenue and regulation could inhibit growth of businesses offering payment platforms via Payforit and voice shortcodes. In the case of Payforit, there were also issues cited in relation to promotion/awareness.

Another major issue is that there are now so many ways available to pay for services that it can be difficult for an emerging method, such as Payforit, to stand out in the market.

Opinions of regulation are naturally mixed, but the majority of respondents felt the level of regulation was about right, with many understanding its importance in allowing the market to operate properly. Respondents were particularly supportive of regulation designed to root out scams and to improve pricing transparency, as this was likely to feed through into greater consumer confidence in using PRS. However, a few businesses felt that some aspects of regulation can create an unnecessary burden.

Many view the future for the industry in terms of revenue generation as positive, with technological changes such as smartphones and social media bringing the possibility of growth. However, the flipside of technological development, and in particular, access to the internet, is the availability of free or pirated content, which have a negative impact for content-driven suppliers. The fragmentation of PRS, with new payment methods competing for the same revenue will have a further downward pressure on individual businesses that don't offer the full range of payment methods.

There are other new opportunities for the industry though, as one supplier commented:

"The big question is what payments will people want to put on their phone bill? As it develops, are people going to be buying parking tickets, pizzas, cinema tickets etc – the jury is out on that one"

Whilst traditional payments plateau, and the internet brings free content, there will always be some premium content that people are willing to pay for, assuming that the content is good enough and/or not available for free. As noted in the quote above, the other key opportunity is to extend phone payment to non-traditional areas. Therefore the outlook for those involved in PRS will depend on how these opposing issues balance each other out.



Current and Future Market for PRS 2012-2013

Methodology

2 METHODOLOGY

2.1 About this study

This Market Direction report is a new edition of regular research into current and emerging trends in the UK premium rate services (PRS) market, carried out on behalf of PhonepayPlus. The purpose of the report is to monitor developments in the market and to provide insight into the future direction of the industry.

This report includes market-sizing calculations based on industry revenue figures and consumer usage information based on survey data. This is set into context with analysis from interviews with businesses operating in this space; those supplying digital content suitable for purchase via micropayment, or premium rate phone-paid methods.

The result is a snapshot of the current market in terms of services and payment methods, attitudes of businesses in this area, and insight into the future likely direction of the industry.

It is part of a larger project that involves two individual reports, as detailed below.

Survey name	Purpose	Data from
Consumer Engagement Report	Drill down into detailed profile, habits and attitudes of PRS and micropayment users	<ul style="list-style-type: none"> - Online consumer survey of 4,013 PRS and 1,045 Micropayment users, 15,136 respondents initially entered the survey, but were screened out as they did not use PRS or Micropayment services. - Returns data from the industry
Market Direction Report	Provide insight into the performance and evolution of the markets in which PRS operate.	<ul style="list-style-type: none"> - Telephone interviews with 52 businesses supplying digital content (to businesses, and direct to consumers) suitable for purchase via micropayment method (more details below) - This report also used data as per the Consumer Engagement Report, including returns data from the industry which is used to calculate PRS revenues by payment type, as well as findings from depth interviews with industry stakeholders.

2.2 Methodology

Businesses

Research with businesses was conducted via structured telephone interviews with 52 businesses supplying digital content suitable for purchase via micropayment or premium rate phone paid methods. Of the 52 businesses, 29 supplied content directly to consumers, 38 were involved in supporting businesses which sell to consumers (of these, 15 supplied services both directly to consumers and other businesses).

Fieldwork was conducted by telephone from 2 May to 29 May 2013. The sample of potential participants was supplied by PhonepayPlus, the industry association AIME, and also sourced by BDRC Continental.



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The initial aim was to obtain a minimum of 100 interviews, to provide sample of sufficient size to provide basic quantitative analysis of the survey results, however, the final sample size was restricted by a limited number of available business contacts.

Small samples have limitations in terms of their representativeness of views of the universe that they are taken from. Therefore, this research can be thought of as indicative rather than truly representative, but it does provide a detailed picture of the views of some businesses involved in the PRS value chain. Therefore rather than results being expressed as a percentage of the total, in most cases they are quoted as absolute numbers of respondents giving each answer. This has been done to avoid any the findings being taken out of context as representative of the overall universe of merchants.

Consumers

Consumer usage data were collected via an online survey, mirroring the approach of previous years. Details of all respondents were captured, not only those using PRS or micropayment methods. Some findings (including estimates of usage of the different types of services) are based on all entering the survey (in line with the way the data were reported in the previous report).

The fieldwork was carried out via a UK online sample of 4,013 PRS users and 1,045 users of other micropayment systems, aged between 11 and 65 years old. The two groups responded to separate surveys. Data collection was conducted from 1 March to 16 April 2013 by SSI on behalf of BDRC Continental. As per the 2011 report, respondents were first asked whether they had used any of 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. As per the previous report, this was used to calculate usage data for the population as a whole, based on the number of people (15,136) entering the survey, and the proportion of those that used at least one PRS or micropayment method.

All those selected by the sample provider took part in the initial part of the survey, which collected information on their demographic profile as well as other information related to usage of technology. Questions were then asked which determined their usage of PRS and other types of micropayments. These are outlined in the table below.

Groupings – premium rate services		
Service area	Service type	Description
Information	Directory enquiries	Calling or texting directory enquiries
	Other information	Called an information service line, like a car mechanic, help with computers/software or race tipster line or other information using an 09 number or received paid text alerts for example news or sports alerts or texted information services like bus arrival times
	Other information	Called a customer service, information line or other line for a business starting with 0871
Calling	Call services	Used text, 09 numbers, or a 5-digit shortcode to pay for phone calls, like long distance calling or reverse charge calling that's not directly billed to your regular phone provider

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Service area	Service type	Description
Entertainment	Adult entertainment	All content of a sexual nature, including adult chat and babe/porn type images and video clips on mobile
	Competitions and quizzes	Entered a competition or quiz by text, by calling a number starting with 09 or a 5-digit voice shortcode, by putting your mobile number into a mobile website (Payforit), or using the red button
	Voting and other participation TV	Voted by text, or texted comments to TV or radio show costing more than a normal text, voted on a reality show by calling a phone number starting with 09 or a short code, or by red button
	Flirt/ date/ chat	Flirting, dating or chat services (non-sexual) paid to use on a mobile phone or over the phone
	Gambling, lotteries	Betting, lotteries, scratchcards or gambling paid to use on a mobile phone or over the phone
	Games	Bought a mobile game to use on a mobile phone or over the phone, or something within a mobile game (extra functionality or options)
	Tarot/ astrology/ psychic/ fortune telling	Paid to use on a mobile phone or over the phone
	Other entertainment	Bought music or video for your mobile, downloaded or streamed bought and paid for with your phone, i.e. added to your bill or deducted from your credit
Personalisation/ gifts/ virtual content	Mobile personalisation	Bought a mobile ringtone, ringback tone, wallpaper or a similar digital decoration
	Virtual items and gifts	Used mobile to buy a 'virtual' or 'digital' gift or tool within an app or game, bought via phone, paid via text message
	Virtual currency	Used mobile to buy online credits/virtual currency
Payments	Charity donations	Given money to charity via text, red button, or by calling an 09 number or shortcode where the donation is added to a bill or deducted from credit
	Non phone-based content and services	Sent a text to pay for a non-mobile related product or service, e.g. Wi-Fi for your laptop or for access to something on computer or on the TV
		Paid for something not on phone by calling a premium phone line, for example pictures or services on the internet or to bid on something on TV

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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.

We have added to this total an estimate of the revenue generated from text donations to dedicated charity shortcodes – since these do not carry revenue share with operators and as such are not part of the PhonepayPlus outpayment data. The estimate is derived from the bottom-up market sizing model using stated spend data in the consumer questionnaire.

Bottom-up: The split of PRS total market size into service categories was carried out by applying usage frequency, spend and payment channel data from the quantitative consumer study to the market size (outpayments) data. These figures were subsequently adjusted using weightings from the model used in the previous studies, which was derived from desk research and views from members of the industry, where possible.

All revenue figures in this report are taken from this.

The following section gives an overview of the current PRS market with data showing the total UK estimated premium rate revenues by payment type and service type, and the proportion of consumers using each PRS.



3. CONTEXT: OVERALL MARKET SIZE AND TRENDS

3.1 Market size overall

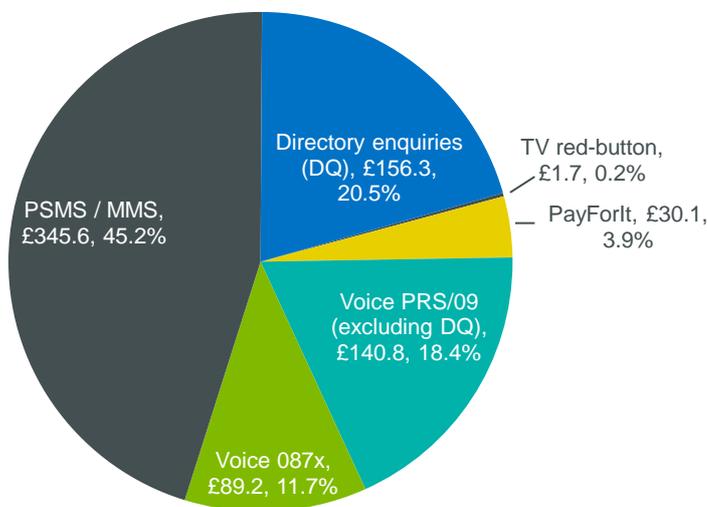
This report forms part of the Current and Emerging Trends in the UK PRS Market research project (the other is the Consumer Engagement report). A key element of the research programme is to provide a market sizing estimate split by the different payment mechanisms and service areas.

Overall PRS revenues in 2011 were calculated to be £794.2m (ex VAT)². In 2012 the total is £763.8m, which represents a 3.8% decline. This follows an estimated 2.7% dip from the 2010 figure (of £816m) so continues the downward trend. This total figure represents out-payment figures provided by the industry to PhonepayPlus and includes charity donations which have zero-rated revenue shares.

Chart 1 below illustrates the total UK estimated premium rate revenues by payment type.

PSMS/MMS (Premium SMS/Multi-media SMS) (continues to) represent the largest share of revenue at 45.2%, followed by directory enquiries (20.5%).

Chart 1
2012 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

² The “2011 Current & Future Market for PRS” reported figures based on *anticipated* returns for the final quarter. The 2011 figures in this current report are based on the *actual* out payment data, and as such have been adjusted to reflect this more accurate information.



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Context: Overall market size and trends

The following table shows a summary of revenue year on year, broken down by payment type. All figures exclude VAT.

Payforit, as a relatively new entrant in the market (accounting for just 4% of revenue) has shown strong growth, of 19%. PSMS/ MMS also buck the top-line trend and have grown by 4%. Voice and DQ however, are areas with diminishing revenues.

Payment type	2011 (£ millions)	2012 (£ millions)	% change
PSMS/ MMS	331.3	345.6	+4%
Directory Enquiries	178.4	156.3	-12%
Voice PRS/ 09 excl. DQ	163.5	140.8	-14%
Voice 087x	93.7	89.2	-5%
Payforit	25.4	30.1	+19%
TV red button	1.9	1.7	-11%
TOTAL	794.2	763.8	-3.8%



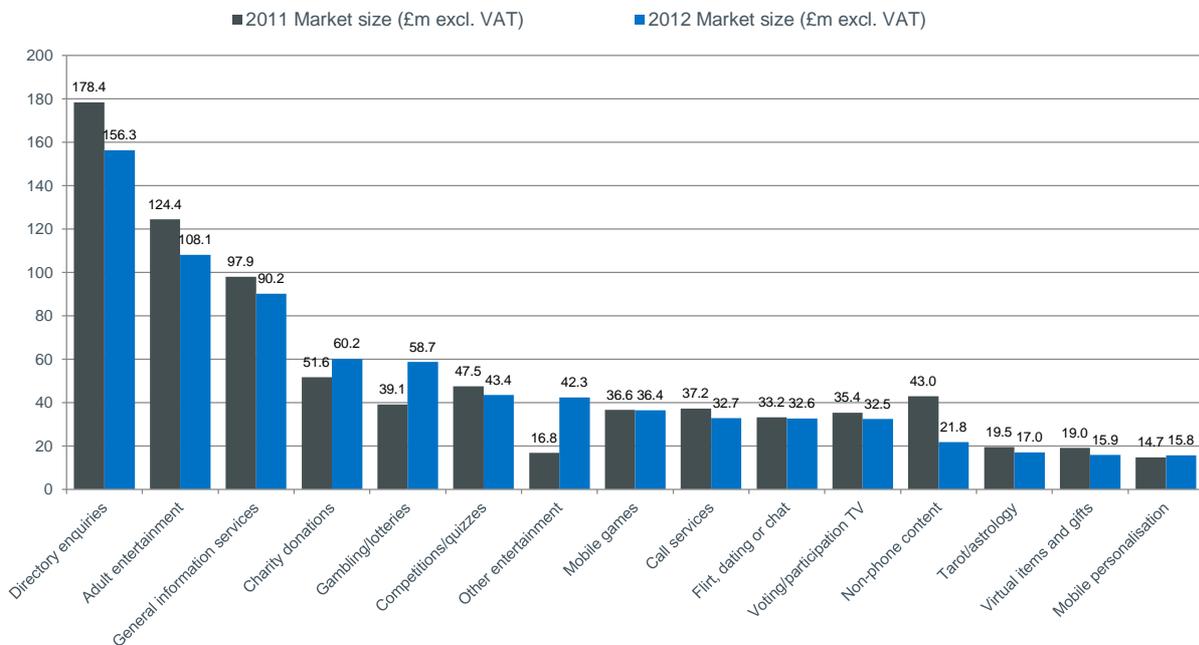
3.2 Market size by sector

Directory enquiries remains the biggest single service type on a PRS platform, but is calculated to be declining year on year. Adult entertainment, another key PRS area, is also weakening. The same is true to a lesser but visible extent for 'general information services'.

Figures in Chart 2 below show there is growth in areas, such as 'gambling and lotteries, etc', 'charity donations' and 'entertainment'. The extent to which these areas are thought to fill gaps left in declining sectors will be examined in Section 4 of the report which examines merchant's views on the future of the PRS industry.

Chart 2

Market value by type of service, 2011-2012 (£ mil.)



Source: PRS market sizing for PhonepayPlus



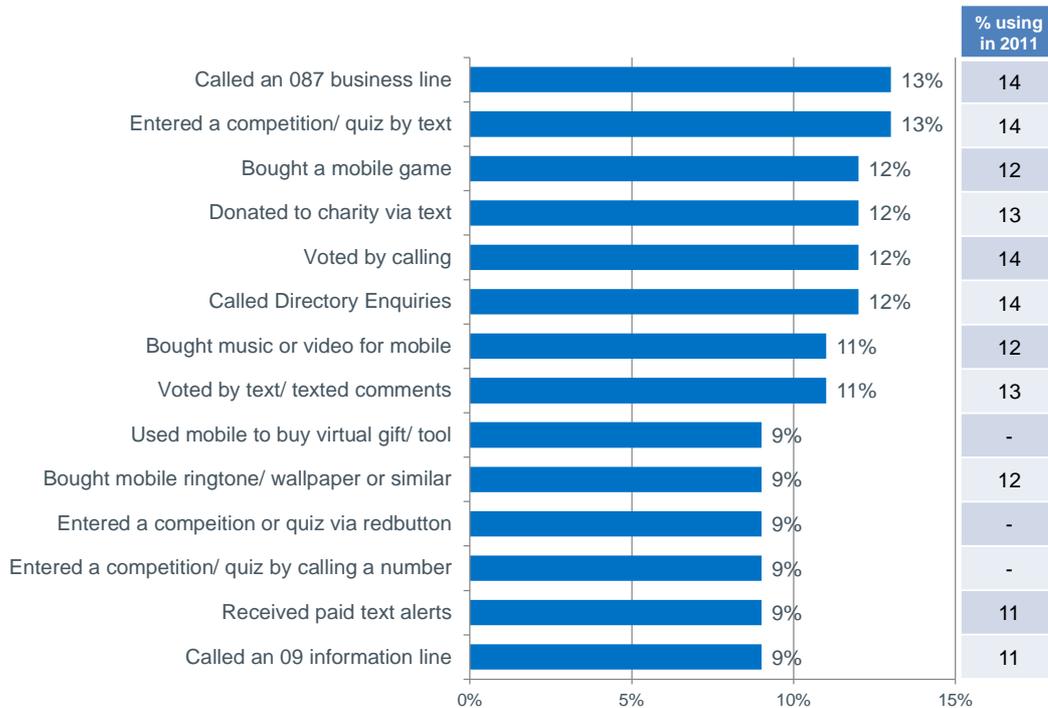
3.3 Reported consumer usage

The research programme commissioned by PhonepayPlus also contains a consumer element, interviewing PRS and micropayment users via an online panel.

A measure of usage of PRS and micropayment methods was taken amongst all those entering the online survey. The figures in Charts 3 and 4 provide an indication of relative usage in the general population and are based on all those entering the consumer survey.

It is important to bear in mind that some categories of service reported here are split according to payment type, whereas others are not. This is in line with the way the data have been historically reported and reflects the interest that PhonepayPlus has in understanding market development in certain sectors.

Chart 3
Consumer usage of specific premium rate services (most used)



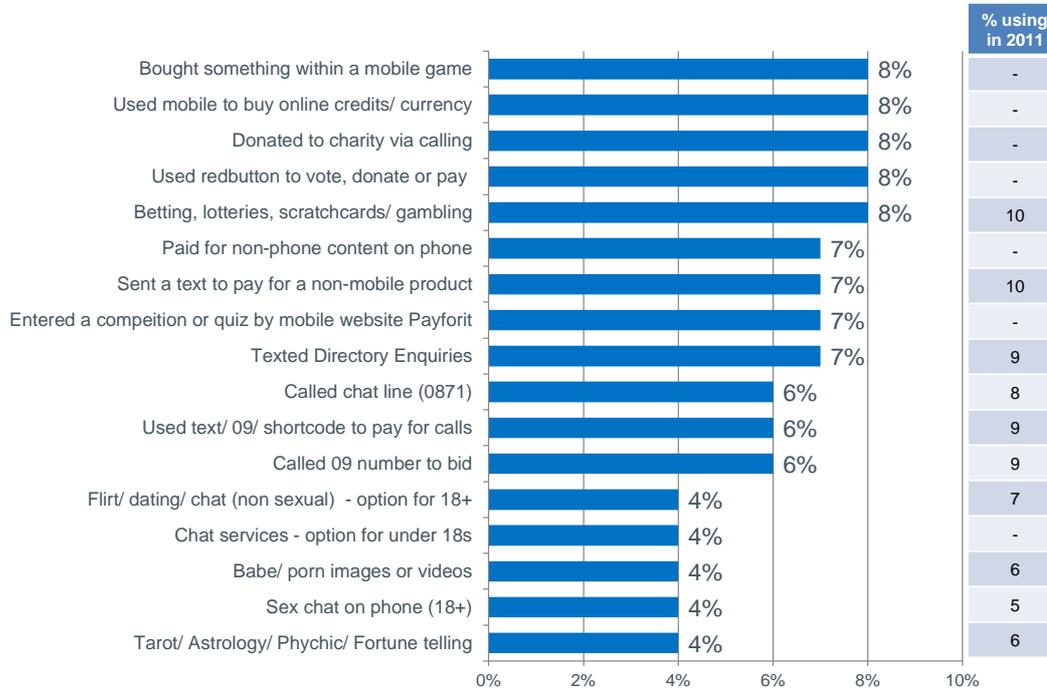
Data relates to claimed consumer usage in the previous 6 months
 Source: PhonepayPlus quantitative consumer study, March to April 2013. Base: All entering the survey = 15136 consumers.
 PRS1a/2a

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Context: Overall market size and trends



Chart 4
Consumer usage of specific premium rate services (less used)



Data relates to claimed consumer usage in the previous 6 months
 Source: PhonepayPlus quantitative consumer study, March to April 2013. Base: All entering the survey = 15136 consumers.
 PRS1a/2a

Most service categories are waning year on year by one or two percentage points. This pattern of gradual decline in use as stated by consumers is broadly in-line with the decline in overall revenue shown in figures provided by the industry.

However, considering the dual challenges of an economic downturn and rapid technological change, decline is perhaps not as marked as some industry stakeholders suggest.

Please note that consumers are thought to under-report some areas of PRS usage, especially adult entertainment, and this report attempts to correct for this. Looking at other research undertaken by BDRC Continental on sensitive topics (including a detailed study on digital content piracy, and other unpublished research) we would estimate 'genuine' usage figures may be two to three times as high for some adult services. In line with previous years' reports, a similar weighting has been applied to produce the revenue figures here for adult entertainment.



4 FUTURE MARKET

4.1 Overview

The following section examines the different services provided to consumers. There are three metrics examined. The future forecast is the view from businesses offering particular services whether they think that demand from customers in the next 12 months will show:

- A sharp increase or slight increase
- No change
- A slight decrease or sharp decrease

This is compared to past reported revenue year on year and consumer reported purchase data. This gives a snapshot for different services on whether the trajectory is upwards, stable or in decline. In most instances, businesses reported a slight rather than a sharp difference, and this is why these ratings (slight & sharp) are grouped together.

By showing information on market direction from three diverse sources together we hope to show a more complete picture of future market direction.

Please note that the merchant and consumer surveys had slightly different descriptions of the types of services provided, to ensure comprehension and clarity in terms of the language and terminology used by the different groups. Therefore, whilst the comparisons for the three metrics are sensible, the slight differences should be borne in mind.

Each of the types of services which businesses were asked about in the survey have been grouped into three different categories. These are:

- Areas where many foresee **growth**
- Areas which are thought to be in **decline**
- Areas where many businesses are **neutral**



4.2 Areas where many foresee growth

As illustrated in Chart 5 below, there were several categories where the balance of opinion for future customer demand was broadly positive amongst businesses supplying either consumers or businesses. Further detail on consumer usage and revenue for each of the service areas is provided later.

Chart 5

Services with a broadly positive forecast amongst current suppliers (direct or otherwise):

Service	Projection
Voting/ TV/ Radio interaction	↑ 8 / 10 / ↓ 3
Charity donations	↑ 14 / 9 / ↓ 1
Betting	↑ 8 / 2 / ↓ 0
Games (not social networks)	↑ 6 / 9 / ↓ 1
Games (on social networks)	↑ 9 / 2 / ↓ 0
Virtual items/ gifts	↑ 6 / 1 / ↓ 1

Source: Merchants expectation of demand: PhonepayPlus merchant survey, May 2013. NUMBERS of interviews quoted not percentages due to low base sizes. n= total number of interviews with suppliers in that category.

For almost all of the categories listed in Chart 5, there was a greater tendency for those forecasting a rise in demand to be companies only selling services to businesses rather than those supplying consumers directly. As an extreme example, all selling services relating to ‘games on social networks’ to other business, forecast demand to increase (6/6) compared to half those supplying direct to consumers (3/6).

There are no consistent patterns by business size.

Out of the total sample, 10 of the 52 businesses claimed that there would be a sharp increase in growth for at least one type of service area in which they were involved. 36 businesses projected that there would be growth of some magnitude for at least one type of service area. This suggests that at least some optimism is spread widely across the PRS industry.



Negative forecasts were less common, with 26 of the 52 businesses suggesting that at least one of the areas they worked in would see some in decline.

Overall, businesses were more optimistic about the future than direction of industry data would indicate, which suggests that they think they have turned a corner with regards the economic situation.

Voting/TV/Radio interaction

As shown in Chart 6 on the following page, of the 21 businesses involved in supplying 'Voting/TV/Radio interaction services' either direct to consumers or other parties, 8 thought these would see an increase in consumer demand, compared to just 3 which expected demand to contract. Many (10) did not think that there would be any change.

However, reported revenue suggested a slight decrease, and consumer usage was also trending down. Businesses that were optimistic gave some compelling reasons for being so, including a conviction that there were opportunities to be had from the ever-more interactive nature of the TV market. Businesses working in this space indicated that consumers increasingly want to be able feel they are an integral part of the TV shows they are watching, and voting (or interacting via other means) is often the best way. A major variable that affects this sector is the quality of the broadcast material, and how well viewers have engaged with the programmes. Broadcasters are aware of this and often build shows around opportunities for the audience to interact, via social networks as well as via services that are billed through PRS.

The increased usage of the voice shortcode was viewed as a positive driver, and the longer they have been around, the more they are accepted by consumers. Shortcodes were felt to offer considerable opportunity within the industry, because they remove a barrier to consumer engagement - uncertainty of costs when calling from a mobile.

"If you're giving out a message on TV "it'll cost you 36p, however if you call from a mobile it could cost you a lot more", it's not a great message. So being able to say "it'll cost you 36p, if you're on a landline call this number, if you're on a mobile call this number" is a much more positive communication."

However, the rise of voice shortcodes could well be at the expense of premium rate SMS messages, and therefore PRS services could cannibalise each other, with one showing growth at the expense of another.

"SMS premium rate was big business before smartphones came into being. However you can now have a shortcode that enables voting at the same low cost of landline"

Perhaps counter-intuitively, the economic downturn was mentioned as a benefit by one business, as viewers were staying at home, watching more TV and therefore providing more opportunities for them to interact with TV (and radio) shows. Also, these types of small purchases were seen as 'affordable treats' at a time when they were reducing purchasing in other more expensive areas.

It was felt that trust had been regained after a number of high profile scandals with TV voting in the last decade.

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Online voting was seen as a threat to revenue. Although revenue for the broadcaster is reduced if votes are collected via a free-to-enter online form rather than PRS, the amount of personal information that it is possible to collect is greatly increased. In this day and age, information about customers (e.g. viewers of a programme) can be of significantly greater value than the revenue gained by them paying to enter a contest.

Chart 6

Key metric summary:

Demand forecast (current suppliers), reported revenue (model) and reported purchase (consumers)



Source: Merchants expectation of demand: PhonepayPlus merchant survey, May 2013. NUMBERS of interviews quoted not percentages due to low base sizes. n= total number of interviews with suppliers in that category
Reported revenue: model
Reported usage: PhonepayPlus quantitative consumer study, March-April 2013. Base: All entering the survey = 15136

As can be seen in the above chart, consumer revenue has fallen slightly since last year, likely to have been primarily as a result of the increasing move to free services.

However businesses' expectations for the future were positive overall, attributed to the increased usage of interactivity within programming (particularly via shortcodes), combined with the regaining of the public trust for voting.



Charity donations

As illustrated in Chart 7 below, reported revenue was up significantly year on year (from £52m to £60m), one of the few areas to buck an otherwise downward trend. However, claimed consumer usage for donation via texts was fairly static (NB donation via calls was not specifically asked about in 2011).

In line with this, far more businesses felt customer demand for charity donations services would increase (14) than were neutral (9), or negative (1).

Chart 7

Key metric summary:

Demand forecast (current suppliers), reported revenue (model) and reported purchase (consumers)



Source: Merchants expectation of demand: PhonepayPlus merchant survey, May 2013. NUMBERS of interviews quoted not percentages due to low base sizes. n= total number of interviews with suppliers in that category
 Reported revenue: model
 Reported usage: PhonepayPlus quantitative consumer study, March-April 2013. Base: All entering the survey = 15136

The increasing popularity of newer PRS methods (such as shortcodes) was seen as key to this increase in revenue. They have become more established and hence more trusted amongst consumers. One respondent was confident that more charities would offer these methods:

“They’ve been growing in the last few years and it will continue. More charities are using the new payment mechanics”

Increased provision was in some part due to explicit consumer demand (as a result of increased awareness). Providers stated that end-users were actively asking charities if they could pay by mobile phone rather than credit cards.

The widespread and high profile use of text giving by Comic Relief was cited as a driving force for increased usage by other charities. Some charities, naturally, will wait and only use a payment method once it has been reasonably established.

In addition, running and admin costs (previously seen as prohibitive) had come down for text giving, making it much more attractive to charities.

They also cited developments in the ways these payments are promoted by charities, with a

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particular mention of enhancing the call to action.

Regulation was thought by some businesses to be underpinning the increase, as it makes consumers feel more secure when they make donation

"[Regulation has led to] higher customer awareness, ease of use, and pricing transparency"

However, some organisations we spoke to felt that the current regulation hindered the development of repeat payments, as people donating via their phone bill are presented monthly with the opportunity to opt out of donating. This contrasts with non-PRS donation methods such as direct debit, which repeat the payment until the customer intervenes. It is clear that regulation could play an important role in enhancing the opportunity for increased PRS revenue for charitable donations. PhonepayPlus has been working closely with industry to facilitate development in this sector. At the time of writing, and following a trial period, PhonepayPlus is consulting on a change in regulation for regular text giving, which would reduce the opt-out reminders to a quarterly rather than monthly interval. In addition, the consultation is proposing the introduction of a monthly message informing consumers that they can skip a monthly payment if they wish.



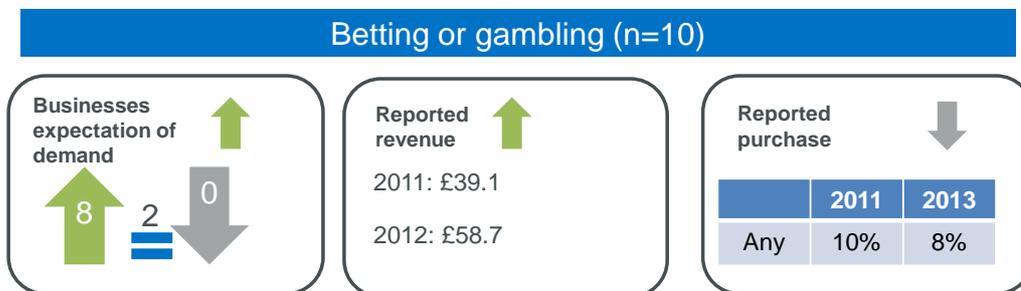
Betting or gambling

Almost all (8/10) businesses operating in the betting or gambling market felt that customer demand for these services was likely to increase in the next 12 months as shown in Chart 8 below. This follows reported substantial revenue growth since 2011 (up from £39m to nearly £59m), propelling it above competitors and quizzes, perhaps because of relatively high average revenue per user compared to other PRS services (rather than expanding the customer base).

Chart 8

Key metric summary:

Demand forecast (current suppliers), reported revenue (model) and reported purchase (consumers)



Source: Merchants expectation of demand: PhonepayPlus merchant survey, May 2013. NUMBERS of interviews quoted not percentages due to low base sizes. n= total number of interviews with suppliers in that category
 Reported revenue: model
 Reported usage: PhonepayPlus quantitative consumer study, March-April 2013. Base: All entering the survey = 15136

One business respondent felt that due to the economic downturn, consumers were more likely to use these kinds of service online from home (than elsewhere).

This growing demand was thought to be a good match for mobile payments and perhaps underexploited.

“The billing mechanics are well suited for this industry”

One merchant specified Payfort as a mechanism primed for growth.

*“Due to the mandates of Payfort it will be the number one billing option.
 People feel more secure and find it easy to make small payments”*



Another merchant sums up these beliefs.

“This industry has not been explored well enough in the past so the gambling industry will present an opportunity to consumers - they can start using mobile phones to place bets through their phones”

The 2011 market report highlighted that mobile payment was normally seen as a ‘starter’ for upselling to credit card based remote gambling. The growth seen here may mean that phone payment is starting to be taken seriously as an important revenue stream in its own right.

This is similar to the issue of PRS as ‘recruitment tool’ encountered with text giving. Historically phone payments have often been seen as a way to introduce consumers to a service in order to convert them into a more lucrative direct giving. If phone paid mechanisms can be made more attractive/ and appropriate for long term giving then this is clearly a major opportunity for growth.

Overall the speed and simplicity of mobile payments were seen as ideal for gambling – where decisions are often very spontaneous and payments needs to be quick (although rates need to be competitive).

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Games other than on social networks

The market for games was static from 2011-2012, both in terms of revenue and numbers of users. As shown above in Chart 9 below, more felt that customer demand would increase (6), than those that were pessimistic (1), but the majority were neutral (9). It's an area which still presented an opportunity for some merchants, partly because of changing attitudes.

“The attitudes of consumers towards games have changed - they have become more acceptable now, and many find it one of best things to do when they have a bit of spare time.”

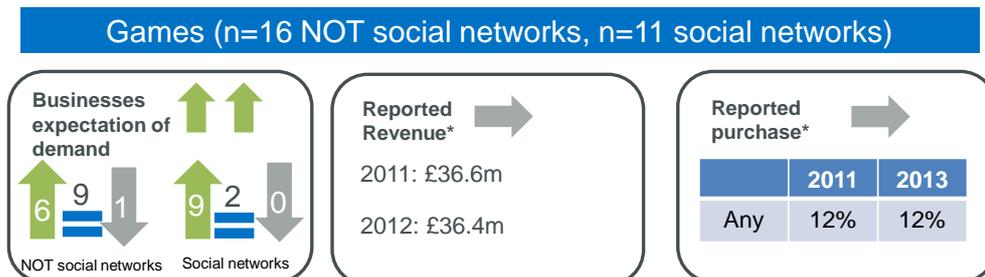
Demand was also felt to be increasing because of smartphone proliferation, Payfort billing, and the 'low price' model suiting PRS.

Again, the freemium model that offers free entry, then small purchases to help with gameplay, popular in the gaming industry seems ideally suited to PRS.

Chart 9

Key metric summary:

Demand forecast (current suppliers), reported revenue (model) and reported purchase (consumers)



*does not include in games purchases

Source: Merchants expectation of demand: PhonepayPlus merchant survey, May 2013. NUMBERS of interviews quoted not percentages due to low base sizes. n= total number of interviews with suppliers in that category

Reported revenue: model

Reported usage: PhonepayPlus quantitative consumer study, March-April 2013. Base: All entering the survey = 15136



Games on social networks

The growth of social networks and people's desire for interactivity was thought to be a factor in driving demand for games using this media, and of the 11 suppliers, 9 felt interest would grow, with the remaining 2 neutral.

"Traditional gaming is becoming more social..... The level of interactivity can make a lot of money so I think the traditional gaming giants will be become more social or mobile"

The synergy between PRS billing and these types of games was felt to position them well as the respondent above indicates. The small payments involved were mentioned as a driver to PRS (again, the freemium model, popular in the gaming industry seems ideally suited to PRS).

"It's simply because it's very easy to make payments using mobile. If it's a couple of pounds then it's difficult to pay by credit or debit cards"

As reported revenue was flat, the challenge for businesses operating in these areas will be to effectively monetise services, which consumers frequently expected to be free. In-game purchases are one way to do this, and 8% of consumers entering the quantitative survey claimed to have done so, and 12% had purchased a game outright.



Virtual gifts

A majority (6/8) of business selling virtual items or gifts felt that customer demand would increase in the next 12 months as shown in Chart 10 below. This positive viewpoint was attributed to a greater number of apps in this area, as well as ever increasing smartphone uptake (and combined with the growth of using these to access social networks). These factors, underpinned by a generally positive market that suited PRS, were the cause of this anticipated increase in demand.

As reported revenue in the last couple of years has declined, this positive outlook indicates that this trend may reverse.

Chart 10

Key metric summary:

Demand forecast (current suppliers), reported revenue (model) and reported purchase (consumers)



Source: Merchants expectation of demand: PhonepayPlus merchant survey, May 2013. NUMBERS of interviews quoted not percentages due to low base sizes. n= total number of interviews with suppliers in that category

Reported revenue: model

Reported usage: PhonepayPlus quantitative consumer study, March-April 2013. Base: All entering the survey = 15136



4.3 Areas which are thought to be in decline

There were four service areas where a majority of businesses currently supplying felt that there would be a decline in demand. These are shown in Chart 11 below and expanded with further metrics in the following sections.

Chart 11

Services with a broadly negative forecast amongst current suppliers (direct or otherwise):

Service	Projection
Directory Enquiries	  
Dating/ Flirt	  
Tarot/ Astrology	  
Ringtones and personalisation	  

Source:

Merchants expectation of demand: PhonepayPlus merchant survey, May 2013.

NUMBERS of interviews quoted not percentages due to low base sizes. n= total number of interviews with suppliers in that category.



Directory Enquiries

Of the 12 businesses interviewed that are operating in this area, only one felt that customer demand would increase over the next 12 months. Whilst half felt there would be no change, 5 thought that demand would decrease. As reported, revenue has declined year on year (£178.4m to £156.3m, Chart 12 below) and the evidence does point to a continued decline.

Smartphone proliferation (as well as other means of online access) was seen as the cause of this decline.

“The increase in the usage of smartphones in the market and the ease of access to other channels such as internet”

“You can source information through your handsets through other channels. There is free information out there so why pay for such services?”

Whilst in decline, it should be noted that the reported revenue in absolute terms is still relatively large, and of all the types of service it remains the most valuable in terms of revenue. There is still a significant proportion of the UK that does not own a smartphone (according to Ofcom’s Communications Market Report 2013³ half of adults don’t yet own one), however, their rapid growth means that this market could be subject to rapid decline.

Chart 12

Demand forecast amongst businesses who provide each service with reported revenue and consumer usage



Source: Merchants expectation of demand: PhonepayPlus merchant survey, May 2013. numbers only

Reported revenue: model.

Reported usage: PhonepayPlus quantitative consumer study, March-April 2013. Base: All entering the survey = 15136

³ <http://stakeholders.ofcom.org.uk/market-data-research/market-data/communications-market-reports/cmr13/uk/>

Current and Future Market for PRS 2012-2013

Future market



Dating, or flirt chat service

More of the 21 business interviewed that operate in this area felt that demand for dating and flirt chat services would decrease (9) over the next 12 months, than would increase (4). There were 8 that did not foresee any change. Similarly the trend is also down for revenue which shows a minor shrinkage, from £33.2m in 2011 to £32.6m in 2012.

The use of social networks can be seen as both an opportunity and a threat. It could be positive as consumers are becoming increasingly used to dating and chatting electronically.

“It has got growing demand as more consumers are getting aware of it as a way of interacting. The payment mechanic is well suited to that environment”

However, many suppliers felt that there were cheaper or free alternatives available (including, but not limited to social networks).

“Because lots of people are moving away from those kinds of services. They are able to find cheaper alternative services on the internet”

Chart 13

Demand forecast amongst businesses who provide each service with reported revenue and consumer usage



Source:
 Merchants expectation of demand: PhonepayPlus merchant survey, May 2013. numbers only
 Reported revenue: model
 Reported usage: PhonepayPlus quantitative consumer study, March-April 2013. Base: All entering the survey = 15136

Current and Future Market for PRS 2012-2013

Future market



Tarot or astrology

4 of the 26 suppliers of tarot or astrology' services thought there would be an increase in customer demand, with 14 feeling the prognosis was stable, and 8 that demand would recede. Certainly, reported revenue suggests a downward trend (as shown in Chart 14 below).

Consumer demand, according to one merchant was likely to improve because of their "aggressive marketing" efforts. Others mentioned a general upturn in the market.

However these were in the minority, for those less bullish about the prospects for the market, by far the most mentioned reason was the migration to payment via other means, predominantly credit cards:

"Because there are cheaper ways of getting things... The people are getting more value when purchasing by credit card because the provider will not have to give up 30% of their revenue"

Others felt negative about the target audience, as some they felt it was an ageing set of users.

Chart 14

Key metric summary:

Demand forecast (current suppliers), reported revenue (model) and reported purchase (consumers)



Source: Merchants expectation of demand: PhonepayPlus merchant survey, May 2013. NUMBERS of interviews quoted not percentages due to low base sizes. n= total number of interviews with suppliers in that category
 Reported revenue: model
 Reported usage: PhonepayPlus quantitative consumer study, March-April 2013. Base: All entering the survey = 15136

Current and Future Market for PRS 2012-2013

Future market



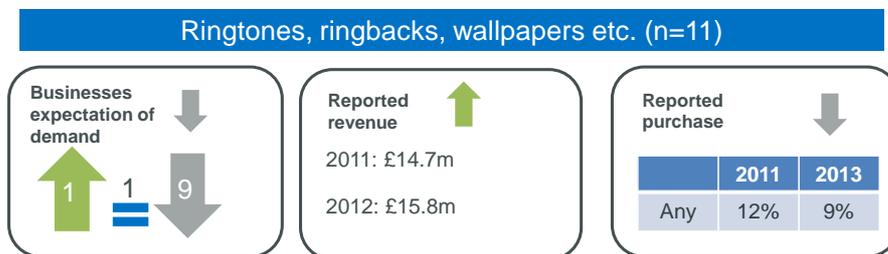
Ringtones, ringbacks, wallpapers etc.

From 2011 to 2012 revenue rose slightly from £14.7m to £15.8m (see Chart 15 below). However the vast majority (9) of the 11 businesses providing 'ringtones, ringbacks, wallpapers etc' felt that customer demand over the next 12 months would decrease.

Chart 15

Key metric summary:

Demand forecast (current suppliers), reported revenue (model) and reported purchase (consumers)



Source: Merchants expectation of demand: PhonepayPlus merchant survey, May 2013. NUMBERS of interviews quoted not percentages due to low base sizes. n= total number of interviews with suppliers in that category
 Reported revenue: model
 Reported usage: PhonepayPlus quantitative consumer study, March-April 2013. Base: All entering the survey = 15136

Suppliers' reasons for their negative outlook were due to declining consumer demand, particularly as a result of competition from other/free sources.

"It's a traditional content [type]. It did well in the past but now it's now becoming less popular. It's less of a consumer's priority to have that personalisation on their phones like the craze we had in 2007 or 2008"

These forms of mobile phone personalisation are particularly available from other sources (and for free) for smartphones, which can download direct from the internet.

"This type of content is readily accessible via free routes. You can download these things for free in the UK"

As penetration of smartphones increases (from its current 51%), paid-for personalisation is likely to decline further.



4.4 More static services

Chart 16 below summarises the attitudes of businesses currently supplying services where the balance of opinion expressed is broadly that demand will be unchanged. Attitudes and additional metrics are provided for each service in the following sections.

Chart 16

Services with a broadly neutral forecast amongst current suppliers (direct or otherwise):

Service	Projection
Adult content	↑ 6 13 ↓ 5
Competitions/ quizzes	↑ 12 9 ↓ 11
Information services	↑ 6 14 ↓ 9
Customer services	↑ 5 21 ↓ 6
Music or video	↑ 6 6 ↓ 5
Low cost/ international/ reverse charge calling	↑ 4 8 ↓ 6
Books/ newspapers/ magazines	↑ 4 9 ↓ 1
Off handset adult purchases	↑ 3 8 ↓ 2
Off handset non adult purchases	↑ 8 6 ↓ 1

Source:

Merchants expectation of demand: PhonepayPlus merchant survey, May 2013. NUMBERS of interviews quoted not percentages due to low base sizes. n= total number of interviews with suppliers in that category.



Adult content

One of the more 'traditional' types of PRS service, there was an even split amongst businesses providing adult content services about whether customer demand will increase (6) over the next 12 months or decrease (5), as shown in Chart 17 below.

Chart 17

Key metric summary:

Demand forecast (current suppliers), reported revenue (model) and reported purchase (consumers)



Source: Merchants expectation of demand: PhonepayPlus merchant survey, May 2013. NUMBERS of interviews quoted not percentages due to low base sizes. n= total number of interviews with suppliers in that category

Reported revenue: model

Reported usage: PhonepayPlus quantitative consumer study, March-April 2013. Base: All entering the survey = 15136

The majority fell into the 'unchanged' camp (13). However, reported revenue since 2012 was in fairly sharp decline (£124.4m 2011, £108.1m 2012). Given that the reasons for decline in this sector are quite obvious (explosion of free content online) it is more interesting to see why some operators are more positive in their outlook. There were a variety of reasons, some payment driven.

"[It's] down to Payfortit, and enhanced single click on Payfortit"

"It's purely because of the billing mechanism available such as direct billing method"



Some felt that whilst there was a lot of free content online, there was always going to be a demand for certain paid for services that can't be accessed for free from the internet (e.g. live chat). Consumers are also more comfortable using these services, as the payment mechanisms (and amounts) are more trusted and easily understood.

"The consumers know that there is more transparency now in using premium rate numbers"

This was suggested in part to be due to regulatory actions that that have removed many of the less reputable suppliers, and subsequently restored consumer confidence.

One interviewee felt that the industry had not yet leveraged the mobile element, and that as the adult industry becomes 'more mobile' there may be opportunities for phone paid services. Therefore the proliferation of smartphones may provide an opportunity for some areas of adult content (even if which areas are not yet fully understood).

Businesses predicting a reduction in customer interest cite competition from free sources as the main issue driving this.

"Obviously there are a lot of companies that provide content, so we can't sell something that's easily accessible for free"

But overall the arrival of smartphones has had an enormous impact on this sector. In the past, the only way to obtain adult content on a mobile phone was from a limited number of suppliers (almost) all of which charged for access. However, now the entire web is available if you have a smartphone, and there are seemingly limitless numbers of sites offering adults content for free. Rather than charging for content, many commercial suppliers now have to give it away for free and make revenue from selling ad space on their websites, and affiliate marketing with other suppliers.



Competitions or quizzes

Numerous types of competition or quiz services are in operation in the PRS market. A number of these are promoted by affiliate marketing techniques, whereby consumers not specifically looking for quizzes or competitions may follow links or other promotions before arriving at the quiz or competition. Reported revenue for competitions and quizzes showed a fall of 9% (from £47.5m to £43.3m)

As shown in Chart 18 below, of the 32 businesses operating in this area, 12 felt that this area would see an increase in customer demand over the next 12 months, 9 that the situation would be unchanged and 11 that demand would recede, as illustrated in Chart 18. The most common reported type of PRS was text, with red button, calls and Payfort lower in claimed usage.

Chart 18

Key metric summary:

Demand forecast (current suppliers), reported revenue (model) and reported purchase (consumers)



Source: Merchants expectation of demand: PhonepayPlus merchant survey, May 2013. NUMBERS of interviews quoted not percentages due to low base sizes. n= total number of interviews with suppliers in that category
 Reported revenue: model
 Reported usage: PhonepayPlus quantitative consumer study, March-April 2013. Base: All entering the survey = 15136

In spite of the reported decline in revenue between 2011 and 2012, there was felt to be potential future growth in this area, for a number of different reasons. A more positive economic outlook was thought of as a driver by one respondent. Another merchant felt that this sector actually benefited from consumers having tighter purse strings.

“During an economic downturn people tend not to go as much out but do spend money on small competitions via TV or radio or other media channels”

This reflected the view seen earlier with regard to voting and other interaction with TV and radio broadcasts, that small impulse purchases actually increase in a downturn.

A greater confidence or understanding amongst consumers was thought by industry to have helped



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drive service take-up. Merchants and providers suggested that there is significantly more trust from consumers when entering premium rate services. They are felt to be a lot more aware of what happens when they enter the competition, the terms and conditions are clearer for them, and they have faith that the competition will be run fairly.

“Because I think there is slightly more public awareness of how it works, more people are taking part in these types of competitions”

Other factors that may drive demand were development of the service offering, better prizes and a move towards more interactivity between broadcasters and viewers, partly as a result of the evolution of devices making it easier for people to interact with quizzes.

However, there is a view from the regulator which suggests that aggressive marketing by some affiliates has led to an increase in uptake of many quizzes and competitions. This is reflected by the fact that the recent increase in complaints to PhonepayPlus is for a large part attributable to unwanted use of PRS quizzes and competitions promoted by affiliate marketing.

Suppliers sitting the in opposite camp (forecasting a potential decrease in customers) attributed this to mainly supply side factors.

“Advertising becomes more expensive, the cost of compliance rises this year, you have got less money to spend on advertising and your revenue is decreased. The out payments are decreasing so it doesn’t add up to a booming market”

Although regulation has helped consumer confidence increase, along with the number of disreputable suppliers that have been prevented from operating, there is also an acknowledgement by industry that there is still work to be done in keeping down the number of scams that exist in this sector. One respondent said simply that the reason for a likely decline was *“the number of scams.”*

Current and Future Market for PRS 2012-2013

Future market



Information services

Of the 29 businesses that offer 'information services', 6 felt that customer demand would increase over the next 12 months, 14 that it would remain static, and 9 that demand would decline (see Chart 19, below). Claimed usage amongst consumers is slightly lower than in 2011, suggesting that at best, the market is static. Reported revenue groups the type of provision encompassed by information services in a different way so it is not possible to provide an estimate of revenue on Chart 19.

Payforit was mentioned by one supplier as driving an increase amongst consumers because of the security of this method of payment. Some others, feeling confident about consumer demand, attributed it to desire amongst consumers for information, and the fact that people had become used to seeking out information via their mobile phones.

The view that demand would contract was driven by competition from other sources, a pattern seen in relation to the outlook for many PRS services.

"Access to easier information, without having to deal with premium rate through use of smartphones for instance"

Some information (e.g. betting tip advice) is likely to remain available only on a paid-for basis, and, as people are more used to accessing information 'on the go' via smartphone, there is some positive pressure on the market. However, the amount of free information that is available on the go is a definite threat to PRS information services.

Chart 19

Key metric summary:

Demand forecast (current suppliers), reported revenue (model) and reported purchase (consumers)



Source: Merchants expectation of demand: PhonepayPlus merchant survey, May 2013. NUMBERS of interviews quoted not percentages due to low base sizes. n= total number of interviews with suppliers in that category

Reported revenue: model

Reported usage: PhonepayPlus quantitative consumer study, March-April 2013. Base: All entering the survey = 15136

Current and Future Market for PRS 2012-2013

Future market



Customer service

Almost two-thirds (21 of 32) of the businesses providing customer services felt that there would be no change in demand over the next 12 months. The remainder were evenly split amongst those expecting uplift in demand (5) and a reduction (6) as shown in Chart 20 below.

Chart 20

Key metric summary:

Demand forecast (current suppliers), reported revenue (model) and reported purchase (consumers)



Source: Merchants expectation of demand: PhonepayPlus merchant survey, May 2013.
 NUMBERS of interviews quoted not percentages due to low base sizes. n= total number of interviews with suppliers in that category
 Reported revenue for Customer service is not split out in the model
 Reported usage: PhonepayPlus quantitative consumer study, March-April 2013. Base: All entering the survey = 15136

There was a perception that demand would increase as some thought using PRS for customer services was the optimum way to deliver these services. Where companies provide these numbers, customers will have to use them (for telephone contact).

“It’s just the trends we are seeing. It’s becoming more popular. It’s a way for companies to subsidise staff cost”

Where demand was thought to become squeezed, this was due either to customers or companies turning away from premium rate, and moving to standard call charges. Consumers are becoming more savvy and looking for ways around calling PRS numbers to reach customer services, as evidenced by the rise in popularity of sites like saynoto0870.com , which provide alternatives to PRS numbers.

“People are able to find the free phone numbers or other alternative numbers through different websites rather than calling on the premium rate numbers”

Current and Future Market for PRS 2012-2013

Future market



Companies are also seeing a benefit in terms of customer and public relations of not charging potential and existing customers to call them.

“Because, more companies will move to non-PRS, for better customer service relations”

Other reasons given were the impact of Ofcom’s non-geographic numbering review, new billing legislation and a general downturn in calls (as people move to online contact).

Low cost international or reverse charge calling

Businesses providing ‘low cost international and reverse charge calling’ services were fairly evenly balanced in their expectations of customer demand over the next 12 months. As shown in Chart 21 below, 4 believed customers’ interest would grow, 8 that there would be no change and 6 that demand would decrease.

Chart 21

Key metric summary:

Demand forecast (current suppliers), reported revenue (model) and reported purchase (consumers)



Key metric summary:

Demand forecast (current suppliers), reported revenue (model) and reported purchase (consumers)

Key metric summary:

Demand forecast (current suppliers), reported revenue (model) and reported purchase (consumers)

Current and Future Market for PRS 2012-2013

Future market



Payforit was mentioned as a driver for improving consumers' interest in international calling.

"Another reason is the payment mechanism which we are promoting more which is Payforit which is more secure"

Optimism was also expressed because of the way that the market was becoming more transparent in this area. Traditionally mobile networks charges were much higher but now it has become cheaper to make international calls, making it a potential growth area.

"...calling cost has always been a difficult subject so it's made easy for the service provider to offer a lower charge"

As with suggested reasons for declines in other services, it was competition from non-PRS alternatives which is thought would result in a decline.

"VOIP services such as Skype, as well as an increasing number of their apps offer cheaper international calls."

There is also increased competition from other PRS suppliers, who have now gained a significant foothold in the sector, and are able to offer lower rates and undercut other suppliers.



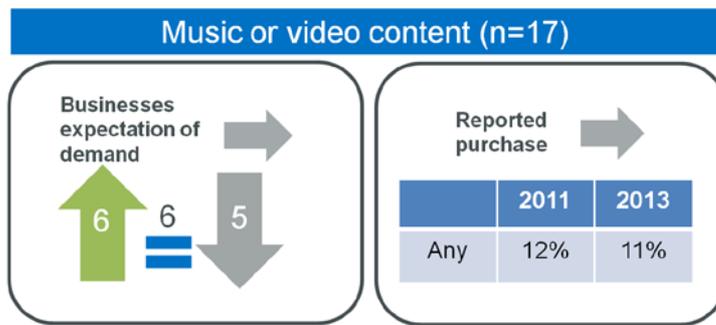
Music or video content

Music or video content was another area where businesses were not in agreement about the future direction of the market. As shown in Chart 23 below, 6 thought demand would increase, 6 that it would remain the same, and 5 that there would be a downturn.

Chart 23

Key metric summary:

Demand forecast (current suppliers), reported revenue (model) and reported purchase (consumers)



Source: Merchants expectation of demand: PhonepayPlus merchant survey, May 2013. NUMBERS of interviews quoted not percentages due to low base sizes. n= total number of interviews with suppliers in that category

Reported revenue: model

Reported usage: PhonepayPlus quantitative consumer study, March-April 2013.

Base: All entering the survey = 15136

Enthusiasm from two suppliers was driven by new clients in this area and 'better offerings'. Others felt that newer payment methods such as Payfort and direct billing would become more popular with consumers, as they make purchasing via phone much easier.

Amongst the businesses that forecast a decline, one thought the existing revenue model was not attractive and as such there was little profit to be made for the relevant party:

"The revenue share involved is very unattractive for a licence holder to sell those goods under commercial model. Most of them are using some other kind of billing such as PayPal rather than premium rate billing."

But overall, the most mentioned reasons for a potential decline were similar to many of those already mentioned, specifically the amount of free content online, and the usage of smartphones.

Current and Future Market for PRS 2012-2013

Future market



Books, magazines, newspapers

As shown in Chart 24 below, more of those businesses supplying services and content relating to books, magazines and newspapers felt that demand for such services would increase over the next 12 months compared to those who foresaw a decline (1). Most, however, did not envisage any change (9).

Reasons that were cited for increases in demand were the move by consumers from hardcopy to digital editions of publications, as well as, an increase in the ability to monetise such content. This represents a relatively rare example of when the switch (of content) to digital currently represents a greater opportunity than it does a threat.

“Premium rate methods like direct operator billing is opening up a lot of markets for consumers”

“That sector has been free for some time and they are looking at the opportunities to monetise access to content. It can be used as an easy payment mechanic”

Chart 24

Key metric summary:

Demand forecast (current suppliers), reported revenue (model) and reported purchase (consumers)



Source: Merchants expectation of demand: PhonepayPlus merchant survey, May 2013. NUMBERS of interviews quoted not percentages due to low base sizes. n= total number of interviews with suppliers in that category

Reported revenue: model

Reported usage: PhonepayPlus quantitative consumer study, March-April 2013. Base: All entering the survey = 15136

Current and Future Market for PRS 2012-2013

Future market



Off-handset purchases for adult related content

The majority of businesses (8) which supply off-handset purchases for adult related content felt that demand would be unchanged. A small number saw demand as on the up (3) or down (2).

Off-handset purchases for non-adult related content

Forecasts for demand were significantly more upbeat amongst businesses supplying off-handset purchases for non-adult content (such as Wi-Fi, parking or ticketing). As shown in Chart 24, around half (8) saw the market as developing, whereas 6 described demand as likely to be maintained. Just one respondent felt this area might decline, due the proliferation of free content, and stated that newer areas such as ticketing would be dealt with by NFC.

Many of those businesses which felt that services in these areas would see an increase in demand from consumers attributed this to supply side factors, such as more companies trialling mobile payment options. Consumers are expected to welcome these services, due to the convenience that this payment option offers for relatively small purchases, for example if they have no change, or if they don't want to deal with the complexity of making a card payment

"A lot more companies are going to realise the opportunity for purchasing tickets for parking... I think it will become very popular and consumers will jump onto it once it is made available more widely"

As with other services, shortcodes were thought to be a positive factor (again reflecting the ease and simplicity of making a low value payment).

Off-handset purchases could represent one of the single biggest opportunities for PRS once there is greater consumer acceptance of this payment method. Theoretically, almost anything could be bought via this method.



4.5 Services that businesses are planning to provide

Businesses which are not currently providing a particular service were asked what their plans were in regards to future involvement in this area.

'Games on social networks' were identified by 5 of the 41 businesses (not currently offering these services) as an area that they are planning to get involved in over the next 12 months.

A similar number (4/37) of businesses not currently providing were planning to provide 'off-handset purchases for non-adult related content'.

Both those service sectors were expected to grow or maintain demand by all or almost all those currently supplying, so it is perhaps not a surprise that they have been identified as targets for business development.

It is not only the services which current suppliers expect to increase in demand where new entrants expect to enter the market. 'Directory enquiries', 'call services', dating or flirt chat service', 'tarot and astrology', and 'information services' were all mentioned by two businesses not currently supplying as areas they are planning to get involved in over the next 12 months. This is despite them being services where more suppliers felt they would decline than grow.

It should be noted that we did not ask whether businesses were likely to drop out of providing services they currently deliver.

Two or more new businesses not currently offering the service in question expected to start supplying 'betting or gambling', 'charity donations', 'games not on social networks' and 'virtual gifts' in the next 12 months. However, these were also areas where growth was anticipated by businesses currently providing these services.



Current and Future Market for PRS 2012-2013

Services offered and payments used

5 SERVICES OFFERED AND PAYMENTS USED

5.1 Payment methods most frequently used by merchants

Of the 29 merchants, the average number of PRS or micropayment mechanisms used was 4.5, so a variety of mechanisms are often deployed for the same type of content.

Those using up to 4 or 5 different methods tended to supply competitions/quizzes, information lines, customer services, and games not on social networks. At the higher end of the scale with 6 or more payment methods were suppliers of dating or flirt and low cost international/reverse charge calls.

Mobile terminated premium SMS was the most frequently used payment method for 9 merchants, for another 9 it was Premium 09 numbers. Therefore, although many types may be offered, it tends to be the more traditional ones which are at present the most frequently used. A newer entrant such as Payforit was used most frequently by only 1 merchant:

- Premium SMS that is mobile terminated (9)
- Premium number of call starting with 09 (9)
- Credit or debit card directly (7)
- Premium number or call starting with 0871 (2)
- Subscription or regular deduction via Payforit (1)
- A premium SMS mobile terminated subscription (1)

It is also interesting to note that amongst PRS merchants, 7 claimed to offer payment by credit or debit card more frequently than any individual PRS payment mechanism.

5.2 Services and payment mechanisms

The twenty nine merchants that supplied services direct to consumers were asked what types of **services** they provided to their customers.

Table 1 below, shows how many merchants offered each service, by PRS and non-PRS paid methods.

Approximately half of the merchants that provided services directly to consumers supplied 'competitions or quizzes', 'tarot or astrology' and 'information services'. These were almost always in conjunction with PRS payment methods, although in some instances other payment methods were available.

Other services offered by a significant proportion of merchants included 'adult content', 'charity donations', 'TV or radio show voting/ interaction' and 'dating or flirt chat service'. These were also primarily associated with PRS payment methods. Non-PRS methods were offered by some merchants for 'dating or flirt chat service'.



Current and Future Market for PRS 2012-2013

Services offered and payments used

Table 1 (based on 29 merchants supplying direct to consumers)

Service	No. supplying services purchased via PRS	No. supplying services purchased by non-PRS	Total no. providing service (net)	No. provide service and DO NOT offer PRS
Competitions or quizzes	16	4	16	0
Tarot or astrology	14	6	14	0
Information services (e.g. weather hotline, text alerts etc.)	13	5	14	1
Adult content (e.g. video clips, chat, images)	12	3	12	0
Charity donations	11	6	13	2
TV or radio show voting or interaction (e.g. X Factor voting)	9	3	9	0
Dating or flirt chat service	8	5	9	1
Customer service (e.g. advice, sales or support)	8	10	14	6
Music or video content	7	3	9	2
Off-handset purchases for non-adult content	6	3	8	2
Low cost international or reverse charge calls	6	2	7	1
Games, other than for social networks mobile and non-mobile	5	6	8	3
Books, magazines and newspapers	4	2	6	2
Off-handset purchases for adult related content	4	1	5	1
Directory enquiries	4	0	4	0
Ringtones, ringbacks, wallpapers etc.	3	1	4	1
Betting or gambling	3	1	4	1
Virtual gifts in the social media space	3	1	4	1
Games on social networks	2	5	5	3
Any non-phone content	2	1	2	0

Please note shading in table refers to services where more than 1 or 2 current suppliers used exclusively non-PRS payment methods.



Current and Future Market for PRS 2012-2013

Services offered and payments used

Table 2, below illustrates the service sectors that 38 of the businesses surveyed offer as services and content to other providers to package and re-sell. The suite of services is very similar to those offered by merchants that supply PRS services directly to consumers. The column on the right hand side gives the total number of businesses in the survey sample who supply that type of service (to either other businesses or consumers).

Table 2

Service	No. supply service to other providers (N=38)	Total businesses that supply service (N=52)
Competitions or quizzes	27	32
Customer service (e.g. advice, sales or support)	27	32
Information services (e.g. weather hotline, text alerts etc.)	24	29
Tarot or astrology	22	26
Adult content (e.g. video clips, chat, images)	19	24
Charity donations	19	24
TV or radio show voting or interaction (e.g. X Factor voting)	17	21
Dating or flirt chat service	18	21
Low cost international or reverse charge calls	17	18
Music or video content	14	17
Games, other than for social networks mobile and non-mobile	13	16
Off-handset purchases for non-adult content	13	15
Books, magazines and newspapers	15	15
Off-handset purchases for adult related content	11	13
Directory enquiries	11	12
Ringtones, ringbacks, wallpapers etc.	10	11
Games on social networks	9	11
Betting or gambling	9	10
Virtual gifts in the social media space	7	8
Any non-phone content	2	3



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5.3 Estimated revenues of each type of service

In order to get a sense of the relative importance of each type of service to the sample, respondents were asked what proportion of their company's total revenue each service provided. The table below shows the average (mean) proportion of revenue generated for each service area. NB respondents were asked to consider services paid for by both PRS and non-PRS methods.

As this is an average, it is important to bear in mind that some businesses will be almost exclusively geared around one particular area. For example, one supplier indicated that 'competitions and quizzes' accounts for 95% of their company's revenue. Others will be more diverse, therefore, less reliant on any one sector.

The more established PRS sectors, adult content (29%), followed by tarot and astrology (22%) accounted for the biggest average shares of revenue, followed by information services (17%) and competitions and quizzes (15%). Please note many of the percentages are based on very low base sizes, so the exact proportions should be seen as broadly indicative only.

Table 3

Service	Total businesses supply service (N=52)	Mean proportion of revenue amongst suppliers of that service
Competitions or quizzes	32	15%
Customer service (e.g. advice, sales or support)	32	7%
Information services (e.g. weather hotline, text alerts etc.)	29	17%
Tarot or astrology	26	22%
Adult content (e.g. video clips, chat, images)	24	29%
Charity donations	24	6%
TV or radio show voting or interaction (e.g. X Factor voting)	21	6%
Dating or flirt chat service	21	8%
Low cost international or reverse charge calls	18	3%
Music or video content	17	2%
Games, other than for social networks mobile and non-mobile	16	10%
Off-handset purchases for non-adult content	15	4%
Books, magazines and newspapers	15	4%
Off-handset purchases for adult related content	13	3%
Directory enquiries	12	4%
Ringtones, ring backs, wallpapers etc.	11	3%
Games on social networks	11	2%
Betting or gambling	10	13%
Virtual gifts in the social media space	8	1%



5.4 Choice of payment method

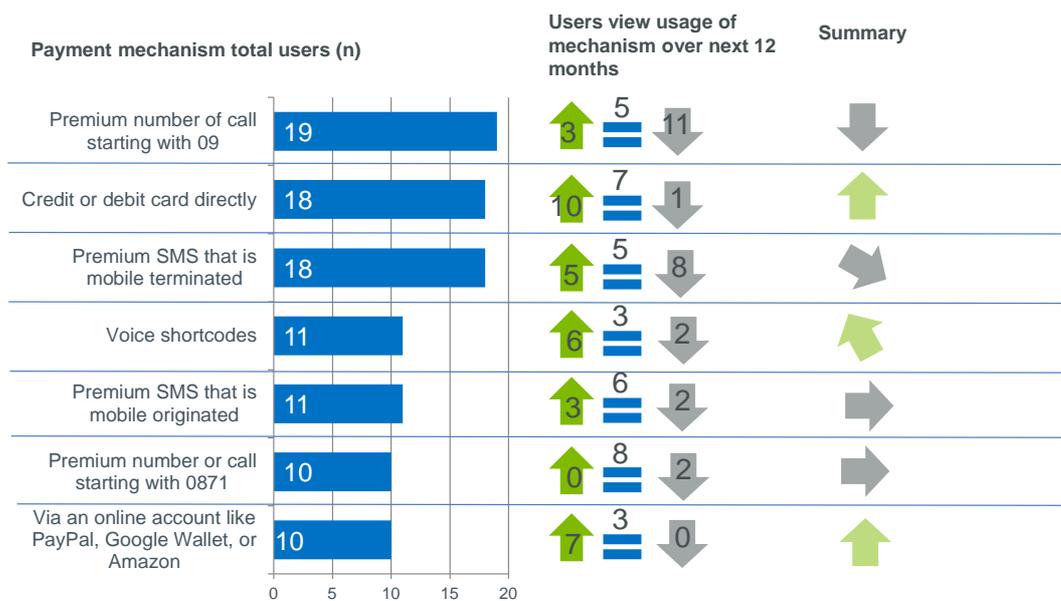
Merchants that supplied services directly to consumers were asked what payment mechanism they used to do so, including PRS and other types of payment.

Chart 25, below, shows the most popular methods used amongst the 29 respondents. A follow-up question was then asked of users of each mechanism to determine anticipated future usage of each method by their customers for the services they provide to them. Respondents were asked to indicate whether they thought a mechanism would show an increase or decrease.

The forecasts are shown in the arrows to the right of the bar chart. All data is shown in number of responses, rather than percentages. An indication of the overall sense of direction is given in the far right column.

Chart 25

Payment mechanisms used by those supplying services directly to consumers (MOST USED)



Source: PhonepayPlus merchant survey study, May 2013
 All business direct to consumers (n=29). All results are NUMBERS of interviews not percentages due to low base sizes. n= total number of interviews with suppliers in that category

As can be seen, credit or debit card payment and online accounts are forecast to rise, as opposed to the fall for traditional PRS payment platforms.

The number of businesses using 09 premium numbers (19/29) was very similar to those offering credit or debit card payment (18/29) and mobile terminated SMS (18/29). These were the top three reported mechanisms.

Of the top methods used, 'credit or debit card directly' and 'via an online account', both saw those



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predicting an increase usage outweighing the combined number of those with a negative or neutral viewpoint.

Credit/ debit cards were thought to be easy and frequently-used payment methods. Some firms were planning to concentrate their marketing on this payment mechanism. One explicitly mentioned that they would receive more revenue as a result. If this attitude is widespread it could be of concern to PRS billing platform providers.

There were similar reasons given for the predicted increase in consumers' usage of content and services paid for via online accounts such as PayPal. The potential advantages included greater consumer trust with such ways to pay.

"Because people find it safe and secure to use. Because they don't provide their account details to the provider directly but to mediators like PayPal etc. They find these intermediaries trustworthy"

Clearly, these are not PRS methods and indeed of the top PRS mechanisms it was only voice shortcodes, used by 11 merchants, that more respondents considered their usage likely to increase. This was thought (in the main) to be because of increased public awareness.

*"They have now been proved to work after about a year of use.
The public are more aware of it"*

The clarity of payment terms were seen as key for their acceptance by the public.

One business that felt that voice shortcodes would decline indicated that this was because of revenues generated.

"Charges are too high, revenue is also not as high compared to other methods"

A high proportion of businesses monetising through premium 09 numbers (11/19) and to a lesser extent mobile terminated SMS (8/18) thought that these methods would decline. It is striking that the 3 businesses who asserted that usage of 09 numbers would increase were on the smaller side (<50 employees), which perhaps indicates it is the business itself which might grow, rather than the mechanism overall.

For those predicting a decline in the number of consumers using premium rate 09 numbers, this was suggested to be due to market trends and the cost to consumers.

"We are moving away from it. It's because so many people can't dial it from their mobile or work phones, which is important for us"

"People can find alternative numbers which would cost them less. Also there's a lot of 'scariness' associated with it as people usually wouldn't know how much it would cost them with their mobile networks"

09 numbers are suffering from the wider variety of choice in payment mechanisms now available,

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particularly from SMS and voice shortcodes.

"The entry points that the consumer has got now are a lot wider so there's more choice from a promoter's perspective. They may choose to do voice short code, SMS, or only 09 premium rate"

If there are an increasing number of payment mechanisms (including PRS and micropayment methods), then any individual method is likely to see increased competition.

Similarly for premium SMS that is mobile terminated, those considering the market for this mechanism to be in decline felt that this was simply part of a continuing trend.

"It's decreasing rapidly already; I think it will continue to do so. I don't see any way of arresting that situation"

"The cost of advertising is going up and our payments are going down, so it's hard to advertise profitably"

Others perceived the issues to be the economy and competition from online.

There was a slightly less negative outlook for 0871 numbers and mobile originated SMS, where most predicted that there would be 'no change' over the coming years.

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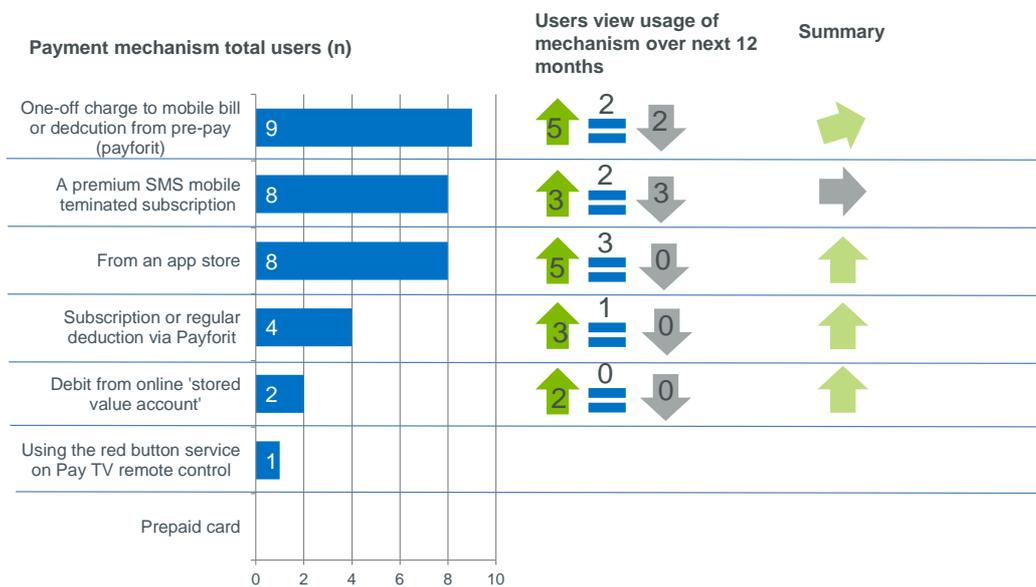


Chart 26 below shows the payment mechanisms used by fewer businesses in the survey. One-off Payforit transactions were offered by a similar number to mobile originated SMS (9/29 vs. 11/29), which indicates that it is becoming more widely known in the industry.

As base sizes are very limited, caution should be applied when looking at the results of the 'users' view of future usage' figures, but the figures for Payforit look positive.

Chart 26

Payment mechanisms used by those supplying services directly to consumers (MOST USED)



Source: PhonepayPlus merchant survey study, May 2013
 All business direct to consumers (n=29). All results are NUMBERS of interviews not percentages due to low base sizes. n= total number of interviews with suppliers in that category

Regular Payforit subscription, however, was less commonly used as a payment mechanic (4 of the 29). Reasons given for not currently offering Payforit as a payment option are detailed later and include suggestions that mobile operators are not promoting it enough and that they are taking too much of a cut.



5.5 Advantages and disadvantages of payment methods

The following section outlines the perceived advantages and disadvantages for each payment method used by more than 5 of the businesses surveyed that supply services directly to consumers.

For most methods, consumer preference (especially being quick and easy for the consumer to use) was the most prominent advantage. However, having a high share of revenue is particularly important for premium numbers (especially those starting with an 09).

The interviews with merchants highlighted that there is an uneven regulatory playing field between PRS and other payment mechanisms, as only PRS are subject to a higher level of regulation through PhonepayPlus. This additional regulation can be beneficial where it helps to drive out scams, improve price transparency and build consumer confidence. However, it can also mean some added costs and barriers to merchants offering PRS that don't apply to merchants offering other payment mechanisms. Whilst merchants' choice of payment mechanisms were determined by a range of factors, the added regulatory costs and barriers around PRS may be a material influence for some merchants in deciding which payment mechanisms to offer.

Premium SMS that is mobile originated (n=11)

Advantages of this payment method were mainly concerned with the ease of use for the customer.

Advantages	Disadvantages
<ul style="list-style-type: none"> • Easy/quick/simple for the customer to use (4) • Liked/understood/ trusted by customer (2) • Prompt receipt of money (1) • Widely used/ common method of payment (1) 	<ul style="list-style-type: none"> • Disadvantages were more difficult for businesses to think of (5 said there were no disadvantages), with none really standing out

Premium SMS that is mobile terminated (n=18)

Advantages were similar to mobile originated SMS; again, ease of use for the customer was a main factor, but also for the supplier themselves.

Disadvantages were concerned with regulation, share of revenue received and also with some - concerns over consumer engagement.

Advantages	Disadvantages
<ul style="list-style-type: none"> • Easy/quick/simple for the consumer to use (8) • Liked/understood/trusted by consumer (3) • Prompt receipt of money (2) • Widely used/common method of payment (2) • Easy to communicate/advertise (2) • Proven/reliable/robust method (2) • No limit on spend (2) • Minimal admin/paperwork (1) • It is easy for all sorts of consumers to use (1) 	<ul style="list-style-type: none"> • Issues with regulation (4) • We don't receive a high enough share of revenue (2) • Not liked/understood/ trusted by the consumer (2) • We don't receive the money promptly (1) • Isn't easy/quick/simple for the consumer to use (1) • Excludes some sections of consumers (1) • No disadvantages (5)



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Services offered and payments used

A premium SMS mobile terminated subscription (n=8)

As with the other SMS options, ease of use for the consumer was a key advantage.

Advantages	Disadvantages
<ul style="list-style-type: none"> • Easy/quick/simple for the consumer to use (5) • Liked/understood/ trusted by the consumer (1) • Proven/reliable/robust method (1) 	<ul style="list-style-type: none"> • Disadvantages were more difficult for businesses to think of (4 said there were no disadvantages), with none really standing out

Premium number or call starting with 0871 (n=10)

Financial gains were mentioned as advantages of this PRS payment method, along with consumer preference.

Disadvantages were sparse, with single mentions for the following areas.

Advantages	Disadvantages
<ul style="list-style-type: none"> • Liked/understood/trusted by the consumer (4) • Easy/quick/simple for the consumer to use (3) • We receive a high share of revenue (2) • It's easy to see how much money we are generating (2) • Lower charge to consumers (2) 	<ul style="list-style-type: none"> • We don't receive a high enough share of revenue (1) • Issues with regulation (1) • Isn't easy/quick/simple for the consumer to use (1) • Excludes some sections of consumers (1) • No disadvantages (6)

Premium number or call starting with 09 (n=19)

Key themes for this payment method were high share of revenue for the merchant along with convenience and transparency to consumers. Prompt receipt of money also featured.

Disadvantages were concerned with regulation, not being liked/understood or trusted by the consumer and also how straightforward they are for consumers to use.

Advantages	Disadvantages
<ul style="list-style-type: none"> • We receive a high share of revenue (7) • Easy/quick/simple for the consumer to use (7) • Transparency of costs to consumer, they know what they are paying (3) • Prompt receipt of money (2) • It's easy to see how much money we are generating (2) • Liked/understood/ trusted by the consumer (2) • It is easy for all sorts of consumers to use (2) • No limit on spend (2) • Minimal paperwork/administration (1) • Proven, reliable, trustworthy method (1) 	<ul style="list-style-type: none"> • Issues with regulation (6) • Not liked/understood/ trusted by the consumer (4) • Isn't easy/quick/simple for the consumer to use (3) • Refund facilities (negative) (3) • Excludes some sections of consumers (1) • We don't receive a high enough share of revenue (1) • No disadvantages (4)

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Services offered and payments used



One-off charge to mobile bill or deduction from pre-pay mobile account such as via Payforit (n=9)

Here the main advantage was that it was 'easy/quick/simple' for the consumer to use. Disadvantages were mainly around lack of understanding/ trust by consumers.

Advantages	Disadvantages
<ul style="list-style-type: none"> • Easy/quick/simple for the consumer to use (5) 	<ul style="list-style-type: none"> • Not liked/understood/trusted by the consumer (2) • Isn't easy/quick/simple for the consumer to use (2) • Issues with regulation (1) • No disadvantages (1)

Credit or debit card directly (n=18)

Credit or debit card payments for services were cited as having similar advantages to premium rate/09 calls in terms of revenue and simplicity for consumers. There were several mentions of the fact that credit/ debit cards are a common method of payment (which was not cited as an advantage for premium rate/ 09 numbers).

Disadvantages were concerned with consumer engagement; particularly 'consumers not liking, understanding or trusting the mechanism' for their given service types.

Advantages	Disadvantages
<ul style="list-style-type: none"> • Easy/quick/simple for the consumer to use (8) • We receive a high share of revenue (4) • Widely used/common method of payment (3) • Liked/understood/ trusted by the consumer (3) • Minimal paperwork/administration (2) • Prompt receipt of money (2) • No limit on spend (3) • It's easy to see how much money we are generating (1) • It is easy for all sorts of consumers to use (1) • Transparency of costs to consumer, they know what they are paying (1) 	<ul style="list-style-type: none"> • Not liked/understood/trusted by the consumer (5) • Isn't easy/quick/simple for the consumer to use (1) • Excludes some sections of consumers (1) • Refund facilities (negative) (1) • No disadvantages (8)

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Services offered and payments used



Via an online account like PayPal, Google Wallet, or Amazon (n=10)

As with many of the other payment mechanisms, the benefits to the consumer were viewed as the main advantages of this mechanism. Very few cited disadvantages with well-known brands of online account or payment mechanisms.

Advantages	Disadvantages
<ul style="list-style-type: none"> • Easy/quick/simple for the consumer to use (5) • Liked/understood/trusted by the consumer (2) • It is easy for all sorts of consumers to use (2) • Prompt receipt of money (1) • It's easy to see how much money we are generating (1) • Widely used/common method of payment (1) • Proven/reliable/robust method (1) • Transparency of costs to consumer, they know what they are paying (1) • No limit on spend (1) 	<ul style="list-style-type: none"> • Excludes some sections of consumers (2) • Isn't easy/quick/simple for the consumer to use (1) • No disadvantages (6)

From an app store (such as iTunes or Google Play) (n=8)

Again, it was the consumer advantages which businesses most focussed on.

Poor revenue share was mentioned by a couple of respondents as a negative about app stores.

Advantages	Disadvantages
<ul style="list-style-type: none"> • Easy/quick/simple for the consumer to use (3) • Liked/understood/trusted by the consumer (1) • Proven/reliable/robust method (1) 	<ul style="list-style-type: none"> • We don't receive a high enough share of revenue (2) • Not liked/understood/trusted by consumers (1) • No disadvantages (2)

Voice shortcodes (n=11)

Transparency of costs for consumers emerged as the biggest advantage of voice shortcodes.

In contrast, poor revenue share was an issue raised by some, along with concerns about prompt receipt of money, suggesting this method is not the most financially attractive to suppliers.

Advantages	Disadvantages
<ul style="list-style-type: none"> • Transparency of costs to consumer, they know what they are paying (4) • Easy/quick/ simple for the consumer to use (2) • Fewer issues with regulation (1) 	<ul style="list-style-type: none"> • We don't receive a high enough share of the revenue (3) • We don't receive the money promptly (1) • No disadvantages (5)



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Services offered and payments used

5.6 Most important factors for merchants in determining choice of payment method

Whilst many payment methods are praised for being liked by consumers or for being easier for consumers to use, these factors may not in practice be the strongest influence on payment mechanism choice offered by suppliers.

All those supplying services directly to consumers were asked what single thing would most prompt them to move to a different payment mechanism instead of the one(s) they currently use. For 12 of the 29 this would be a 'higher share of revenue', followed by 'fewer issues with regulation' (6). Consumer-related concerns were mentioned by some, but far fewer (3) cited 'easier/quicker/simpler for the consumer to use', and 1 cited 'more liked/understood trusted by the consumer'.

This focus on revenue and regulation contrasts with the pattern of responses given when asked what the KEY value or advantage was of the payment mechanism they currently used most. Instead, the top response focussed on consumer choice. 13 of the 29 said that it was 'easier/quicker/simpler for the consumer to use', 4 cited 'more liked/understood trusted by the consumer'.

These findings would therefore suggest that at present the choice of payment mechanism is influenced by what is easy for consumers to use, but that suppliers would be quite open to switching to another method with a higher revenue share – as long as consumers found it easy and quick to use.

Those businesses that only offered individual services to consumers via non-PRS methods (8) were asked why this was. Revenue-share was not mentioned by any respondent, rather the reasons were:

- Services we do not wish to/cannot charge for (4)
- Issues with regulation (4)
- Not liked/understood/trusted by the consumer (1)
- Isn't quick/simple/for the consumer to use (1)
- Too much administration/paperwork (1)

It is interesting to note that regulation was more of an issue than revenue and that it emerges as an additional cost for those already offering services via PRS, as compared to those operating other equivalent payment mechanisms. This is examined in more detail in Section 7.



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Services offered and payments used

5.7 Pay-out rates

All merchants supplying services to consumers were asked what pay-out rate they thought they would receive for each payment mechanism. Table 4 below shows the average estimate for each method. The first column shows the average estimate amongst all suppliers, the second column is the average amongst only those that actually supply that method. The estimated amount amongst suppliers of the service was invariably higher than amongst those that don't supply it, indicating there may be a misconception about how profitable any individual service might be.

Table 4

Payment method	Average percentage pay out rate	Average percentage pay out rate
	Base: All supplying any PRS service to consumers	Base: All supplying <u>that</u> PRS service to consumers
Credit or debit card directly	63%	74%
Premium number or call starting with 09	58%	73%
A PayPal transaction	58%	83%
Premium SMS that is mobile terminated	56%	57%
One-off charge to mobile bill or deduction from pre-pay mobile phone account such as 'Payforit'	54%	65%
A premium SMS mobile terminated subscription	50%	62%
Premium SMS that is mobile originated	48%	52%
From an app store	45%	57%
Premium number or call starting with 0871	45%	65%
Voice short codes	45%	58%
Subscription or regular deduction via Payforit	45%	73%
Via another online account like Google Wallet or Amazon	44%	75%
Debit from online 'stored value account'	37%	45%
Pre-paid card	19%	*
Using the red button	17%	*

NB those stating "Don't know" for any method are excluded from the mean calculations, so as not to skew the percentage figures.

** Fewer than 2 respondents supplied this service so no average has been calculated.*



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Services offered and payments used

5.8 Focus on... Payforit

Almost all (26 of the 29) merchants that supply to consumers claimed to be aware of Payforit, and 12 said that they offered it. Amongst those that did not currently do so, none had offered it in the past (there was 1 exception). Of the 14 that currently did not use Payforit, 7 were considering offering it in the future and would offer it if it were to become mandatory.

There were two businesses that did not feel that Payforit was relevant to their business, so for the majority, this was not the main factor behind them not currently offering it. Rather, issues were around inertia, a lack of promotion, and concerns over revenue cuts, as well as a couple of mentions about regulation:

- Being happy with current payment methods (4)
- Mobile operators not sufficiently promoting (4)
- Mobile operators taking too much of a cut (3)
- Payment intermediaries taking too much of a cut (3)
- Lengthy checkout process which can put off consumers (2)
- Payment intermediaries are not promoting it well enough (2)
- Regulatory uncertainty (2)

There is a view in the industry that Payforit has not fulfilled its potential. There was a feeling that although it has been around for a while and initially showed great promise that it is yet to reach the volumes of usage (both by suppliers as well as consumers) that were anticipated in the early days.

"I suspect that at an industry level we probably understand what it's about, but at I'm not so sure that the consumer really knows what it is."

There seems to be a view that Payforit is in many ways a potentially strong mechanism, but that it is struggling to gain traction and share of mind amongst consumers due to the large number of payment mechanisms available.

"I think the consumer knows what PayPal is, the consumer pretty much knows an 09 number if they see it on the X factor show, but what I just question is "If we did a straw poll of 100 consumers, and said do you know what Payforit is I wonder how many would be able to say what it is?"

Consumer trust is a vital component in a payment mechanism's success, and to create that, awareness is essential. Promotion to create a distinct brand, as well as familiarity amongst potential users is required to build that awareness and then trust. Whilst there has been promotion of Payforit throughout the years, perhaps there hasn't been sufficient weight for it to filter down to the general public.



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5.9 Focus on... Voice shortcodes

All but one of the businesses that currently charge via a call mechanism (either directory enquiry services or premium numbers with 0871 or 09) were aware of voice short codes.

Those that had heard of voice shortcodes but did not currently use them (9) were asked whether they had used them in the past, only 1 fell into this category. A further four said that they were considering using them in the future.

The reason for not currently offering short codes were inertia and concerns over mobile operators taking too much of a cut. Relevance was an issue for a couple of merchants, but, unlike Payfort, promotion (or a lack of) did not emerge as an issue for voice shortcodes. They are not a separate branded proposition, and as a concept they are quite a similar payment mechanism to existing premium rate numbers:

- Being happy with current payment methods (2)
- Mobile network operators taking too much of a cut (1)
- Payment intermediaries taking too much of a cut (1)
- Regulatory uncertainty (1)
- Not relevant to my business (2)
- Don't know (2)

There was a lot of optimism around voice shortcodes, although at present they have a small percentage of market share in the sectors they operate in. Broadcasters were very keen on them for voting due to the transparency of pricing and there was a view that they could become as important as 09 numbers.

5.10 Focus on... mobile apps

At present, 19 of the 52 businesses surveyed sold services through mobile apps. Of these, 12 were merchants supplying direct to consumers, and 7 supplied them to other businesses. A further 4 intended to use mobile apps in the next 12 to 18 months (these were all merchants selling directly to consumers) and 5 were undecided (mostly business suppliers).

5.11 Methods of monetisation that could be opportunities

All respondents providing services directly to consumers (29) were asked what other methods of monetisation there are that could be an opportunity for their business or the industry as a whole. The vast majority of respondents either did not know (3) or felt that there were 'none' that would fit this category (14).

This is good news in many senses as it suggests that the needs for effective mechanisms are currently being met. There were individual mentions for NFC, Mid Call Tariffs, Bitcoin and Barclays Pingit.

It may also reflect the very wide range of payment mechanisms now available. Comments from the industry suggest that it is more important to increase trust and understanding with existing payment mechanisms rather than add more.



6 MARKETING

Marketing is clearly a key component of attracting new customers and maintaining share, and merchants supplying directly to consumers claimed to use a variety of communications channels.

Most popular were adverts on the internet (21 out of 29 businesses supplying to consumers), followed by search engine optimisation techniques (13 of 29), unsurprising given the digital nature of much content. This is perhaps why more merchants do not use TV or radio advertising. Adverts on TV or radio were not as frequently deployed (9 of the 29) and for six of those that did, this represents the main focus of spend. Adverts in magazines or newspapers were used by 9 of the 29 consumer businesses.

Other methods considered to be part of their marketing included word of mouth, sponsorship, partnerships and lead-generation. There was one specific mention of affiliate partnerships.

Table 5

Marketing type	All methods (n=29)	Spent most on (n=29)
Ads on the internet	21	12
Using search engine listings to direct people to your website	13	5
SMS advertising	11	2
Ads in magazines or newspapers	9	-
Ads on TV/radio	9	6
Word of mouth	7	-
Social networking/ social forum	6	-
Mobile app store	5	-
Direct mail	2	-
Other	4	4

There was an equal split between companies that did their marketing in conjunction with an external agency, and those that mainly arranged it all in-house



Current and Future Market for PRS 2012-2013 Regulation

7 REGULATION

7.1 Awareness and attitudes

All the businesses interviewed claimed to be aware of PhonepayPlus as the regulator for phone-paid/premium rate services. Businesses were then asked their opinion about the level of regulation within the PRS industry overall, not just from PhonepayPlus.

Regulators are rarely popular, and any praise is generally grudging, however, it is encouraging that more than half of the businesses felt that the balance of regulation within the PRS industry is just right:

- Too light (2)
- Just right (28)
- Too heavy (20)
- Don't know (2)

One of those feeling the regulation was too light wanted scam companies to be better identified. There was also support for regulation where it improved pricing transparency and so helped to build greater consumer confidence in PRS.

Those finding regulation to be too heavy cited a number of different reasons:

- Lack of discrimination between scammers and legitimate businesses
- Regulations from different bodies (including the mobile networks) can overlap and collide
- Over-focus on the consumer perspective
- Regulation is a burden that hampers innovation
- The fear of (harsh) penalties for making a mistake

Regulators are always something of an 'easy target' for those under their authority, so negative comments should be interpreted in this light. The quote below sums up the sometimes contradictory view of regulation:

"It's too heavy but it does a good job and I don't think it should change"

7.2 Impact of regulation

All 52 businesses in the overall sample were asked how they thought the level of regulation impacted on revenue.

In line with most businesses feeling that PhonepayPlus got the balance of regulation just right, a narrow majority felt that the impact of regulation on revenue was either neutral (17) or in fact positive (10), compared to the 25 that felt the impact was to decrease revenue.

This does leave a significant minority who feel that the regulations are too heavy and that they impact negatively on revenue.



7.3 Overall thoughts on regulation

Businesses were also given the opportunity to make comments more generally about PRS regulation. There were several remarks about the need to streamline regulations, so that they were consistent between PhonepayPlus and the mobile networks.

Some businesses thought it important for PhonepayPlus to work more closely with the companies that are subject to its regulation. The stakeholder research found that the regular industry forums which PhonepayPlus hosts were viewed very positively, therefore, perhaps more could be done to promote these. These could also help to address the perception from some businesses that PhonepayPlus automatically 'sided' with consumers.

Some felt that PhonepayPlus could look to play a more positive role in promoting the industry, through encouraging innovation, and putting out 'good news' stories about the industry. This was articulated as a move away from naming and shaming towards an emphasis on new ideas and/or where things have gone well.

PhonepayPlus may wish to reflect on these points in how it engages with and communicates the actions it takes to industry. However, as a regulator, it will need to ensure that it continues to act in the consumer's best interests, whilst also being fair and proportionate to providers.

As highlighted earlier, a key conclusion is also that there is a regulatory differential between the treatment of PRS and that of other equivalent payment mechanisms, which is one of the factors likely to influence merchants' choice of payment mechanisms when selling digital goods and services.



8 IMPACT OF TECHNOLOGICAL CHANGES ON THE MARKET

8.1 Delivery channels

All businesses (52) were asked what other delivery channels presented an opportunity for their business. Most (32) were unable to name any. 4 of those that could, mentioned: 'mobile evolution/smartphones/mobile apps', 3 'TV/Smart TV', and 1 'online, web internet'.

The fact that little consensus emerged, or that businesses were unable to identify any opportunities suggests that this is an area where different channels suit different businesses. It could also be that businesses feel that they are currently exploiting what is available to the fullest extent.

When asked what other delivery channels presented a threat, the view was very similar. Most businesses (37) were unable to name any. Those that did mentioned the same channels previously noted as opportunities.

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Impact of technological changes on the market



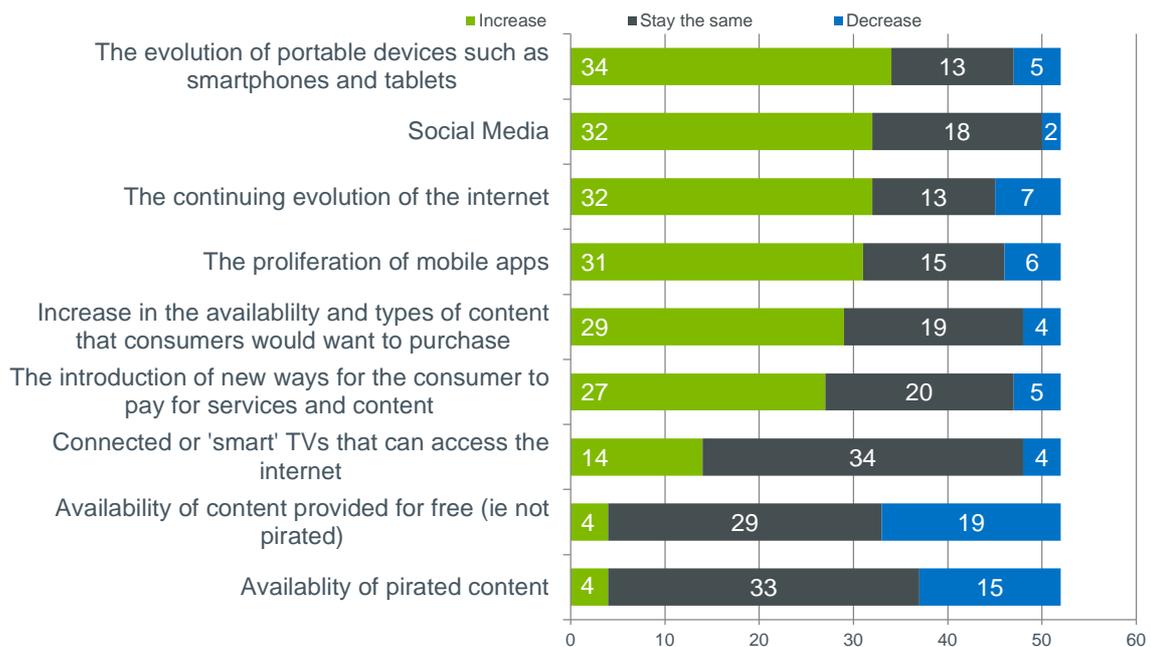
8.2 Change

All businesses were asked what impact they felt different areas of innovation or change would have on their revenue. Results are illustrated in Chart 27 below.

For the majority, smartphones, social media, evolution of the internet, mobile apps, enhanced content and new means of payment are areas that could be exploited to increase revenue. A minority found the impact of those areas to be negative (ranging from 2-7 respondents). Clearly technological change brings its threats to the industry but it also provides opportunity.

The downside of the evolution of the internet/mobile internet for the industry is the increased availability of free content (pirated or otherwise) and unsurprisingly these are seen as having a likely negative impact on revenue. However, it should be noted that the most popular prognosis for these types of changes was that revenue would be unchanged.

Chart 27
Impact on revenue of potential changes/ innovations



Source: PhonepayPlus merchant survey study, May 2013
All business (n=52). All results are NUMBERS not percentages due to low base

**Current and Future Market
for PRS 2012-2013**

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