

# Telecoms industry market report

## Overview

The Wireless Telecommunications Carriers industry is dominated by four mobile network operators (MNOs), which are estimated to generate 90.4% of industry revenue in 2017-18. The performance of the overall market is therefore dictated largely by the performance of these four MNOs.

The overall industry includes all UK companies that operate, maintain and provide access to facilities for the transmission of voice, data, text, sound and video using wireless telecommunications infrastructure.

Due to the nature of its services, the industry is heavily affected by developments in systems and technology and competition for wired telecommunications services. Mobile phone penetration rates in UK households and the average level of disposable income also influence industry demand.

## Recent industry figures

Revenue is forecast to decline at a compound annual rate of 1.6% over the five years through 2017-18 to reach £20.2 billion. A growing app market and increased competition in the industry primarily account for the slight fall in industry revenue. An increase in demand for smartphones and higher data capacity requirements have mitigated the decline in industry revenue and are anticipated to increase the potential market for industry operators.

However, the average revenue per user (ARPU) is expected to fall over the five years through 2017-18, limiting industry growth.

In the current year, revenue is expected to decrease by 2.3% due to low consumer confidence and cuts in regulated mobile termination rates (MTRs).

## What lies ahead

Over the five years through 2022-23, industry revenue is expected to return to growth and increase at a compound annual rate of 0.7% to reach £21 billion.

Growth during this period is expected to be supported by an improving mobile market. Increased innovation in the industry and the improved capacity of mobile data is expected to boost demand for industry services.

Moreover, the anticipated rollout of 5G networks is expected to boost demand in the downstream commercial sector as operators upgrade from wired to wireless telecommunications. However, in

the short term, further cuts to MTRs are expected to slow revenue growth, while low consumer confidence following the EU referendum is also expected to hamper the industry's performance.

## Key Drivers

- **Number of businesses**

UK businesses generate a significant proportion of revenue for the industry, estimated to account for 35.1% of the market in the current year. Although business confidence typically determines the amount of investment in new technologies, the number of businesses in the United Kingdom is a proxy for the size of a potential market for industry operators. In 2017-18, the number of business is expected to fall and threaten industry operators' revenue from the commercial market.

- **Demand from wired telecommunications carriers**

A direct substitute for industry products is the wired telecommunications industry. For the past 25 years, wired telecommunications services have been the main source of competition for the industry. However, the volume of calls from mobile phones surpassed the volume made from fixed lines in 2011. In 2017-18, demand from wired telecommunications carriers is expected to fall, continuing a long-term trend.

- **Number of mobile connections**

The number of mobile connections can be used as a proxy for demand for industry services and prospective market scope. The higher the number of mobile connections, the greater the revenue that operators can expect to receive for wireless services. In 2017- 18, the number of mobile connections is expected to increase, presenting an opportunity for industry operators.

- **Business confidence index**

Businesses in the United Kingdom are a key market for industry operators, as in recent years many businesses have moved away from wired telecommunication products and towards wireless telecommunications products. When business confidence levels are high, businesses hold a greater propensity to invest more in new technology, update their processes and replace obsolete technology. In 2017-18, business confidence is expected to increase only marginally. The EU referendum result is expected to dampen confidence while the United Kingdom and European Union negotiate the terms of withdrawal.

- **Real household disposable income**

Disposable income influences the consumption of wireless telecommunication services. In recent years, an increase in the price of mobile handsets has led consumers to opt for more post-paid contracts, which has boosted demand for industry services. As disposable income levels rise, consumers are more inclined to use value-added services such as internet browsing, mobile TV and picture messaging. However, real household disposable income is expected to decline marginally during 2017-18, owing to uncertainties stemming from the EU referendum.

### **Brexit Implications**

Consumer confidence has been negatively affected by the UK's decision to leave the European Union, while business confidence expected to decline over the two years through 2019-20.

Businesses are a key market for the industry, accounting for an estimated 35.1% of industry revenue in the current year. In the downstream business market, uncertainty regarding Britain's future is expected to cause a decrease in investment, with downstream buyers forecast to delay investment in new technology until markets stabilise. This is expected to slow demand for the industry's services and could result in industry revenue continuing to decline in the short term. Weak confidence could also have a direct effect on the industry, as operators may seek to limit capital expenditure, which may constrain the industry's performance.

Income uncertainties are expected to encourage saving among household customers, with some households expected to downgrade subscriptions to industry services. Industry operators currently offer add-on services such as internet browsing, mobile TV and picture messaging for an additional fee. Decreased consumer confidence may lead to households opting for basic packages instead, reducing ARPU.

Industry operators currently receive funding from the European Commission in the form of state aid. The European Commission has put the Digital Agenda as one of its seven pillars of the Europe 2020 strategy. The Digital Agenda seeks to improve information and communication technologies to promote innovation, economic growth and progress. This funding could be lost once the United Kingdom leaves the European Union, which could increase operating costs.

In addition to funding, operators also benefit from the recent abolition of EU data roaming charges. However, according to the Evening Standard, following the referendum result consumers could face bills up to €50 (£43) for each song they stream while roaming in the European Union if the United Kingdom cannot negotiate a favourable deal upon leaving the EU Digital single market. According to Finnish Member of European Parliament Miapetra Kumpula-Natri, who drafted the abolished roaming charges bill, roaming fees for UK consumers will be negotiated between UK industry operators and other European companies and charges could become exceedingly expensive.

Following the EU referendum, the value of the pound fell significantly. Purchases are the largest cost to industry operators, estimated to account for 44.4% of industry revenue in 2017-18. Supply chain costs have risen since the EU referendum, meaning British manufacturers will have to pay more for key inputs such as satellites, mobile handsets and electronic components. This could

increase the cost of production and raise consumer prices for handsets, for instance, as firms pass on the burden of cost increases.

*Source IBISWorld, Wireless Telecommunications Carriers in the UK/IPA Insight Centre*