

Winning and losing in the Multi-play market using **Conjoint and Construct™**

Research sponsored by BT Wholesale

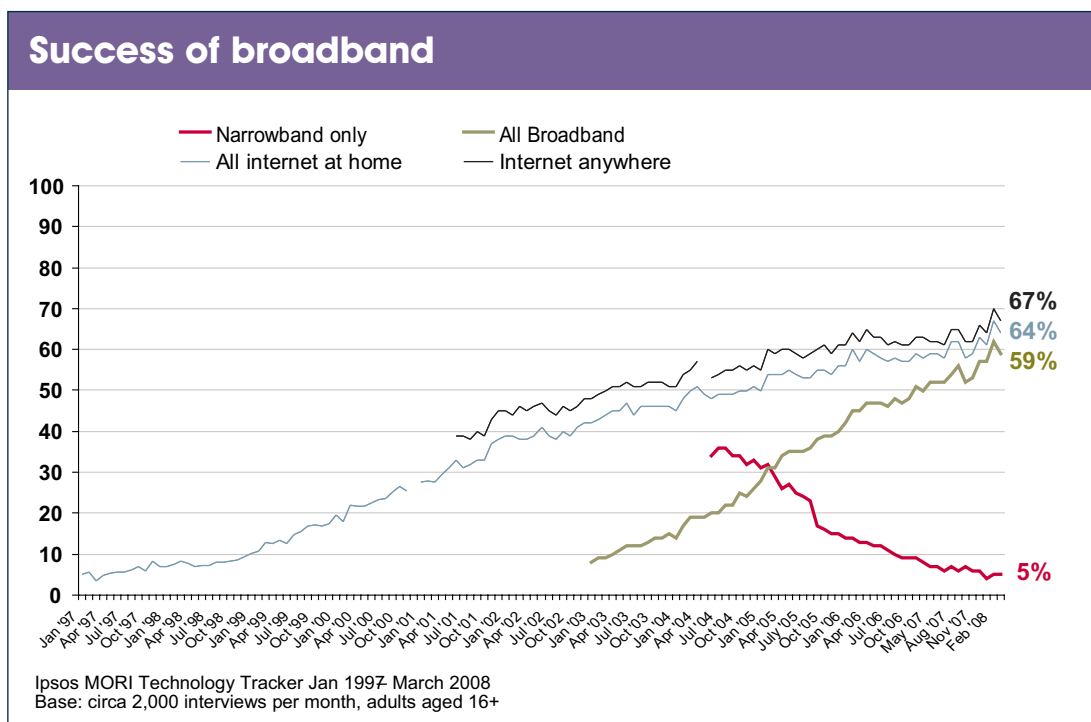


Summary

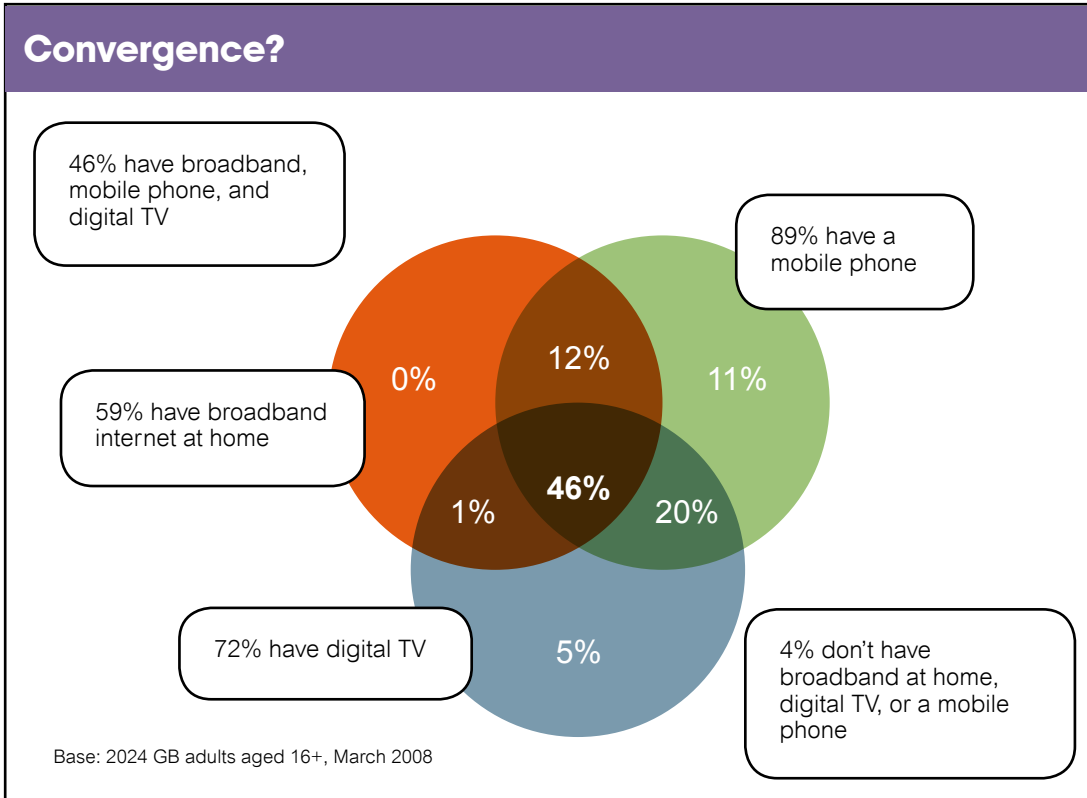
The research study - comprised 600 consumer interviews with households that subscribe to multiplay services, either a la carte or as a bundle. Multiplay services defined as internet, landline telephone, mobile telephone and a digital TV service. It examines the appeal and preference for sourcing bundled services from single suppliers, in a market traditionally dominated by a la carte supplier arrangements. The main objective was to understand the success criteria for a supplier of multiplay services. Which services will consumers prefer to bundle? What is the optimum combination of services? Which types of supplier have a natural fit with the supply of bundled services to the home? What added value added services can smaller "single play" suppliers offer to compete in this market place? Do these added value services command a price premium? The submission will focus on how two innovative research methods were used to provide an insightful strategic overview of the success criteria in this market. The research results have been well received by the ISP industry and generated much interest. The study was sponsored by BT Wholesale.

Uptake of broadband services has now reached almost 6 in 10 adults (aged 16+) across Great Britain, and nearly 1 in 2 adults uses broadband, digital TV and a mobile phone.

The uptake of broadband services has risen from 1 in 10 in January 2003 to almost 6 in 10 in 2008.



Given the increase in broadband services, and the high incidence of usage of mobile phones, it is unsurprising that convergence of bundled services is an increasingly appealing option for telecommunications companies to attract and retain customers. Ipsos MORI's technology tracking shows that the market for converged services, is now nearly 1 in 2 adults, with 46% of adults aged 16+ using mobile phones and digital TV and broadband internet.



2007 saw an increase in investment of offering bundled services, with Virgin Media and Sky engaged in competitive advertising of the bundled services, and BT investing heavily in promoting their Total Broadband package.

But with consumers used to purchasing single services from multiple providers, and an increasing number of services and options available, **how do companies ensure they market the most attractive and profitable bundles?**

To succeed in the multi-play market it is essential for providers to understand:

- 1) Which services will consumers prefer?
- 2) What is the optimum combination of services?
- 3) What is the ideal pricing scenario (both in terms of volume and value)?
- 4) What added value services can ISPs offer? Do these command a price premium?

In order to help providers answer these questions we spoke to current end-users of the types of services commonly bundled. Ipsos MORI interviewed 600 consumers based on a national sample of decision makers for multi-play services to the home, targeting current end-users of services that are commonly bundled.

All respondents had to have broadband internet, mobile phone subscription, Digital TV and a landline telephone subscription. This study was a repeat of a survey completed in 2006.

So which services are most attractive to consumers bundling services, and which combinations are most preferred?

In order to measure the relative preference of different bundles of services, Ipsos MORI conducted a conjoint analysis. This analysis presents respondents with different bundles of services and asks them to choose which one they prefer. This analysis provides the appeal of the specific features and the bundles that are most preferred.

Our choice model package components

Broadband speed

- 16 Mbps
- 8 Mbps
- 2 Mbps
- Not part of bundle

Television package

- All digital channels including sports and movies with catch up and pay per view
- All digital channels not including sports and movies with catch up and pay per view
- All digital channels not including sports and movies with catch up
- All digital channels not including sports and movies
- Free channels only
- None

Landline telephone

- Free anytime international calls to 30 countries and mobile
- Free anytime UK calls plus 25% off calls to mobiles
- Free international and mobile calls evenings and weekends
- Free UK evenings and weekends
- None

Mobile telephone

- 500 voice minutes and 500 texts per month with roll over into next month
- 500 voice minutes and 500 texts per month
- 100 voice minutes and 100 texts per month
- None

Provider

- Cable: Virgin Media
- Landline/ISP: BT
- Mobile/ISP: Orange/Wanadoo
- Satellite TV: Sky
- Retailer: Tesco
- Mobile operator: Vodafone

Price

- £79.99
- £64.99
- £49.99
- £34.99
- £24.99
- £14.99

Promotion

- Free wireless router
- 3 months half price subscription
- Free laptop or £250 discount at PC World
- Free laptop from Dell
- Free broadband
- None

The key findings from the Conjoint research were:

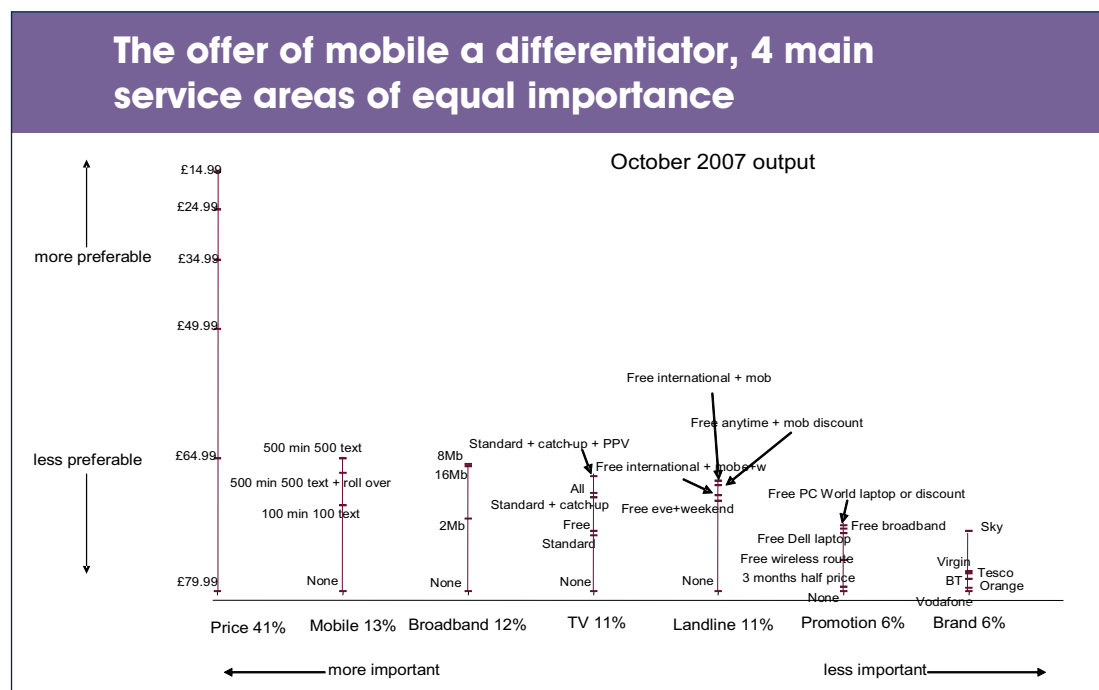
- 1) Price is the most important driver of preference
- 2) A basic package can generate significant revenue at £34.99 and a premium package at £50-£64.99
- 3) Mobile offer increased in preference this wave, although all four service elements remain important throughout.
- 4) There is little impact on preference between 8mbps and 16mbps broadband offer
- 5) Premium TV services also increase levels of preference
- 6) Brand is less important than price and service provision; as in 2006 no brand seems to own multi-play – Sky has greatest preference

Price was the most important factor in driving preference (48%), followed by mobile offer (13%), broadband (12%), TV (11%), landline phone (11%), promotion (6%) and brand (6%).

Offering a mobile phone element increased in importance vs. 2006 (13% 2007 vs. 2% 2006), whilst the importance of broadband in driving preference decreased vs. 2006 (12% 2007 vs. 22% 2006).

However, all four service areas are almost equally as important in driving preference (mobile offer (13%), broadband (12%), TV (11%), landline 'phone (11%)). It is interesting to note there is little differentiation for consumers between 8MB and 16MB broadband.

Brand and promotion were less important in driving preference. However, whilst no brand owned multi-play in 2006, Sky had greatest preference and differentiation of the brands included in the research for 2007.



So how much are consumers willing to pay for different types of multi-play offer?

A key output from any Conjoint exercise is a simulator, which allows preference to be calculated for different bundles. To understand the optimum pricing package we analysed preference for two different bundles with the simulator.

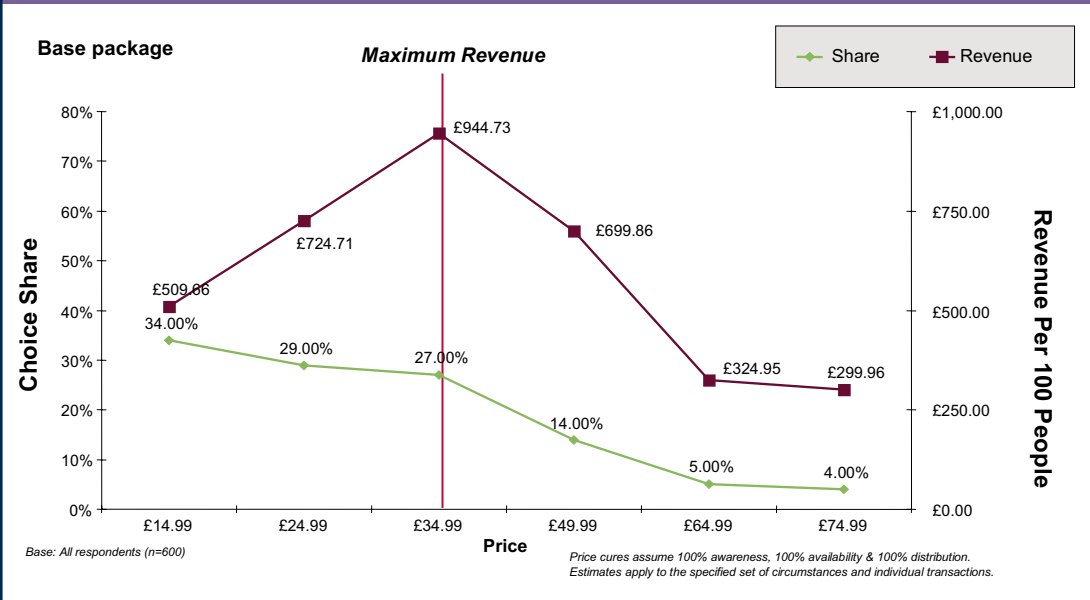
<p>A. Base Package at £14.99 per month</p> <p>2 Mbps broadband Free digital TV channels only Free evening and weekend calls No mobile phone No promotion</p>
Versus
<p>B. Full package at £79.99 per month</p> <p>16 Mbps broadband All digital channels including sports and movies Free anytime international and mobile calls Mobile phone 500 anytime minutes with 500 texts and roll over Free laptop or £250 discount at PC World</p>

For the base package we found 34% of respondents would switch to a multi-play offer from one supplier, at a £14.99 price point.

Not all about price, upgrade in service levels can drive value		
	% who would switch to multi play offer from one supplier	% who would stick with a la carte arrangements
<p>Base Package at £14.99 per month 2 Mbps broadband, Free digital TV channels only, Free evening and weekend calls, No mobile phone, No promotion</p>	34%	66%
<p>Full package at £79.99 per month 16 Mbps broadband, all digital channels including sports and movies, free anytime international and mobile calls, mobile phone 500 anytime minutes with 500 texts and rollover, free laptop or £250 discount at PC World</p>	20%	80%
Base: all (600)		

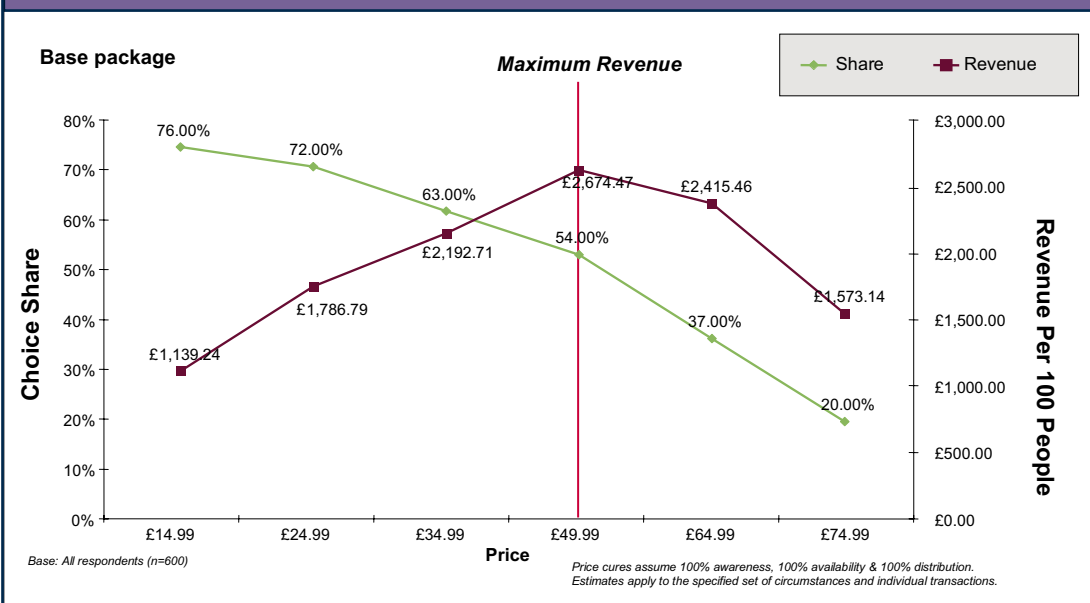
If we increase the price of this base package, although share declines, the increase in price offsets this at the first few price points (i.e.: the total revenue), so the maximum revenue point for this base package is at £34.99.

Maximum revenue opportunity at £34.99 where 27% would switch from their current package



The full package commands a price premium; whilst the maximum revenue point is at £49.99; 37% of respondents would still switch at £64.99.

Maximum revenue opportunity at £49.99 where 54% would switch from their current package



Using ConStruct™ to determine optimum value add service bundles for ISPs

Within the online survey we also tested which the optimal service bundles are for ISPs to offer alongside broadband provision. Consumers were presented with a list of service attributes, (see below) and asked to sort these into “must haves”, “nice to haves”, “not important” and “do not includes” using the ConStruct™ approach. Regression analysis was then undertaken to identify the optimum range.

15 services tested....

Online Downloads (*unlimited*) (*Unrestricted downloads from the internet*)

E-mail Accounts (*Send and receive emails via internet*)

Extra bandwidth (*booster*) (*Faster internet connection for browsing and downloading*)

250 minutes WIFI roaming per month (*Ability to access the internet outside the home with WIFI*)

Anti-virus software (*Protects your PC or laptop from software viruses*)

Anti-spam software (*Protects your PC or laptop from spam emails, filtering any unwanted emails from your inbox.*)

Parental Control (*Full-home parental control of Internet security*)

Licensed to use online gaming networks (*Access to online gaming network sites which users can challenge other users online*)

Exclusive access to websites (*Access to sites, such as news, sport, entertainment, weather, travel, etc; which are exclusive to subscribers of the broadband supplier.*)

Voice over IP calls (*Voice calls using computer networks.*)

Web hosting facility (*Ability to create your own websites, blog pages etc.*)

Backup Storage (*online*) (*You can access a secure online webpage allowing you to upload your own music files, photos and other documents.*)

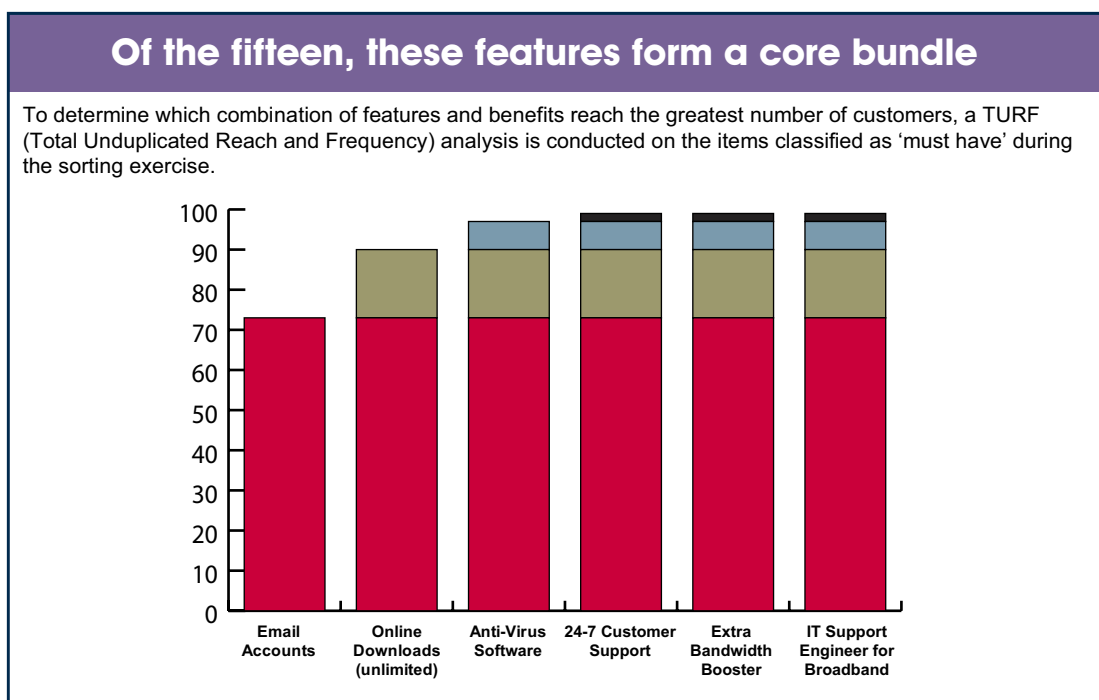
Customer Support 24/7 (*Support service which deals with customer enquires.*)

An IT Support Engineer for your broadband connection (*Visit your home to help and support you with installations and repairs*)

IT support for all your personal IT needs (*IT support service which deals with technical support*)

The key findings from the ConStruct™ exercise were:

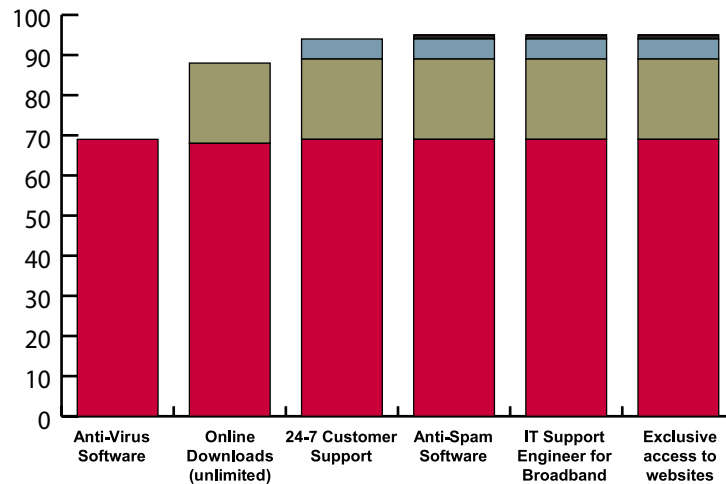
- 1) 6 core features form the optimum bundle: including an e-mail account, unlimited downloads, anti-virus software, customer service, bandwidth booster, engineer for support
- 2) Security protection is a key factor in adding value (anti-virus software and anti-spam software)
- 3) Providing the right added value features can command an incremental fee – respondents expected to pay £14 to £15 per month over and above their current subscription



If we re-analyse the data without the standard offer of an e-mail account, we can see that consumers are most likely to select anti-virus software in their core bundle.

Taking out email accounts, anti-virus software most widely selected “must have” option in core bundle

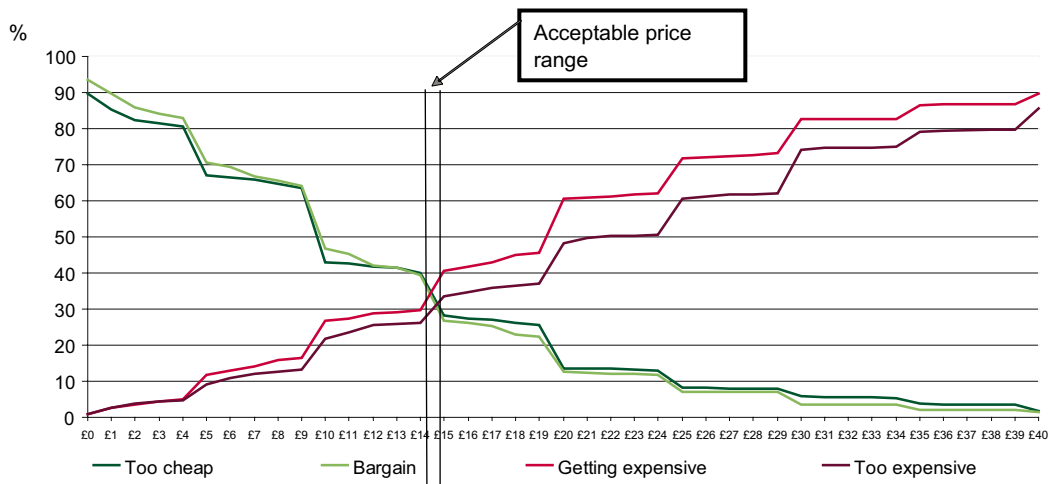
To determine which combination of features and benefits reach the greatest number of customers, a TURF (Total Unduplicated Reach and Frequency) analysis is conducted on the items classified as ‘must have’ during the sorting exercise.



Offering these value-add services can also command a price premium. We asked respondents to estimate a price that would be considered “too cheap”, “a bargain”, “getting expensive” or “too expensive” for the options in their “must have” bundle, (price given as an incremental monthly fee over and above a standard internet subscription).

Recommended price ranges for a bundle of this type £14 to £15 per month over and above current subscription

Price estimation for bundle of “must have” or “nice to have” features. Respondents asked to give a price that would be considered too cheap, a bargain, getting expensive or too expensive. Price given as an incremental monthly fee over and above a standard internet subscription



In conclusion to succeed in the multi-play market:

- Accentuate a value based proposition: price is a key driver for a bundled offering
- Look to differentiate with mobile: this emerged as a much stronger proposition than 2007
- Broadband is a key element of the service offering: but little difference between 8mpbs and 16mbps
- Consider options for premium TV services: these can add value to the package
- Value added services can justify an incremental fee; e-mail accounts, unlimited downloads and anti-virus software are key in driving value



Further information

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