Survey of U.S. Consumer Telecom Purchasing Plans for 2005

EXECUTIVE SUMMARY

The telecommunications industry as a whole took its first steps toward meaningful recovery in 2004. Encouraged by positive economic signs in general, incumbent service providers and surviving competitors emerged from several years of post-bubble austerity to begin formulating and implementing expansion plans aimed at delivering new advanced services to the business and consumer markets.

The huge question facing the telecom sector now is, how sustainable is the recovery that began in 2004? It's a question that touches all of the links in the telecom supply chain. Are end users ready to increase spending on new products and services? Do service providers have the internal commitment to ramp up investment in the technologies needed to deliver those new offerings? Will systems vendors respond aggressively to renewed demand for new technologies? Can components makers deliver the product improvements needed to enable significant upgrades in performance?

To gauge the prospects for the telecom industry's continued recovery in 2005 and beyond, Heavy Reading launched a series of surveys aimed at assessing the attitudes and expectations regarding telecom revenues and spending at each critical point in the telecom supply chain:

- Consumers
- Enterprise users
- Service providers
- Systems vendors
- Components suppliers

The Survey of U.S. Consumer Telecom Purchasing Plans for 2005 presents results from an invitation-only online survey conducted to gauge consumers’ overall spending plans for telecom services in 2005, as well as their perceptions of service quality and value. The survey was conducted to capture an informal view of how the consumer market is likely to develop at this critical juncture in the telecom recovery, focusing on the most promising service sectors: broadband access, video/TV services, and wireless services.
In total, 438 respondents from across the U.S. participated in the survey, answering a series of questions focused on the following topics:

- Internet service spending plans for 2005
- Video service spending plans for 2005
- Wireless service spending plans for 2005

This survey is part of a massive project undertaken by Heavy Reading to assess the current state of the telecom industry supply chain. Preliminary results from this project were presented to attendees of the Light Reading Links 2004 Executive Summit, but this is the first time that full results from the surveys are being made available. Other reports in this series present and analyze results from surveys covering 2005 spending and budget plans for the worldwide enterprise, service provider, and systems and components vendor markets.

**Key Findings**

Key findings of the report include the following:

**Most consumers are not planning to increase spending on telecom-related services in 2005.** More than 60 percent of respondents said they expect their spending on Internet service to remain static in 2005, while nearly 10 percent said they expect to cut their Internet service spending. Nearly two-thirds of respondents expect their spending on video services to remain the same in 2005, and almost 60 percent of wireless users predicted no spending increase for 2005.

**All service providers will be challenged to increase their per-user revenues in the consumer market in 2005.** The prevailing attitude among consumers surveyed is that the costs of communications services are now too high. Less than 30 percent of those surveyed said they expect to spend more on Internet, video, or wireless services in 2005. Based on these results, service providers will face a struggle to boost monthly average revenue per user (ARPU) in 2005.

**Internet users in the U.S. consumer market perceive DSL as being a slightly better bargain than cable modem service, but they see cable networks as delivering better performance.** Just over 55 percent of DSL users characterized the cost of their service as being either reasonable or a great bargain. In contrast, less than 45 percent of cable modem subscribers felt the same way.

**Although Internet users are generally happy with the cost and quality of their service, they remain open to switching providers if they find a better alternative.** More than 60 percent of all Internet broadband users said they would consider switching providers, while another 10.8 percent of DSL users and 7.4 percent of cable modem users said they will definitely switch providers in 2005. These results suggest that customer retention will remain a challenge for Internet service providers.

**Cable operators are benefiting from their ability to offer both Internet and video services to subscribers.** Nearly 90 percent of the respondents who use cable modem Internet service said they also get their video service from their cable operator. This strongly suggests that service bundles are an important tool to attract and keep customers.

**Report Scope and Structure**

The *Survey of U.S. Consumer Telecom Purchasing Plans for 2005* provides unique insight into spending plans and expectations within the U.S. consumer market as the telecom industry heads into this critical stage of its recovery. Survey participants represent a broad slice of the U.S. consumer market by age, income level, geographic location, and types of services used.
Excerpt 1: Respondents by Age

- 18 to 25: 5.1%
- 25 to 34: 18.2%
- 35 to 44: 24.7%
- 45 to 54: 32.1%
- Over 55: 19.9%

Excerpt 2: Respondents by Monthly Spending on All Communications Services

- Less Than $50: 4.1%
- $50 to $100: 15.1%
- $100 to $150: 28.2%
- $150 to $200: 23.6%
- $200 to $250: 14.7%
- More Than $250: 14.2%

In addition to presenting overall results, the report drills down into key demographic sectors to pinpoint spending trends in those important subgroups.

Excerpt 3: Projected 2005 Spending on Internet Services (DSL Subscribers)

- About the Same as in 2004: 62.7%
- Increase Less Than $10 per Month: 9.5%
- Increase More Than $10 per Month: 11.4%
- Decrease Less Than $10 per Month: 9.5%
- Decrease More Than $10 per Month: 7.0%
This report is structured as follows:

**Section I** includes an introduction and a full accounting of key findings from the survey.

**Section II** provides key demographic data on survey participants, including respondent breakouts by age, geographic location, household income levels, and monthly spending on telecommunications services.

**Section III** covers U.S. consumer spending plans for and attitudes toward Internet services, including dial-up service and DSL and cable modem broadband services.

**Section IV** focuses on spending plans for and attitudes toward video/TV services, with an emphasis on comparing perceptions of cable and satellite service providers.

**Section V** covers spending plans and attitudes of wireless users toward wireless services, including voice and data services.

The report is essential reading for a wide range of industry participants, including the following:

**Service providers**: How do your revenue plans for the consumer market in 2005 match up to user expectations? Which types of services hold the most promise for significant revenue growth? Which service areas are likely to experience softer demand that will negatively affect revenues? Do your plans for service rollout truly match your customers’ needs and expectations, or do you need to consider making some adjustments?

**Technology vendors**: What are the most important telecom service sectors from the consumer point of view? Do your service provider customers have realistic expectations regarding revenue from the consumer market, or are there potential dislocations that may affect demand for your products later in 2005?

**Investors**: What are the consumer service hot buttons for 2005? Which types of vendors and service providers are likely to benefit most from consumer telecom spending in 2005? Do carrier plans for service rollouts match up to anticipated demand from consumers? Which service sectors are likely to be affected by increased price pressures?

*Heavy Reading’s Survey of U.S. Consumer Telecom Purchasing Plans for 2005* is published in PDF format. Purchasers of this report also gain access to a searchable online database of full results from the exclusive online survey of consumers, complete with database tools that allow for further analysis of results by respondent age, income level, geographic location, and other demographic criteria.