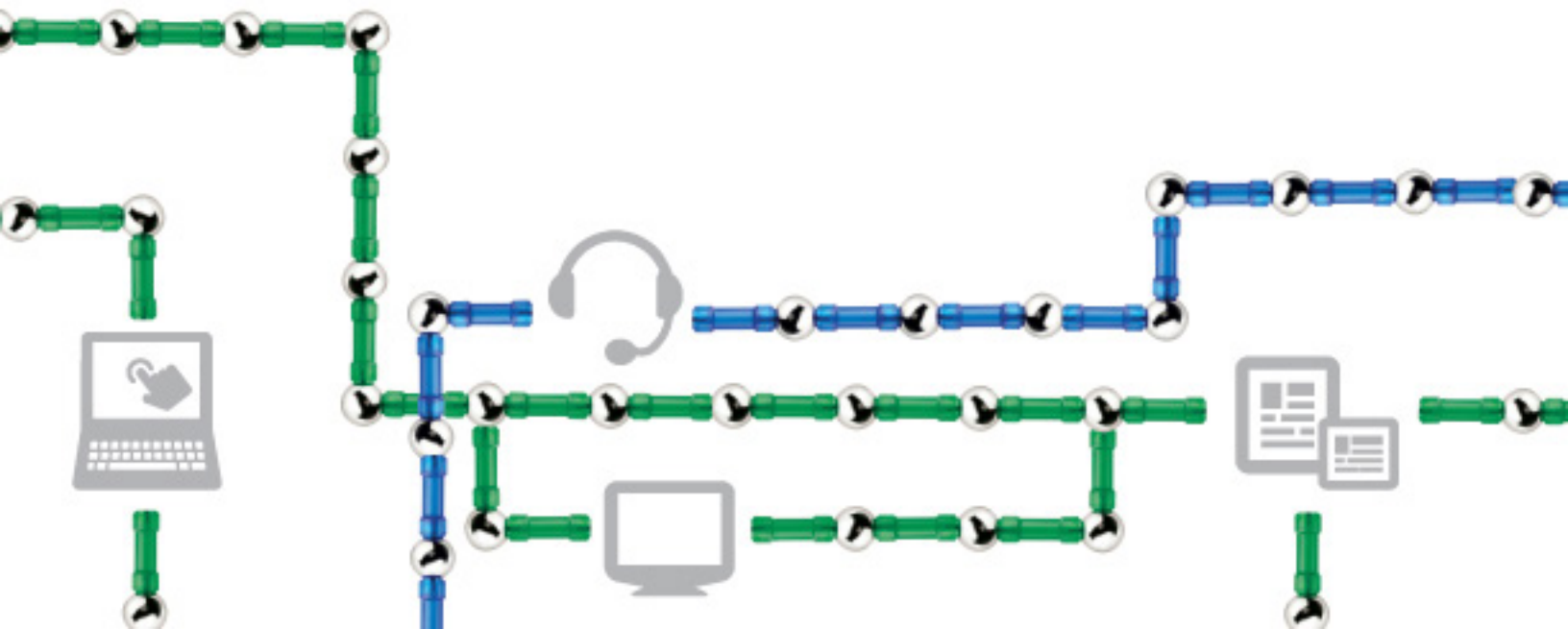


TMT Predictions 2014

Canadian focus



TMT Predictions 2014

The decline of the Canadian cellular voice call?

Deloitte predicts that in 2014 that about 10–20% of Canadian cellular customers will spend only 3–4 minutes per day talking on their phones. Some of them will be ‘letting their fingers do the talking’ through various non-voice messaging applications.

Across all Canadians with cell phones and smartphones the number of minutes of voice used per month (MOU) is likely to be around 400, the same as 2013¹, as per minute prices for voice fall or unlimited or very large voice baskets are offered. But for a minority, the proliferation of smartphones, data plans and full featured messaging apps will enlarge the category of “voice seldoms” in 2014.

The emergence of voice seldoms has led to some dramatic media headlines: “Canadians texting more, talking less” according to one article². And it’s not just Canada: a recent US academic report stated that “it appears safe to conclude...that messaging is substituting for voice, and we have projected that trend to continue out to 2015.”³ The UK regulator, Ofcom, said “it is likely that mobile users are substituting mobile voice calls with messaging via social networking sites, email and instant messaging services.”⁴

Case closed? Not exactly: although there is a general sense in multiple countries that at least some people are texting more and talking less, there is no hard data as to precisely how common this is, how big it is, and which consumers are most affected. Further, the reasons why the topic is so poorly understood are both interesting and important.

But first, there is some hard data from the US and the UK on cellular voice. From 2007–2012, US cellular voice minutes fell 21%, and in the UK MOU fell 11% between

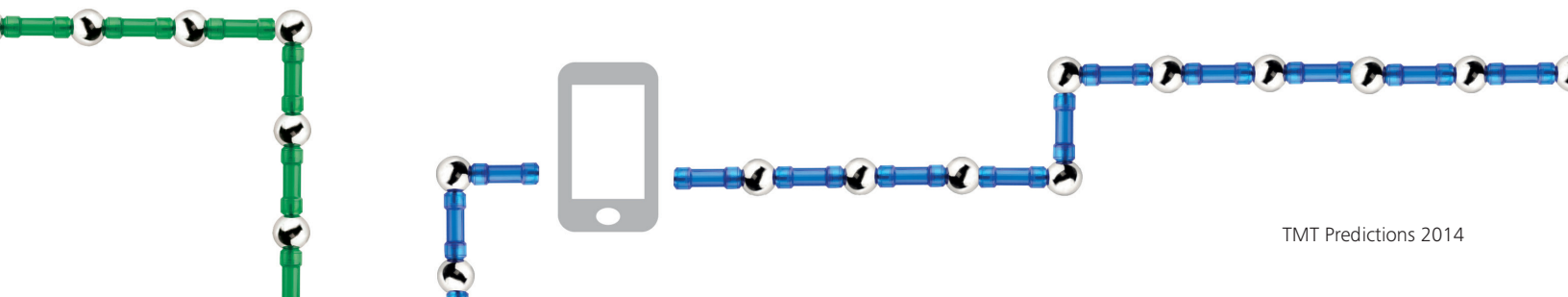
2010 and 2012^{5,6}. Next, calls are getting shorter: the length of US mobile calls declined 41% from 2006 to 2011,⁷ and a global carrier saw a 50% fall in call length in the last five years⁸. Finally, voice calls are a minority of the time spent on phones: US mobile phones are used about 58 minutes per day, with only 24 percent of those minutes being for voice calls⁹ and UK smartphones are used 128 minutes per day, with voice calls being 9.5 percent of total usage¹⁰.

But that still doesn’t quantify the issue of texting instead of talking. Why does that seem so hard to do?

When a Canadian substitutes messaging for voice, or instant messaging for texting, or Voice over IP (VoIP) for cellular voice, the mobile operator is blind to the former category in each case¹¹. From the operator’s perspective, voice and text messages simply disappeared; in reality, they were both substituted – and the operator continues to earn revenue from those substitutes through a mobile data plan.

The second issue is the mix of subscribers and SIMs on Canadian networks. Increasingly Canadians have more than one SIM, more than one phone, or more than one data-connected device, such as a modem or tablet. Though an increasing number of secondary SIMs are predominantly used for data (and therefore seldom for voice), not all such SIMs are tied to data-only subscriptions. Their increasing prevalence serves to erode the average number of minutes per subscriber recorded by the operator in any market.

Also, as the absolute number of subscribers in Canada has been growing, it is the late adopters that are being added,



and they are likely to dilute the MOU from the high voice minute levels that earlier adopters had.

Finally, the price of voice is falling in Canada and around the world, and new pricing plans are being introduced with either unlimited voice calls or buckets that are well above the average MOU: if the reduction in price causes a significant part of the Canadian subscriber base to talk for thousands of minutes per month, they would obscure any changes in usage from other parts of the population who were talking less and texting more.

Getting to grips with these changes is challenging, especially for carriers. At the heart of most mobile networks lie Deep Packet Inspection¹² boxes that can classify traffic and measure it: but they cannot count individual messages, or distinguish a video call from other forms of video traffic¹³. As a result, they are not in a position to meaningfully pinpoint what is happening, and amongst which customers¹⁴.

Despite that fact that no one can prove or quantify the substitution of text for talk, there is a consensus view among network operators: executives from Canadian carriers of all sizes said that they were convinced that wide-ranging substitution was going on, even if they couldn't quantify it precisely, especially in their younger users¹⁵. One US study found that the number of teens who talk to their friends daily on a cellphone has dropped from 38 percent in 2009 to 26 percent by 2012¹⁶.

Given all this, is there any way to try sizing the likely market of voice seldoms?

All media consumption (in fact most consumption of anything, whether it be food, media or telecoms usage) follows a kind of distribution called a power law¹⁷. As an example, the power law for TV watching in Canada is as follows: the 20 percent of viewers who watch the most TV watched 2.5 times as many minutes per day as the average Canadian, and the quintile that watched the least watched about 75 percent fewer minutes than average; true in both French and English TV markets¹⁸. If a similar power law applied to voice calls, and with a Canadian average 400 MOU in 2013, the 20 percent of subscribers who talked the most would be near 1000 MOU, or more than 30 minutes per day, while the 20 percent of subscribers who talked the least would be around 100 MOU, or just over three minutes per day.

Though this analysis is not currently verifiable,¹⁹ it makes logical sense. But knowing that 20% of mobile subscribers talk three minutes per day isn't the whole picture. The real challenge for carriers during 2014 will be to understand how substitution is manifest, measure it more precisely,

determine why consumers are choosing to do it, and how best to adapt carrier strategies to monetise more of it, especially for higher-usage, higher-value customers.

Bottom line

The first point to be made is that even if 20 percent of Canadian subscribers don't make as many minutes of voice calls as they used to, 80 percent still do, or more.

The most obvious implication for network operators is that offering monthly plans with very large or unlimited voice minutes will not be equally attractive for all customers. If 20 percent are talking less than 100 minutes per month, they will respond only to other inducements, perhaps 'all you can app' messaging plans²⁰. Depending on the alternative to cellular voice, increased use of messaging, especially with pictures or video, may help drive consumers to data plans and bigger data plans, enhancing average revenue per user (ARPU), although this would be mitigated by wifi offload.

Next, 25 percent of 2014 global smartphone sales will be phablets, with screens bigger than 5.0 inches. The Canadian figure is likely to be lower, perhaps 15–20%²¹. These devices are good for video or gaming, but look awkward when held up the head for voice calls. Those Canadians who make the fewest minutes of voice calls may be more likely to buy phablets.

We may also see mobile operators develop application programming interfaces, (APIs) to allow them to both provide greater functionality to providers of VoIP, instant messaging (IM) and other messaging applications, while gaining greater visibility over the traffic that is migrating in their direction. APIs could, for example, offer VoIP, IM and other third party providers to access valuable operator functionality, from add-to-bill (for the purchase of additional services, or content such as stickers and icons, used in IM services) through to subscriber location data. To the extent that third parties adopt carrier APIs, carriers themselves will likely be able to gain a far more detailed understanding of emerging patterns of behaviour relating to substitution, and in some circumstances, even earn revenues from third party service providers.

Finally, there seems to be a significant opportunity for someone to provide a holistic view of the smartphone user. The installed base of smartphones globally is over 2 billion users, and 2014 sales will be around 1.2 billion devices worth over \$375 billion, most with data plans and app purchases. Knowing how many minutes users are spending on voice, VoIP, and messaging would almost certainly be of value to carriers, device manufacturers and advertisers alike.

Endnotes

- ¹ Mobile Operator Benchmark 3Q13| Network Business Quarterly, TBR Inc., page 62. In the four quarters ending Q3 2013, Rogers MOU fell slightly, while Telus and Bell MOU rose slightly. Year over year changes were less than 5%.
- ² Canadians texting more, talking less, CBC News, 4 April, 2012: <http://www.cbc.ca/news/business/canadians-texting-more-talking-less-1.1186202>
- ³ How Much Media? 2013 Report on American Consumers (page 24), James E Short, Institute for Communications Technology Management, University of Southern California, October 2013: <http://www.marshall.usc.edu/faculty/centers/ctm/research/how-much-media>
- ⁴ The Communications Market-Telecoms and Networks (page 375), Ofcom, 2013 : http://stakeholders.ofcom.org.uk/binaries/research/cmr/cmr13/UK_5.pdf
- ⁵ The Mobile Consumer-A Global Snapshot, Nielsen, February 2013: <http://change-corp.com/wp-content/uploads/2013/09/mobile-consumer-report-2013-130327031900-phpp02.pdf>
- ⁶ The Communications Market-Telecoms and Networks (page 376), Ofcom, 2013 : http://stakeholders.ofcom.org.uk/binaries/research/cmr/cmr13/UK_5.pdf . And postpaid MOU was down almost 20% from the 2007 level of 256 MOU.
- ⁷ Talking Less, Paying More for Voice, The Wall Street Journal, 5 June 2012: <http://online.wsj.com/news/articles/SB10001424052702304065704577426760861602618>
- ⁸ The Death of Voice: Mobile phone calls now 50 per cent shorter, The Register, 30 January 2013: http://www.theregister.co.uk/2013/01/30/mobile_phone_calls_shorter/
- ⁹ Americans spend 58 minutes a day on their smartphones, Experian Information Solutions, 2013: http://www.experian.com/blogs/marketing-forward/2013/05/28/americans-spend-58-minutes-a-day-on-their-smartphones?WT.srch=PR_EMS_smartphones_052813_press
- ¹⁰ Making calls has become fifth most frequent use for a Smartphone for newly-networked generation of users, O2, 29 June 2012: <http://news.o2.co.uk/?press-release-making-calls-has-become-fifth-most-frequent-use-for-a-smartphone-for-newly-networked-generation-of-users>
- ¹¹ Equally, the instant messaging company knows how many messages are sent through its app, and the demographics of each user...but is ignorant of all cellular minutes, VoIP minutes or instant messages sent through a competing app. The VoIP companies can measure the minutes of voice talked, but have no insight into the other usages. No player has a view of all communications.
- ¹² "Deep Packet Inspection (DPI) (also called complete packet inspection and Information eXtraction - IX -) is a form of computer network packet filtering that examines the data part (and possibly also the header) of a packet as it passes an inspection point, searching for protocol non-compliance, viruses, spam, intrusions, or defined criteria to decide whether the packet may pass or if it needs to be routed to a different destination, or, for the purpose of collecting statistical information." Deep packet inspection, 2013, Wikipedia: http://en.wikipedia.org/wiki/Deep_packet_inspection
- ¹³ Conversation with a global top tier Deep Packet Inspection company in October of 2013.
- ¹⁴ Further, the carriers have difficulty knowing the precise demographics of each device: the person whose name is on the account may be different than the actual user, or devices may be shared or loaned.
- ¹⁵ As part of Predictions research, there were meetings from March to November of 2013 with executives from multiple large network operators, on the condition that their remarks remain unattributed.
- ¹⁶ Teens, Smartphones & Texting, PewResearchCenter, 19 March 2012: http://www.pewinternet.org/~media/Files/Reports/2012/PIP_Teens_Smartphones_and_Texting.pdf
- ¹⁷ Power law, Wikipedia, 2013: http://en.wikipedia.org/wiki/Power_law
- ¹⁸ Proprietary analysis of BBM Kantar Canada data done for Deloitte Canada.
- ¹⁹ As part of the research, carriers were asked if they had quintile data showing the distribution of MOU. None were able to provide that data, even confidentially.
- ²⁰ See: All you can app, TMT Telecommunications Predictions 2013, Deloitte: <http://www2.deloitte.com/global/en/pages/technology-media-and-telecommunications/articles/tmt-telecommunications-predictions-2013-all-you-can-app.html>
- ²¹ Deloitte Canada estimate.

TMT Predictions 2014

TV: those who like it, like it a lot

Deloitte predicts¹ that by the end of 2014, the 20 percent of English-speaking² Canadians who watch the fewest minutes of traditional TV³ (both live and playback⁴) will fall to just over 30 minutes per day, down from nearly 60 minutes in 2004. Yet this decline will have virtually no effect on the average English Canadian TV viewing of 3.8 hours per day, which is expected to change by less than 10 minutes (up or down) versus the same period in 2013⁵.

On the other hand, the one fifth of French-speaking Canadians in Quebec⁶ who watch the least traditional TV are predicted to watch about 70 minutes daily, unchanged from 2004 levels, likely due to lower levels of over-the-top (OTT) TV viewing. According to francophone broadcasters, there has been very limited success for OTT internet video content in French Canada, largely due to limited content⁷ while OTT services are popular in English Canada.

At the same time that overall TV watching is flat, the one fifth of English Canadians who watch the most traditional TV are predicted to watch even more: 8.2 hours per day, about the same as in 2004, but up 10 percent from 2009 levels.

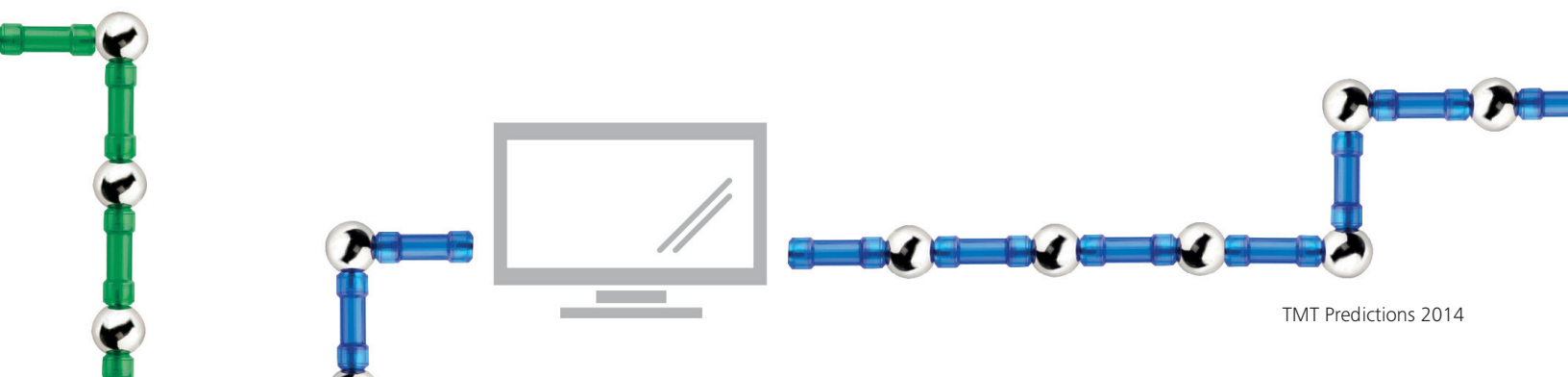
Although Canada is a distinct market, it is always interesting to examine what is happening south of the border: media behaviour, especially in English Canada, is often very similar to US habits. Are the trends being seen in traditional TV viewing in Canada also occurring in the US?

Yes. In Q1 2013, the fifth of Americans who watched the most TV viewed 10.75 hours per day, and the 20 percent who watched the least viewed 36 minutes daily. In 2011,

the heaviest viewers watched 10 hours and the lightest fifth watched 58 minutes. In other words, over that two year period the one fifth of Americans who consumed the most TV watched eight percent more, while the fifth who view the least watched 38 percent less⁸. In that same time span, the number of TV minutes for all Americans was basically unchanged. The same is true in Canada. The decline in the bottom 20 percent in the US is steeper than in English Canada, but the recent growth in viewing for the heaviest TV watchers is almost identical.

One further change in viewing habits is the idea of “reach”. 90 percent of Canadians watched TV daily in 2013 and 98 percent watched at least once per week⁹. Those numbers are very high, but falling: in 2011 the daily reach was 2 percentage points higher, and the weekly reach was 0.5 percentage points higher. That is a small change: what is happening in the one fifth of English and French Canadians who watch the least TV?

Weekly reach is basically unchanged for viewers in either language group, but the daily numbers reflect the growing divide in viewing that seems likely due to non-traditional TV watching increasing in English Canada. Daily reach in the one fifth of English Canadians who watch the least TV fell from 62.5 percent in 2011 to 58.7 percent in 2013. At that rate, more than half of lightest TV viewers will no longer watch daily by 2017. By contrast, daily reach for the one fifth lightest French viewers is actually rising, up from 74.6 percent in 2011 to 77.3 percent in 2013. In the lightest TV viewer category, the number of English Canadians who do not watch TV daily is just under double the comparable figure for French Canadians.



Bottom line

Talking about TV is more complicated in 2013 than in 2004. In addition to broadcast TV signals (whether over the air or through a distributor like satellite or cable) and playback of recorded TV content, there are online channels such as YouTube for both short and long form content, over-the-top subscription video-on-demand (VOD) services like Netflix Canada, or like Hulu for those who can obtain a US IP address, and pirated TV signals streamed or downloaded over the Internet. And those types of TV content are being watched on PCs, tablets and smartphones as well as TV sets. In this Prediction, we define live TV and recorded playback on TV sets as traditional TV, and all other viewing as non-traditional.

While many consumers don't really care what source they watch or on which device -- and neither do some content creators¹⁰ -- there are three groups that care very much about what kind of TV people watch, which devices they watch on, and how viewing behavior changes over time.

The three groups are (1) businesses that advertise or generate revenue from advertising, (2) TV content distributors such as cable, IPTV and satellite companies, and (3) TV measurement companies.

Even with digital video recorders (DVRs) and some ad skipping, live TV and playback viewing supports a \$3.6 billion TV ad market in Canada¹¹, and TV distribution is \$8.7 billion per year¹². Meanwhile, media measurement companies are developing new methodologies that can help them measure content viewing on non-traditional devices and video sources as accurately as they can measure traditional TV viewing.

A key point to keep in mind is that the declines in the bottom 20 percent of English Canadian viewing are largely a decline in traditional TV. Canadians are also watching OTT services, pirated TV and they are viewing TV on PCs or mobile devices in growing numbers, and it is likely that -- to some extent -- the falling minutes of traditional TV are being offset by growth in non-traditional TV. One might think the decline in daily traditional TV minutes would be horrible news for those who rely on TV advertising. Paradoxically, the impact is almost certainly fairly small. All English Canadians watched an aggregate of almost 27 hours per week in 2013, or 700 million hours. The lowest fifth of English Canadians watched less than a million of those hours, or 3.5 percent of all hours, and therefore a likely similar share of all ads¹³.

The two fifths of Canadians who watched the most viewed 70 percent of all TV minutes in 2013, but it is not necessarily a bad thing for TV advertisers if almost

three quarters of viewing minutes is becoming more concentrated in the top 40 percent of viewers. Heavy TV viewers display certain demographic tendencies: by age, language and ethnicity¹⁴, and even by income and education¹⁵.

"Concentration" is another term for targeting, and knowing that large portions of the audience for a particular program is from a narrower demographic group than in the past actually helps the advertisers who are targeting that group to get exactly what they are paying for.

There is also an opportunity for other forms of media. Canadians who are watching less than 30 minutes of TV are also spending less time reading newspapers and magazines and listening to traditional radio¹⁶. Although they are only 20 percent of the population, as the relatively young and affluent are over-represented, brands looking to target that audience will need to find channels in addition to traditional media of any kind.

The other large sector that could be affected by this shift is businesses that distribute traditional TV signals: Broadcast Distribution Undertakings (BDUs) such as cable companies, telcos providing IPTV services and satellite TV players. At the start of 2013 in Canada there were 11.8 million subscriptions to cable, IPTV and satellite services, and at year end there were still 11.8 million¹⁷! There was a decline of about 20,000 homes, but at 0.2 percent, it is too small to mean much. It is clear that up until now, the decline in viewing minutes has not caused subscribers to cut the TV cord.

It seems probable that as viewing minutes drop below a certain level, there could be a tipping point where cord-cutting might increase from its current very low levels. It didn't happen at 58 minutes, or 40 minutes and only time will tell if 30 minutes will be a significant support level. But even if cord-cutting rises, it is not as if 20 percent of subscribers will suddenly cancel. Many light viewers either live with other people who watch more traditional TV, or will continue to pay for TV, either because the cost is not material to them so it is an affordable "nice to have", or because there are certain forms of video content that are only available through an BDU bundle, which then becomes a "must have." As we discuss in our Prediction about the rise in prices for premium TV sports rights, premium sports might be the hook that prevents many people from cutting the cord.

Endnotes

¹ Special thanks to those who helped research this Prediction, analyzing or providing Canadian and Quebec information or perspective: Rob Dilworth at DILigent Marketing Solutions, Paul Street at BellMedia, and Gabrielle Madé and Catalina Briceno at Canada Media Fund/Fonds du médias du Canada

² This is the term used by the measurement company, BBM Kantar. It actually means all Canadian homes measured that are not part of the Francophone/French-speaking panels used in Montreal and Quebec City areas. For more info please see: BBM METHODOLOGY, Television Bureau of Canada, 3 April 2008: <http://www.tvb.ca/pages/InfoSys+methodology.htm> and Description of Television PPM/Portable People Meter Methodology, BBM Canada, August 2007: http://www.tvb.ca/page_files/pdf/MethodologyPPM%20_Final_.pdf In this Prediction, we will use the terms “English Canadians” and “French Canadians” throughout, for ease of use.

³ Broadcast TV, either from Over the Air (OTA) broadcast or from a distributor such as a cable company, telco or satellite provider, watched either live, or on a PVR/DVR. This is distinct from video watched over the internet from an Over the Top (OTT) provider such as Netflix, Hulu, YouTube, or other.

⁴ Also known as time shifted TV.

⁵ Deloitte Canada estimate based on recent trends.

⁶ The measurement data captures French-speaking households in Quebec, so when we use the term “French Canadian” in this Prediction we are not able to include Francophones in other provinces.

⁷ As an example, Netflix subscription rates in French Canada are five percent, versus 21 percent nationally. See: Canal+ Canada: The Trojan horse of a French giant?, Canada Media Fund (CMF), 18 November 2013: <http://www.cmf-fmc.ca/about-cmf/industry-research/trendscape-blog/canal-canada-the-trojan-horse-of-a-french-giant/190/?setLocale=1> . If Netflix, as is rumored (UPDATE 1-Netflix meets with officials on French launch, Thomson Reuters, 4 December 2013:<http://www.reuters.com/article/2013/12/04/netflix-france-idUSL5N0JJ2BK20131204>) launches in France, this could improve the French language content in Canada as well, and the current differences between French and English Canada in TV viewing may narrow. There are online sources such as Tou.tv, 2013: www.tou.tv, but these are not part of traditional TV as we define it, and they have much less advertising than traditional TV.

⁸ Nielsen Cross Platform Reports Q1 2013 and Q1 2011. Canadian data is a proprietary analysis of BBM Canada data done for Deloitte Canada.

⁹ All reach numbers are from BBM Kantar media data, for Canadians 2+, using the same four weeks in November for all years.

¹⁰ Kevin Spacey On Content: “The Device And The Length Are Irrelevant”, IMDb, 26 August 2013: <http://www.imdb.com/news/ni56101141/>

¹¹ New Industry Ad Revenue Report Includes First-Time Statement of Television Online Revenues, CNW Group Ltd., 3 October 2013:<http://www.newswire.ca/en/story/1236661/new-industry-ad-revenue-report-includes-first-time-statement-of-television-online-revenues>

¹² For more information, see: Communications Monitoring Report 2013: Broadcasting system, Canadian Radio-television and Telecommunications Commission, 2013:<http://www.crtc.gc.ca/eng/publications/reports/policyMonitoring/2013/cmr4.htm>

¹³ Nielsen Q1 2013 Cross Platform Report. In fact, the impact of fewer minutes being watched by the lightest quintile is almost certainly even lower than 2.7 percent implies: it seems probable that those who are watching the least and using alternate devices and OTT services are also the most likely to time shift and ad skip during playback.

¹⁴ The Nielsen reports provide detailed breakdowns of both streaming and TV viewing by age and ethnicity.

¹⁵ A closer look at TV’s desirable audience: the light TV viewer, Australian & New Zealand Marketing Academy: http://anzmac.info/conference/2008/_Proceedings/PDF/S01_Ceber%20Sharp%20%26%20Kennedy_S3%20S1%20P4.pdf#

¹⁶ Print Marketing Bureau of Canada, PMB 2013 Spring 2-Year Readership and Product Database, subscription only. The quintile of lightest TV viewers overindexed by 10-25 percent on the being in the lightest quintile for newspapers, magazines and radio. Unsurprisingly, they were 25 percent more likely to be heavy internet users.

¹⁷ Record IPTV subscriber growth, led by Bell Fibe TV, curbs ‘cord-cutting’ in Canadian traditional TV service market in Q3 2013, according to new research, Boon Dog Professional Services Inc, 12 November 2013: http://www.boondog.ca/News_files/Boon%20Dog%20News%20Release_TV%20Growth%20in%20Q3%202013_November%2012-2013.pdf and Deloitte Canada estimate for year end.

Researched and written by

Paul Lee
Director, Head of Global TMT
Research
Deloitte Touche Tohmatsu Limited
+44 (0) 20-7303-0197
paullee@deloitte.co.uk

Duncan Stewart
Director of TMT Research
Deloitte Canada
416-864-3536
dunstewart@deloitte.ca

Richard Lee
Partner
TMT Consulting
Deloitte Canada
416-874-3248
richlee@deloitte.ca

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