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*UK Corporate Services Price Index  
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*Appendix to Principal Paper:*

*United Kingdom*

# **BUSINESS TELECOMMUNICATION**

*Producer Price Index for Services*

*Tim Clode*

*UK Office for National Statistics*



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## *BUSINESS MODEL*

- **business model reviewed and redeveloped**
- partitioned into fixed line and mobile
- fixed line market dominated by single provider
- other suppliers use main provider infrastructure
- mobile market shared between four providers

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## *BUSINESS MODEL*

- **telecoms sector represents 2% of GDP**
- telecoms sector annual turnover is over £40b
- strong growth in internet and mobile services
- service plans change as frequently as price
- contract changes require quality adjustment

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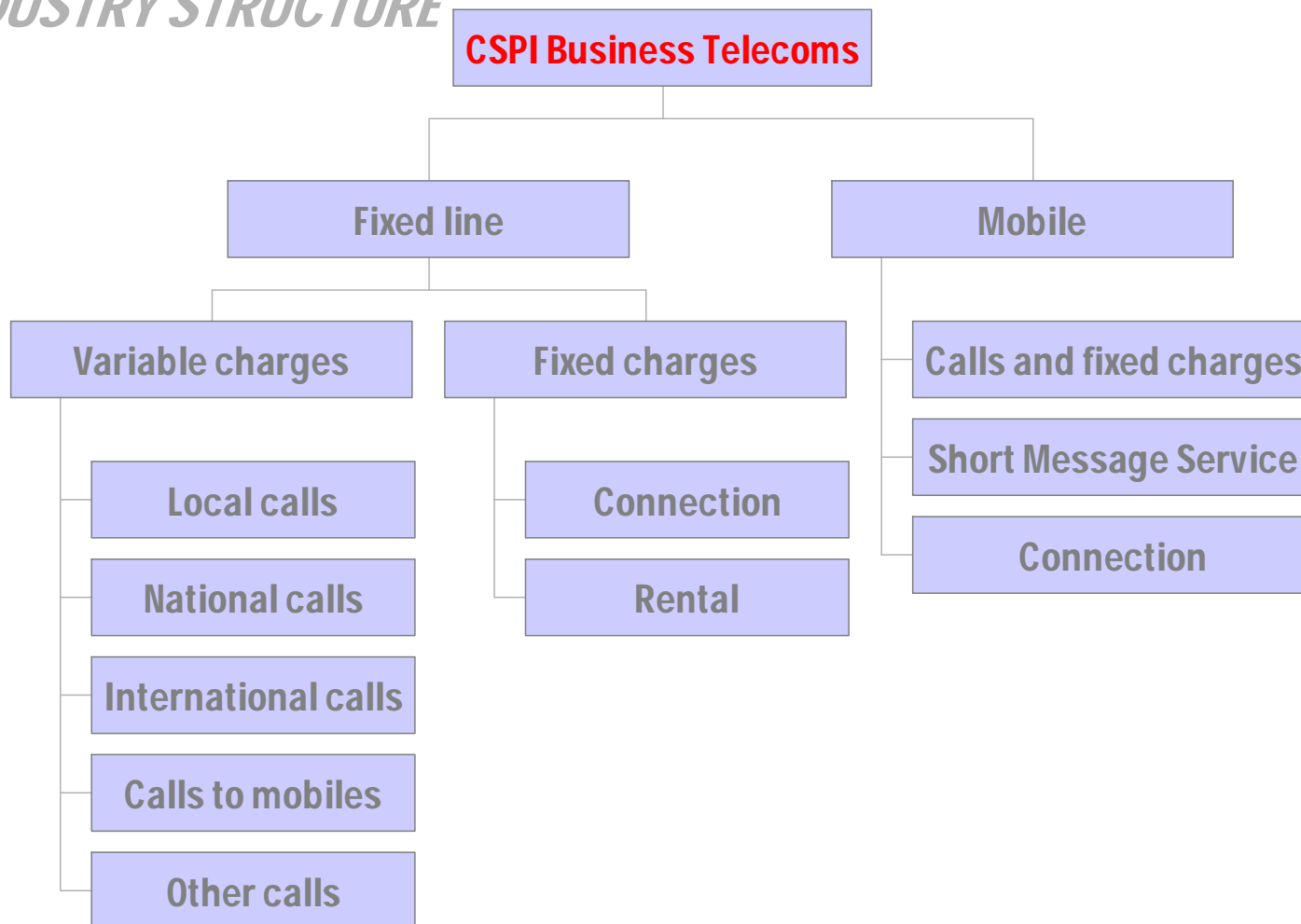
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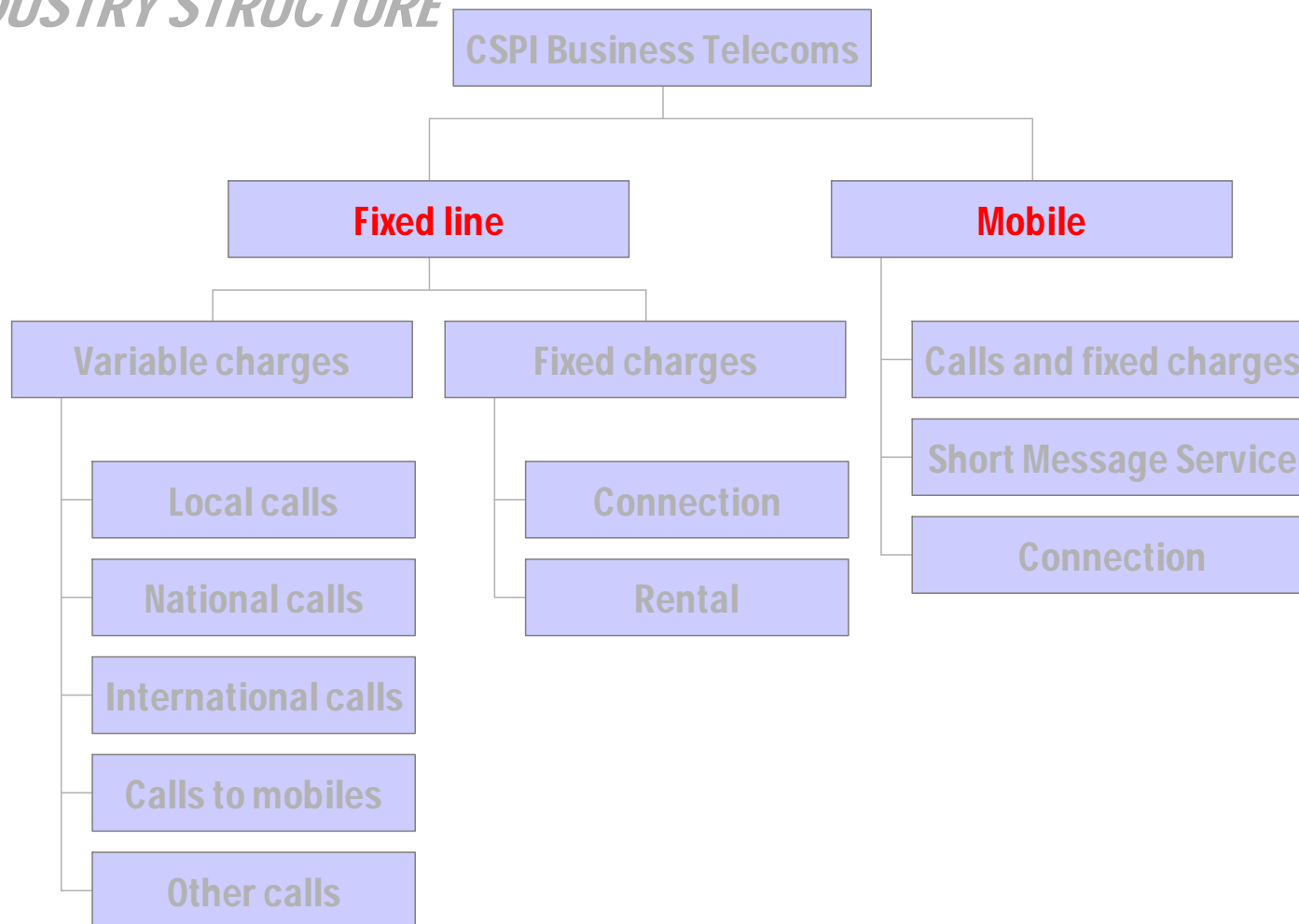
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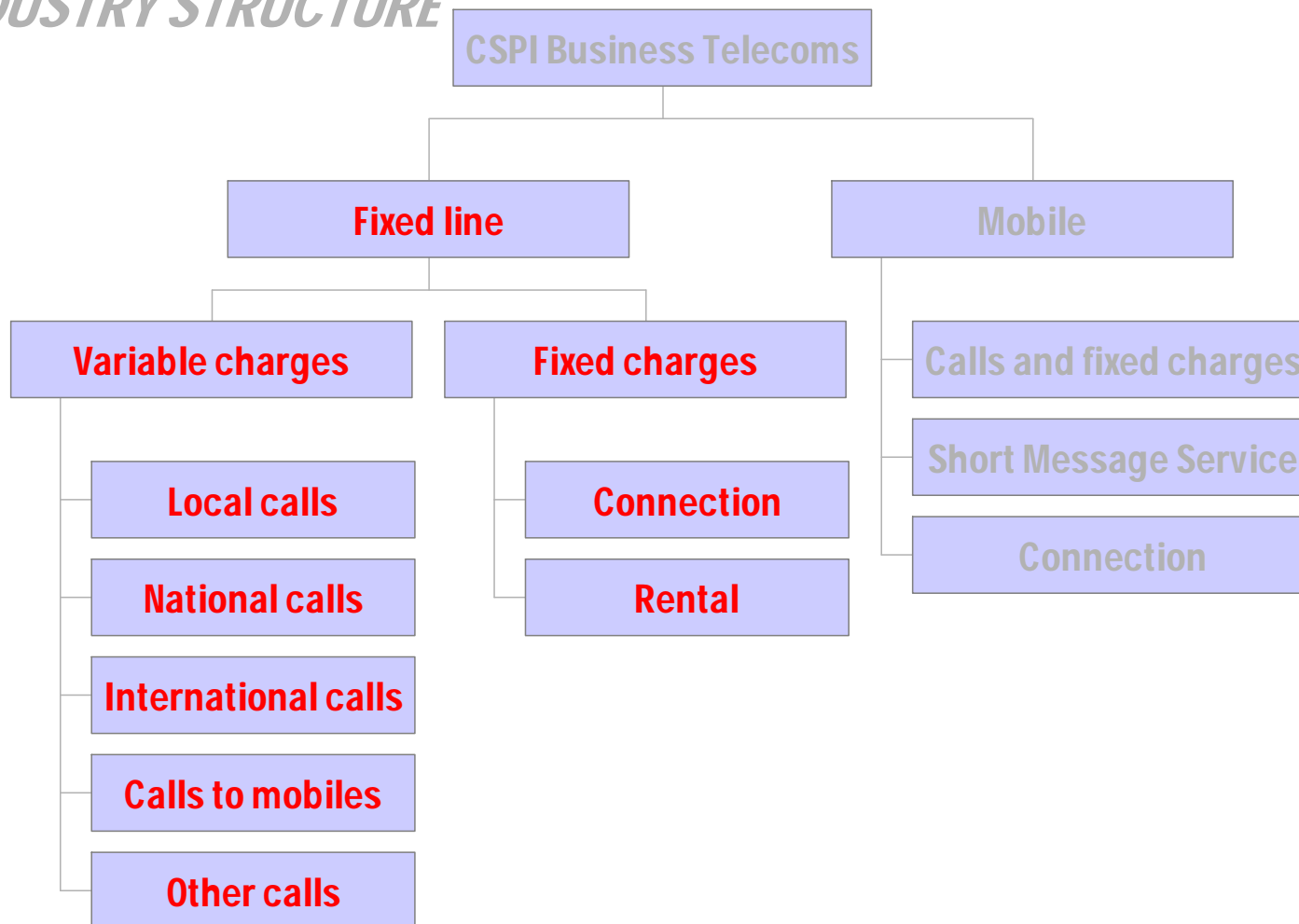
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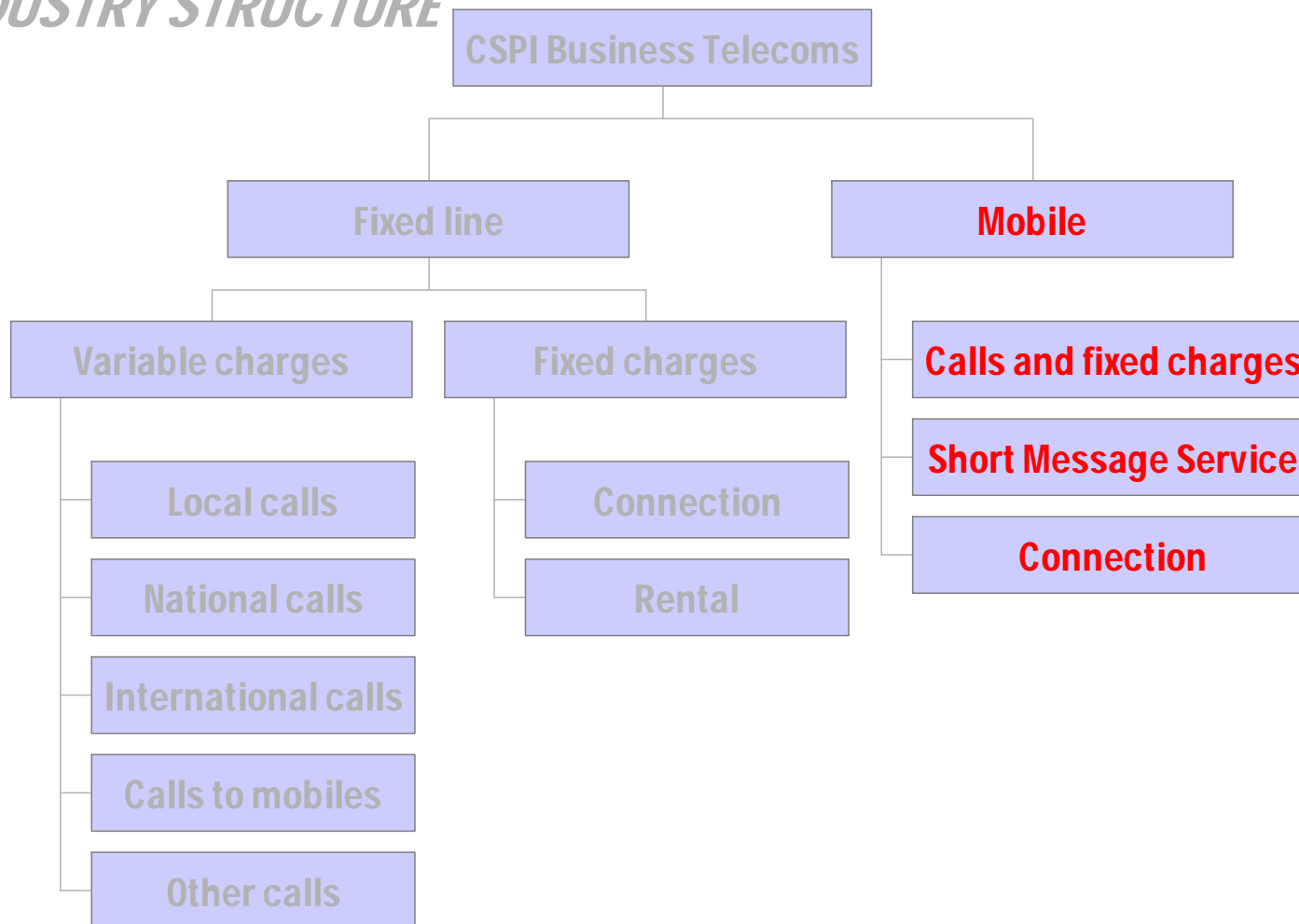




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## *INDUSTRY STRUCTURE*



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## *GOVERNMENT REGULATION*

- **UK Government regulates telecom industry**
- OFCOM oversees tv, radio, telecom and wireless
- OFCOM ensures fair competition within industry
- OFCOM protects UK consumers in digital age
- deregulation/technology have driven price down
- innovation has allowed new suppliers into market
- strong economy has led to strong competition

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## *PRICING METHODOLOGY*

- **telecom index based on unit-value price method**
- ratio of revenue in GBP to volume in minutes
- OFCOM is source of quarterly data
- OFCOM provides census of turnover and volume
- represents full coverage of telecom activity

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## *PRICING METHODOLOGY*

- **unit-value method yields detailed average prices**
- unit-value method gives proxy not true estimate
- avoids bill & rate method which is subject to bias
- avoids quality issues linked to bill & rate method
- avoids problems when services are bundled
- avoids problems when service charge tied to use

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## *LIMITATIONS & THE FUTURE*

- **late OFCOM data causes forecasting & revisions**
- forecasting introduces index error
- method relies on homogeneity of products
- more work to split 'other calls' category
- more work on dial-up & broadband internet
- more work on picture & video messaging
- more work on mobile international & roaming

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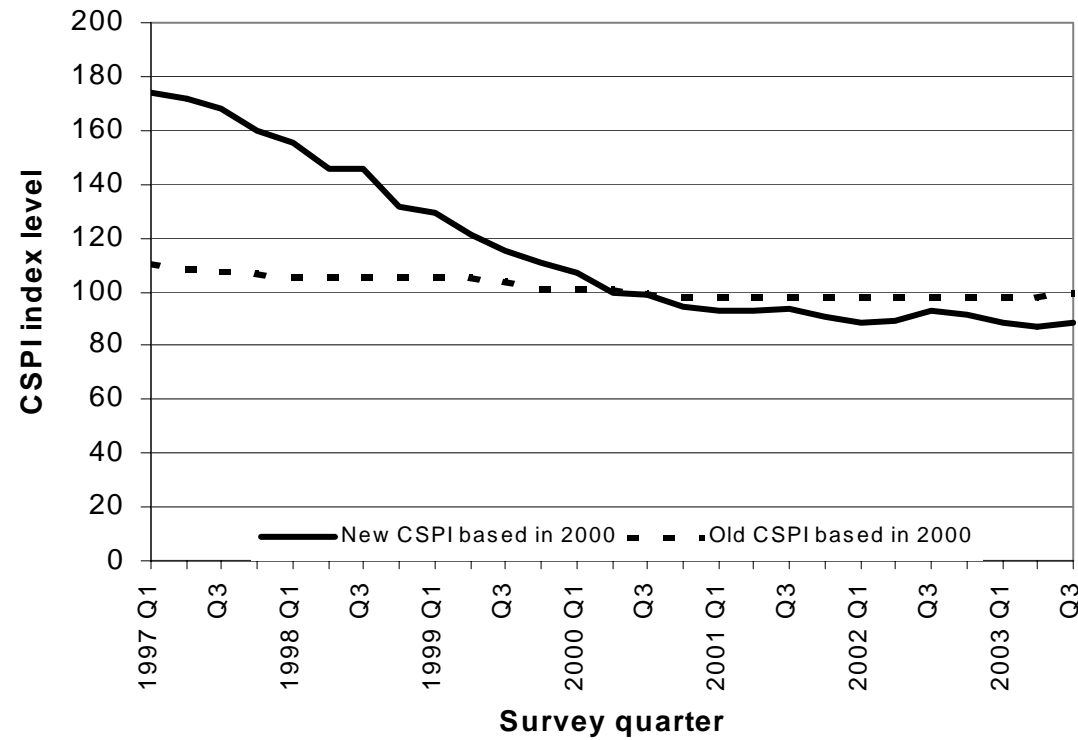
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## *OLD & NEW CSPIs FOR BUSINESS TELECOMS*



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## *ANALYSIS OF PUBLISHED DATA*

- **new CSPI captures steeper decline in price**
- old 'rate' based CSPI much flatter
- OFCOM recognise new CSPI as reflecting market
- 3 year decline due to intense mobile competition
- fixed line price also drops slightly over period
- telecom providers have consolidated positions
- price reductions now less frequent

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