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## **POWERING THE UK'S INTERNET ECONOMY – THE VITAL ROLE OF CONNECTIVITY**

- New research shows £82bn – or 5.7% of GDP – relies upon investment in fixed and mobile networks
- Every £1 spent on internet access supports £5 in the wider internet economy
- Vodafone UK looks to the Communications Green Paper to start debate on the next generation regulation needed to build a strong UK internet economy

The UK's internet economy is worth £82bn, or 5.7% of GDP, according to new research by management consultants A.T. Kearney, significantly higher than the global average. The independent research, commissioned by Vodafone UK, highlights the vital role that networks play, with every £1 spent on connectivity – both fixed and mobile – supporting the creation of £5 in revenue for the rest of the digital economy.

The research shows that £37bn is generated by the 'internet value chain', which consists of connectivity services, online search advertising and device manufacturing, while e-commerce and m-commerce generate a further £45bn.

This is, however, only made possible by the wired and mobile networks that allow people to connect to the internet. Worldwide, these networks account for 72% of all the capital expenditure spent in the internet economy and possibly more in the UK. But in this country only 16% of internet revenues flow back to the companies making that investment.

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The report shows that the need for investment in networks will increase as consumers make use of increasingly bandwidth-hungry services such as streaming video. Mobile data traffic is expected to rise even faster as smartphone and tablet adoption gathers pace and the mobile phone networks introduce the next generation of superfast 4G services.

Total UK internet traffic is expected to increase by an average of 37% year on year between 2010 and 2015, from 621 petabytes to 3,000 petabytes. That is the equivalent of almost 200 million albums downloaded every day. However, traffic over mobile networks is forecast to grow even faster at 84% year over year and account for 11% of all traffic by 2015, compared with 2% in 2010.

The report notes that the mobile industry continues to create innovative products and services to support this data revolution, but that the Government and regulators need to be mindful of the crucial role played by network providers in the internet economy.

“The supportive regulatory environment created by the government a generation ago encouraged the investment that resulted in the first ever mobile call by Vodafone in 1985,” said Vodafone UK Chief Executive Guy Laurence. “We need that same visionary approach today to support the development of the UK Internet economy and the networks upon which it depends. Only this will ensure that British companies can compete on equal terms with their international rivals.”

The A.T. Kearney research comes as the Government prepares to take a fresh look at the regulatory landscape created by the 2003 Communications Act, which barely mentioned the internet at all. Vodafone believes that the regulatory model created nine years ago is out of step with a country that has an internet economy worth £82bn. The forthcoming Communications Green Paper offers the opportunity to create a regulatory model for an internet economic age. Fixed, and increasingly mobile, connectivity is the lifeblood of internet economy and makes up the largest segment of the UK internet value chain. Economic growth will only come with a regulatory structure that provides the stable environment that businesses like Vodafone need to invest in faster networks to unlock the economic potential of the internet.

The new regulatory model must allow the successful parts of the UK internet economy to flourish and ensure that being based in the UK isn't a disadvantage. National boundaries are becoming irrelevant in the internet economy. Companies that deliver services to consumers, businesses and Government in the UK are increasingly likely to be located outside the UK – and beyond the reach of national regulators. National laws and regulations have to be examined in the light of this

change to ensure UK based firms operate on a level regulatory playing field with competitors based abroad.

Mark Page, a partner at A.T. Kearney commented, "The majority of traffic on mobile phone networks is data which supports a wide range of consumer and business services. It is in the interests of everyone in the UK who increasingly depends on the mobile Internet that investment keeps pace with demand and that the policy framework supports this level of investment."

The full report is available to download at:

<http://www.atkearney.com/index.php/Publications/the-internet-economy-in-the-united-kingdom.html>

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