

The Recession's Effects on Network Services

An overview of consumer spending priorities worldwide

Consumers are reluctant to eliminate their network-based communication services, particularly broadband Internet. But if economic conditions worsen, they will change their spending patterns — initially by shifting to free or lower-cost offerings, service bundles or services subsidized by advertising.

Introduction

Alcatel-Lucent Market Advantage has conducted worldwide end-user research to assess how the current economic downturn is affecting consumer spending on network services. Our study asked consumers about:

- Their spending priorities for specific network-based services and activities, including Internet, television, data and voice services.
- Their spending on “other activities” that do not require a wireline or wireless connection — such as health clubs, leisure travel or going to concerts.

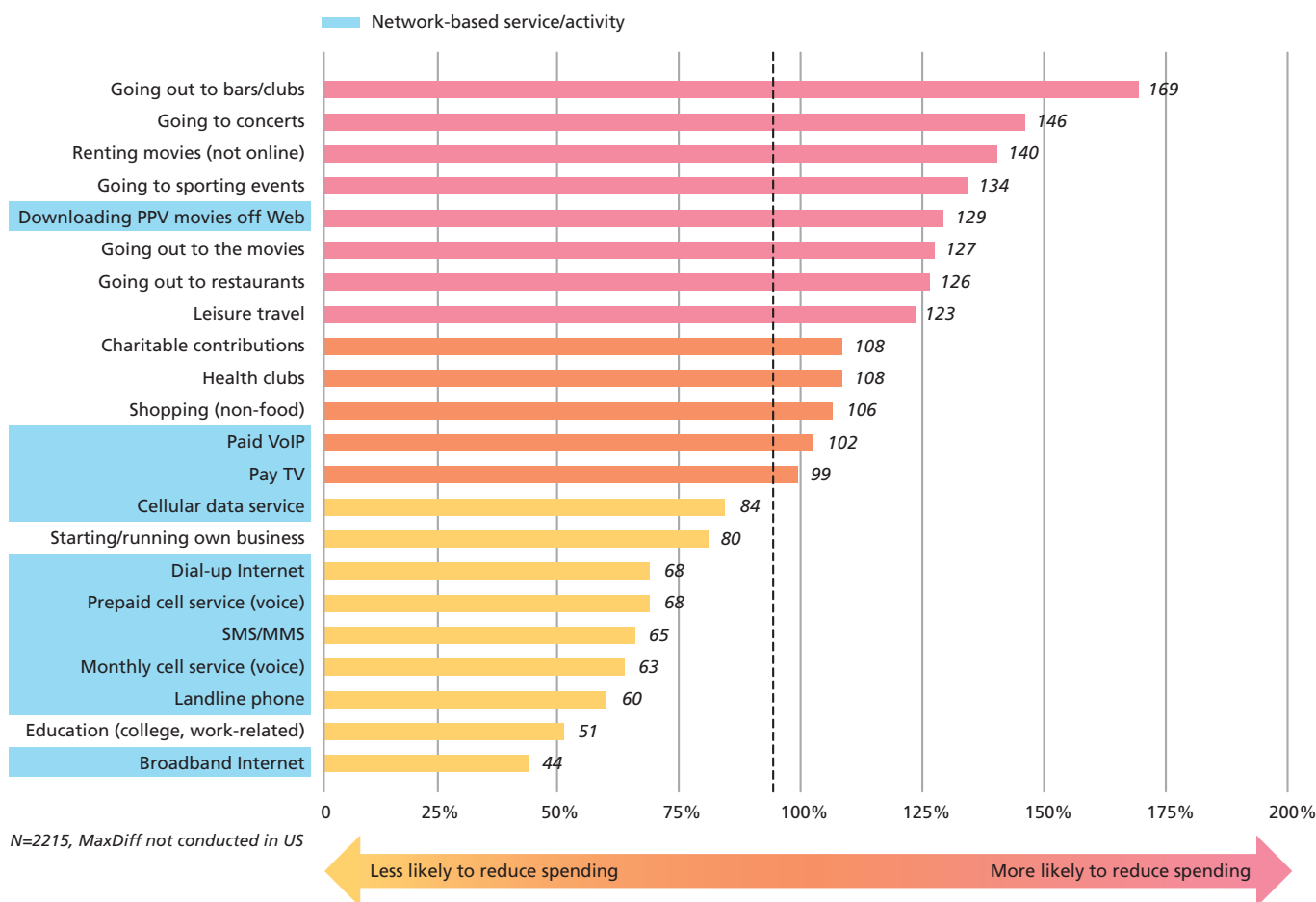
Consumer spending priorities were examined across all types of network services — and compared with spending on other activities, such as dining out, education or going out to movies.

Key research findings

Negative effects of the economic downturn are being felt globally, particularly in developed countries. Approximately two-thirds of households in every region are planning to reduce their overall spending: Twenty percent plan to make significant cuts, while 44 percent plan only slight reductions.

When consumers set priorities for reducing monthly expenses, network-based services are not their first target.

Figure 1. A ranking of consumers' preferred cutbacks



Overall priorities for cutting costs

For consumers worldwide, network-based services are more important than activities such as going out to bars, traveling or working out at health clubs. So they are more likely to reduce expenditures on “non network-based” activities, as shown in Figure 1.

The services consumers want to keep

Broadband Internet, landline and cellular voice are consumers’ top three choices for retention. Broadband consistently tops the list of essential network services, in all regions — and is the least likely to be given up when consumers reduce spending.

Broadband Internet service is the last item consumers want to eliminate to reduce spending.

Looking ahead – for three strong services

For the next 12 months, fewer consumers are planning to make positive changes to their broadband Internet, cell voice and SMS/MMS services. However, their plans for upgrades and new subscriptions still clearly outweigh plans for downgrades or cancellation.

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Eighty-four percent of current subscribers say broadband Internet is an essential network service. It’s also the last item they want to eliminate to reduce spending.

Future economic scenarios and consumer spending

If the global economy does not improve, 35 percent of consumers plan to reduce spending on network-based services. These cutbacks will increase dramatically if the downturn gets worse — averaging 71 percent worldwide. (But when the economy improves, 29 percent of consumers plan to increase their spending on network-based services, while 13 percent still plan to make cuts.)

How consumer behavior may change

Consumers are adapting to financial constraints by looking for more cost-effective ways to retain the network-based capabilities they value most. Their options include:

- Shifting away from fee-based services to free alternatives, such as free video and VoIP services
- Relying more heavily on emailing and text messaging, rather than wireless voice communications
- Opting for prepaid voice plans rather than post-paid plans
- Choosing bundled service packages that offer substantial discounts
- Accepting advertising-subsidized services — an option that’s received most favorably in emerging countries

Consumers in emerging markets are most receptive to new forms of advertising and have the highest level of optimism about the future. China and India also have the highest penetration of consumers who own smartphones — or are planning to buy iPhones or smartphones in the near future.

For more detailed research findings, please contact your Alcatel-Lucent account representative.

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