

Analysis of the drivers of **take-up of high-speed Internet service**



What we were asked to do	<p>We were asked by a New Zealand commercial operator to look at what drives uptake of high-speed broadband by consumers. As part of this work we explored the extent to which the availability or regulation of premium video content online has driven take-up of fibre broadband services. Premium video content is top-tier sport, new release movies and first-run television shows.</p>
How we approached the project	<p>We approached this analysis from several angles, looking both at take-up of broadband in general, and at take-up of fibre-based services.</p> <ul style="list-style-type: none">• We looked at the OECD data on broadband uptake and considered what has got the leading countries to the top of the list• We examined the academic literature on what drives broadband uptake• We considered the arguments presented by the Commerce Commission and by submitters to its Demand Side Study, the most sustained public investigation of the issue, and• We did some econometric assessment to test the drivers of fibre broadband take-up based on OECD figures, looking at GDP, education, prices, and the level of competition, and various proxies for content availability.
Our findings	<p>We found that:</p> <ul style="list-style-type: none">• Early network regulation via local loop unbundling and network competition (especially from cable TV) drives down prices and lifts take-up. <p><i>continued over</i></p>

Our findings

- Government investment in networks and strong government leadership has been crucial in all countries with significant fibre take-up.
- Content has been obviously important in only a few markets. France has strong take-up of Internet television services, but pay TV options there were previously very poor, suggesting unmet demand might have been a factor. The USA has the best content options in the OECD, but relatively low broadband uptake.
- We found no academic research that supports the idea that video content is a key driver of broadband take-up.
- Statistical analyses demonstrate a range of influential factors, including income, population density and education levels, ICT use (e.g., the number of households with a computer), and the extent of local web presence. But overall our model had only modest explanatory power, suggesting that there are other important factors involved.
- From the regulatory point of view, competition law and merger and acquisition rules have been more help to firms providing video services over the Internet (IPTV) who are in search of content than any standard broadcasting regulation, e.g., anti-siphoning rules or must-carry/must-pay requirements.
- Overall we think online video services will be an important part of broadband services in the future. However there is no evidence that online premium video content will be the primary driver behind consumer broadband adoption. Rather it seems likely to be one service among many.