Business use of Internet – Oftel Small and Medium Business Survey Wave 6 August/September 2001

Introduction

1.1 This report provides an overview of business use of Internet, taken from the sixth wave of Oftel's quarterly business survey, conducted in August/September 2001.

1.2 The survey sample was changed in wave five, and hence results are not directly comparable with waves previous to that. Details and implications of the changes can be found in Appendix 1. The survey is now conducted among 816 businesses (previously 700), comprising 516 (previously 400) small businesses (1-50 employees) and 300 medium businesses (51-250 employees – previously 51-500 employees), located across the UK with a minimum turnover of £50,000. Quotas and weighting were applied to small and medium businesses separately so that the sample was representative of SMEs (Small and Medium Enterprises) in the UK in terms of business size, industry sector and region.[1]

1.3 The survey was conducted on behalf of Oftel by Continental Research during August/September 2001. This report has been prepared by Oftel[2] based on the results provided by Continental Research.

1.4 The report covers:

- Internet penetration among SMEs;
- type of package, ISPs used;
- Internet connection methods used including DSL (digital subscriber line) services and other non-PSTN/dial-up connection methods; and
- satisfaction with Internet services.

1.5 A list of the questions is attached in Appendix 2. Topics to be researched each quarter are requested by Oftel project teams, and results feed into current investigations and reviews in the individual market areas.

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[1] The survey was conducted amongst a representative sample of small and medium enterprises (SMEs) in the UK, reflecting the UK profile in terms of business size, sector and region. As small businesses (1-50 employees and £50,000 annual turnover) make up around 97% of businesses in the UK, medium businesses (51-250 employees) were over-sampled in the survey to produce a sufficiently robust sample to allow analysis of the results among medium businesses. The combined results were re-weighted to be representative of UK SMEs as a whole (97% small businesses; 3% medium businesses), consequently the results for small businesses closely resemble those for SMEs as a whole. The error margin for this survey of 816 businesses is about 2-4%, but is higher amongst subgroups. All data shown is weighted data. Unweighted base sizes are shown on charts and tables to show the number of businesses who were asked the question.

[2] The report should not be seen as recommended best buys and should not therefore be relied upon when making purchase decisions. Oftel has conducted its own checks on the data in this report and whilst we consider it to be correct, Oftel accepts no liability in respect of any of the results provided to it by Continental or any decisions taken by any person in reliance on the report.

Chapter 2 – Summary Findings, Conclusions and Recommendations

Internet penetration continues to increase
2.1 Internet penetration stands at 61% (a rise from 55% in May 2001), with 94% medium-sized UK businesses and 60% small businesses currently connected. There is a significant difference in Internet connection amongst small businesses, half of those with one employee are connected to the Internet compared to nearly 9 in 10 businesses employing 26-50 staff. Internet penetration continues to increase, and nearly all medium sized businesses are now connected. However, as penetration amongst medium businesses reaches 'saturation' point, there may still be room for growth with regard to the number of connections within each company.

Dial-up most popular connection method for small companies
2.2 Three-quarters of small businesses used ordinary phone line/dial-up access to connect to the Internet, whilst just a third of medium-sized businesses did so. Medium-sized businesses were more likely to use ISDN (54% did so) or leased lines (14%).

A third of SMEs using unmetered packages
2.3 Currently 37% of all SMEs with Internet are using unmetered packages, which were more popular among medium than smaller businesses.

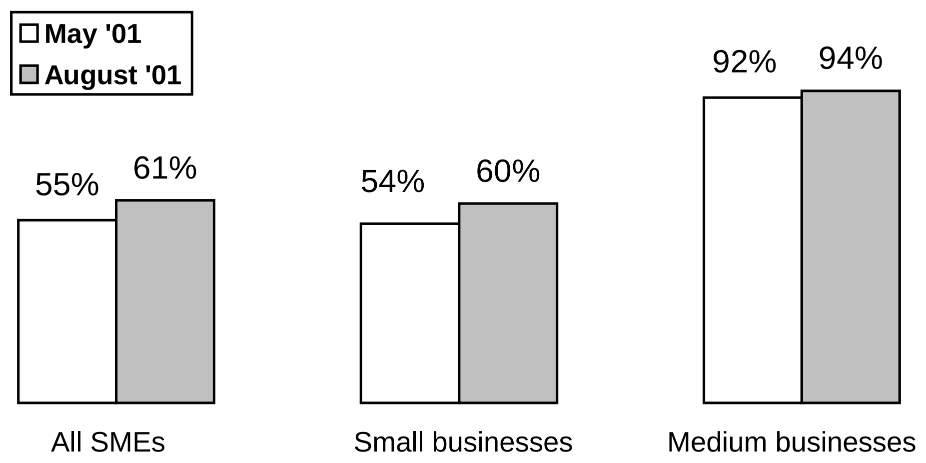
Satisfaction levels with Internet remain generally high
2.4 Satisfaction levels with Internet in general are fairly high. Quality of Service is highest with 91% of businesses satisfied with their ISPs in this respect, and 91% (of those that pay charges) are also satisfied with the subscription charges.

2.5 Overall, companies on 'subscription and calls' packages claim the highest levels in satisfaction across all aspects of Internet service, except for the actual call charges.

Chapter 3 – Internet penetration among small and medium businesses

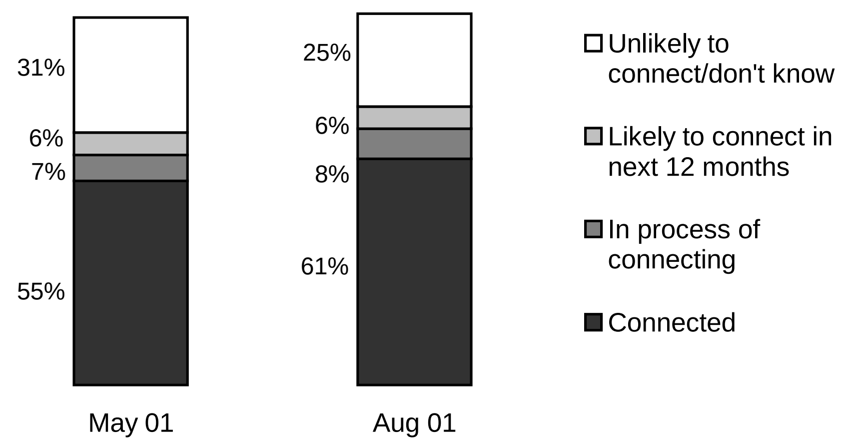
3.1 In May 2001, 55% of UK small and medium businesses said they were connected to the Internet. In August, this figure had risen to 61%. The results are summarised in figure 3a.

Figure 3a – % UK SMEs with Internet access
Base: UK businesses, May ’01 (Small: Base – 501, Medium: Base - 301), August ’01 (Small: Base – 516, Medium: Base - 300).



3.2 8% of all SMEs said they were in the process of connecting (a minimal rise of one percentage point over May) and a further 6% thought it likely that they would connect within the next 12 months (no change since May).

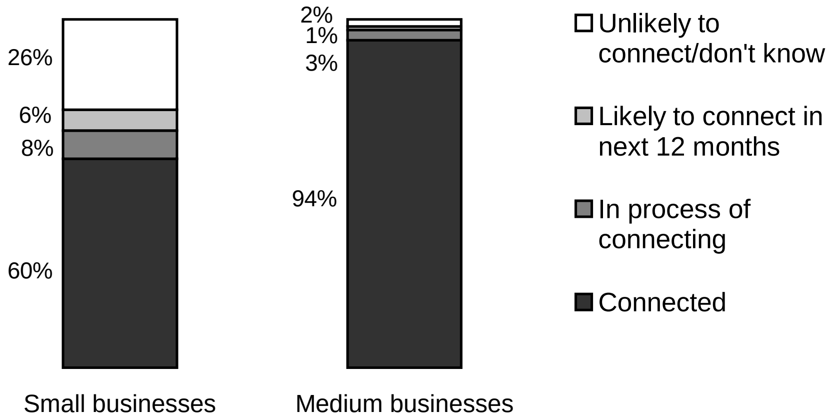
Figure 3b – Internet penetration amongst UK businesses
Base: UK businesses, May ’01 (SMEs - Base: 801), August ’01 (SMEs - Base: 816)



3.3 Nearly all medium-sized businesses are connected to the Internet, with a further 3% in the process of connecting and 1% expecting to be connected in the next 12 months (see figure 3c).

3.4 60% of small businesses are connected, and a quarter do not think it is likely that they will connect in the next 12 months.

Figure 3c – Internet penetration amongst UK businesses
Base: UK businesses, August '01 (Small - Base: 516, Medium - Base: 300)

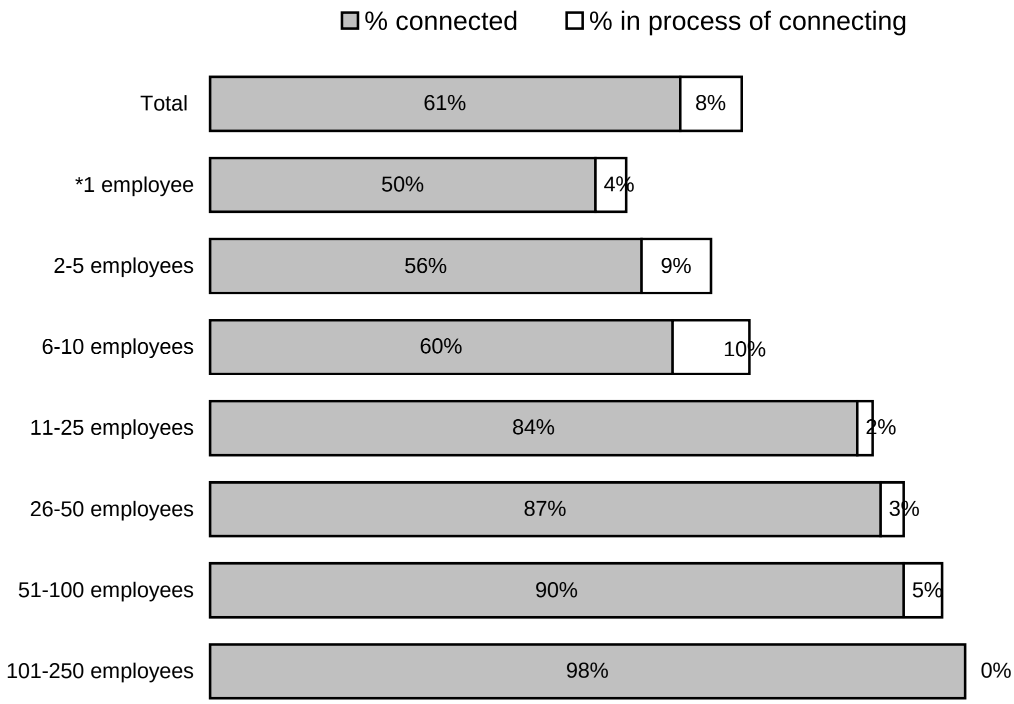


3.5 Three-quarters (76%) of the small businesses that have not yet connected claim that they are unlikely to connect to the Internet in the next 12 months (a fall from 81% in May).

3.6 In August 2000 small businesses that were not connected, were asked why. The main reasons given were that they felt the Internet was not relevant to the work of the business, and that the Internet could not assist their business in any way. Each reason was mentioned by about half of small businesses not connected.

3.7 Figure 3d shows data split by business size. Internet penetration increases with business size. The percentage of larger businesses (101-250 employees) connected to the Internet is double that off small businesses employing 1 person (98% and 50% respectively).

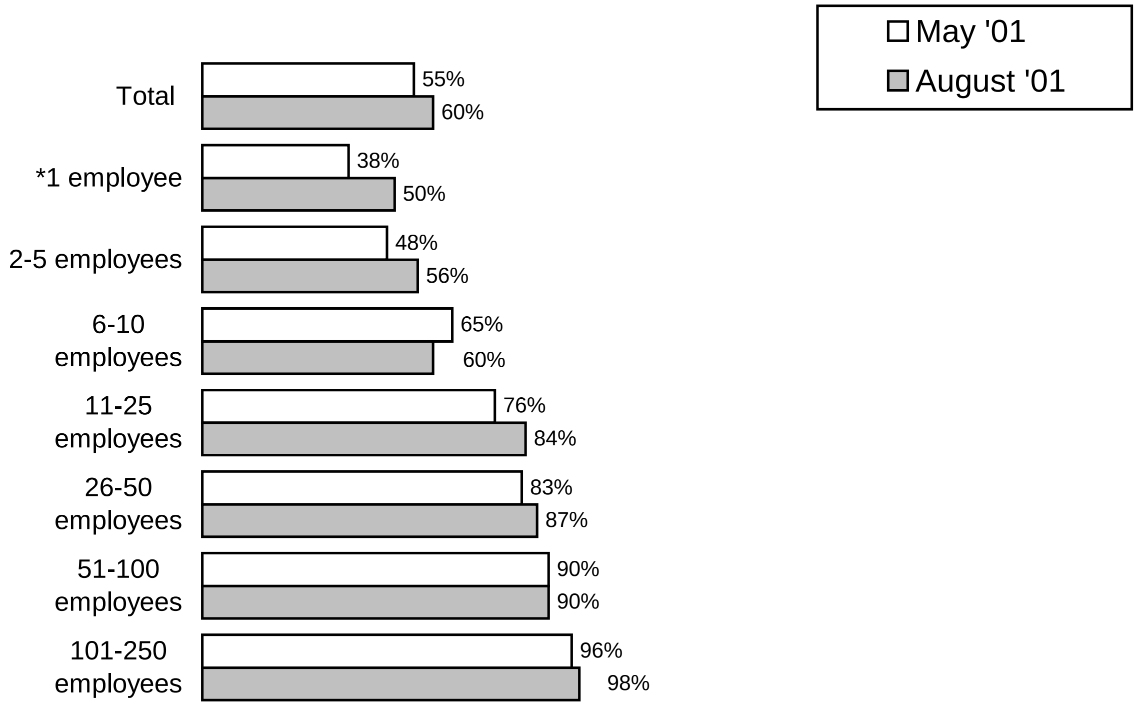
Figure 3d – % UK businesses with / in process of connecting to the Internet by business size
Base: UK small and medium businesses August '01 (Base: 816)



** Caution should be applied as base size less than 100*

3.9 These figures are similar to the proportions connected in May, but with increases for most company sizes. The biggest increase are observed amongst the smaller companies. In May 2001 less than two in five businesses with one employee were currently connected to the Internet, compared to over four in five businesses employing between 26-50 staff. Now half of all companies with one employee are connected.

Figure 3e – % UK businesses connected to the internet by business size
Base: UK small and medium businesses May ’01 (Base: 801), UK small and medium businesses August ’01 (Base: 816)



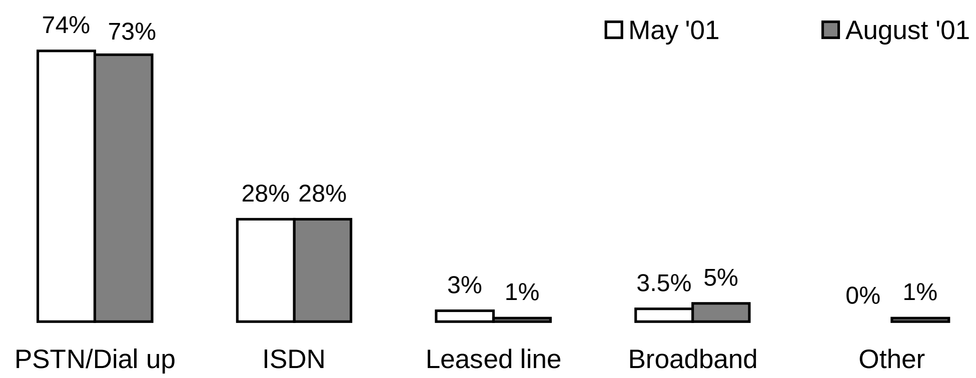
** Caution should be applied as base size less than 100*

Chapter 4 – Internet access methods and ISPs

Connection method

4.1 There has been little overall change between May and August with regard to the method of connecting to the Internet (see figure 4a). However, there are significant differences between small and medium sized companies (see figure 4b).

Figure 4a – Internet access methods used by UK businesses
Base: UK businesses with Internet access, May ’01 (Small – Base: 315, Medium – Base: 279), August ’01 (Small – Base: 363, Medium – Base: 280)

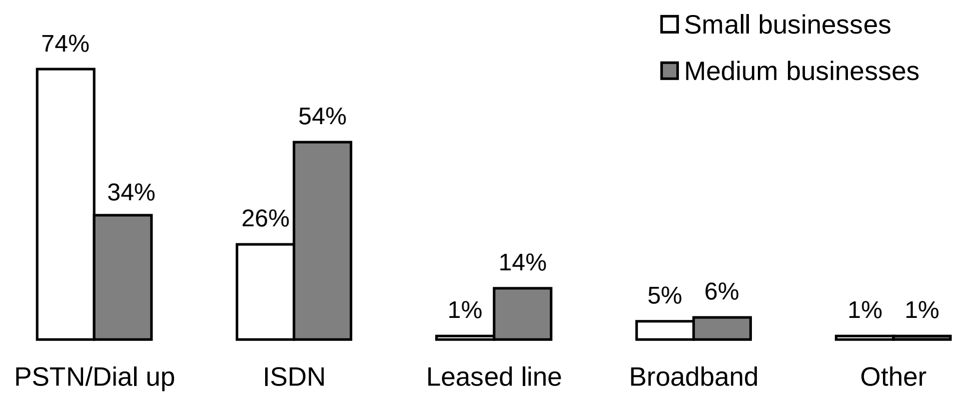


Note, figures add to more than 100% as some businesses are using more than one access medium

4.2 The research findings indicate broadband penetration is 5% (comprising 3% DSL and 2% cable modem). Actual penetration is currently too low for official industry figures to be completely accurate, but based on industry information and current Oftel estimates, is less than 1%. There are a number of possible reasons for this apparent gap in estimates of broadband penetration, which Oftel will be investigating in subsequent quarters.

4.3 As was observed in May, small businesses tended to prefer ordinary phone line/dial-up to access the Internet while ISDN and leased lines remain more popular amongst medium-sized businesses.

Figure 4b – Internet access methods used by UK businesses
Base: UK businesses with Internet access, August ’01 (Small – Base: 363, Medium – Base: 280)



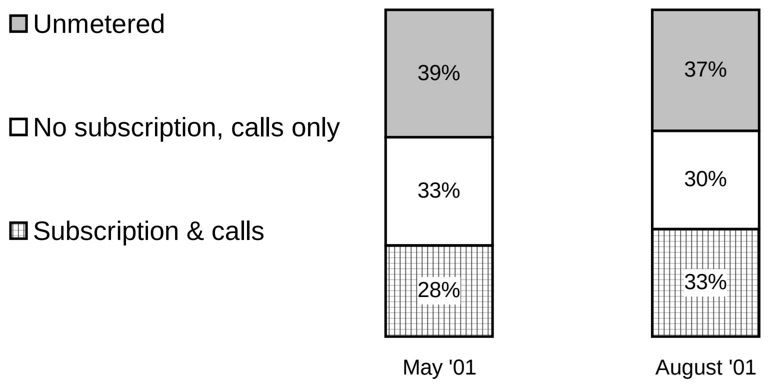
Note, figures add to more than 100% as some businesses are using more than one access medium

4.4 Three-quarters of small businesses use ordinary phone line/dial-up, compared to a third of medium-sized businesses. Access methods split by company size are shown in figure 4b. 5% of medium-sized businesses now claim to use DSL, compared to 0% in May.

Type of package used

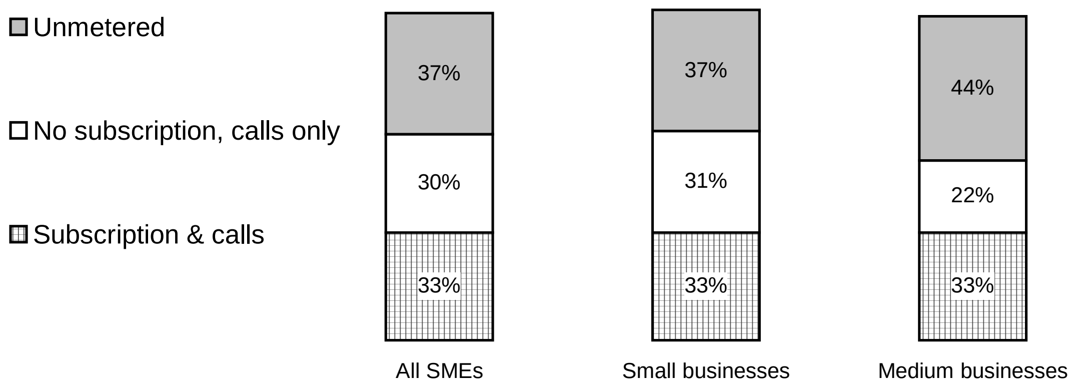
4.5 Use of unmetered packages amongst small and medium businesses stands at 35% this quarter (a slight drop from May, when it was 39%). In August, 5% of companies were using some type of "other" package.

Figure 4c – Main type of Internet package used by businesses
Base: UK businesses with Internet access, May '01 (Small – Base: 315, Medium – Base: 279), August '01 (Small – Base: 363, (Medium – Base: 280, "don't knows" and "others" have been excluded)



4.6 In August, medium businesses were more likely to use unmetered packages (44% doing so). This is shown in figure 4d.

Figure 4d – Main type of Internet package used by businesses
Base: UK businesses with Internet access, August '01 (Small – Base: 363, (Medium – Base: 280, 'don't knows have been excluded)

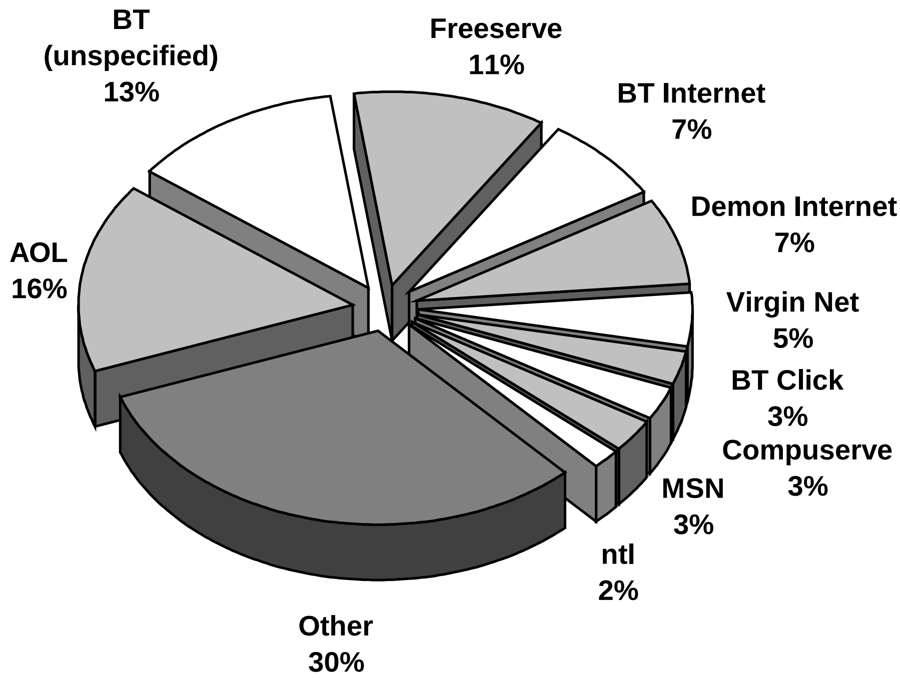


4.7 These figures have changed little since May. The most noticeable change is amongst medium businesses, 37% of whom used ‘subscriptions and calls’ packages in May, with just 30% doing so in August.

ISPs used

4.8 Currently, 21% of SMEs are using more than one ISP (17% in May) – there is little difference between small and medium businesses.

Figure 4e – ISP share of SME business Internet access (based on all ISPs businesses use)
Base: All ISPs used in small and medium UK businesses with Internet access, August ’01 (Base: 566, 8% “don’t knows” have been excluded)



4.9 The biggest difference between May and August was the proportion using any BT ISP – 15% in May, and 23% in August. This increase is largely as a result of a rise in the proportion using an ‘unspecified’ BT ISP, rising from 6% in May to 13% in August.

4.10 Businesses are making use of a range of ISPs, as shown in figure 4e – which shows individual ISP share of the SME business market, based on which ISPs businesses said they were using (NB this is not the same as the proportion of businesses using each ISP as some businesses are using more than one). Only ISPs with a share of 2% or more are shown. Those with less than 2% share are included in the ‘other’ category.

Chapter 5 – Satisfaction with Internet service

5.1 On the whole businesses express fairly high levels of satisfaction with their Internet service.

5.2 Satisfaction with the quality of service offered and subscription charges were highest (91%), as shown in figure 5a. Satisfaction with speed of access is the least satisfactory factor of those studied, with less than four in five satisfied.

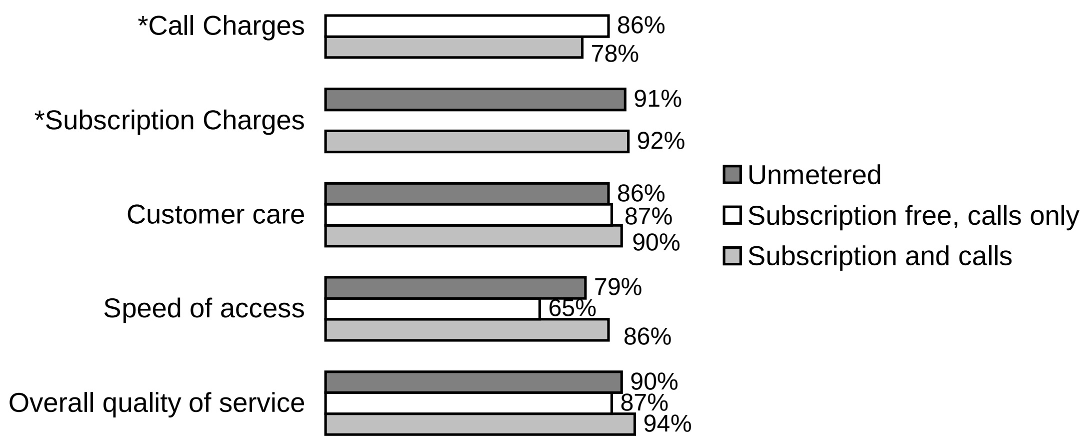
Figure 5a – % UK businesses satisfied with aspects of Internet service
Base: UK businesses with Internet August '01 (Base: 643, "don't knows" have been excluded)

	Total SMEs	**Small businesses**	**Medium businesses**
	August '01	August '01	August '01
Overall quality of service	91%	91%	91%
Subscription charges (based on businesses who pay subscription charges)	91%	91%	89%
Call charges (based on businesses who pay call charges)	81%	82%	74%
Speed of access	78%	78%	81%
ISP customer care	89%	89%	88%

5.3 There is little difference in satisfaction levels between small and medium businesses with regard to overall quality of service, speed of access and ISP customer care. Medium businesses are noticeably less satisfied with the call charges than small businesses. This survey did not examine reasons behind satisfaction with call charges, but Oftel will continue to monitor this situation

5.4 Unlike the last wave in May, when satisfaction seemed highest amongst businesses subscribing to unmetered products, it appeared that in August '01 satisfaction was highest amongst those that pay a subscription and for the cost of calls whilst online.

Figure 5b – % UK businesses satisfied with aspects of Internet service, split by package used
Base: UK businesses with Internet access August '01 (Base 643, "don't knows" have been excluded



* satisfaction levels are based only on those businesses who pay for calls or subscription charges

5.5 There have been some noticeable shifts in satisfaction levels since May. In particular when comparing speed of access satisfaction levels between businesses with the three different package types (see paragraph 5.6)

5.6 Amongst companies using ‘subscriptions and calls’ packages, satisfaction with customer care has risen from 74% in May to 90% in August, and their satisfaction with speed of access rose from 79% to 86%. However, satisfaction with speed of access amongst businesses with ‘subs free, calls only’ packages fell from 83% to 65%, and amongst those with ‘unmetered’ packages, satisfaction fell from 88% to 79%. Amongst this group, satisfaction also fell for the overall quality of service, from 98% to 90%.

5.7 Businesses with a ‘subscription and calls’ package appear to be most satisfied overall, and those with a ‘subscription free, call charges only’ package seem to be least satisfied with their Internet service in general.

Appendix 1 – Changes to Oftel's Quarterly Business Survey

Background

A.1 Oftel's quarterly business surveys began in May 2000. The purpose of these surveys is to provide better information for Oftel decision making and to assist stakeholders in their response to Oftel documents and policy decisions.

A.2 The surveys focus on small and medium-sized businesses and exclude large businesses for a number of reasons:

- large businesses account for less than 1% of all UK businesses;
- they are very over-researched particularly in the field of telecoms (primarily due to their limited number) and for this reason are often reluctant to participate in research;
- they have considerably greater buying power for telecoms services and can negotiate bespoke deals with individual suppliers, enabling them to get better deals, and making it difficult to make any meaningful comparisons in a research context; and
- Oftel uses its large business advisory panel to conduct research on specific topics.

A.3 Oftel's business surveys are conducted among a representative sample of UK small and medium businesses (with a minimum turnover of £50,000), reflecting the UK profile in terms of number of employees, business sector, and geographic region. As small businesses (with up to 50 employees and over £50,000 annual turnover) account for around 97% of UK businesses, the surveys over-sample medium businesses in order to produce a sufficiently robust sample to allow analysis of results among medium businesses.

A.4 Quotas are set for small and medium businesses separately to ensure each sample is representative of businesses of these different sizes, in terms of number of employees, business sector, and geographic region. After interviewing, the results are combined and weighted to be representative of UK small and medium businesses as a whole. This enables us to present representative results for small and medium businesses separately, each based on sufficiently robust samples, and representative results for the combined small and medium business sector.

Details of changes to the sample

A.5 A review of the first four surveys was conducted in March 2001, and a segmentation study conducted enabling the data to be examined in greater detail than was possible during each separate wave. As a result of this work, three key changes have been made to the surveys between waves four (February 2001) and five (May 2001):

(i) Larger quarterly sample:

- the first four waves of Oftel's business survey interviewed 700 businesses each quarter – 400 small, 300 medium. From wave five, each quarterly sample has been increased to 816 businesses – 516 small, 300 medium;
- *increasing the overall sample will provide greater scope for a wider variety and more detailed analysis among subgroups.*

(ii) Change to definition of ‘medium’ businesses:

- the first four waves of Oftel’s business survey sampled ‘medium’ businesses with between 51-500 employees in order to be as inclusive of as many businesses as possible. From wave five, the survey samples ‘medium’ businesses with between 51-250 employees;
- *businesses with more than 250 employees were generally found to be making fairly good use of competition and choice, and were exhibiting behaviour that was more in line with larger businesses than smaller businesses in relation to their use of telecoms. It was therefore decided to exclude them from future surveys and focus resources on smaller businesses who generally require greater assistance to make best use of the choices available. This definition of medium businesses as up to 250 employees is now in line with that of the DTI.*

(iii) More detailed sampling of small businesses:

- the first four waves of Oftel’s business survey applied quotas and weights for small businesses’ number of employees in the categories 1-10 employees, 11-25 employees, and 26-50 employees. From wave five, these categories have been expanded and quotas and weights are now applied to 1-5 employees, 6-10 employees, 11-25 employees, 26-50 employees;
- *businesses with 1-10 employees account for around 86% of all SMEs. However, use of telecoms can differ quite significantly between businesses with one employee compared to those with ten. Refining the sampling methodology to interview consistent numbers of 1-5 and 6-10 employee businesses wave-on-wave, should result in fewer fluctuations in results, and enable greater opportunity for analysis and trend data based on number of employees at this lower end of the spectrum.*

Implications of changes, for comparison between surveys

A.6 The changes to the sampling methodology (employee categories) as described above, mean that the results of wave five are not directly comparable with those from waves one to four. This does not however mean that the results from waves one to four are inaccurate or invalid. Waves one to four are representative of businesses with up to 500 employees, whereas waves five, and onwards, are representative of businesses with up to 250 employees, and provide a greater focus on businesses with up to 5 employees than waves one to four.

A.7 Whilst this unfortunately results in a discontinuity of trend information between waves four and five, the re-focus on smaller businesses following the review of the first four waves of data, was felt to be of greater benefit in assisting Oftel’s policy development and assessment, and other work in respect of small businesses.

Appendix 2 – Q6 business questions on Internet

Q20 Is your company connected to the Internet or in the process of connecting to the Internet?
Yes connected
Yes in process of connecting
No not connected/not in process of connecting

Q21 Is your company likely to become connected to the Internet in the next 12 months?

Q33 Which of these best describes the package provided by your business' main ISP?
Monthly or annual subscription and cost of calls made when online
No subscription fee and pay cost of online calls only
Monthly/annual subscription which gives unlimited free usage and pay no call costs
Monthly/annual subscription which gives free usage at certain times or for certain amount of time but pay for call costs at other times
Other (specify)

Q34 How many Internet Service Providers (ISPs) does your company currently use?

Q35 Which ISP's do you use to access the Internet?

Q36 Overall are you satisfied with the following aspects of Internet use?
Overall quality of service offered by ISP
The call costs
The speed of access
The customer care offered by ISP
The subscription charges

Q37 Which of the following does your company use to connect to the Internet? (MULTICODE)
Ordinary phone line/dial-up access
BT Highway
ISDN line
DSL (Digital Subscriber Line) at least 10 times faster than an ordinary phone line and is always on eg BT Openworld and FreeservePlus
Leased line
High speed access offered by cable company
Fixed access delivered by radio
Other