Oftel Office of Telecommunications

Business use of Internet
Oftel small and medium business survey
Wave 7 November 2001

Published on 10 February 2002

50 Ludgate Hill
London EC4M 7JJ

Switchboard 020 7634 8700
Fax 020 7634 8943

Textphone 020 7634 5370
Web www.oftel.gov.uk

Contents

Chapter 1

Introduction

1.1 This report provides an overview of business use of Internet, taken from the seventh wave of Oftel's quarterly business survey, conducted in November 2001 amongst 815 UK businesses.

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 annex 1. 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 November 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;
- number of Internet connected PCs;
- monthly Internet subscription charges; and
- satisfaction with Internet services

1.5 A list of the questions is attached in annex 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.

[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) 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 815 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

Headline figures

- 63% UK businesses are connected to the Internet
- 76% businesses with Internet use ordinary phone line dial up access
- 36% businesses with Internet use unmetered packages
- £74 was the average amount spent per month per business on Internet subscriptions
- 89% UK businesses satisfied with overall quality of service

Internet penetration continues to increase amongst small businesses

2.1 Currently 63% UK businesses are connected to the Internet (61% in August 2001), with 92% medium-sized UK businesses and 62% small businesses connected. 27% of small businesses think it unlikely that they will connect to the Internet – compared to 31% in May 2001 indicating that the Internet is becoming increasingly popular amongst small businesses as more are realising the benefits of the Internet and planning to get connected.

Small companies prefer to use dial up Internet access

2.2 Almost four in five (78%) small businesses connect to the Internet using ordinary phone line/dial-up compared to two in five (37%) medium sized businesses. Medium sized businesses remain more likely to use ISDN (43%) or leased lines (19%) than small businesses. In the region of 5% SMEs connected to the Internet use DSL or cable modems.

Businesses paying average £74 per month on subscription charges

2.3 UK SMEs have an average six Internet connected PCs (four for small businesses and 36 for medium businesses). Currently SMEs using subscription-based packages are spending £74 on Internet subscriptions. Businesses connecting to the Internet via PSTN/dial up access are currently paying on average £25 per month for subscription charges compared to £102 paid by those businesses using broadband access (DSL/cable modem).

Satisfaction levels with Internet remain generally high

2.4 Satisfaction levels with Internet in general remain fairly high. Quality of service remains highest with 89% of businesses satisfied with their ISPs in this respect (broadly similar to August – 91%). Businesses are least satisfied with their speed of access currently 73%.

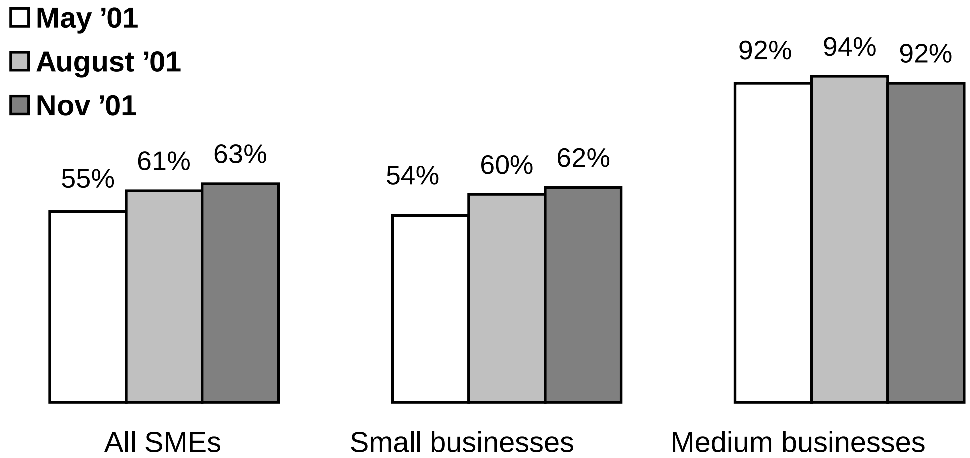
Main findings

Chapter 3

Internet penetration among small and medium businesses

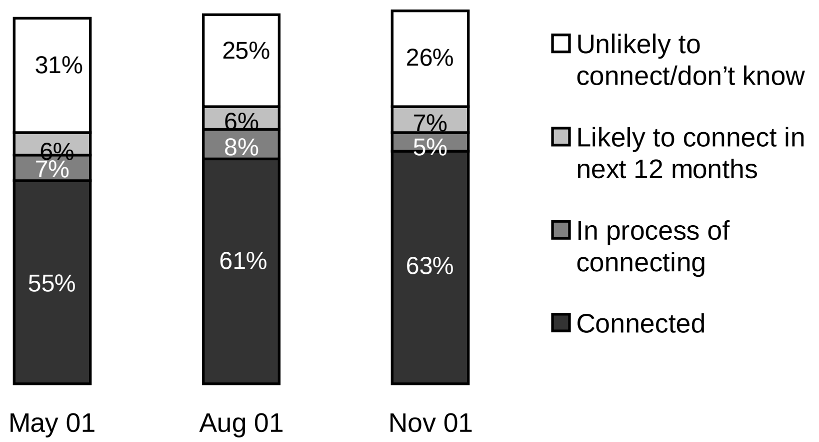
3.1 This quarter continues to see the number of UK small and medium businesses with Internet access rise – currently 63% – (May 2001, 55% rising to 61% in August). Whilst the number of medium businesses with Internet access appears to be reaching saturation (92%), small companies are continuing to connect – up eight percentage points in the last six months. 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)
November ’01 (Small – base: 506, Medium – base: 309)



3.2 The number of UK proportion who think they are likely to connect within the next 12 months remains SMEs currently in the process of connecting and the broadly similar to recent quarters. Currently around a quarter (26%) of all UK businesses think it unlikely that they will connect to the Internet or are unsure, whilst this figure remains similar to last quarter, the drop from 31% reported in May has been sustained.

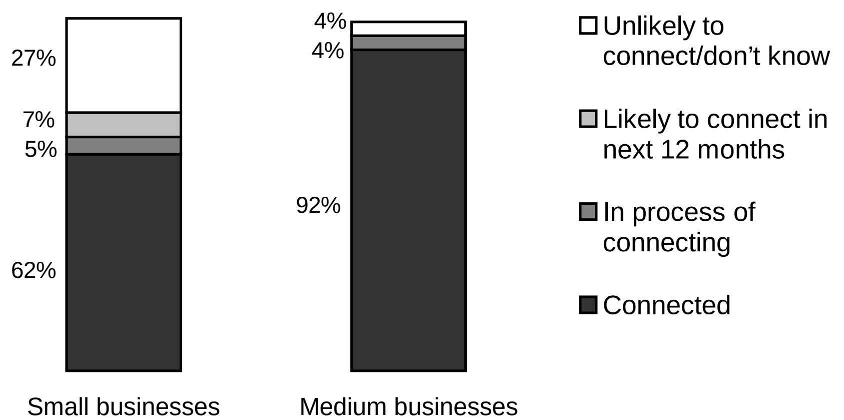
Figure 3b: Internet penetration amongst UK businesses
Base: UK businesses, May ’01 (Base: 801)
August ’01 (Base: 816)



November ’01 (Base: 815)

3.3 Figure 3c shows the proportions of small and medium businesses with Internet access and whether those without are likely to connect. As mentioned before the majority of medium sized businesses have Internet access or are in the process of connecting.

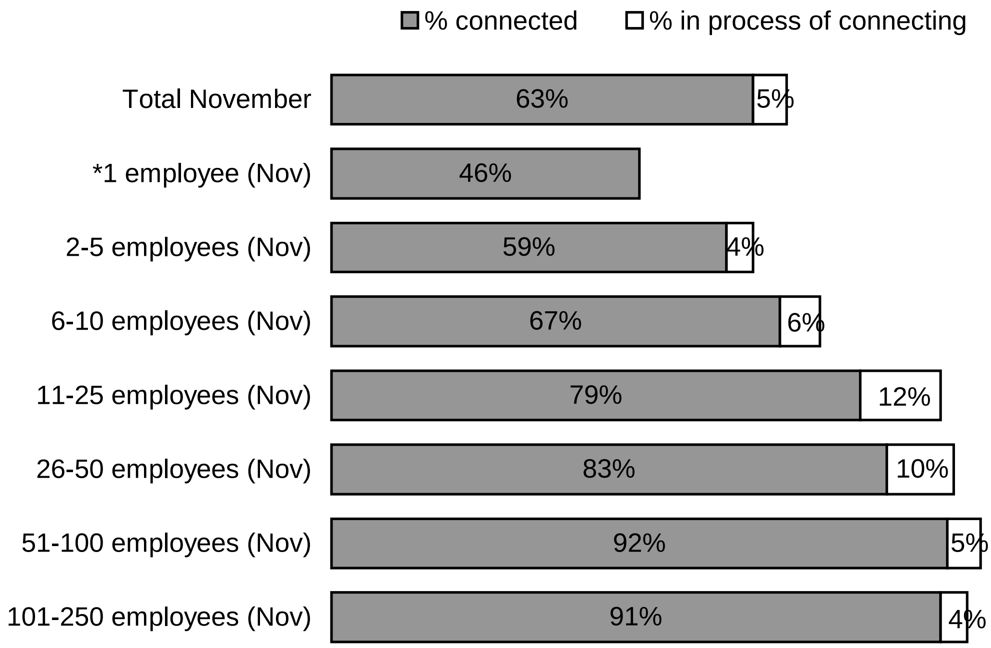
Figure 3c: Internet penetration amongst UK businesses
Base: UK businesses, November ’01 (Small – base: 506, Medium – base: 309)



3.4 Three-quarters (74%) of small businesses that have not yet connected claim that they are unlikely to connect to the Internet in the next 12 months. The fall from 81% in May has been sustained this quarter indicating that the Internet is becoming increasingly popular amongst small businesses.

3.5 Figure 3d shows data split by business size. Internet penetration increases with business size rising from 46% in single employee businesses to 92% at the larger end of the market (100+ employees).

Figure 3d: % UK businesses with / in process of connecting to the Internet by business size
Base: UK small and medium businesses UK small and medium businesses, November ’01 (Base: 815)



* caution should be applied as base size less than 100

3.6 These figures are similar to the proportions connected in August as shown in figure 3d. Most business sizes have seen an increase in Internet access since May 2001.

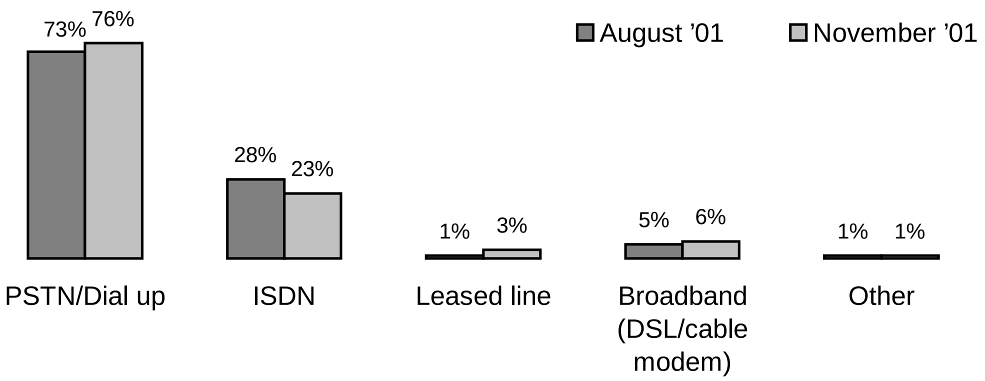
Chapter 4

Internet access methods and ISPs

Connection method

4.1 Over three quarters (76%) UK businesses use an ordinary phone line/dial up to access the Internet. There has been little overall change in these figures since August 2001. Industry subscriber figures are unable to show which businesses are using broadband, but assuming that users fall within the criteria of our sample (1-250 employees, £50,000 minimum annual turnover) figures suggest that 5% of these businesses with Internet are currently using DSL or cable modem. This is consistent with our survey findings, shown in figure 4a. This equates to approximately 1% of all small and medium-sized businesses using DSL or cable modem.

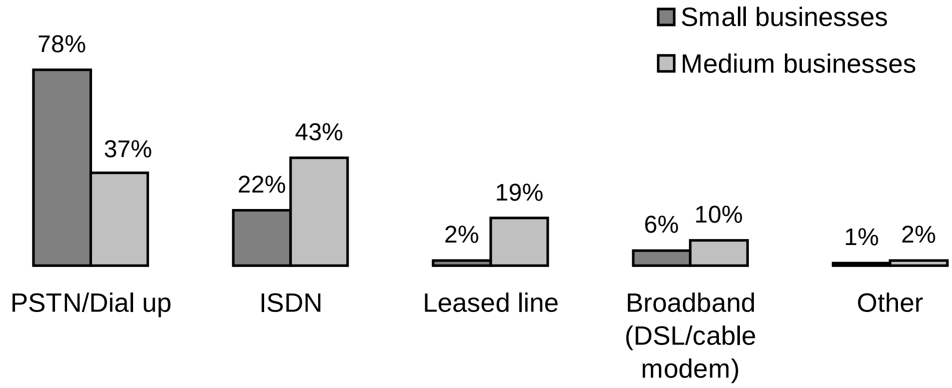
Figure 4a: Internet access methods used by UK businesses
Base: UK businesses with Internet access, Aug '01 (Base: 643), Nov '01 (Base: 650), 'don't knows' have been excluded



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

4.2 Small businesses continue to prefer ordinary phone line/dial up access whilst medium sized businesses remain more likely to use ISDN or leased lines, shown in figure 4b. Almost twice as many medium-sized businesses use ISDN lines to access the Internet than small businesses (43% and 22% respectively).

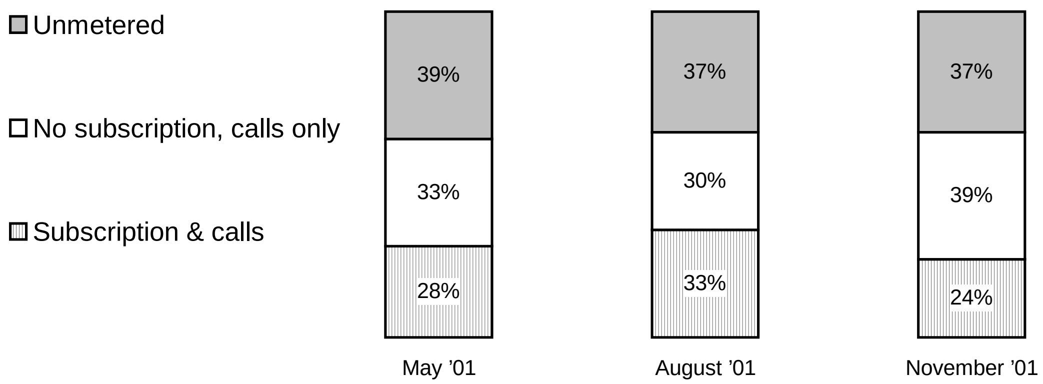
Figure 4b: Internet access methods used by UK businesses
Base: UK businesses with Internet access, November ’01 (Small – Base: 367, Medium – Base: 283)



Type of package used

4.3 The proportion of businesses using unmetered packages remains broadly similar to recent quarters – currently 37% (comprising 85% fully and 15% partially unmetered), whilst the number of businesses using calls only packages has risen to almost two in five this quarter (39%) as shown in figure 4c. This could be a reflection of the increasing number of smaller businesses connecting to the Internet and initially using metered packages.

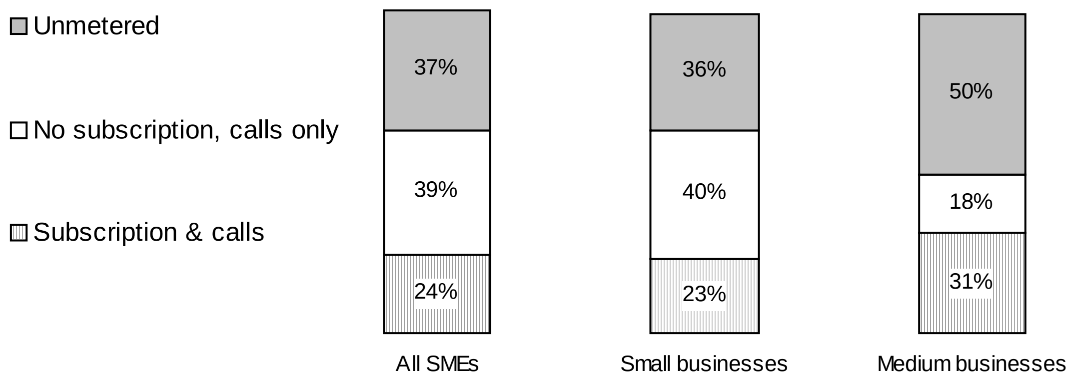
Figure 4c: Main type of Internet package used by businesses
Base: UK businesses with Internet access, May ’01 (Base: 594) August ’01 (Base: 643) November ’01 (Base: 650) ‘don’t knows’ and ‘others’ have been excluded



4.4 Half of all medium sized businesses currently claim to use unmetered packages, as shown in figure 4d whilst small businesses tend to use calls only packages. There has been a shift from the proportion of small businesses paying subscription and call charges to calls only packages – perhaps indicating that small businesses are not using the Internet enough to justify taking an unmetered package or paying a subscription. Or, again it may be a reflection of the increasing number of smaller businesses initially connecting using metered pacakges.

4.5 Calls only packages decrease in popularity as business size increases. 43% of small businesses with 1-10 employees claim to use calls only Internet packages compared to 29% small businesses with 11-50 and 18% of medium sized businesses (51-250 employees). This indicates increased usage and hence viability of unmetered packages at the larger end of the business market.

Figure 4d: Main type of Internet package used by businesses
Base: UK businesses with Internet access, November ’01 (Small – base: 367, (Medium – base: 283) ‘don’t knows’ have been excluded

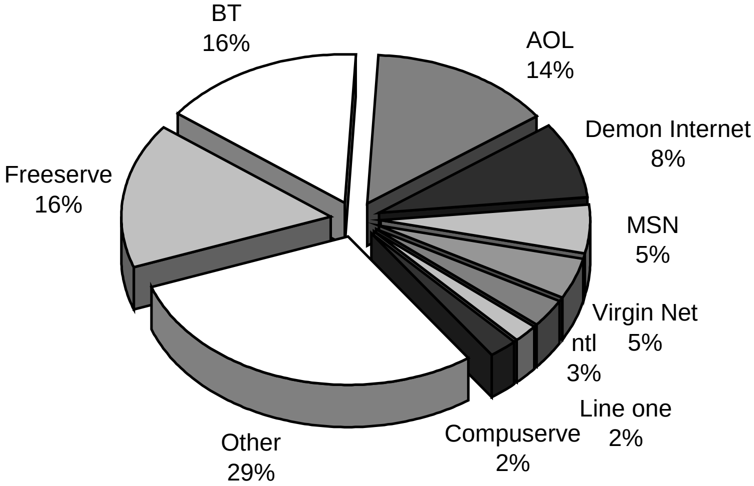


ISPs used

4.6 Currently, 23% of SMEs are using more than one ISP (21% in August 2001) with little difference between business size.

4.7 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.

Figure 4e: ISP share of SME Internet access (based on all ISPs businesses use)
Base: All ISPs used in small and medium UK businesses with Internet access,



November ’01 (Base: 650) 9% ‘don’t knows’ have been excluded

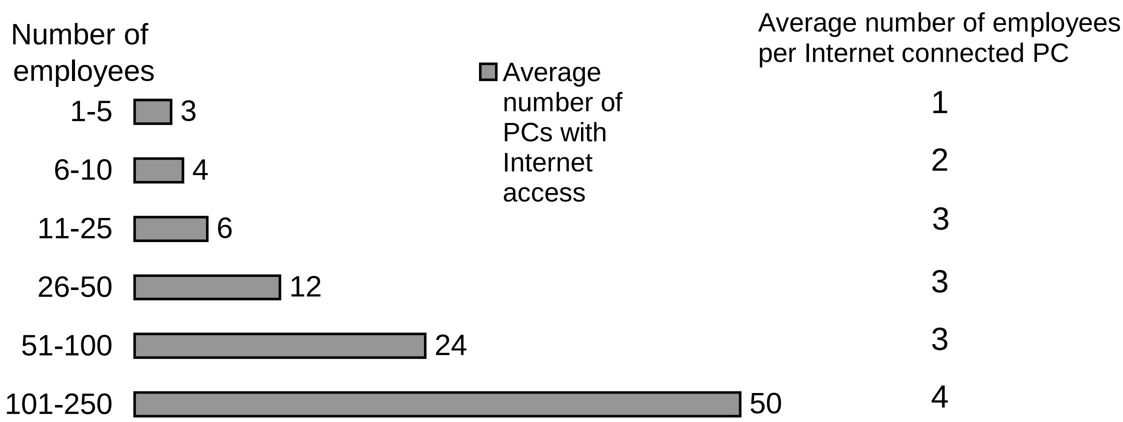
Figure 4f: ISP share of UK SME Internet access (based on all ISPs businesses use)
Base: All ISPs used in small and medium UK businesses with Internet access, November ’01 (Base: 650, 9% ‘don’t knows’ have been excluded)

	May ‘01	Aug'01	Nov'01
Freeserve	12%	11%	16%
BT	15%	23%	16%
AOL	18%	16%	14%
Demon Internet	10%	7%	8%
MSN	3%	3%	5%
Virgin Net	3%	5%	5%
NTL	-	2%	3%
Compuserve	3%	3%	2%
LineOne	2%	-	2%
Business serve	2%	-	-
Yahoo	2%	-	-
Freenet	2%	-	-
Others	28%	-	29%
Total	100%	30%	100%

Number of PCs with Internet access

4.8 On average all UK SMEs with Internet access have six PCs connected to the Internet, this comprises an average four for small businesses (1-50 employees) and 36 Internet connected PCs on average for medium sized businesses (51-250 employees). The number of Internet connected PCs increases with the number of employees as shown in figure 4g.

Figure 4g: Average number of PCs with Internet access by business size
Base: UK businesses with Internet access, November ’01 (Base: 650)



Chapter 5

Spend on Internet services

Bundled services

5.1 Some Internet subscriptions offer additional phone lines or inclusive minutes that can be used to make voice or fax calls. Currently 4% of UK businesses with Internet access claim to use a bundled service, 8% were unsure and 88% said that their subscription charges were solely for Internet access.

Average monthly spend

5.2 SMEs using subscription-based packages are currently spending an average £74 per month on Internet subscriptions alone (not including any call charges). Small businesses spend considerably less than medium sized businesses (an average £60 per month compared to £353) but also have fewer PCs connected to the Internet.

5.3 The average monthly subscription paid by UK businesses (£74) is inflated by a small number of higher spenders spending over £200 per month. Almost three in five (59%) UK businesses that pay subscription charges are spending up to £30 per month on Internet subscriptions alone, as shown in figure 5a.

Figure 5a: % of businesses paying Internet subscription charges
Base: UK businesses with Internet access

	Total % of all SMEs with Internet access (Base: 650)	Subscription packages only (Base: 457 – 56% of all businesses with Internet)
No subscriptions, calls only	41%	-
Monthly Subscriptions		
Less than £11	11%	18%
£11-£30	25%	41%
£31-£60	6%	9%
£61-£100	2%	4%
£101-£200	2%	3%
More than £200	3%	5%
Don’t knows	11%	20%
Total	**100%**	**100%**

5.4 Average monthly spend varies by businesses method of Internet access. Businesses paying subscription charges and using PSTN/Dial up access currently pay an average £25 per month for their subscriptions, compared to £102 per month paid by those companies using broadband access (DSL or cable modem), as shown in figure 5b.

Figure 5b: Average monthly spend on Internet subscription
Base: UK businesses with Internet access, paying subscription charges

Method of accessing the Internet	Average monthly subscription
PSTN/Dial up (Base: 180)	£25
BT Highway/ISDN (Base: 79)	*£62
Broadband (DSL/Cable modem) (Base: 23)	*£102
Leased line (Base: 13)	*£934

* caution should be exercised as base size less than 100

Chapter 6

Satisfaction with Internet service

6.1 On the whole businesses continue to express fairly high levels of satisfaction with their Internet service as shown in figure 6a.

6.2 Satisfaction with the quality of service offered by ISPs remains highest at 89% (previously 91%). Speed of access remains the least satisfactory aspect and seems to be decreasing each quarter (currently 73% compared to 78% in August and 83% in May). Satisfaction with this aspect may be decreasing as businesses require faster access or if speed is slowing due to the increase in traffic. Or perhaps they are becoming more aware of the faster speeds and choices that are available. If satisfaction with access speed continues to decrease perhaps it will drive businesses towards broadband access offering faster speeds. Oftel will continue to monitor both satisfaction levels with the speed of access and use of broadband services amongst UK businesses.

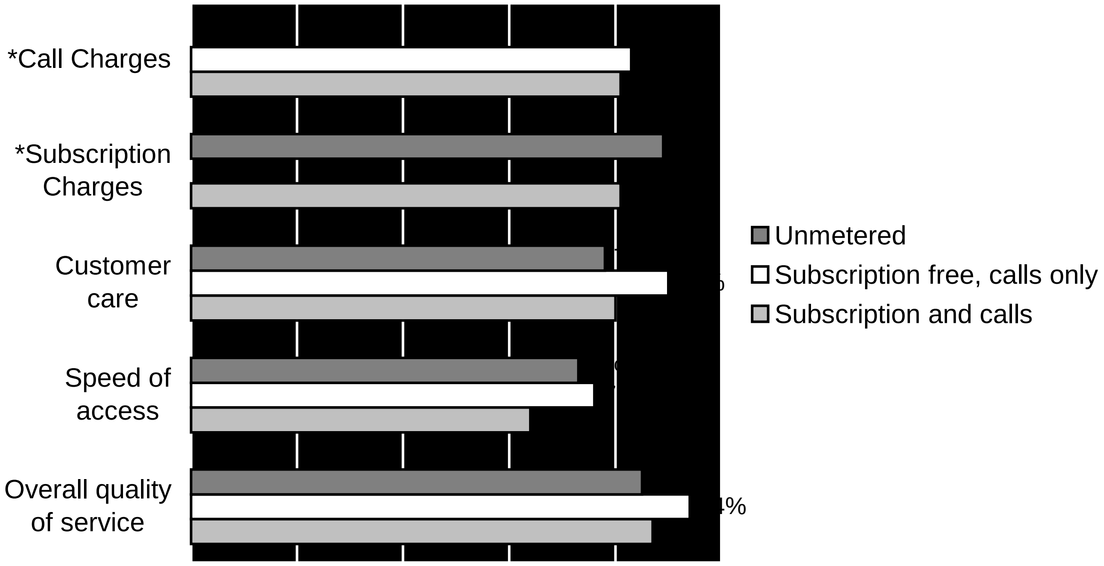
Figure 6a: % UK businesses satisfied with aspects of Internet service
Base: UK businesses with Internet November ‘01 (Base: 650, ‘don’t knows’ have been excluded)

	Total SMEs		**Small businesses**		**Medium businesses**	
	Aug ‘01	Nov ’01	Aug ‘01	Nov ’01	Aug ‘01	Nov ’01
Overall quality of service	91%	89%	91%	89%	91%	92%
Subscription charges (based on businesses who pay subscription charges)	91%	86%	91%	87%	89%	84%
Call charges (based on businesses who pay call charges)	81%	82%	82%	82%	74%	84%
Speed of access	78%	73%	78%	72%	81%	84%
ISP customer care	89%	83%	89%	83%	88%	81%

6.3 Satisfaction with customer care has decreased significantly since last quarter – currently 83% compared to 89% in August 2001.

6.4 Similarly to August 2001, satisfaction seems to be highest amongst those businesses who pay subscription and the cost of calls whilst online. Satisfaction amongst unmetered users appears to have dropped for aspects such as speed of access and quality of service but risen in relation to customer care offered by ISP.

Figure 6b: % UK businesses satisfied with aspects of Internet service, split by package used
Base: UK businesses with Internet access November ’01 (Base 650, ‘don’t knows’ have been excluded



* based on those businesses which pay subscription charges/call costs

Annex 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
- 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):

a) 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.

b) 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.

c) 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 five 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.

Annex 2

Q7 business questions on Internet

Q1 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

Q2 Is your company likely to become connected to the Internet in the next 12 months?

Q3 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)

Q4 How many Internet Service Providers (ISPs) does your company currently use?

Q5 Which ISP's do you use to access the Internet?

Q6 On average how much does your company spend each month on subscription fees for Internet services?

Q7 Does your Internet subscription include any other bundled services such as additional phone lines or inclusive free minutes that you can use for voice or fax calls?

Q8 How many PCs does your company have that are connected to 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?

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 e.g. BT Openworld and FreeservePlus
Leased line
Cable modem – always on, unmetered access, offering various access speeds, faster than an ordinary phone line which enables you to make voice calls at the same time as using the Internet
Fixed access delivered by radio
Other