Oftel Office of Telecommunications

Business use of fixed telephony – Oftel small and medium business survey

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Chapter 1 – Introduction

1.1 This report provides an overview of the key findings of business behaviour in the fixed telecoms market, taken from the eighth wave of Oftel's quarterly business survey, conducted in February 2002 amongst 801 UK businesses. The results are subject to an error margin of about 2-4%, this is slightly higher amongst smaller subgroups. Results referred to as 'significantly' different, have been tested at the 95% level of confidence, please see footnote for further sample details[1].

1.2 The survey sample changed from wave five onwards, and hence results are not directly comparable with waves one to four. Details and implications of the changes can be found in Appendix 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.

1.3 The survey was conducted on behalf of Oftel by Continental Research during February 2002. This report has been prepared by Oftel[2] based on the results provided by Continental Research.

1.4 The report covers:

- number of fixed lines and telecoms spend;
- use of leased lines;
- switching behaviour and number portability;
- satisfaction with fixed telecoms service; and
- special rate numbers.

1.5 A copy 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 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 801 businesses is about 2-4%, but is higher amongst small subgroups. Results referred to as 'significantly' different, have been tested at the 95% level of confidence and hence are outside of the error margins and therefore can be considered real changes. 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

Headline figures

- Average number of fixed lines: small business – four, medium businesses – 30
- Average monthly fixed telecoms spend: small - £255, medium - £2504
- 4% all SMEs have leased lines, 3% of small, 31% of medium
- 33% all SMEs use more than one fixed telecoms supplier
- Overall satisfaction with fixed telecoms service is currently 95%

Little change in overall fixed line market since last quarter – but satisfaction levels have recovered

2.1 Current satisfaction levels with fixed services stands at 95%, recovering from 88% reported in November 2001. This current figure is higher than satisfaction in the Internet market (89%) and of a similar level to the mobile market (94%).

Business spend on fixed telecoms fallen by £100 per month since May 2001

2.2 UK businesses are currently spending on average £100 less on fixed telecoms services than they were nine months previous (£319 in February '02 and £439 in May '01). Fixed spend amongst Internet users also fell in August 2001 and has remained stable since. This may be a delayed impact of savings from increased usage of unmetered packages.

2.3 On average small businesses have four fixed lines while medium sized businesses have 30. Small businesses spend more per line that medium sized businesses but less per employee.

A third of businesses use multiple suppliers for fixed services

2.4 Currently 33% of UK businesses use more than one supplier for their fixed line services. Medium sized businesses remain more likely to use multiple suppliers than small businesses. Multi-supplier usage increases with business size and fixed spend. Users of additional technologies and Internet also tend to be more likely to use more than one fixed supplier.

Number portability is working for UK businesses

2.5 One in five UK SMEs claim to have ever switched fixed line supplier and the majority of these (91%) ported all their numbers and a further 3% claimed to have ported some but not all of their numbers. The majority (58%) of those who did change their numbers did so because they changed premises – equating to 3% of all SMEs *(suppliers are not obliged to provide number portability in this instance).*

Majority of businesses with special rate numbers are satisfied with their allocation

2.6 4% of UK businesses currently have special rate numbers (SRNs), 20% of medium sized businesses and 3% of small businesses. A third of businesses with SRNs (32%) thought that, should it be made available, they would use a database containing details of all available numbers and the current supplier details. Overall, 94% of businesses with SRNs were satisfied with the numbers they received.

Chapter 3 – Main findings

Business use of fixed telephony

Number of lines

3.1 Small businesses in the UK had on average four separate lines for their fixed telecoms services (including voice, faxes, and data lines), while medium businesses had on average 30 lines. Use of fixed lines by business size is shown in figure 3a. Small businesses had on average 0.6 lines per employee, compared with 0.3 lines per employee in medium businesses.

3.2 Businesses currently connected to the Internet have on average three times as many lines (six lines) as those not connected or in the process of connecting (two lines). The number of lines used amongst Internet connected businesses, has fallen from an average nine lines in November 2001.

Figure 3a: UK SME business use of fixed lines, by business size
Base: UK SME businesses, Feb '02

	All SMEs (Base: 801)	**Small businesses (Base: 500)**	**Medium businesses (Base: 301)**
Number of fixed lines			
1	30%	31%	2%
2-5	53%	54%	11%
6-10	12%	12%	22%
11-20	3%	2%	26%
21-50	1%	1%	27%
Over 50	Less than 1%	Less than 1%	10%
Average number of lines	*5*	*4*	*30*

Fixed telecoms spend

3.3 The average monthly spend on fixed telecoms services (which includes call costs, rental, maintenance and VAT for all voice, fax, Internet and data services) amongst all SMEs was £318. This ranges from an average £255 amongst small businesses to £2504 amongst medium businesses. Figure 3b shows the spread of monthly business spends and figure 3c shows the trend over time.

Figure 3b: Spread of business monthly spend on fixed telecoms services
Base: UK SME businesses, Feb '02 (Base: 801)

3.4 As shown below, over the past nine months the average monthly spend on fixed line services has been falling steadily – on average UK SMEs are spending around £120 less per month on these services than during May 2001. There have been no substantive reductions in price during this time, so the drop in spend may be linked to various other factors such as higher usage of bundled packages. Or, businesses may have re-evaluated their fixed line services as a result of the withdrawal of some packages during February '01 – we will continue to monitor business fixed spend.

Figure 3c: Average spend on fixed telecoms services
Base: UK SME businesses, Feb '02 (Base: 801, 'don't knows' have been excluded)

Average monthly spend	All SMEs *(Base: 801)*	Small businesses *(Base: 500)*	Medium-sized businesses *(Base: 301)*
May '01	£439	£354	£3478
Aug '01	£350	£284	£2733
Nov '01	£329	£257	£2796
Feb '02	**£318**	**£255**	**£2504**

3.5 SMEs with Internet access spend more than average per month on fixed services, £465. This figure fell from £663 in May 2001 but has remained fairly stable since then. The drop in spend between May and August 2001, and subsequent stability, may be a delayed impact of savings made by businesses switching from calls only and subscription and calls packages to unmetered packages. Use of unmetered Internet packages increased from 26% in February 2001 to 39% in May 2001.

3.6 Average spend levels by business size, per fixed line, per employee, and as a proportion of businesses' annual turnover, are shown in figure 3d.

3.7 As reported previously small businesses have more fixed lines per employee and spend more on fixed telecoms services per employee, than medium businesses. Small businesses however, spend less per fixed line than medium businesses as they tend to have fewer advanced services, such as Internet, ISDN, and leased lines. These findings are consistent with recent quarters.

3.8 Amongst all SMEs, annual spend on fixed telecoms services accounts for less than 1% of annual turnover. There was little difference between small and medium businesses at 0.6% and 0.3% respectively.

Figure 3d: Average monthly spend on fixed telecoms services, by business size
Base: UK SME businesses, Feb '02 ('don't knows' have been excluded)

	Average monthly fixed telecoms spend	Average monthly spend per employee	Average monthly spend per fixed line	Average annual fixed telecoms spend as % of annual turnover
All SMEs (Base: 801)	£318	£32	£70	0.5%
Small businesses (Base: 500)	£255	£38	£67	0.6%
Medium businesses (Base: 301)	£2,504	£22	£85	0.3%

NB. Due to rounding of figures, the following example calculations will not provide the exact results

Medium businesses

Average number fixed lines = 30 **x** Average spend per fixed line = £85 →
Average number employees = 115 **x** Average spend per employee = £22 →
Average monthly fixed telecoms spend c.£2,504

Small businesses

Average number fixed lines = 4 **x** Average spend per fixed line = £67 →
Average number employees = 7 **x** Average spend per employee = £38 →
Average monthly fixed telecoms spend c.£255

Use of leased lines

3.9 Leased lines are dedicated telephone lines between two specific points where the user pays a one-off charge to rent the line and any calls (these can be voice or data) between the two locations are not charged for regardless of the number of calls made.

3.10 Overall 4% of SMEs said they had a leased line, ranging from 3% of small businesses to 31% of medium businesses. Most (86%) businesses with leased lines are connected to the Internet – further details of business' perceptions of other broadband services such as DSL or cable modems and their substitutability with leased lines can be found in the February 2002, business' use of the Internet report (link).

3.11 Half of businesses with leased lines use digital lines. The totals in figure 3e equate to more than 100% as some businesses have more than one capacity of leased line. These findings are broadly similar to last quarter, digital lines with higher capacity (64+ kilobits) being more popular (45%) than analogue (36%) and lower capacity digital lines (11%). There remains a significant minority (21%) unsure about the type of leased line being used. On the whole small businesses tend to prefer analogue lines while higher capacity digital lines are more popular amongst medium sized businesses, as shown in the table below.

Figure 3e: Type and use of leased lines by business size
Base: UK SMEs using leased lines

	All SMEs with leased lines (Base: 128)	**Small businesses with leased lines (Base: *36)**	**Medium businesses with leased lines (Base: *92)**
Type of leased line			
Analogue	36%	41%	20%
Digital <64 kilobits per second	11%	10%	16%
Digital 64+ kilobits but <2 megabits per second	31%	24%	50%
Digital 2+ megabits per second	14%	10%	26%
Don't know	21%	25%	9%
NB These columns may add to more than 100% as some businesses have more than one type of leased line			

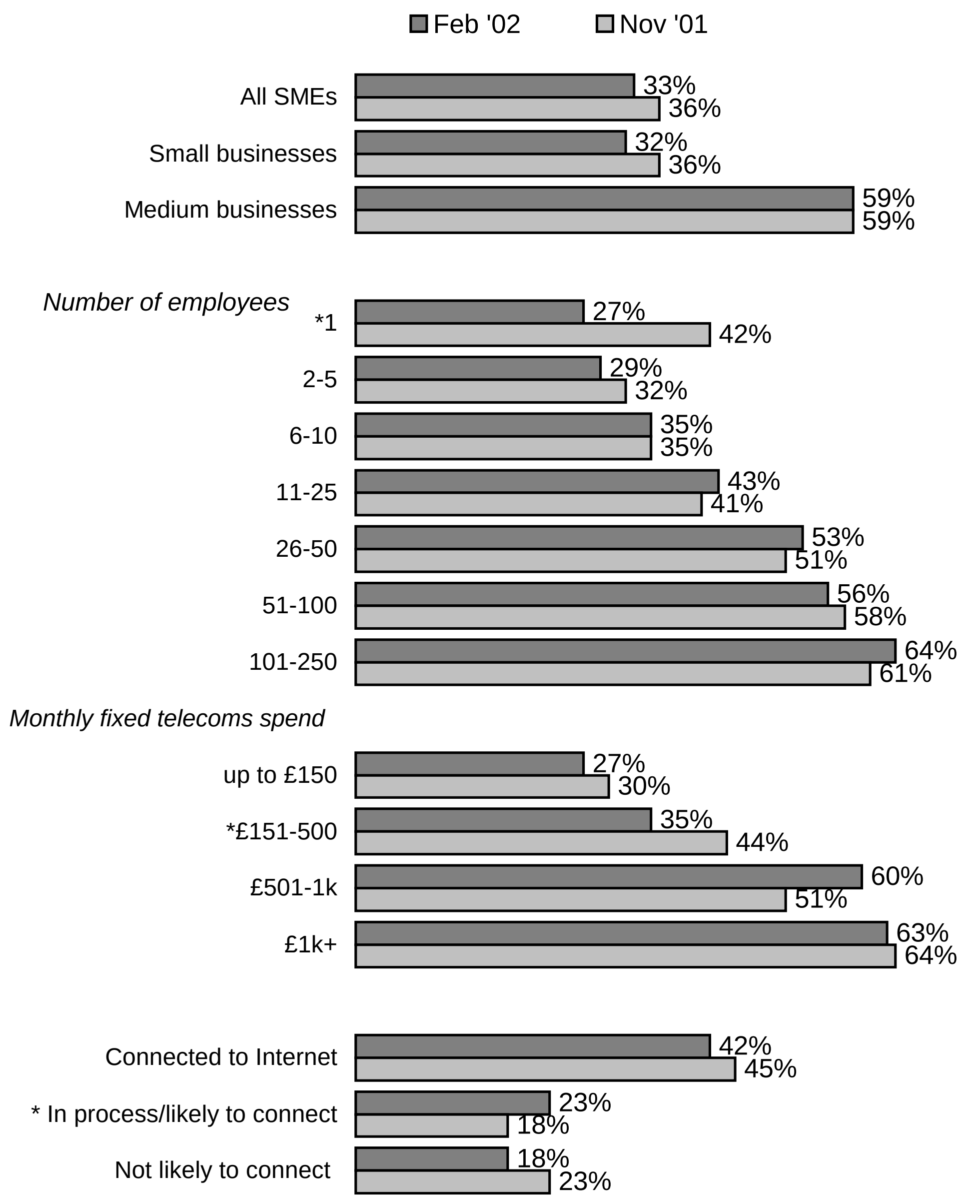
** base size less than 100 so treat results with caution*

Chapter 4 – Use of fixed telecoms suppliers

4.1 Currently, a third of all SMEs use more than one supplier for their fixed telecoms service. Medium businesses (59%) remain more likely to use multiple suppliers than small businesses (32%), as shown in figure 4a.

4.2 As in previous quarters, multi-supplier usage increases with business size, fixed telecoms spend, and use of additional technologies such as Internet. These figures remain broadly similar to recent results as shown in figure 4a. The apparent increase in multi-supplier

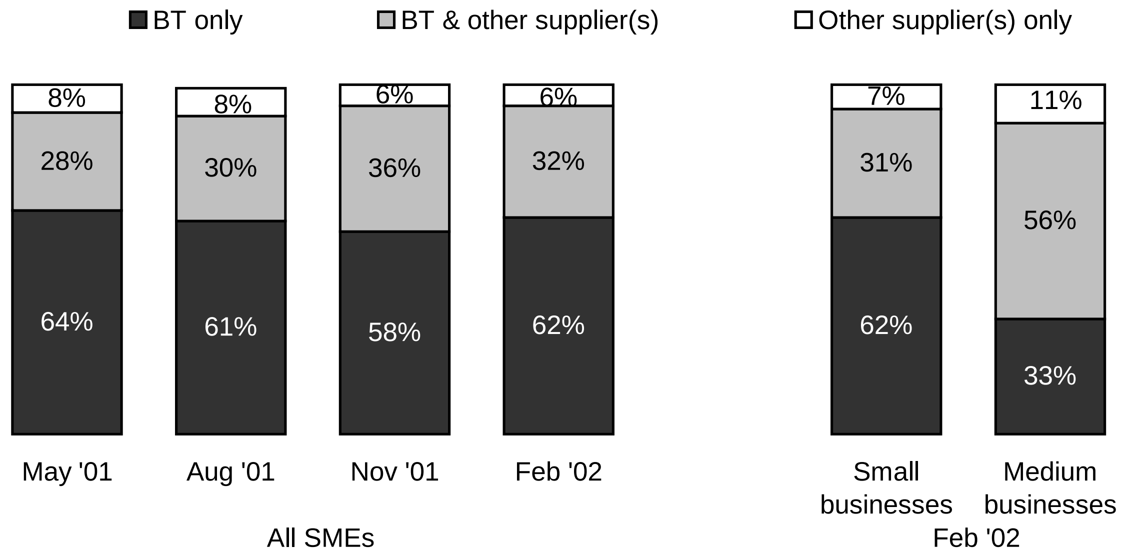
Figure 4a:% UK SME businesses using more than one supplier for fixed telecoms services
Base: UK SME businesses, Feb ‘02 (Base: 801), Nov ’01 (Base: 816)



** caution should be applied as base less than 100*

4.3 Overall, 94% of SMEs use BT for some or all of their fixed telecoms services – there has been little change in this figure in recent quarters. While the number of businesses using another supplier in addition to BT remains higher than reported in May ‘01 (28% to 32%) the growth reported in November has not been sustained.

Figure 4b: UK SME business use of fixed telecoms suppliers
Base: UK SME businesses, Feb ‘02 (Small: Base – 500, Medium: Base – 301)



Switching supplier and number portability

4.4 Around one in five (21%) SMEs said they had *ever* changed their fixed-line supplier – 10% had done so in the last 12 months, and 12% had done so over a year ago. Medium businesses remain around twice as likely to have changed supplier, with 46% ever having changed, compared to 21% of small businesses. There has been little change in these figures since August 2001.

4.5 Nine out of 10 businesses (91%) that had switched supplier kept *all* their existing phone numbers (this figure is unchanged since August 2001), and a further 3% claimed that they kept at least *some* of their original numbers when switching. There was no significant difference between small and medium sized businesses in this respect or whether they switched more or less than a year ago.

4.6 The main reason given by the few businesses that had not kept their original numbers was because they had moved premises therefore not being able to retain their numbers. *Fixed line operators are only obliged to allow telephone numbers to be retained by the customer if remaining at the same address when changing supplier.*

Chapter 5 – Satisfaction with fixed telecoms services

5.1 Overall satisfaction with fixed telecoms has recovered to 95% this quarter following a slight drop in November 2001 to 88%. Small businesses are slightly more satisfied (95%) with their overall service than medium sized businesses (88%) as shown in figure 5a.

5.2 Apart from the slight drop in overall satisfaction levels with fixed telecoms services reported in November 2001, satisfaction has remained broadly similar and consistently high over the past 12 months.

5.3 Overall satisfaction with fixed telecoms, remains comparable to overall satisfaction with Internet (89%) and mobile services (94%).

Figure 5a: % UK SME businesses satisfied with various aspects of their fixed telecoms services
Base: UK SME businesses, Feb '02,'don't knows' have been excluded)

	All SMEs *(Base: 801)*				**Small** *(Base: 500)*	**Medium** *(Base: 301)*
	May '01	Aug '01	Nov '01	**Feb '02**	**Feb '02**	**Feb '02**
Overall service	95%	95%	88%	**95%**	**95%**	**88%**
Reliability of service	95%	95%	94%	**95%**	**95%**	**92%**
Value for money	80%	76%	76%	**81%**	**81%**	**73%**

5.4 Satisfaction amongst all SMEs, with the value for money for fixed services has increased significantly this quarter to 81% – up from 76% in November '01.

5.5 Monthly spend on fixed services did not significantly affect overall satisfaction nor did Internet connection or usage of more than one supplier. All of these aspects showed consistently high levels of overall satisfaction.

Chapter 6 – Special rate numbers

Use of special rate numbers

6.1 Currently 4% of all UK SMEs claimed to have any non-geographic special rate numbers (SRNs) such as 0800 freephone numbers, 0845 local rate, 0870 national rate and premium rate numbers beginning 09. Medium sized businesses are significantly more likely (20%) than small businesses (3%) to have any of these types of numbers. Most (89%) of these businesses have between one and five special rate numbers.

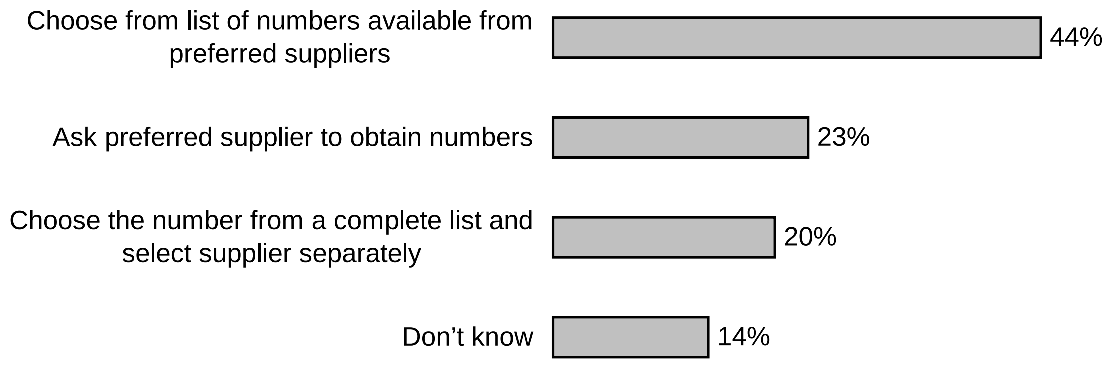
Obtaining special rate numbers

6.2 The current process for businesses acquiring special rate numbers is to contact a supplier who holds blocks of numbers and select from the numbers offered. It has been possible for business customers of some suppliers, who are dissatisfied with the choice of numbers or have a specific number/s in mind, relevant to their business to ask their preferred supplier to obtain this or these numbers from the supplier who currently owns them. Of the 4% of businesses with SRNs almost three in five (57%) were aware that they could ask their preferred supplier to obtain specific numbers, 62% of medium sized businesses and 56% of small. However, these results should be treated with caution as they have been drawn from small base sizes.

6.3 A quarter of medium sized businesses currently aware of this option had actually used it, and 7% of small businesses. This equates to 10% of all SMEs currently aware of this option, actually having taken advantage of it and 7% of all SMEs with SRNs. Again, caution should be applied as these results have been drawn from a very small base, and industry figures suggest the actual number of businesses who have used this method to obtain special rate numbers to be a lot lower.

6.4 Businesses were presented with three different options and asked which method they would have preferred when choosing theirs. The results are shown in figure 6a. The findings are consistent with the results of the qualitative research. The full report can be found at (link).

Figure 6a: % preferred options to obtain special rate numbers
*Base: UK SME businesses with special rate numbers (Base: *87)*



** apply caution as base size less than 100*

6.5 The most popular option was to choose from the list available with their preferred supplier (44%). Around half as many (23%) chose the option to request specific numbers from preferred suppliers. One fifth wanted to choose from a complete list of numbers and select suppliers separately.

6.6 If presented with a database containing all the currently available special rate numbers and the names of the suppliers who own them – allowing businesses to contact the correct supplier for their chosen numbers without the need of an intermediary, would businesses use it? Around a third (32%) of businesses with special rate numbers thought it likely that, should it be made available, they would use this information, 11% very likely, 21% fairly likely. Medium sized businesses were more likely to think they would use this type of information (44%) than small businesses (30%).

Satisfaction with allocated/chosen numbers

6.7 Overall, the majority (94%) of businesses with special rate numbers were satisfied with the actual numbers they chose or were allocated. There was little difference in satisfaction according to business size with small businesses slightly more satisfied than medium sized businesses (94% and 89% respectively) – however one should bear in mind the small base sizes for each of these subgroups.

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):

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 – 500 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.

Appendix 2 – February business questions on fixed telephony

Q1. In total how many individual fixed telephone lines does your company have? Please include all lines such as voice, faxes and data lines but do not include extensions?

Q2. What is the approximate MONTHLY telecoms bill of your company for all your voice, fax, Internet and data requirements. Please include all call costs, rental, maintenance costs and VAT. Please exclude any bills from mobile companies.

Q3. How many telecom suppliers does your business use? Please exclude mobile suppliers.

Q4. You said you use ..... (INSERT NUMBER) suppliers. Which of the following does your business use for its fixed line telephone services? Please include all you use but do not include mobile phone companies. (MULTI CODE)

BT
Any Cable company eg NTL, Telewest, Cable and Wireless
Colt
Energis
MCI Worldcom
Any other supplier(s) SPECIFY

Q5. Thinking about all your fixed line telecoms services and suppliers, are you satisfied with them on the following attributes? Firstly .....

The overall service they provide
The reliability of their service
Providing value for money

Q6. Have you ever changed the company which provides your fixed line telecoms service? Was it in the
last 12 months or longer ago?

Yes – in the last 12 months
Yes – more than a year ago
No – never changed supplier
Don't know

Q7. When you changed suppliers, did you keep all the same phone numbers that you had with your old supplier?

Q8. Why did you change your fixed line telephone numbers?

Q9. Do you have any leased lines? IF NECESSARY This is a dedicated telephone line between two specific points whereby you pay a one-off charge to rent it, and then any calls made between these two specific points are not charged for, regardless of how many calls are made.

Q10. Which of the following types of leased line do you have...READ OUT. MULTICODE

Analogue
Digital less than 64 kilobits per second
Digital at least 64 kilobits per second but less than 2 Megabytes per second
At least 2 Megabytes per second

Q11. Does your company have any special rate numbers?

Q12. Approximately how many of these special rate telephone numbers does your company have in total?

Q13. Overall, how satisfied were you with the actual telephone numbers you were allocated or that you selected – by that I mean the entire telephone number such as 0800 123 123?
Very satisfied
Fairly satisfied
Not very satisfied
Not at all satisfied

Q14. Were you aware that you could ask your supplier to get you a specific telephone number, or range of numbers from another supplier who owned them?

Q15. And have you ever asked a supplier to get you a specific number from another supplier?

Q16. I'm going to read out a list of options about obtaining special rate numbers, and I'd like you to tell me which ONE you would have preferred when choosing your own.

Choose a number from a complete list of all the numbers available and then select a telecoms supplier separately?
Ask your preferred telecoms supplier to get specific numbers of your choice from the company that already owns them?
Choose from the list of numbers available from your preferred supplier only?

Q17. And how likely would you be to use information which showed you all the available special rate numbers as well as the operators who currently own them?
Very likely
Fairly likely
Not very likely
Not at all likely