Oftel Office of Telecommunications

Business use of fixed telephony
Oftel small and medium business survey

Q13 May 2003

31 July 2003

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 the key findings of business behaviour in the fixed telecoms market, taken from the thirteenth quarter of Oftel's quarterly business survey, conducted by telephone in May 2003 amongst 815 UK businesses. 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 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 In some cases throughout the report, data on a rolling basis is shown. This combining of two periods increases the sample size and allows trends in the data to be analysed and interpreted with greater confidence. For example, where identical questions have been asked over the past two quarters (February and May 2003), combined data have been used.

1.4 The survey was conducted on behalf of Oftel by Continental Research during May 2003. This report has been prepared by Continental Research based on the results[2].

1.5 The report covers:

- fixed line telecoms spend;
- suppliers used;
- satisfaction with fixed telecoms services;
- perceived accuracy of bills;
- awareness of and attitudes towards Oftel's metering and billing scheme;
- awareness of changes to Directory Enquiries numbers.

[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 smaller 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.

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

Chapter 2

Summary findings

Headline figures

- 88% of SMEs use BT for their fixed line services
- Overall satisfaction with fixed telecoms services stands at 92%
- 8% are aware of Oftel's metering and billing certification
- 8 in 10 SMEs believe their call-costs are calculated accurately
- 84% of SMEs are aware of changes to Directory Enquiry numbers; up significantly since February '03

Awareness of new DQ numbers continues to rise

2.1 81% of SMEs are aware that new DQ numbers are going to be introduced or already have been - a rise from 54% in February and 19% in August.

2.2 A third (34%) of SMEs that are aware of the changes know that the new DQ numbers will start with a 118 prefix - a rise from 7% in Feb '03.

2.3 16% of SMEs are not aware of any changes to Directory Enquiries, down from 42% in Feb. Those least likely to be aware of the changes are small businesses, those without Internet or mobile phones and businesses outside of London and the South East.

2.4 The main sources of awareness about the changes are again press, TV and radio. 1% of businesses aware of changes heard about them from the BT phonebook.

Proportion of SMEs using BT has fallen

2.5 88% of all SMEs use BT, down from 91% in Feb '03. There has also been a significant fall in the proportion claiming to use Cable and Wireless, since November '02. This is consistent with Cable and Wireless refocusing their 'Business channel' on a smaller and more targeted customer base during this period, as part of their strategy to focus on high margin services.

2.6 The total number of suppliers used has fallen this quarter, indicating that overall a greater proportion of SMEs are relying on one supplier – consistent with findings from recent qualitative research among large businesses.

8 in 10 SMEs believe their call-costs are calculated accurately - nearly one in ten SMEs are aware of Oftel's metering and billing certification

2.7 Oftel's metering and billing certification is awarded to telecoms suppliers that provide customers with accurate bills. Oftel has undertaken to review the scope of the metering and billing approval scheme in 2004.

2.8 Two-thirds of SMEs have someone in their organisation that checks their bills (41% do so for every bill). Medium businesses are more likely to do so than small ones (74% and 67% respectively). 8 in 10 SMEs think their call costs are calculated accurately. Businesses that check their bills are more likely to believe their calls are calculated accurately.

2.9 Awareness of certification stands at 8%. There is no correlation between awareness and perceptions of billing accuracy.

Chapter 3

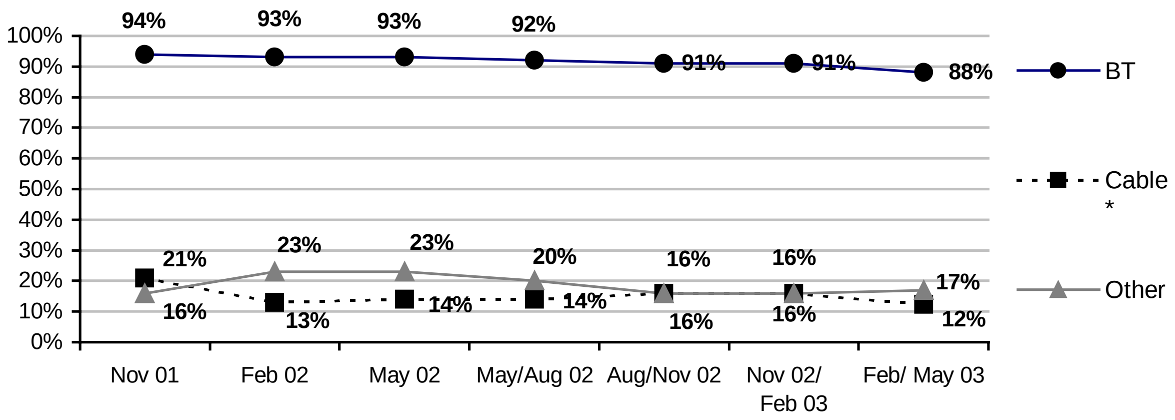
Use of telecoms suppliers and satisfaction

3.1 Overall 88% of SMEs use BT for some or all of their fixed telecoms services. As shown in figure 3a use of BT has been declining over the past 18 months. This is consistent with Oftel's market information data, which reports a small drop in the number of BT business lines over the last year.

3.2 The fall in use of BT has been observed across all business types. There has also been a significant fall since November '02 in the proportion of SMEs who claim to use Cable and Wireless. This is consistent with Cable and Wireless refocusing their 'Business channel' on a smaller and more targeted customer base during this period, as part of their strategy to focus on high margin services.

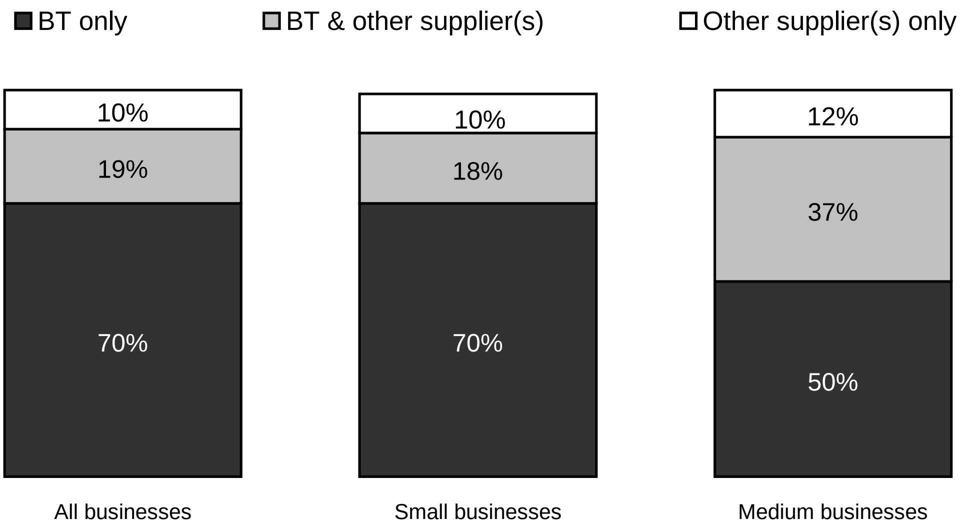
3.3 The total number of suppliers used has fallen this quarter. The fall in the range of suppliers used can be explained by increased reliance on single suppliers – this is consistent with findings from recent qualitative research among large businesses, which reported a trend to consolidate to a smaller number of suppliers. The number of businesses using BT and other supplier(s) has fallen this quarter from 23% to 19%.

Figure 3a: UK SME business use of fixed telecoms suppliers
Base: UK SMEs, Feb/ May '03 (Base: 1,642)



** For the purposes of this report, 'cable' includes use of Cable & Wireless. From next quarter Cable & Wireless will be classified as 'other'.*

Figure 3b: UK SME business use of fixed telecoms suppliers
Base: UK SMEs, Feb/ May '03 (Base: 1,642: small base – 1036, medium base – 606)



NB Due to rounding total BT use does not match figure 3a

Use of mobiles

3.4 Use of mobile phones by SMEs remains stable at 56% this quarter. Use of monthly contract packages has grown over the last year driven by small businesses switching from pre-pay and all-in-one packages.

Satisfaction

3.5 Overall satisfaction with fixed telecoms (92%) has not changed significantly since the last period, and is similar to a year ago (93% in May '02). There is no significant difference in overall satisfaction levels between small and medium businesses. Overall satisfaction with fixed telecoms remains similar to overall satisfaction with mobile services (93%) and to a lesser extent Internet (89%).

3.6 Satisfaction levels with overall value for money and reliability of service have not changed significantly since the last quarter, and have remained largely consistent over recent quarters.

Figure 3c: % UK SME businesses satisfied with various aspects of their fixed telecoms services
Base: UK SMEs, Feb/ May ‘03 (Base: 1642, ‘don’t knows’ have been excluded)

	All SMEs					Small *(Base: 1036)*	Medium *(Base: 606)*
	Feb ‘02	May ‘02	May/ Aug 02	Feb ‘03	Feb/ May ‘03	Feb/ May ‘03	Feb/ May ‘03
Overall service	95%	93%	93%	94%	92%	92%	90%
Reliability of service	95%	95%	95%	96%	95%	95%	93%
Value for money	81%	77%	77%	81%	79%	79%	77%

Chapter 4

Metering and billing

4.1 Oftel’s metering and billing scheme’s objective is to enhance consumer confidence in the accuracy of telephone bills and to give wider consumer protection by an effective metering and billing systems approval scheme. This metering and billing certification scheme has now been revised and is being awarded to both fixed and mobile telephone suppliers that provide customers with bills that meet a defined standard of accuracy and a satisfactory level of billing complaint handling. Further information is available on Oftel’s website at http://www.oftel.gov.uk/ind_groups/meter_bill/index.htm.

4.2 Oftel has undertaken to review the scope of the metering and billing approval scheme in 2004. In order to inform this review Oftel is committed to examining the economic case for the scheme and its extension. This is in line with the published Consumer Protection Policy Review and Regulatory Option Appraisal guidelines that have been set out by Oftel. To provide evidence for this, businesses were asked about their awareness of the certification scheme and how important it would be to them in choosing a new supplier. Businesses were also asked if they (incurred a cost by) checking their bills, and about their perception of billing accuracy. This evidence will be used to help quantify what impact fewer billing errors could have on costs to businesses and consumer confidence in the accuracy of their bills in order to help estimate the potential benefits of the scheme.

Bill checking

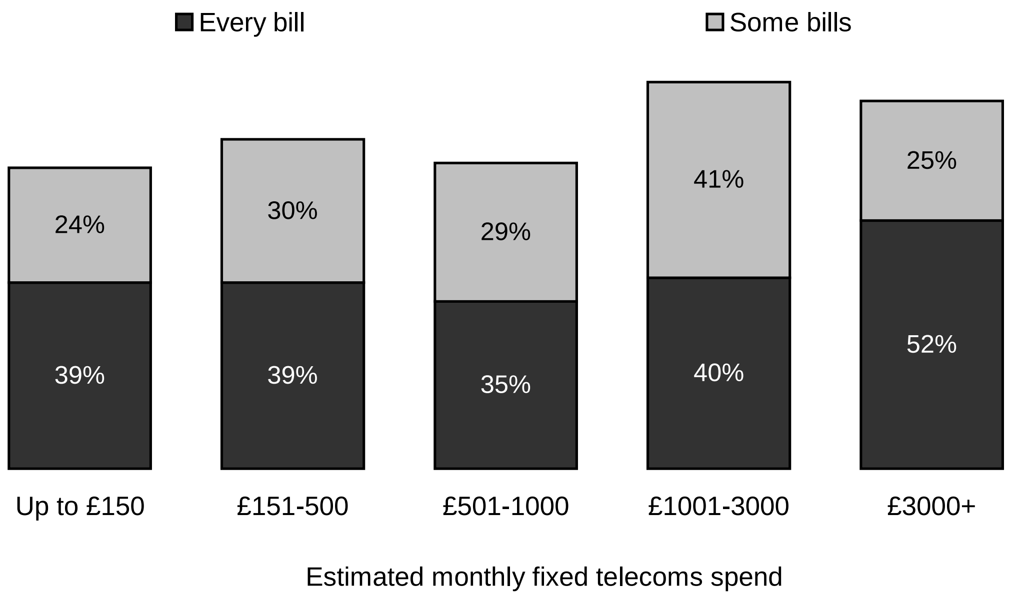
4.3 Two-thirds (67%) of SMEs incur some cost to their business by spending time checking either some or all of their fixed phone bills. Medium businesses are more likely to check at least some of them, with three-quarters doing so (see figure 4a). Businesses that claim to be always looking around for the best deal from telecoms suppliers are also more likely to check their bills (74%). 85% of businesses that check their bills believe their call costs are calculated accurately, compared to 66% of those that don’t.

Figure 4a: % UK SMEs that check some or all their bills
Base: UK SMEs, May ‘03

	SMEs *Base: (815)*	Small *(Base: 514)*	Medium *(Base: 301)*
Every bill	41%	41%	39%
Some bills	26%	26%	35%
Check some/ every (net)	67%	67%	74%
None	32%	33%	23%
Don’t know	1%	1%	3%

4.4 Perhaps unsurprisingly, businesses with higher monthly bills (£1000+) are more likely to have them checked than those with lower bills. However, there is not a direct correlation between bill size and propensity to have them checked – see figure 4b.

Figure 4b: % of UK SMEs that have someone to check their bills
Base: UK SMEs, May '03 (Base: 815)



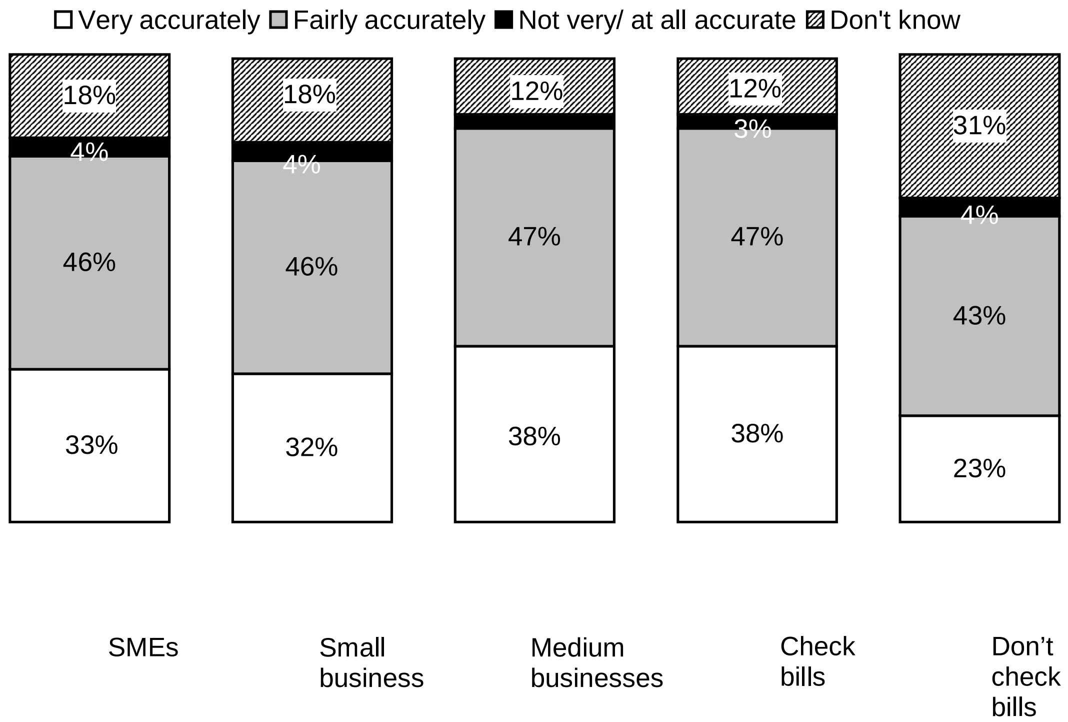
SME's perception of fixed phone bill accuracy

4.5 8 in 10 (79%) SMEs believe their call-costs are calculated accurately - a third say 'very accurately'. 4% think their bills are not calculated accurately (fig 4c).

4.6 Medium businesses are significantly more likely to believe their call costs are calculated accurately (85%) than small businesses (78%). This may be because medium businesses are more likely to have somebody in their organisation that checks the accuracy of their phone bills (see section 4.3).

4.7 Bill checking also has an effect on perceived accuracy. Businesses that check their bills are more likely to believe calls are calculated accurately (85%) than those that don't check any bills (66%). Unsurprisingly, those that don't check bills are more likely not to know how accurately they are calculated.

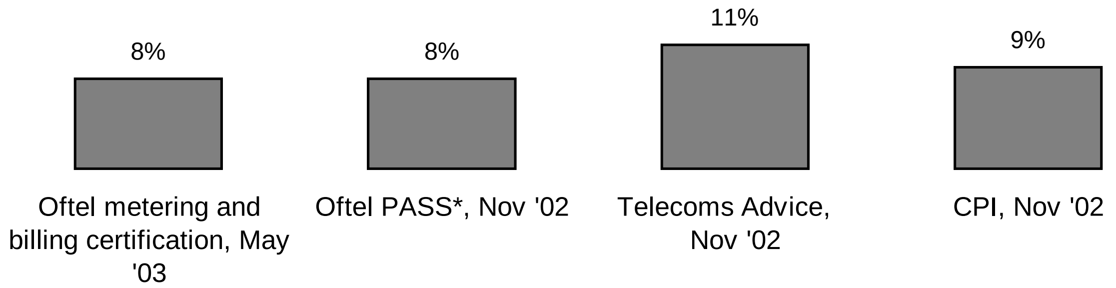
Figure 4c: % of UK SMEs that believe their bills are calculated accurately
Base: UK SMEs, May ‘03 (Base: 815)



Oftel’s metering and billing certification scheme

4.8 1 in 12 (8%) are aware of this scheme. There was only marginally higher awareness amongst medium businesses (13%) than small ones (8%). Awareness of Oftel’s metering and billing certification scheme is broadly in line with other schemes that were studied in November ’02, as can be seen in figure 4d.

Figure 4d: Awareness of sources of information regarding telecom businesses
Base: UK SMEs, May '03 (Base 815), Nov '02 (Base: 846)



NB The schemes studied in November '02 were the "Oftel PASS" a seal of approval for websites which compare the prices of different suppliers and provide impartial and accurate information; "Telecoms Advice", a website which provides information and advice on telecoms services; "Comparable Performance Indicators" which is quality of service information produced by telephone businesses that compares the performance of different businesses on a variety of aspects of their service
* Please note that businesses were asked about their awareness of the Oftel PASS scheme shortly after its release. Awareness levels may have changed since November '02.

4.9 There are no significant differences in awareness of the scheme according to whether SMEs check their bills, similarly there was no correlation between awareness of the scheme and perceptions of bill accuracy.

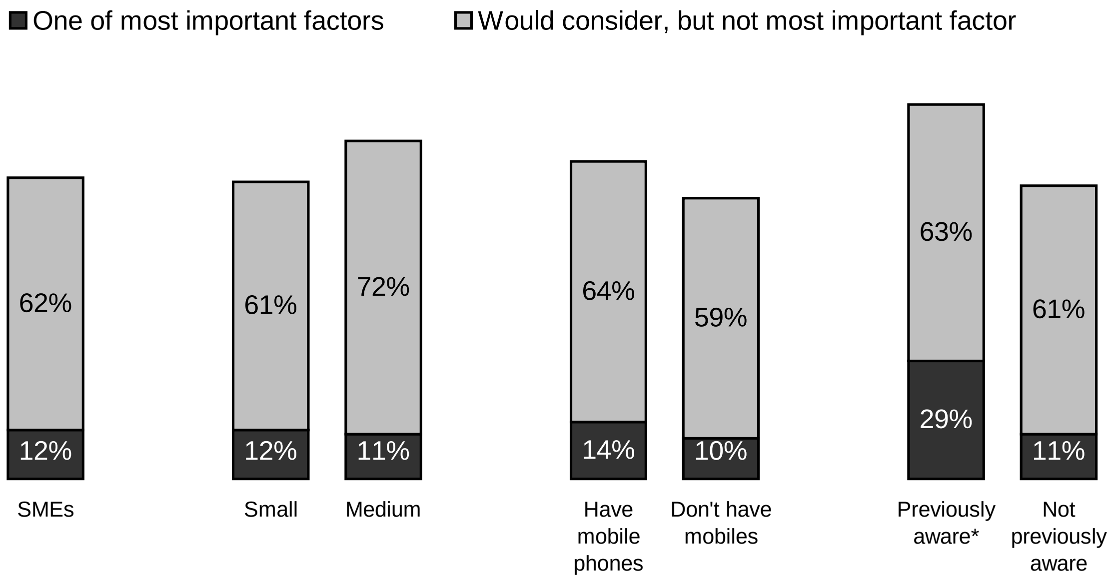
4.10 Businesses with mobile phones (which are part of the scheme) are no more aware of the scheme than those without.

Importance of Oftel's metering and billing certification in supplier choice

4.11 12% of SMEs (including those that were previously unaware of the scheme) say that the scheme would be "one of the most important factors" when choosing a new supplier. As seen in figure 4e, a further 62% state that it would be a factor that would be taken into account, but not the most important one. A quarter (23%) of businesses say that it's a factor that's unlikely to be considered. However, although 8 in 10 SMEs say they may consider it when choosing a new supplier, in practice this level is likely to be somewhat lower.

4.12 It should be noted that due to the hypothetical nature of these questions, and information from previous research on the information consumers used to assist select suppliers, proposed use of the scheme is likely to be an overestimation. In reality the proportion of consumers who would actively seek out information on the scheme when choosing a new fixed supplier is likely to be significantly lower, particularly given the low levels of awareness.

Figure 4e: Importance of metering and billing certification in choice of supplier
Base: UK SMEs, May '03 (Base: 815)



** Base size less than 100, apply caution*

4.13 Of those previously aware of the scheme, 3 in 10 (2% of all SMEs) said that it would be one of the most important factors when choosing a new supplier. A further 6 in 10 (5% of all SMEs) of those aware of the scheme said that it would be an important factor, but not the most important one.

4.14 Medium businesses are more likely than small businesses to say that the scheme would be taken into account when choosing a new supplier, with 83% of medium businesses stating that it would be a factor in their choice of telecom supplier (compared to 73% of small businesses).

4.15 As would be expected, businesses that say they are always looking around for the best deal from telecoms suppliers and who consider quality and reliability the most important factors are also more likely to consider metering and billing certification an important aspect in choosing a new supplier.

4.16 There is no difference in importance of the scheme between businesses that check their bills, and those that don't. There is some indication that SMEs that think their bill is not accurately calculated are more likely to consider the scheme an important factor when choosing a new supplier (though this is based on a small sample of businesses that think their bill is calculated inaccurately, so caution should be applied to this finding).

Chapter 5

New Directory Enquiries numbers

5.1 At the end of 2001, Oftel announced plans to replace the existing national (192) and international (153) directory enquiries (DQ) services with a range of new numbers. Previously, consumers were most likely to use the DQ service provided by their network operator, as only network operators had access to the '192' DQ number. The new arrangements mean that consumers have an easy choice of DQ service provider no matter what network they use, and that all DQ service providers will be competing on a level playing field as regards the number used to access their DQ services.

5.2 In late 2002, new numbers in the range 118XXX were introduced for directory enquiries services. These are available in conjunction with the exiting 192 and 153 DQ services until August 2003, when 192 and 153 will no longer connect to DQ services. At this point 192 will be replaced with a message informing callers that new numbers have been introduced and to obtain these, callers should ring the freephone number stated. This message will remain in place until 20th June 2004.

5.3 These changes are expected to lead to the introduction of a range of new services using short telephone numbers, such as call completion facilities where the operator can connect people directly to the number they have requested, or services in a range of languages for people whose first language is not English and visitors from overseas. In fact, some of these new services are already available. The presence of new firms in the market should promote competition in quality of service and on price, encouraging better customer service and lower prices.

5.4 Awareness and use of new DQ services amongst SMEs is therefore of critical importance to the regulatory initiative.

Awareness of introduction of new numbers

5.5 3 in 5 UK SMEs are aware that new numbers for Directory Enquiries (192) and International Directory Enquiries (153) have already been introduced. A further 1 in 5 (21%) are aware of the introduction of new numbers but not that they have actually already been introduced.

5.6 Awareness has increased significantly since the launch of the new numbers. In August '02 just 19% of SMEs were aware that the new numbers were going to be introduced, compared with 54% in Feb '03 and 81% this quarter (which includes those that are aware the numbers had already been introduced).

5.7 Awareness is high amongst both small and medium businesses (81% and 91% respectively), both having increased significantly since February '03.

Awareness of what the new numbers will be

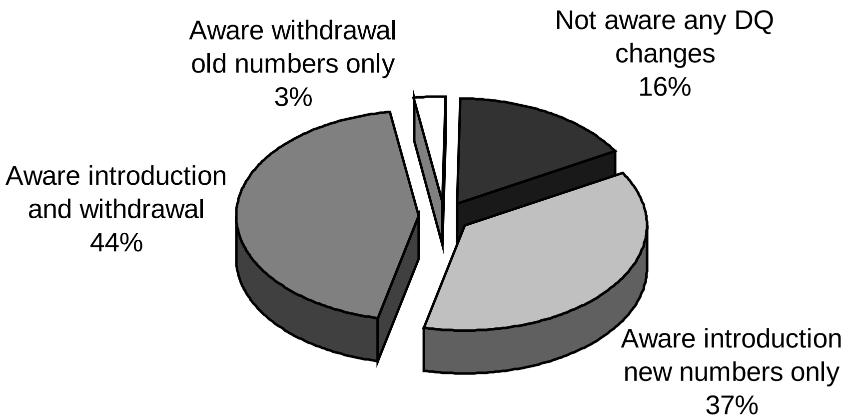
5.8 Of those aware that new numbers are being introduced, a third (34%) know that the 118 prefix is going to be used for the new DQ services – this equates to 27% of all SMEs. This is a significant increase - in Feb ’03, 4% of SMEs were aware of the 118 prefix. Of those aware of the introduction of new numbers, medium businesses are significantly more likely (47%) to have mentioned the 118 prefix than small businesses (33%) – suggesting that as well as having higher awareness of the changes medium businesses have more detailed awareness.

Awareness of the old numbers being withdrawn

5.9 Nearly half (46%) of SMEs are now aware that the old DQ numbers are being withdrawn – up from 35% in Feb ’03. Again, medium businesses are significantly more likely (60%) than small businesses (46%) to be aware of this.

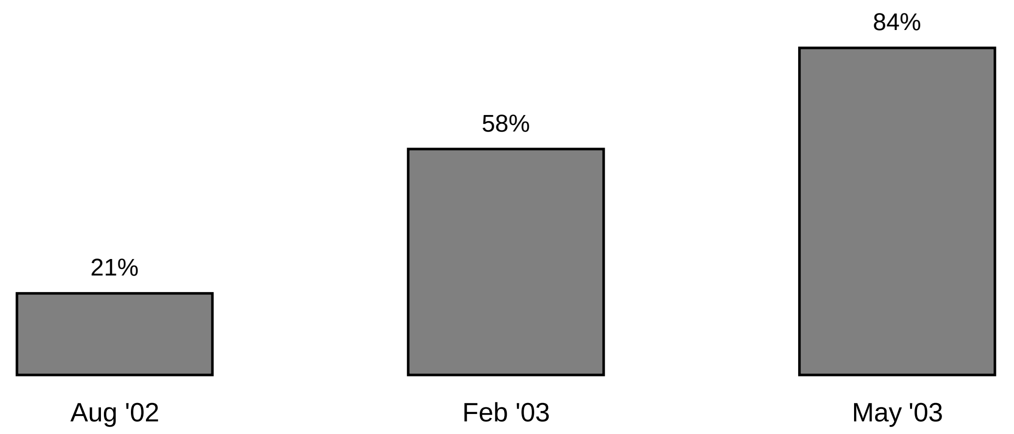
5.10 As shown in figure 5a, overall, 84% of SMEs are aware that new numbers are being introduced or the old numbers are being withdrawn - this is higher among medium sized businesses at 93%. 44% of SMEs are aware of both. A quarter (27%) of SMEs are aware that the new DQ numbers will start with a 118 prefix.

Figure 5a: Awareness of the forthcoming changes to DQ
Base: UK SMEs, May ‘03, (Base: 815)



5.11 Figure 5b shows the increase in awareness of the changes to DQ numbers over the last nine months.

Figure 5b: Awareness of any change to DQ services
Base: UK SMEs, May '03, (Base: 815)



Sources of awareness of the changes

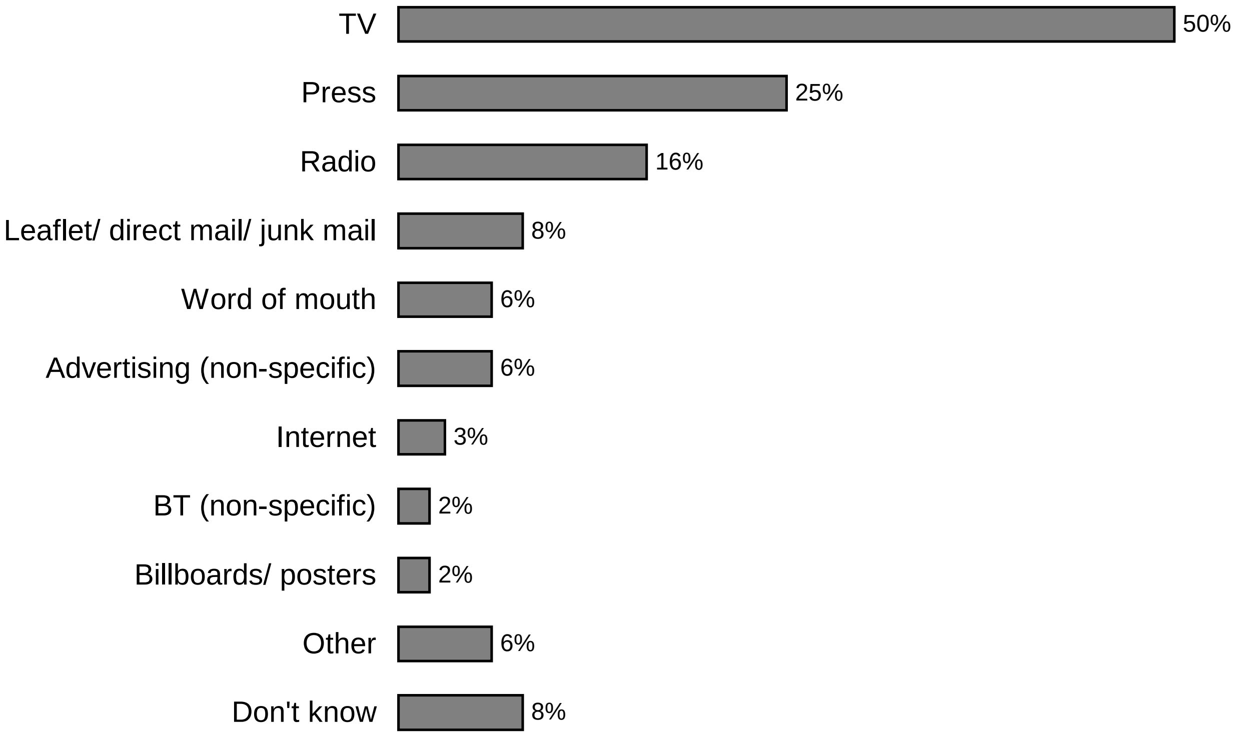
5.12 The three main sources of awareness regarding the changes are TV (50%), the press (25%) and radio (16%).

5.13 Less common sources include 8% aware from direct mail, 6% aware via word of mouth, 3% read about the changes on the Internet and 2% cited posters.

Awareness of changes from the BT Phonebook

5.14 1% of those who have heard about the changes heard about them from the BT phonebook. A further 2% mention BT without being more specific. In total 3% say they heard about the changes through a BT source (phonebook, non-specific BT mentions, and other BT sources). 3% of those aware of the changes mention a phonebook as a source of awareness (BT phonebook, other named phonebooks, non-specific phonebook mentions).

Figure 5c: Sources of awareness of changes to DQ
Base: UK SMEs aware of introduction of new DQ numbers or withdrawal of old, May '03 (Base: 715)



Annex 1

Q13 business questions on fixed telephony

Q1. ASK ALL
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.

Q2. ASK ALL
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.

BT
NTL
Telewest
Cable and Wireless
Colt
Energis
MCI Worldcom
Any other supplier(s) SPECIFY
Don't know

Q3. ASK ALL
Thinking about all your fixed line telecoms services and suppliers, are you satisfied with them on the following attributes?

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

Q4. ASK ALL
Thinking about your business's fixed line telephone bill, how accurately do you think the costs for each call are calculated, taking into account the length and type of calls, and any applicable discounts?

Very accurately
Fairly accurately
Not very accurately
Not at all accurately

Q5. ASK ALL
Oftel's metering and billing Seal of Approval - also known as B.A.B.T. approval - is awarded to fixed and mobile telephone suppliers that provide customers with accurate bills and a satisfactory level of customer and complaint handling. Before now were you aware of this scheme?

Q6. ASK ALL
(Now that you are aware of it...) When choosing a new supplier, how important would Oftel's metering and billing Seal of Approval be in this decision?

Realistically, would it be...
One of the most important factors in the decision
A factor that would be taken into account, but not the most important
A factor that would be unlikely to be considered

Q7. ASK ALL
Does somebody in your organisation check the accuracy of your fixed phone bills?

Yes - every bill
Yes - some bills
No

Q8. ASK ALL
New numbers for directory enquiry services have recently been introduced. Which of the following best describes whether you were aware of this before now?

I was aware that new numbers had already been introduced
I was aware that new numbers were being introduced but was not aware that they were already available
I was not aware that new numbers were being introduced

Q9. ASK ALL AWARE THE NEW DIRECTORY ENQUIRIES NUMBERS ARE BEING INTRODUCED
Do you know what the new numbers for directory enquiries are?

Yes - 118(xxx) - any mention of 118
Yes - any other numbers mentioned (NOT 118xxx)
No - don't know

Q10. ASK ALL
The national 192 and international 153 directory enquires numbers are going to be withdrawn from service. Before now, were you aware of this?

Q11. ASK ALL
Where did you hear about the changes that are currently being made to directory enquiry services? PROBE Where else?