



Broadband services for SMEs: assessment and action plan

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About this document

This document sets out Ofcom's views on the provision and availability of communications services for small and medium enterprises (SMEs) in the UK, defined as businesses with under 250 employees.

It focuses primarily on broadband services and considers whether the provision of broadband adequately addresses the needs of SMEs in terms of availability and product range and how easy it is for SMEs to navigate the market and switch between providers. We outline the next steps for Ofcom to address the issues identified, and where appropriate, make recommendations to other policy makers and to industry.

This document will be of interest to SMEs and their representatives, the telecoms industry, policy makers, and organisations with an interest in the availability of communications services to SMEs and how these services are used.

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Section 1

Executive summary

- 1.1 The UK's 5.2 million Small and Medium Enterprises (SMEs)¹ are critical to driving economic growth: they constitute 99.9% of UK businesses, and account for 60% of private sector employment and 47% of business revenue. High quality communications connectivity is essential to their ability to participate in and drive the digital economy.
- 1.2 The SME categorisation covers a wide range of different types of business, in terms of both size and function – from a self-employed tradesman working in a local community to a medium sized high-tech firm with international customers and suppliers. Their requirements for communications services are highly varied; some use communications products aimed predominantly at residential customers and others aimed more at larger enterprises as well as products designed specifically to meet the needs of small and medium-sized businesses.
- 1.3 Nevertheless we can make some general comments about how SMEs' needs differ from both residential consumers and large enterprises, particularly in the case of broadband connectivity.
 - As many SMEs rely on communications networks for business-critical services, they often have lower tolerance for outages than residential consumers. SMEs are also more likely than residential consumers to use services dependent on a high-quality uplink such as use of cloud-based applications or video conferencing.
 - SMEs are also more likely than larger enterprises to depend on mass-market broadband products as they have less need for the dedicated, uncontended connectivity provided by leased lines, and are less able to afford the higher costs associated with them. They are also less likely than large enterprises to have the skills and dedicated resources to scope and negotiate bespoke communications service packages.
- 1.4 Our research found that 85% of SMEs felt their business needs were well catered for by the communications market, and only around 5% said they were dissatisfied overall with each service (landline, internet and mobile).² SMEs typically have a wide range of choice in the retail market, both from large nationwide communications providers and from smaller local providers and resellers. There has been significant innovation in the provision of communications services to SMEs, including the deployment of new network technologies and the availability of IP-based service-layer applications which use this connectivity.
- 1.5 However, our research found that a significant minority of SMEs had had less favourable experiences. Our assessment has highlighted four issues: a lack of widespread superfast broadband availability; a concentrated retail market structure; dissatisfaction in relation to quality of service; and SMEs finding it difficult to navigate the market. This document sets out a plan to address these issues through Ofcom initiatives and engagement with other agencies and stakeholders.

¹ Defined as businesses with fewer than 249 employees – around 3.7million are sole traders

² http://stakeholders.ofcom.org.uk/binaries/research/telecoms-research/sme/sme_research_report.pdf

Infrastructure availability

The market is currently under-delivering superfast broadband connectivity to SMEs

- 1.6 Data collected in June 2014 showed that only 56% of SME premises could access superfast broadband (i.e. a download speed of more than 30Mbit/s) compared to 75% of all premises. This figure will improve as superfast deployment continues, but not sufficiently. Our analysis of future deployment plans finds that by 2017, when 95% of all UK premises will have superfast broadband, around 18% of SME premises will still not have access to superfast broadband
- 1.7 Largely as a result of the low availability of superfast broadband, the average download speed in SME-only postcodes³ was 13.6Mbit/s, compared to 23.4Mbit/s for all UK premises. Average upload speeds (which are typically much more important for business users than for residential users) in SME-only postcodes were 1.7Mbit/s compared to 3.0Mbit/s for all UK premises.
- 1.8 SMEs unable to access superfast broadband are disadvantaged and typically have to pay around five times more (plus installation) for leased lines or rely on slower ADSL, which is often inadequate.
- 1.9 We have investigated the underlying reasons for low availability, partially in response to concerns that communications providers may have an incentive not to deploy superfast broadband to businesses, in order to avoid cannibalisation of leased line revenues. The evidence available does not support this concern, but instead suggests that low availability is due to the higher than average costs of deploying superfast broadband to business premises, and because commercial and publicly-funded deployment programmes are primarily based on maximising coverage, where coverage is defined as the total number of premises served. This has resulted in more concentrated investment in residential areas.

Targeted public policy intervention is required to ensure that all SMEs are able to access superfast broadband

- 1.10 Commercial deployment of superfast broadband to business premises is continuing and Ofcom will seek to facilitate this. We will make data collected for our annual Infrastructure Report updates publicly available in order to enable the identification of clusters of businesses without superfast broadband and stimulate demand aggregation both by large providers and through targeted small network deployments. Data collection for the 2015 update is underway, with publication scheduled for the autumn.
- 1.11 However, experience to date indicates that public policy intervention will be needed to fill gaps where the market alone will not deliver superfast broadband. A discussion is currently underway about the specification of Phase 3 of the Broadband Delivery UK programme (the "final 5%"), in regard to superfast broadband availability to the hardest-to-reach parts of the UK from 2017.⁴ The case for public funding for this

³ i.e. full UK postcodes where there are SME postal addresses but no residential or large enterprise postal addresses. Our analysis looks particularly at these areas in order to isolate issues facing business and commercial districts. Overall, 25% of all SMEs are located in SME-only postcodes (19% of SMEs with 1-9 employees; 40% of SMEs with 10-49 employees; 56% of SMEs with 50-249 employees).

⁴ <https://www.gov.uk/government/publications/superfast-broadband-programme-phase-3>

phase of the BDUK programme is enhanced by the economic benefits in providing superfast broadband to the 18% of SME premises which are in this final 5%. It is therefore important that the programme includes targets for delivering superfast connectivity to SMEs.

- 1.12 Over half of SMEs who are outside current and planned commercial and publicly-funded deployment programmes are in urban locations. Publicly-funded programmes face particular challenges in many of these areas due to the constraints associated with EU State Aid rules. The ongoing Broadband Delivery UK (BDUK) voucher scheme will continue to help some SMEs in 50 'super-connected cities' claim up to £3,000 to cover the costs of installing faster and better internet connectivity. However, as this scheme focuses on individual businesses in order to comply with State Aid rules, it will not fix the gaps in superfast coverage on its own.
- 1.13 For those SMEs that remain outside superfast broadband coverage, a Universal Service Obligation (USO) would help ensure they get broadband speeds necessary to support basic internet use. In March 2015 proposals for a 5Mbit/s broadband USO were outlined in an update to the Government's Digital Communications Infrastructure Strategy.⁵ Once implemented, a USO would mean that consumers gain a legal right to request installation of 5Mbit/s capable services. A USO would apply to all consumers, including SMEs, and would therefore benefit the significant proportion of SMEs that cannot currently receive a 5Mbit/s service. We estimate that in June 2014, 24% of premises in SME-only postcodes had broadband connections with a maximum speed of less than 5Mbit/s.

Quality of service

There are high levels of dissatisfaction among SMEs with some aspects of broadband quality of service

- 1.14 Our research found that 42% of SME internet users reported experiencing issues with internet connectivity. Poor service reliability was the biggest problem, with 29% citing this as an issue. Other third party research, including from the Federation of Small Businesses⁶, Citizens Advice⁷ and the Communications Consumer Panel,⁸ has also found that many SMEs report significant problems with the quality and reliability of their broadband connections.
- 1.15 Many problems experienced by SMEs with their broadband connection are likely to be a result of issues in the consumer domain - e.g. faulty routers or software configuration - rather than at the network level. There are therefore benefits in having broad IT support, offered by many communications providers alongside the provision of connectivity.
- 1.16 However, around a third of faults reported to communications providers are in the network domain, and these are likely to be a significant driver of customer

⁵ <https://www.gov.uk/government/publications/the-digital-communications-infrastructure-strategy/the-digital-communications-infrastructure-strategy>

⁶ www.fsb.org.uk/policy/assets/FSB-The-Fourth-Utility.pdf

⁷ https://www.citizensadvice.org.uk/Global/Migrated_Documents/corporate/the-concerns-of-small-businesses-as-consumers-in-regulated-markets-final.pdf

⁸ https://www.citizensadvice.org.uk/Global/Migrated_Documents/corporate/the-concerns-of-small-businesses-as-consumers-in-regulated-markets-final.pdf

dissatisfaction, particularly as these faults typically take longer to fix than those in the consumer domain (the majority of which are fixed inside an hour).

- 1.17 Some of the problems are the result of poor quality of service delivered at the wholesale level by Openreach. Interventions under the Fixed Access Market Review (FAMR) in 2014, which required Openreach to publish key performance indicators for most products and meet minimum standards for some products, appear to have resulted in improved performance. We are proposing similar requirements for leased-line products in the current Business Connectivity Market Review.
- 1.18 We will continue to track the service levels and KPIs delivered by Openreach. Future market reviews including the next FAMR (which begins this year and concludes in 2017) will assess the performance of Openreach and consider whether further intervention is necessary in order to improve the quality of service delivered to residential and business consumers.

Higher service care levels should be made available to SMEs

- 1.19 Of course, it is clearly important that service quality offered by Openreach is passed through to the retail level of the market, so that businesses can benefit. We are therefore concerned that, even where Openreach offers an enhanced level of service at the wholesale level, this is not always being made available by retail providers. In particular, Openreach's highest broadband service care level (service care level 4, 6-hour fix) is not offered to consumers by BT Business or many other retail providers.
- 1.20 We have discussed this issue with BT Business, as the largest retail provider, and its current view is that an enhanced service level agreement (SLA) on broadband services is not appropriate as Openreach supply only one component part of its overall broadband service. BT Business notes that an enhanced SLA is available on phone lines, and that many faults which affect a broadband connection will also affect the phone line. Therefore SMEs who require rapid resolution of broadband faults may be able to achieve this through the type of phone service that they purchase.
- 1.21 This does not address our concern. Having different care-levels for phone lines and for broadband services creates complexity and does not meet SMEs' needs for ensuring fast repair of their broadband connection. We have agreed with BT Business that we will discuss this matter further. The issue of quality of service is one we will return to in our Strategic Review of Digital Communications.

Retail market structure⁹

BT is the largest provider in the retail SME market, with nearly half of all fixed-line revenues; none of the other providers has more than 10% share

- 1.22 The retail market serving SMEs is very different to that serving residential consumers. Whereas in the residential market there are four providers, each with over 20% market share, in the SME market BT Business is by far the largest provider with nearly half of fixed line revenues, and no other provider having more than 10% share.

⁹ Note that in order to inform our assessment we have looked at the broad range of services and suppliers that SMEs rely upon, and have not carried out the type of detailed analysis of market definition that would be required under a formal market review under the EU Framework.

- 1.23 However, there are signs in the last year or so of renewed competitive focus on the SME market and our meetings with stakeholders did not identify any competitive concerns. Large players such as Virgin Media, TalkTalk and BT have re-launched their SME propositions. New technologies have facilitated new entry from alternative network business-focused providers such as Metronet, Optimity and Warwicknet. There are also new opportunities for small local resellers created by increasing demand for bundled connectivity, applications and IT support.
- 1.24 Although there are positive indications of growing competitive choice, it remains uncertain in the long-term how successful challengers will be in exerting competitive pressure and driving better market outcomes for SMEs. The market is in a state of transition, characterised by convergence of connectivity and services, and there is uncertainty about long-term models of competition.
- 1.25 We will look again at the retail market structure and competitive intensity for SMEs alongside our next review of the Business Connectivity market (which will begin in 2017 and conclude in 2019). This will include an assessment of the extent to which large-scale alternative network providers have been successful in competing with BT Business, as well as the extent to which smaller providers, including re-sellers, continue to be able to enter the market and compete effectively.

SMEs' ability to navigate the communications markets

It is essential that SMEs are able to identify and compare those services which best meet their needs and switch easily between providers

- 1.26 Our research found that around half of SMEs found information about suppliers and tariffs difficult to compare, and a third of SMEs are not confident in identifying new communications services which would be valuable for their businesses. This arises from the complexity of communications services, the fact that many SMEs lack the in-house expertise and resources to assess the advantages of different services, and is compounded by some gaps in the information available from communications providers on their websites on prices, services and contractual terms.

We will work with industry with the aim of creating a code of practice on broadband speeds for business services

- 1.27 We will work with industry to explore whether a broadband speeds code can be created for business services.
- 1.28 Our research found that there is particular confusion about the speed of broadband services. For some SMEs, our qualitative research suggested that advertising "up to" speeds can create misunderstanding about the speeds that can actually be achieved, and our survey found that one in five SMEs were dissatisfied with their ability to access the speed paid for.
- 1.29 In order to address this, we will work with industry with the aim to ensure that information on broadband speeds for business broadband services is fully transparent. We have discussed this with three of the leading providers which are already signatories to the current Broadband Speeds Code Practice for residential consumers (BT, Virgin Media and TalkTalk). They are committed to the principle of transparency and will work with Ofcom over the next three months to explore whether a broadband speeds code can be created for business services. We will follow up with these and other providers of business services to develop a plan for transparency of speeds information in the autumn.

We will monitor the effectiveness for small businesses of new switching processes

- 1.30 Our research also highlighted issues in switching provider. While most SMEs report the switching process as easy, many experienced at least one problem when switching (landline: 48%; internet: 37%; mobile: 41%). In particular some SMEs reported cancellation charges as a problem when switching.
- 1.31 Ofcom's new provisions to introduce gaining-provider led switching for fixed services which came into force on 20 June will benefit businesses with fewer than ten employees – both in terms of ease of process and transparency of early termination charges during the switching process. We will monitor the implementation of our new switching regulations, and complaints to Ofcom about switching, from micro-businesses and businesses in general. We will also consider switching for SMEs with more than ten employees within the overall context of our work and our priorities in relation to consumer switching

We will expand our recently launched business portal to help SMEs' understanding of communication markets

- 1.32 Ofcom's business portal provides advice to SMEs in how to make choices and move between providers, and gives avenues for redress. In the next three months, we will develop it further and disseminate it (through stakeholders such as Government, communications providers, commercial intermediaries, Go On UK, SME business networks, and SME representatives like the Federation of Small Businesses), in order to reach a larger number of SMEs.
- 1.33 As part of embedding our work on SMEs alongside our programmatic policy and enforcement work, we will report on progress in our next Consumer Experience Report in early 2016.

Section 2

Introduction

Provision of communications services to SMEs is a priority work area for Ofcom

- 2.1 There are over 5 million SMEs in the UK (defined as businesses employing fewer than 250 people), including around 3.7 million sole traders. SMEs employ 60% of the UK workforce and account for around 50% of GDP.¹⁰
- 2.2 In September 2014 Ofcom announced its SME plan¹¹ in which we committed to conduct a study of how the market is serving SMEs. It is an Annual Plan priority for 2015/6 to “Ensure effective competition in the provision of communications services for businesses, particularly SMEs”.
- 2.3 Through our market review programmes we cover all the products that SMEs use for fixed telecoms. The purpose of this study is to consider across the board, all the needs and market outcomes for SMEs. As such this study complements Ofcom’s market reviews of communications services, including:
- the Business Connectivity Market Review (BCMR), assessing how well competition is working in the provision of dedicated connections, known as leased lines, some of which are used by SMEs;¹² and
 - the Fixed Access Market Review, covering the access connections used to provide fixed-line telephone and broadband internet services, including superfast broadband, to residential and business consumers.¹³

There has been heightened focus on the communications services needs of SMEs among stakeholders

- 2.4 Recent and ongoing initiatives from Government, industry and SME representatives have focused on the importance of providing high quality communications connectivity to SMEs.
- 2.5 The Government is promoting the take-up of faster broadband by SMEs through its voucher scheme whereby a £100m fund is available for SMEs in 50 ‘super-connected cities’ to claim up to £3,000 to cover the costs of installing faster and better broadband.
- 2.6 Business services provision also forms a key component of the Government’s Digital Communications Infrastructure Strategy.¹⁴ In the long-term, the Government’s ambition is that ultrafast broadband of at least 100Mbit/s should be available to nearly all UK premises.

¹⁰

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/377934/bpe_2014_statistical_release.pdf

¹¹ <http://media.ofcom.org.uk/news/2014/sme-plan/>

¹² <http://stakeholders.ofcom.org.uk/consultations/business-connectivity-market-review/>

¹³ <http://stakeholders.ofcom.org.uk/telecoms/ga-scheme/specific-conditions-entitlement/market-power/fixed-access-market-reviews-2014/>

¹⁴ <https://www.gov.uk/government/publications/the-digital-communications-infrastructure-strategy>

- 2.7 Phase 2 of the scheme will see an additional £250m plus matched funding to extend coverage to 95% by 2017 with the focus being on small cabinets (>50 connections). Phase 3 will cover the last 5%; the non-city last 5%, a mix of fixed, wireless and satellite; eight pilots are under way.
- 2.8 In September 2013, BT Business was created as a new division in BT Group (when BT Retail was split into BT Consumer and BT Business), and in its 2014 Annual Report BT outlined one of its six strategic priorities as “Being the ‘Brand for Business’ for UK SMEs”.
- 2.9 There has also recently been greater focus from some of the UK’s other large communications providers in targeting the SME sector. Virgin Media and TalkTalk are among those who have launched high-profile new business propositions targeting SMEs in the last nine months.
- 2.10 In March 2014, the Broadband Stakeholder Group published a report on the opportunities for SMEs provided by broadband networks.¹⁵ It conducted further research into micro-businesses’ broadband provision in order to better understand the needs of SMEs.¹⁶
- 2.11 The Federation of Small Businesses (FSB) has highlighted some of these issues and has called for Government intervention in order to deliver universal connectivity, and for Ofcom to refer the business broadband market to the CMA to investigate competition.¹⁷
- 2.12 Citizens Advice¹⁸ and the Communications Consumer Panel¹⁹ have recently published separate reports which highlight high levels of complaints from small SMEs about the availability, quality and resilience of broadband connectivity.

Our assessment of market outcomes for SMEs is based on extensive research and stakeholder engagement

- 2.13 Our assessment is underpinned by two pieces of research that indicated a need for specific analysis of market outcomes for SMEs:
- **A survey of the experiences of over 1,500 SMEs** commissioned by Ofcom and conducted by Jigsaw Research in spring 2014 highlighted a range of problems affecting some SMEs, including issues with quality of service from fixed and mobile suppliers and reported difficulties in identifying new services which would be valuable to their business and comparing tariffs and suppliers.
 - **Data collected for the Infrastructure Report 2014** found significantly lower availability of superfast broadband (i.e. a connection speed of at least 30Mbit/s) to SME premises (56%) than to all premises (75%)
- 2.14 We have sought input from a wide range of stakeholders. In November 2014, we published a Call for Inputs (CFI) to ensure that we gave stakeholders the opportunity to bring to our attention any issues in relation to the provision of communications

¹⁵ <http://www.broadbanduk.org/wp-content/uploads/2014/03/Capitalising-on-Connectivity.pdf>

¹⁶ http://www.broadbanduk.org/wp-content/uploads/2014/11/BSG_Micro-Businesses-Report-and-FW_17-November-2014_Final.pdf

¹⁷ www.fsb.org.uk/policy/assets/FSB-The-Fourth-Utility.pdf

¹⁸ https://www.citizensadvice.org.uk/Global/Migrated_Documents/corporate/the-concerns-of-small-businesses-as-consumers-in-regulated-markets-final.pdf

¹⁹ <http://www.communicationsconsumerpanel.org.uk/downloads/panel-micro-business-report-final.pdf>

services to SMEs that we should be considering.²⁰ We encouraged responses from a wide range of stakeholders including SMEs, communications providers, resellers, local authorities, trade associations and other representatives from small businesses. A summary of responses is provided in Annex 1, while non-confidential responses have also been published.²¹

- 2.15 We have also had meetings with a wide range of communications providers and representatives of small businesses in order to gain further insight.
- 2.16 Analysys Mason was commissioned to produce a report to assess SME connectivity needs, how these might evolve and whether the current products available suited SMEs' needs in terms of bandwidth, price and quality (see Annex 3)
- 2.17 Following on from the quantitative research undertaken by Jigsaw Research, we asked them to revisit the 15% of survey respondents who said that a lack of communications services hampered their ability to grow, in order to better understand the reasons through qualitative research (see Annex 2).

Our assessment focuses on the provision of fixed internet services

- 2.18 In line with Ofcom's duty to further the interests of consumers in relevant markets, this assessment examines market outcomes for SMEs and outlines where further work is necessary to ensure that:
 - **SMEs have widespread availability of communications services** meeting their needs. Ofcom's 2015 Infrastructure Report will assess the gaps in superfast broadband coverage for residential and business users in both rural and urban areas, as well as mobile coverage. Better availability for SMEs as well as residential consumers, is a priority, and Ofcom is already working closely with Government and industry to identify potential ways to fill these gaps.
 - **SMEs receive quality and choice in communications services.** It is important that SMEs benefit from effective competition and innovation in communication services wherever possible as this will deliver choice, low prices and high quality communications services.
 - **SMEs can navigate the market confidently and are protected from harm when necessary.** It is important that businesses can easily access and use information to make informed choices and have effective protection if things go wrong.
- 2.19 Our assessment includes internet, fixed voice and mobile services. Although we found some issues in relation to fixed voice and mobile, particularly in reference to SMEs' ability to navigate the market and switch between providers, our assessment has focused on fixed broadband services because:
 - concerns from stakeholders focused on broadband services;

²⁰ <http://stakeholders.ofcom.org.uk/consultations/smes-cfi>

²¹ <http://stakeholders.ofcom.org.uk/consultations/smes-cfi/?showResponses=true>

- the research showed more dissatisfaction with ADSL broadband services than with any other service used except dial-up internet;²²
- services available are more complex than for fixed and mobile telephony; and
- mobile issues were mostly to do with coverage, which is not an SME-specific issue, rather a nation-wide one, affecting residential and business users alike; coverage issues will in part be addressed by the MNOs' commitment to each provide at least 90% land-mass coverage by the end of 2017 for voice and text services²³ and by the stated aims of each MNO to provide 98% 4G coverage also by the end of 2017.²⁴

Our analysis identified issues in four areas

2.20 Our research found that most SMEs have a generally positive view of communications services: 85% of SMEs felt their business needs were well catered for by the communications market, around 5% said they were dissatisfied overall with each service (landline, internet and mobile), and 85% said that information was widely available.

2.21 However, there are issues facing some SMEs. The main issues we found from our analysis, research and stakeholder engagement were in the following areas:

- Superfast broadband availability for SMEs: superfast broadband is increasingly important for SMEs, but the availability of superfast broadband to SMEs is significantly lower than to residential premises. The analysis which we carried out for the *2014 Infrastructure Report*, based on data collected in June 2014, showed that 44% of SME premises did not then have access to superfast broadband, compared to 25% of residential premises.
- Quality of service: Dissatisfaction is highest among SMEs with ADSL services and in particular in relation to some aspects of broadband quality of service.²⁵ Our research found that 42% of SME internet users reported experiencing issues with internet connectivity in the last 12 months, including speed, ability to access the speed paid for, and connection reliability. A minority of SMEs (7%) are also dissatisfied with the speed of fault resolution.
- Retail market structure: in contrast to the residential market where four providers all have more than 20% retail market share, the SME fixed-line retail market is concentrated. BT Business has c.49% share of SME fixed-line revenues, with no other provider having more than 10% share.
- SME engagement in the market: some SMEs can face difficulties making informed choices, sometimes lack the knowledge and expertise to understand the

²² 14% of SMEs were dissatisfied with their ADSL service, and 18% dissatisfied with their dial-up internet

²³ <https://www.gov.uk/government/news/government-secures-landmark-deal-for-uk-mobile-phone-users>

²⁴ O2 is obliged under the terms of its 800Mhz license to provide 98% population coverage by the end of 2017; EE, Three and Vodafone have all stated that they will also achieve 98% coverage by the end of 2017.

²⁵ 78% of SMEs are satisfied with ADSL broadband, compared for instance with 88% for standard landline and 85% standard mobiles.

options available to them, and can face issues switching between services and providers.

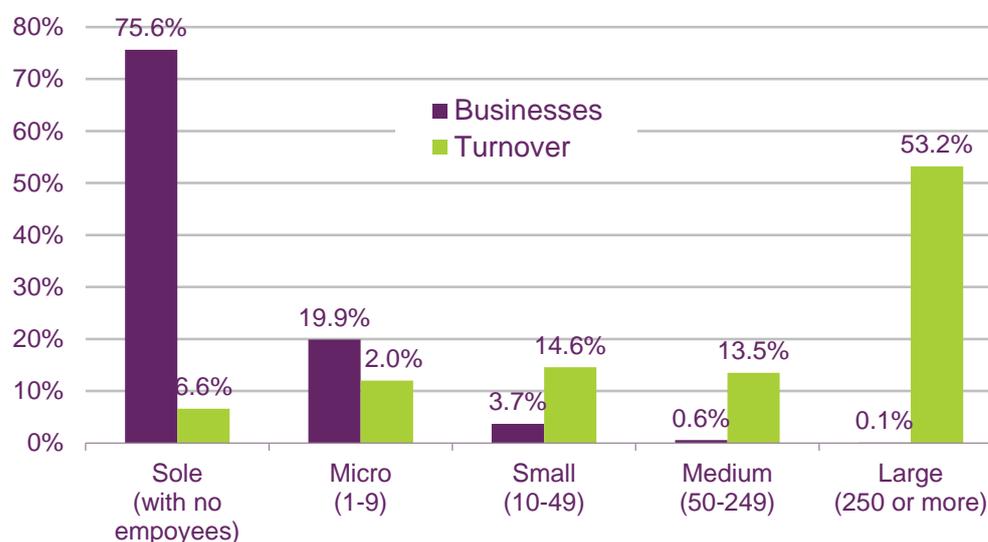
Section 3

SMEs' needs

SMEs make a significant contribution to the UK economy with a combined annual turnover of £1.6 m

- 3.1 Growth in SMEs over the past few years has been driven by increasing self-employment, following the economic downturn. There are now 5.2 million private sector businesses, of which 3.9 million are sole traders.
- 3.2 SMEs account for 99.9% of businesses in the UK in 2014 with a combined annual turnover of £1.6 trillion (46.7% of total business revenue) (Figure 1)

Figure 1: Share of UK businesses and their turnover, 2014



Source: BIS

- 3.3 SMEs' requirements for communications services are highly varied. However, in broad terms the needs of SMEs are distinct both from residential consumers and large enterprises, particularly in the case of internet connectivity.
- SMEs' connectivity needs are less likely than residential consumers' needs to be defined by the demands of video streaming. SMEs are more likely to use services dependent on a high-quality uplink such as cloud-based applications or video conferencing. As many SMEs rely on communications networks for their business-critical services, they often have much lower tolerance for outages than residential consumers.
 - SMEs are more likely than larger enterprises to depend on mass-market broadband products, as they have less need for the dedicated, uncontended connectivity provided by leased lines, and are less able to afford the higher costs associated with them. SMEs are also less likely than large enterprises to have the skills and dedicated resources to scope and negotiate bespoke communications service packages.

- 3.4 There are around 4 million sole traders and 1 million micro-businesses (defined as having fewer than 10 employees) in the UK. They may face issues similar to those of residential consumers, in terms of the communications products they use and their digital skills, but may also have a very different set of needs to residential consumers, as they use communications products to run their businesses. Business-critical services such as VoIP and cloud-based applications have different requirements in terms of technical characteristics such as upload speeds and stability of connection than typical residential consumer uses such as streaming video, where download bandwidth is often the most critical driver of consumer experience. Businesses may also have lower tolerance than residential consumers with regard to service outages.

SMEs' needs are wide and varied, but most say that communications services are critical to their business

- 3.5 Most SMEs rely on connectivity services for their business; 83% of SMEs consider that communication services are fundamental to their business.²⁶
- 3.6 The SME market is highly fragmented, and the communications needs of SMEs vary enormously by the size and type of the business, and by their sector, location and areas of business focus. This fragmentation makes it difficult for suppliers to target SMEs as a single market segment. At one end of the spectrum, larger SMEs (100+ employees) are likely to need higher bandwidth, while at the other sole traders are likely to use residential products instead. For most small SMEs (fewer than 50 employees), superfast broadband is likely to be sufficient.
- 3.7 Communications technology is increasingly important to SMEs, frequently underpinning their ability to serve their customers and manage and grow their business efficiently and profitably. BT's Call for Inputs response revealed that in a BT Business study, *Being in Business 2013*, 91% of SMEs agreed that IT and communications were key to their business success, up from 86% in 2012.
- 3.8 SMEs are benefiting from conducting business online. Research conducted by the Boston Consulting Group in 2010 found that UK SMEs who were high users of online services grew much faster than other SMEs. This research identified six primary benefits of the internet to SMEs: geographic expansion, access to online tools, easier recruitment of staff, simplified customer payments, increased feedback and interaction with customers, and more effective marketing.²⁷
- 3.9 There is a greater need for higher bandwidth services for larger or IT-specialised SMEs, which tend to have more sophisticated needs. Most SMEs use basic online services; larger SMEs are more likely to use all services, and particularly more sophisticated services such as cloud-based services, remote access, VoIP and video conferencing (Figure 2).

²⁶ Jigsaw Quantitative Research on SMEs,

http://stakeholders.ofcom.org.uk/binaries/research/telecoms-research/sme/sme_research_report.pdf

²⁷ <http://www.bcg.com/documents/file62983.pdf>

Figure 2: Use of online services / applications by SMEs

	All UK	Location		Number of employees		
		Urban	Rural	1-9	10-49	50-249*
Email	97%	97%	97%	97%	98%	99%
Web access	89%	89%	89%	88%	93%	93%
Ordering goods and services online	83%	82%	83%	82%	89%	86%
Company website	69%	72%	62%	67%	85%	94%
Paying for goods and services via BACS	62%	61%	61%	60%	78%	78%
Taking orders for goods and services online	42%	42%	41%	41%	45%	41%
Using bespoke software or applications	41%	41%	39%	37%	66%	73%
Online marketing	39%	43%	32%	38%	47%	52%
Taking payment for goods and services online	35%	35%	31%	34%	41%	38%
Online data storage or back-up	28%	28%	27%	27%	39%	38%
Cloud services	23%	26%	17%	22%	31%	35%
Remote log-in to your work PC or laptop	20%	21%	17%	17%	37%	52%
File Transfer Protocol or FTP	18%	18%	15%	16%	26%	42%
Remote login to work server (VPN)	16%	18%	13%	13%	36%	58%
VoIP	15%	15%	15%	14%	20%	35%
Online video conferencing	7%	7%	7%	6%	8%	22%

Source: Ofcom SME research

Base: All SMEs that have a fixed internet (n=1,508)

* Base size for 50-249 employees is very low and should be treated as indicative only

- 3.10 There is large variation in the average spend by SMEs; the largest SME group (medium-sized businesses) spend nearly a third more than small businesses, and nearly 11 times more than micro-businesses. (Figure 3)

Figure 3: Average spend on communications by SMEs

Number of Employees	Average spend
All SMEs	£1,579
0 – 4	£1,025
0 – 9 (Micro)	£1,164
10 – 49 (Small)	£3,969
50 – 249 (Medium)	£11,532

Source: Jigsaw Research, November 2014

A range of connectivity products are available, but there are big price differences between broadband and Ethernet

- 3.11 Superfast (NGA) broadband is a mass market product aimed at consumers rather than businesses and does not benefit from dedicated connectivity. As a mass market product with bandwidth shared by multiple consumers, prices are standard rather than bespoke and are typically at least five times lower than prices for dedicated leased-line products. (Figure 4)
- 3.12 While the bandwidth afforded by ‘residential’ products may be sufficient for many SMEs, service levels in terms of resilience and fault resolution may not be. There are no meaningful service level guarantees (SLGs) offered on business broadband products so, if the service goes down, the compensation offered to SMEs for loss of

connectivity is minimal and similar to the payments given to residential consumers when there is a fault on their broadband line.

Figure 4: Comparison of business broadband and Ethernet products

	Broadband →		← Ethernet		
	ADSL Broadband	FTTC Broadband	Ethernet over FTTC	EFM	Ethernet leased line
Max downstream	Up to 16 Mb/s	Up to 38 Mb/s or up to 76 Mb/s	Up to 19Mb/s guaranteed	Up to 35 Mb/s guaranteed	Up to 10 Gb/s guaranteed
Max upstream	Up to 0.9 Mb/s	Up to 9.5 Mb/s or up to 19 Mb/s	Symmetric	Symmetric	Symmetric
Contention	Contended	Contended	Uncontended	Uncontended	Uncontended
Fault repair time	<40 hours	Next day	<8 hours	<7 hours	<5 hours
Uptime (monthly average)	97.0% (Business Broadband) or 99.5% (Business Broadband Pro)	99.8%	99.85%	99.90%	99.93%
SLG	No SLG available	No SLG available Although some providers offer a one-off goodwill payment of £25	SLG available	SLG available	SLG available (up to c.£6000 per line depending on loss of business)
Price	From c.£15/month; c.£30/month (Pro)	From c.£30-50/month	From c.£100/month (bespoke)	From c.£120/month (bespoke)	From c.£300/month (bespoke)

Source: Ofcom desk research

- 3.13 For some SMEs, upload speeds are just as important as download speeds, as is resilience so Ethernet products, which offer dedicated connectivity with symmetric speeds, may be more suitable.
- 3.14 The gap between broadband and Ethernet products is narrowing as a result of continuing superfast roll-out (including business specific NGA products with SLAs and SLGs) and alternative products such as EoFTTC (Ethernet over fibre-to-the-cabinet), EFM (Ethernet in the first mile) and point-to-point fixed wireless; the price of low-bandwidth leased lines is also falling.
- 3.15 SMEs which do not have access to superfast broadband, have less choice as ADSL may not offer sufficient speeds or service quality, and leased lines can be prohibitively expensive for smaller SMEs. Future technologies such as G.fast²⁸ and vectoring may offer greater quality and choice.²⁹

²⁸ G.fast is a technology which delivers ultrafast broadband speeds over short copper lines. Openreach is beginning trials of G.fast technology in summer 2015. Subject to the results of these pilots it will roll out the technology across the UK in 2016-17 and expects to deliver speeds of up to 500Mbit/s to most of the UK without a decade,

SMEs' needs are becoming more complex, and their use of new connectivity features and applications increases their need for higher bandwidth

- 3.16 Research commissioned from Analysys Mason (see Annex 3) on SMEs' current and future communications needs found that more sophisticated communications services, including IP and cloud-based services are increasing the need for higher specification connectivity services. Key findings from this research include:
- **Copper-based broadband services do not meet the bandwidth needs of many SMEs.** Superfast broadband offerings typically meet the bandwidth needs of smaller SMEs, although in some cases, even the fibre-based offerings cannot meet some SMEs' uplink bandwidth needs. While dedicated (leased) lines would meet these bandwidth needs, some SMEs consider them unaffordable.
 - **SMEs typically place great value on resilient connectivity**, which for some of them is as important as the need for adequate bandwidth. There is an increasing need for back-up connectivity to provide resilience in the event of the primary link failing
 - **There is increasing interest in advanced fixed voice telephony features** among SMEs. Internet connectivity needs and voice telephony become intertwined in the case of SMEs migrating from PSTN-based landline connections to IP-based services (IP-PBX)³⁰
 - **SMEs have high expectations regarding technical support for their connectivity services**, and these expectations are not always met by their service providers
 - **Having only one point of contact for all technical and IT support, as well as all other connectivity needs is highly valued**, particularly by smaller SMEs. Many lack the time and the necessary skills to manage their relationships with their current connectivity providers or to solve basic connectivity problems themselves.
- 3.17 The Analysys Mason research suggests that in relation to internet connectivity there is some evidence of a 'product gap' between broadband services which do not offer sufficient levels of performance to run business-critical applications and dedicated connections (leased lines) which are unaffordable for many SMEs. This product gap is twofold:
- it refers to the step change in price and performance, in particular uplink bandwidth, between broadband service plans and dedicated leased-line connectivity; and

<http://www.btplc.com/News/Articles/ShowArticle.cfm?ArticleID=C3CBFD0D-832A-40E4-A31F-04DFD5F84D09>.

²⁹ Vectoring is a technology which can be applied to VDSL services (delivered by fibre-to-the-cabinet) which has the potential to deliver speeds of over 100Mbit/s by removing interference. In June 2015, Warwicknet launched Vectoring on their FTTC broadband lines:

<http://www.warwicknet.com/blog/warwicknet-becomes-first-isp-deploy-vectoring>.

³⁰ Internet Protocol Private Branch Exchange.

- it refers to the mismatch between SMEs' needs in relation to technical support for standard and superfast broadband products and the actual technical support provided by firms offering these products.
- 3.18 The gap is most acute in areas where superfast broadband is not available. For many businesses in superfast not-spots, EFM (Ethernet to the first mile) provides an alternative option. EFM can provide symmetrical speeds of up to 35Mbit/s, and also provides higher reliability than broadband connectivity. Our analysis of EFM finds that it has higher levels of take-up in SME business districts outside Openreach's fibre footprint: EFM is taken up by at least one business in 13.9% of SME-only postcodes where there is no fibre-to-the-cabinet or fibre-to-the premises, compared to 7.8% of SME-only postcodes where there is 100% fibre availability.
- 3.19 Also, in some locations point-to-point fixed wireless (microwave) products are available, which may meet SMEs' needs.
- 3.20 In the coming years, the take-up of new applications will create increased demand from SMEs for higher bandwidth and more sophisticated internet connectivity products. New applications and features that will increasingly be used by SMEs include: unified communications, video conferencing, new CRM systems with rich feature sets, VPN and cloud-based storage.
- 3.21 This migration to new applications and features will lead demand for more proactive technical and IT support from connectivity service providers in the future. The Analysys Mason research identified that, as connectivity and applications converge, SMEs would like their connectivity provider to be their one point of contact for technical and IT support, and to act as their trusted adviser regarding the connectivity plans and features that their businesses need.

Section 4

Infrastructure availability

For many SMEs, a high quality broadband connection is essential

- 4.1 Reliable and high quality communication networks are essential for most SMEs' ability to do business. Most SMEs use landline (98%), fixed internet (78%) and mobile phone connectivity (66%), and 83% of SMEs agreed that communications services are fundamental to their business, and that without them they could not achieve their goals.³¹
- 4.2 Many SMEs report issues with mobile coverage. Our research found that 16% of SMEs were dissatisfied with geographic coverage and 18% with the reliability of the mobile signal/connection. The Federation of Small Businesses (FSB) and the Communications Consumer Panel (CCP) are among those stakeholders which have highlighted the prevalence of mobile coverage 'not spots', which particularly affect businesses in rural areas. The CCP also highlighted that micro-businesses are becoming increasingly dependent on 3G and 4G networks. Ongoing 4G roll-out (all four UK operators have stated plans to have 98% population coverage by the end of 2017), and the Government's agreement with all four MNOs to provide voice coverage to 90% of the UK's land mass by the end of 2017, - should contribute to improved mobile service for SMEs, as for residential consumers.
- 4.3 While mobile coverage issues are a significant problem for many businesses, the issues are broadly the same as for residential consumers. A number of initiatives are underway to improve mobile coverage, including:
- 4G roll-out (the terms of the license issues to Telefonica 02 require 98% population coverage by the end of 2017, and the other three UK mobile network operators have also indicated that they will achieve this coverage);
 - the Government's agreement with the four mobile network operators that they will provide 90% guaranteed voice and text coverage across 90% of the land mass of the UK by 2017;³² and
 - the Government's ongoing Mobile Infrastructure Project which is providing funding to extend mobile coverage in mobile 'not spots'. Ofcom's' Infrastructure Report update, scheduled for publication in the autumn, will assess progress in extending mobile coverage.³³
- 4.4 Booz & Company estimates that the total annual turnover of UK SMEs could be boosted by £18.8b if all of these firms sold and marketed online,³⁴ and research

³¹ http://stakeholders.ofcom.org.uk/binaries/research/telecoms-research/sme/sme_research_report.pdf, p23, p19.

³² <https://www.gov.uk/government/news/government-secures-landmark-deal-for-uk-mobile-phone-users>

³³ <https://www.gov.uk/government/publications/2010-to-2015-government-policy-communications-and-telecomms/2010-to-2015-government-policy-communications-and-telecomms>

³⁴ <http://www.go-on.co.uk/wp-content/uploads/2013/12/The-Booz-Report-Nov2012.pdf>

conducted by Lloyds Banking Group indicates that highly digitised SMEs tend to grow at a faster rate than less-digitised SMEs.³⁵

- 4.5 The evidence from areas where next-generation networks have been deployed indicates the benefits to SMEs of a superfast broadband connection. Analysis of a sample of 27 businesses in Cornwall found that labour productivity increased by an average of 9.5% following connection under the Superfast Cornwall project.³⁶ More than half of the businesses surveyed in Cornwall (52%) reported that fibre broadband had enabled them to grow, while 79% indicated that fibre broadband had saved them time or money, and 55% said that the technology had allowed them to work in new and different ways.³⁷ Similar findings are reported in the Superfast North Yorkshire project, where at the end of the interim phase of the project, 37% of businesses said they had gained new customers since getting a superfast broadband connection.³⁸
- 4.6 The importance of superfast broadband has been highlighted by many of the stakeholders who responded to our Call for Inputs and our stakeholder engagement. The Federation of Small Businesses (FSB) labels broadband the “fourth utility” and considers that “Small businesses across the UK are increasingly dependent on superfast, high-quality broadband services.”³⁹ Argyll and Bute Council and the National Farmers Union were among those emphasising the importance of affordable, high-speed connectivity to businesses in rural, remote regions.
- 4.7 The importance of fast broadband was also highlighted by our SME research. Twenty-two per cent of SMEs with ADSL broadband were dissatisfied with the speed of connection, the biggest single driver of dissatisfaction.⁴⁰ Qualitative research into the 15% of SMEs which claimed that a lack of available services available was constraining their ability to grow the business, found that for virtually all of them, the key reason was the lack of availability of superfast broadband to their premises.⁴¹
- 4.8 Analysys Mason’s work on the connectivity needs of SMEs reinforced the importance of superfast broadband. It found that ADSL-based service plans typically did not meet the needs of the SMEs analysed, whereas superfast broadband was generally sufficient for all but the largest and most data-intensive SMEs.⁴²
- 4.9 Research published in Ofcom’s *2014 Infrastructure Report* highlighted that broadband of at least 10Mbit/s is required to support typical consumers’ use.⁴³ Below that speed overall broadband performance is generally impaired and use is constrained because some applications will not work properly, if at all. For SMEs

³⁵ <http://resources.lloydsbank.com/insight/uk-business-digital-index-2015-report.pdf>

³⁶ Gross Value Added (GVA) per full-time employee (FTE) was calculated for each of 27 businesses which provided complete GVA and FTE data the average GVA per FTE figure before connecting to superfast was £28,422 increasing to £31,132 at the time of the survey, Superfast Cornwall Longitudinal Survey Wave One, May2014, <http://www.superfastcornwall.org/about-sfc/superfastimpact>

³⁷ <http://www.superfastcornwall.org/about-sfc/superfastimpact>

³⁸ The Superfast North Yorkshire project is designed to improve availability and use of high speed broadband infrastructure by SMEs: <http://www.superfastnorthyorkshire.com/home>. Interim report: <http://www.superfastnorthyorkshire.com/media/970722/Interim-Evaluation-of-NYnet-Final-Report.pdf>

³⁹ FSB, The fourth utility: Delivering universal broadband connectivity for small businesses across the UK, <http://www.fsb.org.uk/policy/assets/FSB-The-Fourth-Utility.pdf>

⁴⁰ http://stakeholders.ofcom.org.uk/binaries/research/telecoms-research/sme/sme_research_report.pdf, p46

⁴¹ See Annex 2, Jigsaw Research, ‘SME experience of communications services’

⁴² See Annex 3, Analysys Mason, ‘Understanding the demand for communications services by SMEs’

⁴³ <http://stakeholders.ofcom.org.uk/binaries/research/infrastructure/2014/infrastructure-14.pdf>, Sections 3.91 to 3.95 and Sections 3.101 to 3.114.

running business-critical applications or having multiple simultaneous users, the speed and quality of the connection is critical. This is particularly the case for businesses that use cloud services, where the quality and speed of the uplink is paramount; ADSL upload speeds are on average less than 1Mbit/s.⁴⁴

- 4.10 The availability of superfast broadband is, therefore, critical for many SMEs. Those unable to receive it are disadvantaged, either by having to take a slower broadband connection (usually ADSL, sometimes mobile broadband or satellite), or by having to pay typically five times higher prices (plus installation charges) for a dedicated leased line.

Many SMEs cannot access superfast broadband: availability is significantly lower to SME premises than to residential premises

- 4.11 Data collected for the *Infrastructure Report 2014* found that, in June 2014, 44% of SME premises did not have the option of superfast broadband (i.e. an actual download connection speed of at least 30Mbit/s). This compares to 25% non-availability to all UK premises (residential and business) (See Figure 5).
- 4.12 Issues are particularly acute in rural areas, where superfast broadband is not available to 84% of SME premises, and where ADSL speeds are also typically slower.⁴⁵ The rural/urban differences explain the lower availability of superfast broadband in Wales and Scotland, which are more rural than England. Superfast broadband availability is highest in Northern Ireland, following the completion of the Government-funded Next Generation Broadband Project, which invested more than £52m in fibre-to-the-cabinet broadband across the country and was completed in 2011.
- 4.13 A third of SME premises in urban areas could not access superfast broadband in June 2014, compared to 17% of all (residential and business) premises. This reflects that in general business parks and commercial areas are less well served with superfast broadband than residential areas. Next-generation network coverage (fibre or DOCSIS cable) is available to only 46% of postcodes where there are no residential premises.⁴⁶
- 4.14 Micro-businesses had higher superfast broadband availability (58%) than small (51%) or medium businesses (47%). This is likely to be the consequence of micro-businesses being more likely to be located in residential than in business-only areas.⁴⁷ However, lower availability to larger SMEs may also in part reflect lower demand, as it is more likely that larger SMEs need the higher performance of dedicated leased lines and therefore have no need for broadband connectivity.

⁴⁴ http://stakeholders.ofcom.org.uk/binaries/research/broadband-research/november2014/Fixed_bb_speeds_November_2014.pdf, page 25, Fig 2.10

⁴⁵ Ofcom's research into broadband speeds in partnership with SamKnows found that average ADSL speeds in rural areas in November 2014 were 4.3Mbit/s compared to 8.7Mbit/s in urban areas. This is based on research into residential users, but speeds for SMEs are likely to be similar. See:

http://stakeholders.ofcom.org.uk/binaries/research/broadband-research/november2014/Fixed_bb_speeds_November_2014.pdf, p14

⁴⁶ Analysis based on mapping data collected for the Infrastructure Report against a database of business addresses. NB: this data refers to NGA coverage rather than superfast broadband. As some NGA connections deliver speeds of lower than 30Mbit/s, superfast coverage will be lower than 46%

⁴⁷ 55.5% of large SMEs (between 50 and 249 employees) are located in SME-only postcodes (i.e. postcodes where there are no residential or large enterprise postal addresses), compared to 19.1% of micro-businesses (fewer than 10 employees).

Figure 5: Availability of superfast broadband (>30Mbit/s) to UK premises, June 2014

	Superfast broadband availability to all premises (residential and business)	Superfast broadband availability to SME premises			
		All SMEs (excluding sole traders) 1-249 employees	Micro (excluding sole traders) 1-9 employees	Small 10-49 employees	Medium 50-249 employees
UK	75%	56%	58%	51%	47%
England	77%	59%	61%	52%	48%
Scotland	61%	40%	42%	38%	34%
Wales	55%	37%	37%	38%	35%
Northern Ireland	77%	69%	67%	74%	74%
UK Urban	83%	67%	70%	59%	53%
UK Rural	22%	16%	15%	17%	17%

Source: Ofcom Infrastructure Report 2014

- 4.15 Analysis of broadband availability in SME-only postcodes, i.e. full UK postcodes where there are SME postal addresses but no residential or large enterprise postal addresses, indicates that there is lower availability of superfast broadband in these business areas and that average speeds are significantly lower (See Figure 6). Overall, 25% of all SMEs are located in SME-only postcodes (19% of SMEs with 1-9 employees; 40% of SMEs with 10-49 employees; 56% of SMEs with 50-249 employees).

Figure 6: Broadband performance and superfast broadband availability in SME-only postcodes, June 2014

	Average download speed	Availability of superfast broadband	
		To all premises	To at least one premise
All UK postcodes	23.4Mbit/s	29.1%	42.9%
SME-only postcodes	13.6Mbit/s	66.6%	77.4%

Source: Analysis of data collected for Ofcom's Infrastructure Report 2014

- 4.16 Many SMEs not only currently lack access to superfast broadband connectivity, but are also unable to access speeds sufficient for basic internet use. We estimate that in June 2014, 56% of premises in SME-only postcodes had broadband connections with a maximum speed of less than 10Mbit/s, 24% had maximum speeds of less than 5Mbit/s and 8% had maximum speeds of less than 2Mbit/s.

4.17 Upload speeds are particularly important for business users. However, largely as a result of the lower availability of superfast broadband, upload speeds are significantly lower in SME business districts than in residential areas. In June 2014, 41% of broadband connections in SME-only postcodes had an average upload speed of less than 1Mbit/s (see Figure 7), compared to 26% of all UK broadband connections. The average upload speed in SME-only postcodes was 1.7Mbit/s, compared to a national average of 3.0Mbit/s.

Figure 7: Upload speeds in SME-only postcodes, June 2014

	Proportion of connections with upload speed of less than 1Mbit/s	Average upload speed
Broadband connections in SME-only postcodes	41.2%	1.7Mbit/s
All UK broadband connections	26.4%	3.0Mbit/s

Source: Analysis of data collected for Ofcom's Infrastructure Report 2014; data excludes Northern Ireland due to non-availability of SME premise location.

Lower availability of superfast broadband to SME premises is due to deployment programmes focusing on maximising coverage

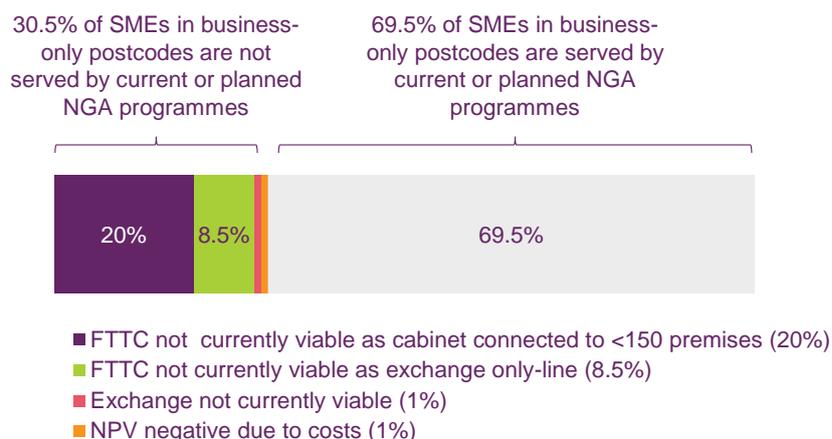
- 4.18 There is currently lower availability of both BT's NGA fibre network and Virgin Media's cable network to SMEs premises than to residential premises.
- 4.19 Virgin Media's cable network was originally deployed to serve cable TV; as a consequence, in June 2014, it was available to 45% of all premises but just 28% of SME premises. BT's NGA fibre network also has significantly higher availability to residential premises (68% in June 2014) than to SME premises (42%).
- 4.20 The Federation of Small Businesses stated in its response to our Call for Inputs that many of its members believe that communication providers are deliberately refraining from fibre rollout in business parks in order to protect their leased line business.
- 4.21 There could be a commercial rationale for Openreach to constrain deployment of superfast broadband to business areas in order to prevent cannibalisation of higher revenue leased lines. However, we have not found any evidence that this is occurring. Openreach's investment criteria are based on the cost per premise of deploying superfast broadband. As business premises are more likely to be connected to small cabinets, or have exchange-only lines, a consequence is that SME premises are on average less likely to be commercially viable under Openreach's investment model than residential premises (see Sections 4.24 to 4.26 below).
- 4.22 A result of this is that superfast broadband is less likely to be deployed to areas where there are already leased lines. It may therefore be that BT's cost-based NGA broadband investment criteria to some extent reduce the potential cannibalisation of high-revenue leased line connections by lower-revenue superfast broadband connections. This means that many SMEs do not have a choice of superfast

broadband or leased lines and those SMEs who cannot afford leased lines are often unable to get a high quality broadband connection.

- 4.23 The Government, through BDUK, has applied similar criteria in Phase One and Phase Two of its superfast deployment project where the value-for-money approach has been to provision the maximum number of premises within the budget available. In general, there has been no distinction made between residential and business premises under the BDUK programme, although local authorities have had some focus on ensuring deployment to SME premises when awarding contracts.
- 4.24 There are two characteristics of network topology which make the cost-per-premises typically higher in business areas:
- Cabinet sizes serving business areas are typically smaller than those serving residential areas. As the cost of deploying fibre to a cabinet is largely fixed, the decision on whether to deploy fibre is to a large extent determined by the number of premises connected to a cabinet. Data provided by Openreach to Ofcom shows that the average cabinet size for BDUK's Phase One and Phase Two deployment is circa 40% smaller than the average cabinet size for Openreach's commercial deployment.
 - Business areas are more likely to be served by exchange-only lines (EOLs). The costs of deploying fibre-to-the-premises, or installing new cabinets where they have not been deployed before, are typically much higher than for deploying fibre from an existing cabinet. EOLs are typically in inner-city/town centre areas or some very rural areas; our analysis of data provided by Openreach shows that 16.6% of SME-only postcodes⁴⁸ contain at least one EOL, compared to 12.1% of all postcodes.
- 4.25 Even in areas where cabinets have been FTTC-enabled, businesses are less likely than residential premises to receive superfast broadband speeds (i.e. speeds of more than 30Mbit/s). As business areas are more likely to have long lines between the cabinet and the premise, for example business parks are often located some distance from town centres. Analysis of data collected for the *2014 Infrastructure Report* shows that in all FTTC-enabled postcodes 39% of broadband connections were greater than 30Mbit/s, compared to 29% of connections in SME-only postcodes.
- 4.26 In order to investigate this further we asked Openreach to provide data on NGA deployment and investment decisions to business-only postcodes – 26% of all SME premises are in business-only postcodes (i.e. a six-digit postcode which contains no residential addresses). This data found that 30.5% of all SME premises in these postcodes were not covered by existing or planned BDUK or commercial NGA programmes, as of March 2015 (see Figure 8). Of these 30.5% of SME premises, the majority (20%) were served by a cabinet that was not currently viable, due to being served by fewer than 150 premises, and most of the rest (8.5%) were served by exchange-only lines.

⁴⁸ i.e. a full (six-digit) postcode which contains addresses for registered businesses of up to 249 employees, but no residential addresses or addresses of larger businesses

Figure 8: Analysis of current and planned NGA availability to SME premises in business-only postcodes (March 2015)



Source: Ofcom based on data provided by Openreach

Note: Based on current and planned broadband deployment programmes in March 2015; data excludes Northern Ireland.

4.27 To further explore the multiplicity of factors at play in determining the viability of NGA deployment, Openreach provided us with information about the availability and take-up of fixed-line internet connectivity in the three business-only postcodes which had the highest number of SME premises (see Figure 9).

Figure 9: Case studies of internet connectivity for three postcodes with a high volume of SMEs

Site	No. of SMEs	Current connections	Superfast broadband assessment
Business park in Lancashire	98	Active copper lines: 117 ADSL: 40 Leased lines in several buildings	<ul style="list-style-type: none"> All premises served by exchange-only lines so FTTC is not viable The cost of deployment has prevented commercial or BDUK investment to date Businesses are therefore reliant on ADSL or leased lines
SME cluster in Yorkshire	97	Active copper lines: 156 ADSL: 66 FTTC: 14 Leased lines in several buildings	<ul style="list-style-type: none"> Served by two cabinets, one of which was FTTC-enabled in 2012, however half of customers are still on ADSL, indicating sub-20Mbit/s speeds sufficient. Other cabinet only serves 78 lines and therefore needed to be privately funded, went live in April 2015 23 lines are exchange-only In the footprint of the Superfast West Yorkshire scheme which aims to increase superfast broadband availability to 97% of the region by the end of September 2015
Commercial district in central London	95	Active copper lines: 111 ADSL: 46 Leased line to the building	<ul style="list-style-type: none"> All exchange-only lines so FTTC is not viable; May be covered by Openreach's London Extension Programme, a commercial programme to increase fibre coverage in central London May also be covered by Virgin Media's cable network extension plan (Project Lightning)

Source: Ofcom based on data provided by Openreach

4.28 These case studies illustrate the complexities of the network topographies, of the programmes involved in serving them, and of the demand from diverse SMEs.

- Small cabinets and exchange-only lines have prevented commercial and/or BDUK viability to premises in all three postcodes.
- Commercial funding from Openreach, private funding, BDUK funding and regional development funds have all contributed to superfast broadband; the Virgin Media cable extension programme may also apply to the central London postcode.
- Leased-lines and ADSL are present in all three postcodes. Where FTTC is available (in the Yorkshire postcode) there are also many SMEs still on ADSL while some take leased lines, indicating that take-up by NGAs even where available is uncertain and that other technologies may be preferred. ---

Openreach has been exploring different models for delivering superfast broadband to business parks and commercial areas

- 4.29 Openreach has been investigating different technologies and different business models to target SMEs in specific areas. Fibre-to-the-remote-node has been piloted in Shoreditch, where exchange-only lines prevent the option of a FTTC service. Joint funding models are also being used whereby businesses pay part of the installation costs for superfast broadband so that FTTC rollout becomes commercially feasible for Openreach (see Slough case study)
- 4.30 BT has also indicated its intention to rollout G.fast internet which will provide speeds of between 500Mbps and 1Gbps to homes and businesses around the UK. The company will start with trials, calling for volunteers from 4,000 homes and businesses in the pilot, with tests beginning in Huntingdon in Cambridgeshire, Gosforth near Newcastle and Swansea. Assuming trials are successful and investment conditions are met the technology will be installed from 2016/2017 and most of the country should have access by 2020.

Case Study: Slough Trading Estate, Berkshire

Where it is not commercially viable for BT to roll-out superfast demand, a market-based solutions such as privately-funded schemes have helped to drive supply.

BT has rolled out fibre to 45,000 homes and business in Slough (which is about 94% of total premises in the area). However, it was not commercially viable to do so to the Slough Trading Estate where hundreds of small businesses are located, but where telecoms provision was spread thinly over many different cabinets making the cost per premise for NGA provision too high for a commercial deployment.

SEGRO a property investment and development company and owner of the estate has provided funding to Openreach so that they roll-out superfast broadband to the business park, the Slough Trading Estate.

It is the largest privately funded scheme for Openreach and has resulted in a further 450 companies gaining access to superfast broadband by installing 14 new fibre broadband cabinets.

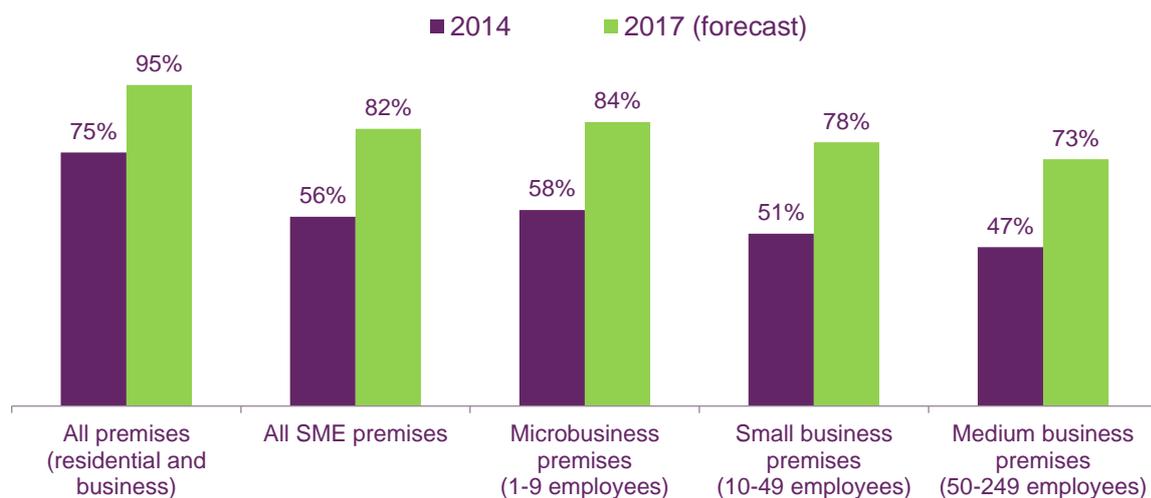
It offers businesses in the park's specific targeted areas download speeds of up to 80Mbit/s and upstream speeds of up to 20 Mbit/s.

SEGRGO is aiming to develop more partnerships with business parks so that other small UK businesses can benefit from faster connectivity.

Superfast broadband coverage to SMEs will substantially increase in the next 2 to 3 years

- 4.31 The roll-out of superfast broadband networks to business premises continues, and there will be significantly higher availability by 2017 (see Figure 10). Nevertheless, as deployment continues to focus on maximising coverage for the funding available, a larger proportion of SME premises than residential premises will continue to be without superfast broadband
- 4.32 Commercial and publicly-funded broadband deployments are reasonably well defined up until 2017. By the end of 2017, BDUK expects that its target of 95% availability of superfast broadband to UK premises will have been met.
- 4.33 However, availability to SME premises will be significantly lower. Analysis of data provided by BDUK indicates that 17.7% of SME premises are outside current and proposed commercial and publicly-funded superfast broadband footprints. This varies by size of business, with larger SMEs more likely to be outside superfast broadband footprints.

Figure 10: Superfast broadband availability



Source: 2014 data – Ofcom Infrastructure Report 2014; 2017 forecasts – Ofcom analysis of data provided by BDUK

Note: 2014 data is based on premises with >30Mbit/s broadband availability; 2017 forecasts are based on BDUK's definition of superfast broadband as >24Mbit/s; data excludes Northern Ireland

- 4.34 Commercial and public sector interventions are currently being rolled out, which should drive further coverage of superfast broadband.

Commercial:

Virgin Media's network extension programme may help address superfast 'not spots' in urban business areas

- 4.35 *Project Lightning*, the planned expansion of Virgin Media's network to an additional 4 million households and businesses over the next five years, will primarily be done by in-fill and will target the extensions according to a demand stimulation model. Alongside its consumer portal, Virgin Media has launched *Cable My Business*, specifically for businesses to register interest in network expansion if they want superfast broadband services, and this will be prioritised according to demand.⁴⁹

Openreach has been exploring different models for delivering superfast broadband to business parks and commercial areas

- 4.36 Openreach has been investigating different technologies and different business models to target SMEs in specific areas. Fibre-to-the-remote-node has been piloted in Shoreditch, where exchange-only lines prevent the option of a FTTC service. Joint funding models are also being used whereby businesses pay part of the installation costs for superfast broadband so that FTTC rollout becomes commercially feasible for Openreach (see the Slough case study).
- 4.37 BT has also indicated its intention to rollout G.fast internet which will provide speeds of between 500Mb/s and 1Gb/s to homes and businesses around the UK. The company will start with trials, calling for volunteers from 4,000 homes and businesses in the pilot, with tests beginning in Huntingdon in Cambridgeshire and Gosforth near Newcastle. The technology will be installed from 2016/2017 and the whole country should have access by 2020.

Other providers are using new technologies and business models to offer a greater choice of superfast broadband services to SMEs not able to access FTTC services

- 4.38 Fixed-wireless providers such as Metronet (Manchester) and Optimity (London) have been targeting SMEs by working with landlords and aggregating demand for businesses located in the same building.
- 4.39 Warwicknet offers FTTC to business parks through sub-loop unbundling, making it commercially viable as it is able to charge higher prices to customers than those charged by Openreach (which currently applies a national pricing strategy and therefore cannot adjust pricing to reflect higher deployment costs or greater willingness to pay).

Public sector:

The BDUK superfast programme has extended its work to bring superfast broadband coverage to hard-to-reach areas across the UK

- 4.40 There are three phases in the BDUK superfast programme to ensure coverage across the UK. Although the BDUK programme is not currently specifically focusing on providing coverage to SMEs, many SME premises are in the areas where superfast broadband is being deployed.

⁴⁹ <http://www.virginmediabusiness.co.uk/cablemybusiness>

- **Phase 1: coverage to 90%:** contracts awarded with local authorities to BT to extend FTTC deployment from c.66% of the UK to 90%, mainly outside cities and at residential premises.
- **Phase 2: coverage to 95%:** an additional £250m plus matched funding to extend coverage to 95% by 2017. Phase 2 will focus primarily on small cabinets (e.g. those cabinets which serve less than 50 connections).
- **Phase 3: coverage to the last 5%:** covering non-city 'last 5%' with a mix of fixed, wireless and satellite. Eight pilots are currently underway to test feasibility of these technologies.

The BDUK voucher scheme offers businesses the option to bring high- speed connectivity to their premises

- 4.41 The voucher scheme enables businesses in 50 cities to apply for grants of up to £3,000 to pay for the cost of installing superfast broadband. The scheme is technology-neutral, so any provider offering superfast broadband is eligible, as long as they have signed up to the scheme. Vouchers have been used for fibre-to-the-cabinet connections, but are more commonly used for fibre-to-the premises or leased lines.
- 4.42 Businesses can apply for the vouchers as long as they are upgrading their current connectivity; e.g. if a business already has a leased line, it is unable to use the voucher to install a second leased line. The voucher scheme aims to reach 25,000 businesses across the UK.
- Currently, 10% of vouchers have been aggregated by businesses in the same area for shared infrastructure.
 - Phase 2 (which began in April 2015) extended the voucher scheme from 22 to 50 cities, including eligibility for businesses located outside city boundaries (e.g. those in business parks).
- 4.43 However, as the voucher scheme focuses on individual business (in part in order to conform to State Aid rules), the BDUK voucher scheme is not designed as an efficient way of improving overall superfast broadband availability, and is not therefore a solution to making major inroads into addressing the non-availability of superfast broadband to 18% of SME premises under current commercial and BDUK programmes (over 250,000 SMEs).

UK businesses and local authorities also have the option to apply for the European Commission development fund which focusses primarily on supporting SMEs

- 4.44 EU funds can be used for investment in broadband infrastructure in applicable geographic areas. As one of the four priorities of this fund is support for SMEs, such projects always have a business focus.
- 4.45 The most high profile project in the UK is Superfast Cornwall which has brought economic benefits to businesses in Cornwall through superfast broadband.

Openreach estimates that the technology has helped to create 611 new jobs and safeguard another 807 in Cornwall.⁵⁰

4.46 A survey was carried out to further assess the benefits of those businesses which had used fibre broadband for more than 12 months (2,656 of the 6,000 businesses which had taken up fibre broadband fell into this category).

- 52% of firms felt as that the service had enabled them to grow;
- 79% indicated that it had saved them time or money;
- 55% said FTTC/P had allowed them to work in new and different ways; and
- 49% noted an improvement from remote working

Specific initiatives are planned in the devolved nations, led by the nations' governments, to ensure roll-out of superfast broadband

4.47 Across **Northern Ireland**, The Department of Enterprise, Trade and Investment (DETI), the Department of Culture Media & Sport (DCMS), and BT are investing around £17m to raise broadband speeds for up to 38,000 premises. The Superfast Broadband Roll-out Programme, announced in March 2015, aims to lift broadband speeds in these premises to superfast levels (> 24Mbit/s). The main elements of the scheme include: some re-engineering of BT's network; an additional 300 new fibred cabinets; and 300 new fibre-to-the-premises nodes to be built, considerably expanding Northern Ireland's fibre footprint. The roll-out is due to be completed by December 2017. This builds on the £23.7m NI Broadband Improvement Project, currently in its fourth phase, which is aimed mainly at improving speeds to around 45,000 premises currently only able to achieve download speeds of less than 2Mb/s. This too involves some re-engineering of the network; around 450 new cabinets; and 150 new fibre-to-the-premise nodes. It also follows the £52m Next Generation Broadband Project, completed in 2012, which helped the fibre-enabling of 2,461 roadside cabinets.

4.48 In **Scotland**, the £410m Scottish Government, BDUK and BT partnership scheme is to provide fibre access to 95% of the Scottish population by 2017/2018. In April 2015, 275,000 premises were already reported to be able to access superfast broadband through the publicly supported roll-out. For the last 5% not covered by this roll-out, money and support will be available under the Community Broadband Scotland (CBS) initiative. This is part of the Highlands and Islands Enterprise and supports communities seeking local solutions for connectivity. CBS aims to help bring improved broadband to rural Scottish communities that receive download speeds of less than 2Mbit/s.

4.49 Similarly, in **Wales** the increase in premises able to receive fibre has been driven by the Welsh Government's aim to ensure that 96% of homes and businesses have access to NGA or fibre by 2016. Superfast Cymru boosts the commercial roll-out of fibre broadband by providing access to fibre in those areas where the private sector has no plans to invest. The project is funded by the Welsh Government, the UK Government, the European Regional Development Fund and BT.

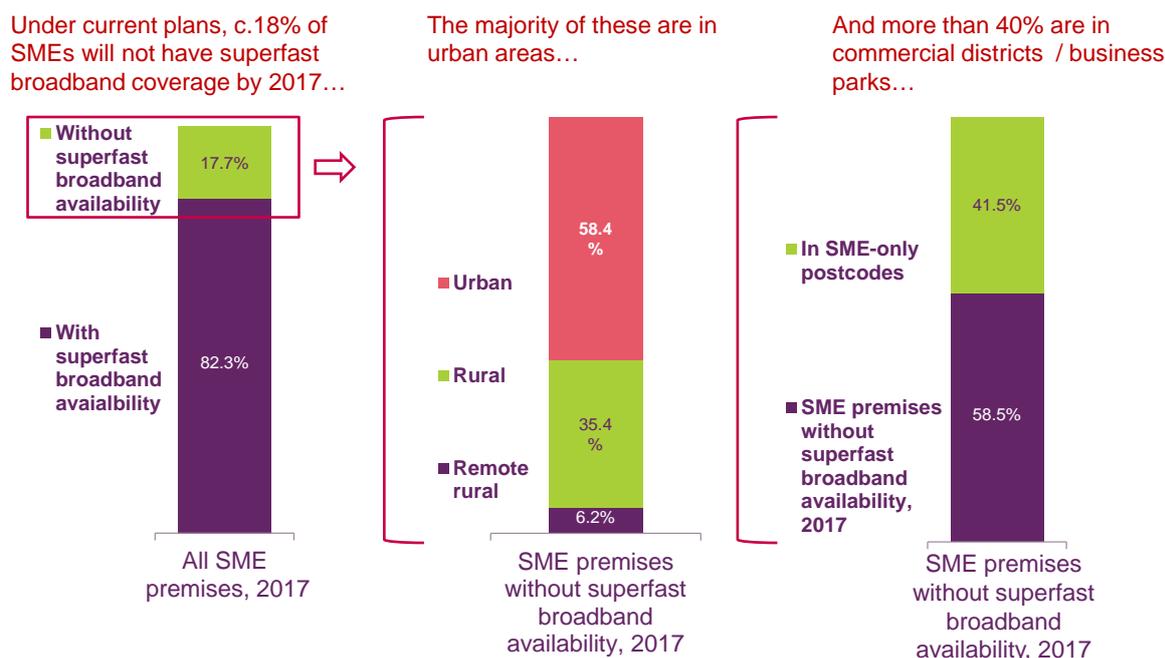
⁵⁰ <http://www.ispreview.co.uk/index.php/2014/05/bt-trumpets-impact-superfast-broadband-boost-uk-businesses.html>

- Superfast Cymru began roll-out in 2013, and by March 2015 the project had made fibre broadband available to more than 425,000 premises with work underway in all 22 Welsh unitary authorities.
- Further to the Superfast Cymru programme an infill project is in development to ensure that all homes and businesses across Wales have access to fibre broadband. The Superfast Cymru Infill Project will bring superfast fibre broadband to areas not covered by either Superfast Cymru or by telecommunications companies' own fast fibre programmes. Following a review of suppliers' current and proposed plans for broadband, and a consultation, the Welsh Government has identified 45,887 premises that are not within the scope of Superfast Cymru or any commercial roll-out planned within the next three years. The Superfast Cymru Infill Project will make sure that all premises in Wales have access to superfast broadband, and will comprise two phases. The first will provide broadband to the majority of the 45,887 premises now identified; the second phase will begin once the Superfast Cymru project and the first phase of the infill project have finished, and will be used to provide broadband to any premises still without it.
- In addition, the Access Broadband Cymru scheme complements the roll-out of the Superfast Cymru programme. The scheme is available for enterprises, residents, third sector organisations and communities which cannot achieve broadband speeds of 2Mbit/s by supporting them to obtain a broadband connection using the most appropriate technology.

Under current plans we estimate that about 18% of SMEs will still not have superfast coverage by 2017

- 4.50 Non-availability of superfast broadband to SMEs is only partly a rural issue. It is also an issue outside rural areas as a consequence of commercial and publicly-funded deployment programmes not targeting many business parks and commercial districts.
- 4.51 Of the 18% of SME premises that fall outside current and planned superfast broadband deployment, the majority (58% of SME premises outside coverage in 2017) are in urban areas (see Figure 11).
- 4.52 SMEs based in commercial areas or business districts are less likely to have superfast broadband coverage. Of those SMEs outside current and planned superfast deployment areas, 41.5% are in SME-only postcodes. Across the UK as a whole, 24.6% of SMEs are in SME-only postcodes.

Figure 11: Superfast broadband availability to UK SMEs, 2017



Source: Ofcom analysis of data provided by BDUK; data excludes Northern Ireland

There are opportunities for Government action to ensure SMEs can fully benefit from superfast broadband

4.53 As part of Government interventions to improve superfast broadband availability, explicit consideration should be given to the needs of SMEs. There are opportunities to build on commitments given to residential consumers, for example by including specific SME targets, and/or targets for business parks and commercial districts.

- Through the BDUK programme, the Government has been providing public funding to deliver superfast broadband to those areas of the country outside commercial deployment. A discussion is currently underway about the specification of Phase 3 of the BDUK programme (the "final 5 %"), in regard to superfast broadband availability to the hardest-to-reach parts of the UK from 2017. In its Digital Communications Infrastructure Strategy (March 2015), the Government said that it would act now to help households and businesses in the hardest to reach areas, including by launching a scheme with local bodies across the UK this year to subsidise the costs of installing superfast capable satellite services. This will build on the Government's commitment that there will be at least 95% superfast broadband coverage by 2017 by offering a superfast capable solution to around a further 1% of premises.
- Earlier this year, the Government has also set out an ambition that ultrafast broadband of at least 100Mbit/s should become available to nearly all UK premises.⁵¹

⁵¹ <https://www.gov.uk/government/publications/the-digital-communications-infrastructure-strategy/the-digital-communications-infrastructure-strategy>

A Universal Service Obligation (USO) will help ensure all SMEs get broadband speeds necessary to support basic internet use

- 4.54 Many SMEs not only currently lack access to superfast broadband connectivity, but are also unable to access speeds sufficient for basic internet use.
- 4.55 Proposals for a 5Mbit/s broadband USO were outlined in an update to the Government's Digital Communications Infrastructure Strategy⁵² which was published alongside the March 2015 Budget Statement. In this document, the Government stated its commitment to ensuring that every household in the UK has access to the basic broadband needed to live and work in the modern world and that it would look to raise the Universal Service Obligation (USO) – the legal entitlement to a basic service – from dial up speeds to 5Mbit/s broadband. Once implemented, a USO would mean that consumers gain a legal right to request installation of 5Mbit/s capable services. A USO would apply to all consumers, including SMEs, and would therefore benefit those SMEs that do not currently receive a 5Mbit/s service. We estimate that in June 2014, 24% of SMEs located in SME-only postcodes (i.e. commercial/business districts) received maximum speeds of less than 5Mbit/s.

Ofcom will collect information about SME broadband coverage and make it available through its annual Infrastructure Report updates

- 4.56 Our triennial *Infrastructure Reports* and annual updates will monitor the availability of superfast broadband to SMEs. The 2015 update is scheduled for publication in the autumn, and will use data collected in June 2015. Where possible, we will make this data publicly available in order to facilitate market-led deployment, for example by identifying clusters of businesses without superfast broadband, in order to stimulate demand aggregation.

⁵² <https://www.gov.uk/government/publications/the-digital-communications-infrastructure-strategy/the-digital-communications-infrastructure-strategy>

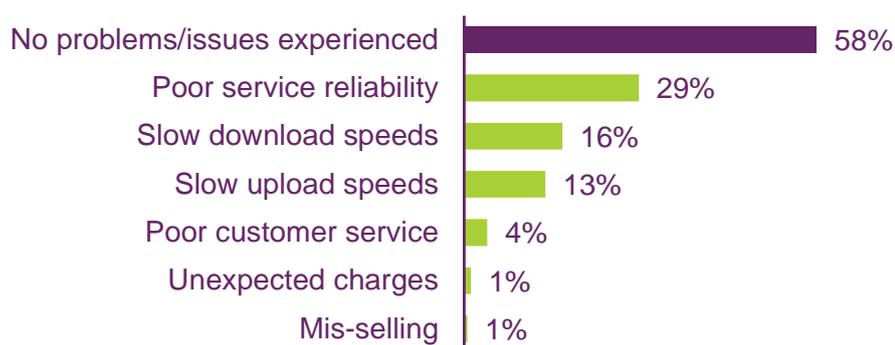
Section 5

Quality of service

SMEs expressed dissatisfaction with broadband resilience and fault resolution times

5.1 Our quantitative research showed that 42% of SME internet users had experienced problems with their internet connectivity in the preceding 12 months (Figure 12).

Figure 12: Issues/problems internet users experienced in the last 12 months



Source: Jigsaw Research, November 2014

5.2 Poor service reliability was the biggest problem, with 29% citing it as an issue. This was followed by slow download (cited by 16%) and slow upload (13%) speeds.

5.3 In addition, a number of CFI respondents gave us anecdotal evidence regarding problems they had experienced, and some cited their own research into problems with internet connectivity. For example, the FSB found that 20% and 23% of businesses experienced problems with their connection on a daily or weekly basis respectively.

5.4 A number of CFI respondents also raised dissatisfaction with fault repair times; Citizens' Advice found that of the small businesses it surveyed that had experienced problems, about a quarter were not satisfied that their issue had been resolved.⁵³

High reliability, resilience and fault resolution are paramount for SMEs which rely on broadband for business-critical services

5.5 Research into the needs of SMEs, commissioned from Analysys Mason (see Annex 3), highlighted that for many the need for resilient connectivity is as important as the need for adequate bandwidth. This can be achieved in a number of ways: smaller SMEs can boost the resilience of their connections by subscribing to two or more DSL lines, or relying on mobile connectivity as a fall-back option. Larger SMEs are more likely to subscribe to one or more leased lines some of which offer robust resilience options.

5.6 The Analysys Mason research also found that SMEs have high expectations regarding technical support for their connectivity services, and these expectations are

⁵³ From its Call for Inputs response

not always met by their service providers. It found that there may be a 'product gap' whereby there is a general lack of a standard or super-fast broadband service that include SLAs guaranteeing fast fault resolution times.

- 5.7 Smaller SMEs in particular may find it difficult to identify the support options that are available to them, and to compare between providers. A further challenge is in identifying the cause of outages or system faults, escalating appropriately and seeking redress where possible. The Analysys Mason research highlights that finding the exact information about the available service plans (particularly when they vary by geographical location) and the features they include can be difficult, and that smaller SMEs in particular tend to lack both the time and the necessary skills to manage their relationships with their current connectivity providers and solve basic connectivity problems themselves. Having a single point of contact for all technical and IT support, as well as all other connectivity needs, would therefore be highly valued.

Dissatisfaction with reliability may often be due to slow connection speeds and configuration issues

- 5.8 Openreach reports that, per month, fewer than one in 75 lines have a fault; fibre broadband lines are slightly less likely to have faults (<1% of lines per month) than ADSL lines (<1.5% of lines per month). Fibre therefore offers better resilience than the current copper network and it is likely that resilience will increase further as deployment and provisioning slows down, as line faults for new customers ('early-life' faults) are significantly higher than for established customers ('in-life faults').
- 5.9 Many issues experienced by SMEs with their broadband connection are likely to be the result of problems in the consumer domain - e.g. faulty routers, software configuration - rather than at the network level. Communications providers have told us that the majority of faults reported to them are not due to faults with the broadband connection, but are caused by issues other than broadband connectivity. There are therefore benefits to some SMEs in having broader IT support, offered by many communications providers alongside the provision of connectivity.
- 5.10 Research commissioned by Ofcom from Actual Experience showed that the quality of experience is lower for internet connections of less than 10Mbit/s broadband.⁵⁴ Below that speed overall broadband performance is generally impaired, the experience is much more likely to be frustrating, and use is constrained because some applications will not work properly, if at all. We are commissioning further research which we expect to publish later in the year.

Many SMEs are on residential contracts, which may not be suitable for their business needs

- 5.11 Our research found that 23% of landline customers, 26% of broadband customers and 50% of mobile customers said they were on personal/residential contracts rather than business contracts. The majority of these consumers said that this was either because the personal contract was fine for their business needs, or that they had never considered having a business contract. A minority (14% for landlines, 21% for broadband and 29% for mobile phones) said that this was because business contracts are more expensive.

⁵⁴ <http://stakeholders.ofcom.org.uk/binaries/research/technology-research/2014/performance-eval.pdf>

- 5.12 Discussions with communications providers have confirmed that a large number of SMEs are on residential contracts; they considered that the number reported in our research is likely to understate the true proportion. This is despite the fact that the terms and conditions associated with residential contracts typically prohibit business use.
- 5.13 It is also the case that personal/residential contracts may not be suitable for business needs. Residential broadband contracts typically have very limited service care levels⁵⁵, and may also have higher contention ratios.⁵⁶ A typical contention ratio for a home user package is 50:1 compared to 20:1 for a business package.

Most retail communications providers do not offer the highest service care levels available from Openreach

- 5.14 As a mass-market product with contended (i.e. shared) connectivity, broadband services have lower levels of resilience and are more prone to service deterioration than dedicated (leased line) point-to-point connectivity. This characteristic is reflected in prices, which are typically at least five times lower for broadband products than for leased-line products. However, at the network wholesale level, Openreach offers a range of service maintenance levels⁵⁷ across its broadband product range which allow communications providers to address many of these issues if they consider there is a market demand to do so). The incremental wholesale price for its highest service level is £4 per month more than for its most basic service level; this suggests that (even when allowing for potential mark-up in the retail market) the affordability of a higher level of service is unlikely to be a major barrier to take-up.

⁵⁵ Openreach service maintenance levels associated with residential contracts are typically end of next working day plus one day, and retail providers do not typically make commitments (e.g. the terms of BT's standard broadband service state that: "From time to time faults in the service may occur. We will repair these faults as soon as we can."
(<http://www.productsandservices.bt.com/consumer/terms/broadband.html>)

⁵⁶ The contention ratio describes the number of users sharing one unit of data capacity. A lower, contention ratio implies higher quality of service. A typical contention ratio for a home user package is 50:1 compared to 20:1 for a business package. A 50:1 contention ratio would mean that up to 50 broadband customers can share the same bandwidth at any one time. The quality and speed of the broadband connection is dependent on the number of users online at any given time. Business broadband services often have much lower contention ratios to enable the ISPs to give business users a more consistent quality of service. However BT has discontinued offering 20:1 contention levels for business broadband from the exchange; BT's network configuration now manages contention at a national level, which has been designed to minimise contention by sharing infrastructure across all users; businesses can benefit as consumer use is low in the business day.

⁵⁷ Service maintenance levels are also known as service levels or care levels.

Figure 13: Openreach service maintenance levels

Service maintenance level	1	2	Business 2+	3	4
Target repair time	Clear by 23.59 day after next Monday to Friday, excluding Public and Bank Holidays	Clear by 23.59 next day Monday to Saturday, excluding Public and Bank Holidays	Clear by 23.59 next day Prioritised on the day	Report by 13.00, clear by 23.59 same day. Report after 13.00, clear by 12.59 next day Seven days a week, including Public and Bank Holidays	Clear within 6 hours Any time of day, any day of the year
Incremental price p/a	Comes as standard for line rental	Comes as standard for broadband	+£13.44 Not available with generic Ethernet access (GEA)	+£37.20	+£48

Source: BT Openreach

5.15 The higher service maintenance levels (3 and 4) have very low take-up, despite the relatively low price increment (see Figure 14). This may be due to low availability in the retail market. Although Openreach offers a six-hour repair target, at the retail level the fastest repair time that the majority of providers offer with their broadband products is a next-day fix. This includes BT Business and TalkTalk Business, while Virgin Media also offers only a next-day fix for business customers on its broadband network.

Figure 14: Take-up of Openreach service maintenance levels

Product	Service maintenance level	Proportion of connections
WLR Basic	1	91%
	2	8%
	Business 2+	0%
	3	1%
	4	0%
WLR Premium	Business 2+	89%
	3	9%
	4	1%
SMPF	2	97%
	Business 2+	0%
	3	2%
	4	0%
Ethernet	5 hour fix	100%

Source: BT Openreach

More should be done to ensure that SMEs understand the benefits of higher service levels and are able to choose them

5.16 As our research found evidence of demand from SMEs for services offering faster resolution times, it might be considered surprising that these services offering the fastest fault resolution are not widely available from all retail providers. Through our stakeholder engagement programme, we asked providers why they did not offer faster repair times. They cited several reasons:

- A number of providers considered it unnecessary to buy higher service maintenance levels from Openreach given that a large proportion of faults occur as a result of issues at the consumer domain - e.g. faulty routers, software configuration - rather than at the network level. Data provided by BT Business indicates that over two thirds of broadband faults reported in April and May 2015 were resolved without the need for escalation to either Openreach or BT Wholesale (and the majority of these were resolved within 30 minutes). Communications providers therefore sometime prefer to offer broader IT support rather than fast escalation procedures. For example, BT Business include 'BT Tech Heads' as standard with its business broadband services, offering help and advice on broadband and IT-related issues; for a more advanced level of support, SMEs can subscribe to an 'IT Support Manager' service. These types of service can help avoid unnecessary and costly call-outs to Openreach engineers.
- Some communication providers stated that they were reluctant to offer faster repair times because they would be reliant on Openreach to repair line faults, and did not wish to set customer expectations that they themselves could not meet. This may have been exacerbated by poor performance by Openreach in recent years.
- Some communications providers emphasised the importance of back-up resilience, for example using mobile, as a better means of meeting SME needs for business continuity than fault resolution SLAs.

- Finally, some communication providers and resellers told us that they believed SMEs have a low willingness to pay for faster fault resolution. Resellers in particular reported that when bidding for a contract the overall package price was the critical factor and there was little willingness to pay even a small increment for higher support.
- 5.17 Some retail providers offer a six-hour fix on phone-lines, which would address the cause of many instances of broadband failure. We estimate that around 70% of broadband faults reported to Openreach are caused by a fault on the phone line, and would therefore be covered by service levels on the phone line.⁵⁸ This still leaves a significant number of faults which would not be covered by the higher care levels available on phone lines, but would be subject to the end-of-next-day care levels which are the highest available for broadband products from BT Business and many other business broadband providers. While there may be benefits in SMEs taking higher service care levels on their phone line in order to get fast repairs for line faults, having different service care levels for phone and broadband creates complexity and potential confusion and does not meet SMEs' needs for ensuring fast repair of their broadband connection.
- 5.18 As broadband connectivity is essential to many SMEs' ability to run their businesses, we consider that it is important that the highest service care levels possible are made available to SME customers, so that they can decide for themselves whether or not to pay for these care levels. When selecting their broadband provider, SMEs should ask about fault resolution service levels offered and take these into consideration when making their purchase choices. We have agreed with BT Business that we will discuss this matter further. The issue of quality of service is one we will return to in our Strategic Review of Digital Communications.
- 5.19 We have imposed remedies designed to improve Openreach's performance with respect to provisioning and repair times
- 5.20 As part of the 2014 Fixed Access Market Review⁵⁹ (FAMR), Ofcom imposed remedies designed to address the decline in Openreach's performance in relation to provision and repair activity over the last few years. We are proposing similar requirements for leased-line products in the current Business Connectivity Market Review.⁶⁰
- 5.21 Conditions imposed on Openreach in the 2014 FAMR include:
- minimum standards for fault repair and provisioning⁶¹ for wholesale line rental (WLR) and metallic path fibre (MPF)⁶² products on service maintenance levels 1 and 2 respectively; and

⁵⁸ Data collected for the 2014 Fixed Access Market Review showed that faults on WLR (line rental only) were around 30% lower than faults on WLR+SMPF (line rental with ADSL broadband) (see <http://stakeholders.ofcom.org.uk/binaries/telecoms/ga/fixd-access-market-reviews-2014/statement-june-2014/annexes.pdf>, Table A20.2 on p331). Data for fibre broadband is not available. The data is complex and could be affected by increasing demand on line performance by broadband causing higher line faults, or by broadband consumers being more likely to report faults

⁵⁹ *Fixed access market reviews*, June 2014: <http://stakeholders.ofcom.org.uk/telecoms/ga-scheme/specific-conditions-entitlement/market-power/fixd-access-market-reviews-2014/statement/>
⁶⁰ <http://stakeholders.ofcom.org.uk/consultations/business-connectivity-market-review/>

⁶¹ In instances where work needs to be undertaken at the street cabinet or in establishing or re-establishing the network connection at the consumer or business premises.

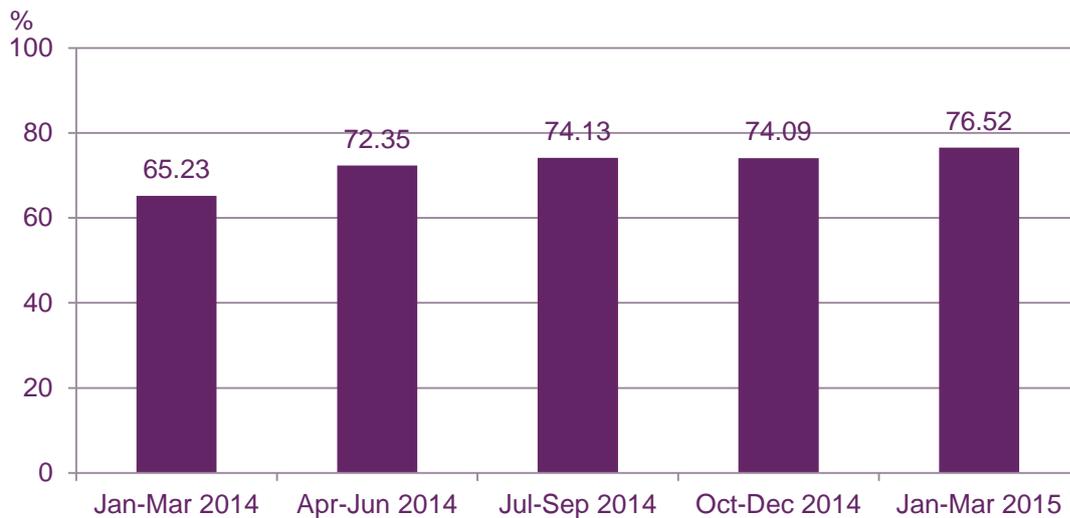
- the requirement to provide Ofcom and industry with a set of key performance indicators (KPIs) for a number of wholesale line rental and broadband products. BT is required to publish a subset of these on one of its websites every three months.

5.22 In addition, we have set out principles to guide the conduct of the process for negotiating new or modified service level agreements (SLAs) and service level guarantees (SLGs) between communication providers and Openreach. These principles include a clearer role for the Office of the Telecommunications Adjudicator (OTA2) and a recommended six month time limit for negotiations.

5.23 Openreach has responded to the new requirements with a significant increase in resources devoted to service, including recruitment of around 2,000 additional engineers.

5.24 We have seen an improvement in Openreach’s performance which we believe is a result of the above steps taken by Openreach. For example, the proportion of faults fixed within the agreed time for metallic path facility (MPF) products on service maintenance level two exceeded the first year target of 67% in Q2, Q3, Q4 2014 and in Q1 2015 (Figure 15).

Figure 15: Percentage of MPF faults fixed within the agreed time for service maintenance level 2



Source: BT Openreach⁶³

5.25 For fault repair and provisioning we have set transitional minimum-standards targets for the first and second years. Given that the final-year target for the proportion of repairs that must be completed within the agreed time is 77%, we expect there to be a continued improvement in Openreach’s performance.

⁶² MPF was developed to enable retail communications providers to offer voice and broadband services over the copper network. It provides a two-wire metallic transmission path between the network terminating equipment at a customer’s premises and a main distribution or jumper frame at the exchange.

⁶³ <http://www.homeandwork.openreach.co.uk/Our-responsibilities>

At the wholesale level, we will continue to track the service levels and KPIs delivered by Openreach

- 5.26 Future market reviews, including the 2017 Fixed Access Market Review, will assess the performance of Openreach and consider whether further intervention is necessary in order to improve the quality of service delivered to residential and business consumers.

New broadband technologies such as G.fast may be better able to meet the specific needs of business users

- 5.27 The service specifications and characteristics of current broadband products, including Openreach's wholesale fibre product (GEA) are arguably better suited to the needs of residential consumers than business users; for example the asymmetry between high download bandwidth and much lower upstream bandwidth, and the prioritisation of video traffic (rather than, for example, VoIP). G.fast networks may offer greater flexibility.

We will conduct research specifically to examine the quality of experience delivered to SME broadband users

- 5.28 There are many variables which may affect the levels of satisfaction with business broadband services, not all of which are associated with the quality of the broadband connection. These include:
- user expectations – for example, business users may have higher expectations than residential users in relation to reliability and stability of connection;
 - technical characteristics such as upload and download speeds, the stability of the connection, and contention ratio;
 - the type of applications being used: broadband products may deliver a higher quality of service for some services than others;
 - the time of day; and
 - consumer equipment and configuration within the consumer domain.
- 5.29 We are conducting research into the quality of experience delivered to internet users and how this varies by connection speed and by application. This will help improve our understanding of the variables that determine end users' quality of experience, and thereby provide insight into what is required to better meet the needs and expectations of business broadband users. This will include a specific focus on business users, which will assess how business broadband products compare to residential products, and what the quality of experience is for applications frequently used by businesses, such as VoIP and cloud-based applications. This research will be published in the *2015 Infrastructure Report update* in autumn 2015.

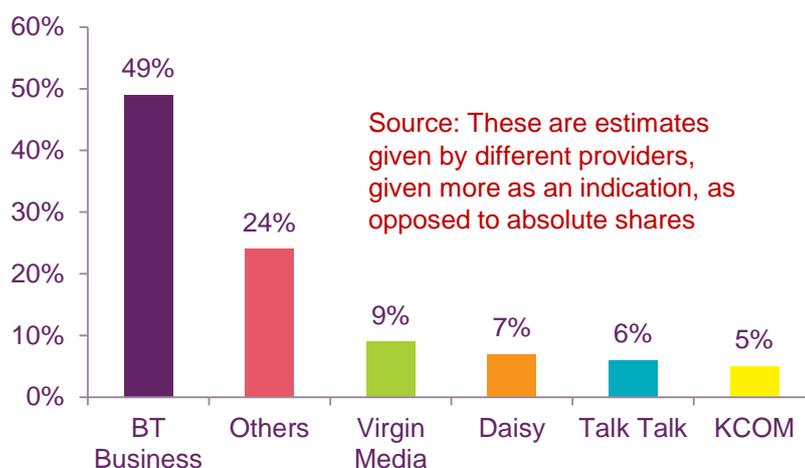
Section 6

Retail market structure⁶⁴

BT is the largest provider in the retail SME market with nearly half the fixed-line revenue; no other provider has more than 10% share

- 6.1 The retail market for SMEs is very different in structure to that for residential consumers. BT has c.49% share of SME fixed-line revenues and has in recent years lacked the competition from large-scale providers that it faces in residential markets. No other provider has more than 10% share and there is a long tail of smaller providers and resellers. Alongside large telcos such as Virgin Media, TalkTalk and Vodafone are medium-sized SME-focused firms such as Unicom, Daisy, XLN and Rainbow, and a large number of smaller resellers, many of whom operate only in small, local markets. There is no clear data on the number of re-sellers serving the communications needs of SMEs, but we were given an estimate of around 2,500 by one stakeholder.
- 6.2 There is no recent definitive market sizing information available as different definitions are used to segment the SME market; some include mobile services and some include business customers who use consumer products. Figure 16 therefore represents an estimate, compiled from a number of different sources.⁶⁵

Figure 16: SME revenue market share (indicative) 2014



Source Ofcom

- 6.3 In the mid-2000s, BT's main competitor in SME business telecoms was Cable & Wireless, following its acquisition of Energis (and Energis' earlier purchase of Thus). Cable & Wireless withdrew from the SME market in 2006, claiming that low spend and high cost to serve made SMEs uneconomic compared to large enterprises. This left BT as the only large player – a position it retains today

⁶⁴ Note that in order to inform our assessment we have looked at the broad range of services and suppliers that SMEs rely upon, and have not carried out the type of detailed analysis of market definition that would be required under a formal market review under the EU Framework.

⁶⁵ BT's annual report for 2014 states that of the 8.3 million business lines in the UK, BT Business has a 45% market share (excluding VOIP). BT also estimates that the fixed voice and data market in the UK for businesses up to 1,000 employees is worth an estimated £3.7 billion of which it has around 40% share

6.4 Similarly, companies such as Virgin Media Business focused more on large enterprises than on SMEs as they were higher-margin consumers. However, in 2010, Virgin Media Business, TalkTalk and Claranet began to market specific business broadband services for SMEs, followed by O2 and Vodafone in 2011.

There is renewed competitive focus on the SME market with a range of existing and new providers competing for market share

6.5 There are signs in the past year or so of renewed focus on the SME market. Large players such as Virgin Media, TalkTalk and BT have re-launched their SME propositions.

6.6 Virgin Media's Q1 2015 results highlighted that its focus will be on under-penetrated SMEs and small office/home office customers, coupled with a nationwide campaign targeting all UK SMEs and start-ups as well as offering dedicated business connections⁶⁶ to businesses in Tech City, East London. Its network extension programme, Project Lightning, also has a focus on providing superfast coverage to businesses.

6.7 TalkTalk is also focusing more heavily on SMEs, and in autumn 2014 launched its first above-the-line marketing campaign for Business Broadband aimed at SMEs. It increased its corporate revenues by 10.3% in the year to March 2015 and has stated an ambition to double the market share of TalkTalk Business by continuing its growth in data products, in the SME phone and broadband market and by developing its wholesale services. The acquisition of tIPicall telecoms in April 2015 will enable TalkTalk to offer next generation SIP trunking to the business VoIP market.⁶⁷

6.8 BT has set one of its five strategic priorities as "being the brand for business for UK SMEs" and has re-structured its business to better enable it to address the SME market, with BT Business created as a separate business unit in September 2013 targeting enterprises of up to 1,000 employees.

6.9 New entrants such as Metronet, Optimity and Warwicknet have adopted new technologies, including fixed-wireless and sub-loop unbundling, to offer superfast connectivity to businesses, often by aggregating demand from multiple businesses in the same business park or commercial district.

6.10 There are also new opportunities for small local resellers, and for the providers of wholesale services to resellers such as Gamma Telecoms and Daisy, as niche providers of IT support, software and hardware have bundled connectivity services (and likewise, connectivity providers have bundled other services).

6.11 A number of factors are behind this renewed focus on SMEs:

- SMEs' connectivity needs are growing and communications providers see opportunities to exploit new technologies and serve a range of products, including fixed and mobile services and related applications and IT support.
- Larger providers may see better opportunities in the SME market as residential take-up flattens

⁶⁶ <http://www.libertyglobal.com/pdf/fixed-income/VM-Fixed-Income-Q1-2015-Release-FINAL.pdf>

⁶⁷ http://www.talktalkgroup.com/~/_/media/Files/T/TalkTalk-Group/pdfs/reports/2015/preliminary-results-12-months-to-31-march-2015.pdf

- the cost of serving SMEs may be falling as providers increase their use of online channels to target new customers.
- Fibre roll-out and new technologies, including fixed-wireless services and EFM, provide opportunities to target businesses with lower-cost alternatives to leased lines

A range of types of firm are targeting the SME market

Providers with a nationwide focus

- 6.12 TalkTalk has been successfully pushing its Ethernet first mile (EFM) product which has a larger footprint than current superfast coverage, so offers those SMEs unable to get superfast broadband an alternative high-bandwidth option which is cheaper than a leased line.
- 6.13 Virgin Media is set to increase its network to an additional 3.8 million premises which including business areas, and will build in areas which BT has a presence, competing directly with BT and offering consumers a greater choice of providers.
- 6.14 Gamma and Daisy provide a ‘one-stop-shop’ for SMEs looking for connectivity and additional services such as IT and cloud-based services across all their sites; Daisy is currently the largest reseller of Talk Talk’s products.
- 6.15 The move from copper to fibre also promotes greater service competition – e.g. in migrating from legacy to cloud-based services (e.g. ISDN to SIP voice services).

Providers with a regional/local focus

- 6.16 The market has also seen the growth of new regional providers filling gaps in Openreach’s fibre roll-out and offering SMEs an alternative option for superfast connectivity.
- Metronet has secured a large customer base around Greater Manchester offering SMEs unable to get superfast broadband a fixed wireless option. It is currently the third largest provider under BDUK’s voucher scheme.
 - Warwicknet is specifically targeting SMEs in areas where BT does not have a presence, identifying business parks and industrial estates without adequate broadband and rolling out superfast connectivity.
 - Gigaclear is targeting rural communities e.g. in Oxfordshire, by filling gaps in Openreach’s fibre roll-out.

Re-sellers play an important role in offering SMEs a ‘one-stop shop’ by aggregating products from a range of providers

- 6.17 The fragmented nature of the supply market reflects fragmented demand from a diverse demand market. Many of the providers are niche; being a large-scale provider is not necessarily advantageous when serving SMEs, as some smaller SMEs have a preference for trusted local providers or vertical-industry providers rather than national players. Local resellers work with locally-based SMEs, helping them navigate the market and find products suited to their needs. As they are local they are often more trusted, particularly by smaller SMEs. Research commissioned

from Analysys Mason highlighted that having a single point of contact for all technical and IT support, as well as all other connectivity needs is highly valued, particularly by smaller SMEs.

- 6.18 Indirect sales channels, through resellers, are often a communication provider's main sale channel for SMEs. As well as connectivity, resellers often bundle other products for SMEs, such as VoIP, hosting and security. They are a lower-cost way of serving SME customers effectively, especially for SMEs that lack in-house staff with IT expertise, and therefore require a greater level of support and advice during the sale process.
- 6.19 Communication providers benefit from the relationships and the trust that exists between local resellers and SMEs. Resellers better understand the diverse needs of small businesses, in terms of support, maintenance and education and regional resellers have a deeper understanding of their local market and local SMEs' needs. Resellers are typically viewed as more adaptable to shifting market conditions and SMEs' needs and their product expertise helps SMEs obtain connectivity and ICT products that are suited for their needs.
- 6.20 Smaller resellers can partner exclusively with a communications provider and sell SMEs products only from that provider, although medium and large resellers will use more than one provider. The majority of resellers put together a package of different offerings, from a range of providers depending on the SME's needs. The SME then has a single point of contact, and if things go wrong, the reseller will contact the providers to resolve issues on behalf of the SME.
- 6.21 Due to the low barriers to entry, a range of providers (including resellers) are offering services to SMEs – from basic connectivity, to applications, to additional cloud-based services. These providers can be broadly split into those using their own network and those using third-party networks (resellers) of which some have a national presence and others a regional presence. (Figure 17)

Figure 17: Segmentation of Retail providers serving the UK SME market



Source: Ofcom analysis

It remains to be seen how successful competitors will be in winning market share

- 6.22 The high market share of BT Business comes from its historic position in the market and it remains a trusted brand for many SMEs. But the presence of a range of providers of different sizes seeking to address the SME market, together with low barriers to entry facilitated by regulated wholesale products mitigates concerns that may arise from the current market structure. It is also the case that through our research and stakeholder engagement we have found no evidence or claim of competitive distortion as a result of BT Business' high market share.
- 6.23 Nevertheless, although there are positive indications of growing competitive choice and the market for SMEs looks very different from how it was ten years ago when Cable & Wireless withdrew, it remains uncertain in the long-term how successful competitors will be in exerting competitive pressure and driving better market outcomes for SMEs. The market is in a state of transition, characterised by convergence of connectivity and services, and there is uncertainty about long-term models of competition. This is a theme that will be addressed by Ofcom's current Strategic Review of Digital Communications.
- 6.24 Ofcom will continue to monitor retail market outcomes for SMEs, including through its market review programme, and ensure that barriers to entry remain low and that the needs of providers seeking to compete for SMEs in the retail market are met through appropriate access to wholesale products.
- 6.25 We will look again at the retail market structure and competitive intensity for SMEs alongside our next review of the Business Connectivity market (which will begin in 2017 and conclude in 2019). This will include an assessment of the extent to which large-scale alternative network providers have been successful in challenging BT Business, as well as the extent to which smaller providers, including re-sellers, continue to be able to enter the market and compete effectively.

Section 7

SMEs' ability to navigate the communications markets

- 7.1 Effective functioning of the retail markets serving SMEs requires that SMEs can make informed choices and switch between providers without undue constraints. Overall, our survey found that most SMEs viewed communications services positively and were able to engage in communications markets, but also found that it can be difficult for SMEs to compare services, and that some SMEs experience problems when switching.
- 7.2 Our research found that most SMEs did not identify major barriers in taking advantage of the services on offer. In particular, most (85%) said that information is widely available about communications services, the majority felt that they had enough choice of suppliers,⁶⁸ and about eight in ten found the switching process very or quite easy.⁶⁹
- 7.3 However, we found issues in SMEs' ability to navigate the market:
- some SMEs lack the knowledge and expertise to assess information to make informed choices in a complex market, and services and their terms can be difficult to compare;
 - difficulty navigating the markets can be compounded where there are some gaps in the information provided; and
 - a significant minority of SMEs face a variety of problems when switching.
- 7.4 We outline our findings and the actions we will be taking to tackle these issues below.

In a complex market, some SMEs lack the knowledge and expertise to identify services that would meet their business needs

- 7.5 While the majority of SMEs were confident in identifying new communications services which would be valuable for their businesses, around a third did not report this. Stakeholders have told us that SMEs can find it difficult to understand their communications needs and communications services, and that the markets can be difficult to navigate.
- 7.6 Communications services can be complex. For example, they can be supported by different types of technologies, have different add-ons and functions, and can be bundled together with other communications services and IT services. There are a large number of smaller resellers which can package services in many different

⁶⁸ Landline: 66%; internet: 65%; mobile: 74%

⁶⁹ 77% in relation to landline, 83% in relation to internet, and 87% in relation to mobile. Source: http://stakeholders.ofcom.org.uk/binaries/research/telecoms-research/sme/sme_research_report.pdf

ways. The technical language used to describe services may add to the perceived complexity of the services offered.⁷⁰

- 7.7 SMEs themselves have varied needs, depending on a range of factors including the size of their businesses and the sector in which they operate, as outlined in Section 3 above. In relation to the internet, for example, the higher bandwidth from leased lines service is likely to be needed for larger SMEs (over 100 employees); sole traders are more likely to use residential services; while for most SMEs with 10-49 employees, superfast broadband may be sufficient.
- 7.8 As technologies and services develop, it may be difficult for SMEs to keep themselves informed of the most appropriate services. For example, even where superfast broadband is available, there have been low levels of take-up of by SMEs who may not be aware of how it can help their business.⁷¹ About one in five SMEs (22%) did not take up any fixed internet services at all, and among these SMEs, the main reasons were that they could use mobile internet access instead (41%) or simply that it was not needed (37%), rather than the lack of availability (4%).
- 7.9 In addition, most SMEs lack the in-house expertise and resources to assess the advantages of different services. Those responsible for deciding which services to buy were commonly the owner or director; our survey found that only 2% of communications services decision-makers in all SMEs were IT or communications specialists (in SMEs over 10 employees, only one third (36%) of communications services decision-makers were IT or communications specialists – see below). This finding was echoed by our qualitative research⁷² and responses to our Call for Input, which showed that, unlike larger businesses, SMEs lack a dedicated IT manager, and this means that they are less able to assess their communications needs.⁷³

Micro-businesses can face specific challenges in gaining knowledge and expertise in communications services

- 7.10 Micro-businesses appear to be less confident than larger SMEs, in particular businesses with more than 50 employees, in identifying communications services appropriate for their businesses. Our survey suggests that they were less confident in identifying communications services valuable to their businesses than medium SMEs: 35% were not confident, compared with 19% of SMEs with over 50 employees. Only 1% of those responsible for deciding which services to buy were the IT or communications specialists in micro-businesses, compared with 36% in SMEs with more than 50 employees.

⁷⁰ Nine Group highlighted that the range of services offered (ADSL, FTTC, FTTP, GEA FTTC, EFM and Ethernet Fibre) can be very confusing for SMEs

⁷¹ Although there is availability of superfast broadband to 56% of SME premises (excluding sole traders), only 13% of SMEs across the UK had taken fibre broadband, and 11% had taken up cable broadband. Larger SMEs are more likely to take up fibre broadband: 11% of SMEs with 1-4 employees and 11% of 5-9 employees took up fibre, compared with 20% of SMEs with 10-49 employees and 41% of SMEs with 50-249 employees. The same trend is true for cable broadband, but less markedly so: 11% of SMEs with 1-4 employees and 11% of SMEs with 5-9 employees took up cable, compared with 12% of SMEs with 10-49 employees and 18% of SMEs with 50-249 employees.

⁷² See Section 5, SME Experience of communications services, Jigsaw, published alongside this document.

⁷³ See Annex 1. The FSB and Nine Group stated that, unlike bigger businesses, SMEs and smaller firms lack a dedicated IT manager. Metronet commented that “few SMEs know what their communications needs are in any specific way”.

- 7.11 This lower level of expertise may partly explain the lower take-up of services by micro-businesses. There is a link between usage of communications services and size of SME: for example, micro-businesses are overall less likely to take up fixed internet services than other SMEs.⁷⁴
- 7.12 Research commissioned by the Communications Consumer Panel also highlighted the specific challenges facing micro-businesses; in particular that business owners (often sole traders), generally lacked the time or resource to increase their awareness and knowledge of communications services and were rarely in a position to outsource communications services to a third party.⁷⁵
- 7.13 The Communications Consumer Panel research also found that some micro-businesses felt it was difficult to compare information across providers, due to complex pricing and packages, particularly for internet and mobile data. Responses to our Call for Inputs supported this finding, with the FSB, for instance, mentioning its concern that smaller firms may suffer from a ‘confusopoly’ of tariffs and products. Those participants in our qualitative research who sought to learn about information and communications technologies also said that this was not an easy process.

While services can be difficult to compare, price comparison services for businesses are not widespread

- 7.14 Complexity and lack of expertise contribute to making services difficult to compare. Our survey found that around half of all SMEs, from micro-businesses to larger SMEs, found information about suppliers and tariffs, for landline and internet services, difficult to compare.⁷⁶
- 7.15 Most SMEs have business contracts for their landline and broadband services, and around half have business contracts for mobile services, but a significant minority have residential contracts, and sole traders in particular are more likely to have residential contracts than other SMEs. SMEs with residential contracts will be able to make price comparisons online, along with residential consumers, from a wide range of price comparison websites. Price comparison is also available, to some extent, for business communications services, with some major price comparison websites offering comparisons, albeit for a limited range of providers and services.
- 7.16 Generally, SMEs do not make widespread use of price comparison websites, and the majority buy communications services from providers on the phone or during a visit

⁷⁴ 76% of micro-businesses use fixed internet, compared with 93% of SMEs with 10-49 employees and 93% of SMEs with 50-249 employees; 11% of micro-businesses take up fibre broadband, compared with 20% of SMEs with 10-49 employees and 41% of SMEs with 50-249 employees; and 43% of micro-businesses use smartphones, compared with 56% of SMEs with 10-49 employees and 72% of SMEs with 50-249 employees.

⁷⁵ <http://www.communicationsconsumerpanel.org.uk/downloads/micro-business-qualitative-research-written-report-final.pdf>

⁷⁶ Landline: 52% and 50% of SMEs found tariffs and suppliers respectively difficult to compare. There were indications that this was slightly higher for SMEs over 10 employees in relation to tariffs comparison, but from a low base of respondents over 10 employees: 58% of SMEs over 10 employees said this. Internet: 49% and 51% found tariffs and supplies difficult to compare. There were indications that this was slightly lower for SMEs over 10 employees in relation to suppliers comparison, but from a low base of respondents 10-49 employees: 39% said this. Mobile: 43% said it was difficult to make comparisons between suppliers.

by a sales person or an engineer, rather than online.⁷⁷ This is supported by discussions with communications providers, which highlighted that sales channels are primarily on the phone, and also through local partners.

- 7.17 Providers of price comparison websites have also told us that price comparison for business communications services can be complex, due to the nature of the services for SMEs and the large number of smaller providers present in the market. In addition, they believe that many SMEs are better served by direct discussions with providers, and are less likely to buy online. We found little appetite at the moment to develop the existing price comparison services for business customers further, although this may change if more transactions move online, as suggested by some communications providers.
- 7.18 Although there appear to be few brokers in relation to the provision of business communications services, there are a larger number of local, smaller resellers. Stakeholders have told us that some resellers can advise on a range of different services as well as provide these services directly at a retail level (due to low barriers to entry).

There can be confusion over broadband speeds

- 7.19 Our qualitative research suggested that advertising “up to” speeds can create a misunderstanding about the speeds that can actually be achieved. This was supported by the CCP’s response, which noted that SMEs do not trust the provision of accurate information on speeds, and the FSB stated that clear information on upload speeds would benefit small businesses. Speeds are also an important area of dissatisfaction for those SMEs who said they were using an ADSL service.⁷⁸ While still most SMEs are satisfied with their speeds and their ability to access the speeds paid for, speed and ability to access the speed paid for attract the highest levels of dissatisfaction: 22% of SMEs were dissatisfied with the connection speed of their ADSL service, and 20% were dissatisfied with their ability to access the speed paid for.
- 7.20 As outlined in Section 3, SMEs’ communications needs are varied, and upload speed can be as important to small businesses as download speeds, for example if small businesses want to use cloud computing. This is an important difference in the needs of small businesses compared with residential users. The FSB suggested that, at a minimum, small businesses need to be able easily to compare upload speeds (and service level agreements concerning fault repair).

There can be gaps in the information that is readily available, increasing the difficulty in assessing communications services

- 7.21 Given the complexity of the services needed by many SMEs, it is particularly important that information on prices, services and contractual terms is readily available.
- 7.22 Accordingly, we asked a number of communications providers about the information they provide to their SME customers on their websites, at point of sale, in the contract and when switching, for example in relation to prices, service features

⁷⁷ 1% use price comparison websites to keep informed about communications services and 8% purchase online compared with 58% on the phone, 15% from a visit, and 12% in-store (from Jigsaw research on SME experience of communications services, data tables, QF2 and QE3A).

⁷⁸ The majority of SMEs (66%) reported using an ADSL service.

(including internet speeds) and specific contract terms such as automatically renewable contracts (ARCs) and Early Termination Charges (ETCs).⁷⁹ This has revealed that there is scope to enhance the information that is made available to SMEs to enable them to understand the communications services on offer and make effective choices.

7.23 The following section highlights our findings in these areas in more detail.

Price and service information

7.24 Easy access to information on prices and services is key to enabling SMEs to compare providers and services to make informed choices.

7.25 We discovered that there are currently gaps in the information provided to customers across the different sales channels. In particular, the provision of information on provider websites was lacking in some areas. Desk research indicated that there are some standard business services advertised on websites for which prices are not published.

7.26 Provision of information on service description, service features, out-of-inclusive-bundle charges, and contract length was not available on their websites from a minority of the communications providers we surveyed. We found that, typically, the provision of information on websites was not as comprehensive among smaller providers, or among communications providers which supply services only to businesses.

7.27 It is also important to provide relevant information on the website if SMEs are able to purchase the service online. Although our research report found that many SMEs make their eventual purchase of communications services offline, we were able to determine from our analysis, that there were examples where it was possible to purchase some services online without being given information on important service features (examples include, for landline and mobile services for instance, whether additional service features such as call barring, or the price of out of bundle calls, are included; for broadband, broadband speeds or fault repair times).

Broadband speeds

7.28 Specific information at the point of sale on estimated broadband speeds, rather than 'up to' speeds, is not always available. In that respect, we found that, while many communications providers give estimated speeds at the point of sale, either directly or by making a broadband speed checker available at point of sale, a minority give information only on 'up to' download speeds.⁸⁰

⁷⁹ We issued a formal information request to communications providers named by more than 3% of SMEs in our research as their provider for a range of communications services. This resulted in 13 communications providers which were formally asked for information: BT Business, Virgin Media, XLN Telecom, TalkTalk, Unicom, Plusnet, Daisy, Rainbow Communications, Pinnacle Telecom, Vodafone, EE, O2, and Three (which does not sell services on business terms).

⁸⁰ Of the 11 communications providers that sold fixed broadband products on standard business contractual terms and which responded to our information request, three provided information on separate upload and download speeds at the point of sale or by providing a speed checker on their websites. Some communications providers gave to the SME directly at point of sale the estimated download speed (and a speed checker on their websites). Overall, at the minimum, most communications providers provided a link to a speed checker.

- 7.29 We found that only three of the communications providers surveyed gave a defined upload speed, and most others provided a download speed range estimate, but often did not provide a separate upload speed. We also found that the way in which this information was provided varied between communications providers; sometimes it was available over the telephone at point of sale, sometimes through a broadband speeds checker on the communications provider's website, sometimes from speed checker on a third party website.

Service level agreements (SLAs)

- 7.30 As outlined in Sections 4 and 5, the speed of their internet service and fault resolution times are important to SMEs, and we discuss fault resolution in section 5.
- 7.31 Despite the importance of fault resolution, less than half (41-49%) of SMEs said they had SLAs included in their contracts. Only about a third, or less, had an SLA about fault repair times, and about a quarter, or less, about the speed of the internet service or coverage.⁸¹ Further, awareness of SLAs was low; between about a third and two-fifths of SMEs said they did not know whether SLAs were included in their contracts.⁸²
- 7.32 This lack of awareness may be linked to a lack of prominence: most communications providers which responded to our information request reported giving information on service level agreements over the phone, but only about half gave this information on their websites. It may also be linked to lower awareness of specific terms in the contract, as most communications providers reported including information on types of maintenance services available in the contract. Finally, it may reflect the desire for some communications providers to keep the product offering simple.

Contractual terms

- 7.33 About eight in ten SMEs said that they were aware of the terms and conditions in their contract.⁸³ However, about a third of SMEs were not sure if their contract included ETCs.⁸⁴
- 7.34 This could reflect the general tendency not to engage with termination terms other than at the point of termination, but might also be partly explained by a lack of information about these matters. We found that some communications providers did not show the following information on their websites: whether early termination charges are payable, whether the contract is an automatically renewable contract (for companies with more than ten employees), and notice periods.
- 7.35 While online information on how early termination charges are calculated is available from some CPs, it is not always prominent or accessible: e.g. it is available only through links on the terms and conditions page on the website; and only one

⁸¹ Of the SMEs with a contract, where the contract included SLAs, about a quarter to a third included fault repairs (landline: 36%; internet: 32%; mobile: 25%); for internet 26% had the speed of the internet service; and for landline and mobile 23% and 18% had coverage levels respectively. Other areas of SLAs included speed of acknowledging queries (landline: 31%; internet: 26%; mobile: 21%) and number of days without the service (landline: 30%; internet: 25%; mobile: 20%).

⁸² Landline 35%, internet 37%, mobile 45%

⁸³ 80% of landline users on a contract, 78% for internet, and 80% for mobile

⁸⁴ While just over 50% of those with a contract relating to each service said their contract had ETCs (landline: 54%, internet: 54%, mobile 55%), nearly half were not sure of the details in the contract on ETCs (landline: 34%, internet: 34%, mobile: 36%) or not aware (landline: 12%, internet: 12%, mobile: 10%)

communications provider embedded this information into its sales web pages. Information that we have gathered indicates that others provide this information only in the contract.

We will help support the provision of independent information to all SMEs, including provision of specific information to SMEs on broadband speeds

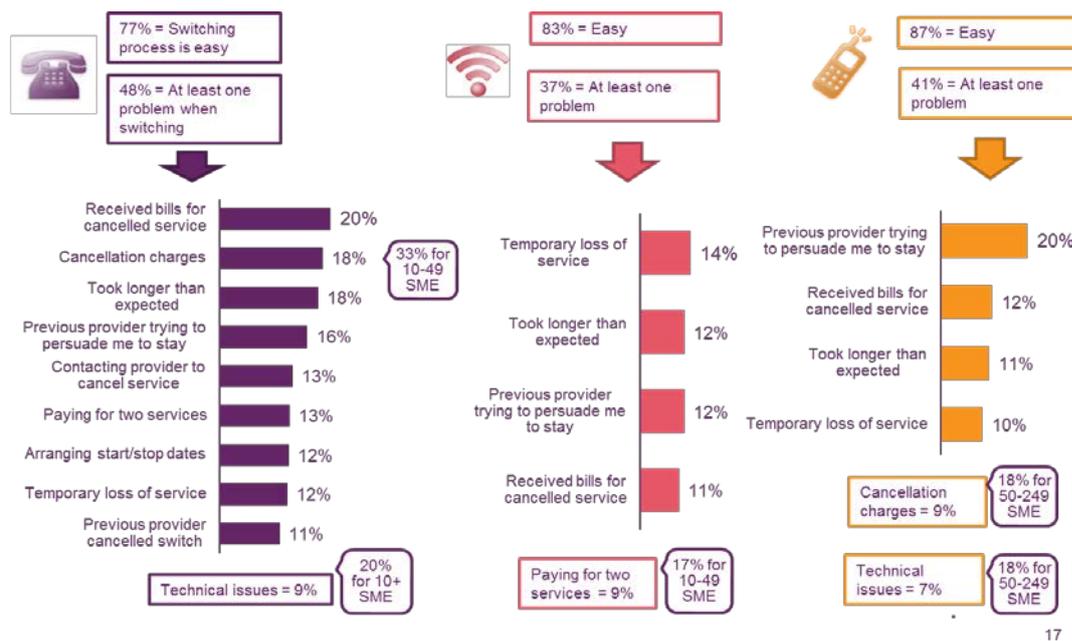
- 7.36 Supporting SMEs' digital capability is key to helping them use communications services, such as superfast broadband, to develop and grow their businesses. There are already initiatives at national and local levels to promote such skills. For example, Go ON UK has developed, with the Government, a SME digital skills capability programme and, working with the Federation of Small Businesses, is co-ordinating a network of trainers and workshops to help small businesses.
- 7.37 We will expand and disseminate further our business portal. For example, we propose to include more information on the technological terms ('jargon buster'), point to the BDUK site which has information on communications providers active in different areas, include more examples about what different technologies can do for SMEs, link these to the needs of SMEs, and expand our section on what to think about and how best to compare services when choosing a provider.
- 7.38 The voluntary Code of Practice on Broadband Speeds ensures that residential consumers receive estimated speeds at the point of sale and protects consumers if the actual speeds delivered are below a minimum threshold. We will work with industry with the aim to ensure that information on broadband speeds for business broadband services is fully transparent. We have discussed this with three of the leading providers which are already signatories to the current Broadband Speeds Code Practice for residential consumers (BT, Virgin Media and TalkTalk). They are committed to the principle of transparency and will work with Ofcom over the next three months to explore whether a broadband speeds code can be created for business services. We will follow up with these and other providers of business services to develop a plan for transparency of speeds information in the autumn.
- 7.39 General Condition 10 requires providers to publish on their website certain information about their standard telephony services, notably their prices, a description of the telephony services available to customers and their standard contract terms and conditions. We will take action under GC10 to ensure that communications providers comply with these rules.

A significant minority of SMEs face problems switching

- 7.40 Most SMEs said that the switching process is easy, but a significant minority went on to say that they had experienced at least one problem during the switching process (Figure 18). The issues that were identified by respondents varied, and included:
- contractual issues such as cancellation charges;⁸⁵ and
 - process issues such as the time taken to change services.

⁸⁵ 18% of all SMEs quoted cancellation charges as a problem when switching landline, rising to 33% for SMEs with 10-49 employees; 9% of all SMEs quoted cancellation charges as an issue when switching mobile, rising to 18% for SMEs with 50-249 employees; and 6% of SMEs quoted cancellation charges as an issue in relation to switching broadband.

Figure 18: SMEs' experience of switching



Source: Jigsaw SME research report

Cancellation charges was the most commonly cited contractual issue in switching, and we will examine how they are calculated in more detail

7.41 There are a number of contract terms which may potentially prevent switching in some circumstances, such as cancellation charges perceived as excessive, long contract terms,⁸⁶ or automatically renewable contracts.

7.42 Of these issues, cancellation charges were mentioned most frequently by stakeholders, and were highlighted as an issue by our quantitative research.

- 18% of SMEs quoted cancellation charges as a problem when switching landline (rising to 33% for SMEs 10-49), 9% when switching mobile (18% for 50-249 SMEs), and 6% in relation to broadband (Figure 18).
- Around 15-22% of SMEs who switched were subject to Early Termination Charges.

7.43 Although our qualitative research into a subset of SMEs which had experienced problems showed that in most cases the principle of Early Termination Charges (ETCs) were seen as reasonable,⁸⁷ it suggested that levels of ETCs can be seen by

⁸⁶ Landline: about one in ten (13%) non-recent switchers, and about one in ten (9%) considerers, mentioned being tied into their contract as a reason not to switch. Internet: 9% of non-recent switchers and 6% of considerers; mobile: 2% and 6%. Non-switchers are more likely to mention being tied into a contract as a reason not to switch.

⁸⁷ See section 6.2.1 of the qualitative research report. ETCs are seen as reasonable in most cases, especially in the first two years of a new contract. In this context an ETC is seen as an acceptable trade-off for getting a good deal on a new service.

participants as a barrier to switching.⁸⁸ This is linked to their dissatisfaction about not being able to exit their contract, when the SME finds that it has a product that is not 'fit for purpose'. It then has to pay to leave the contract.

- 7.44 Complaints about ETCs relate to the issue of whether the charge should apply, where switching SMEs have been presented with what they feel are unfairly high ETCs, or where they were not fully aware or clear about what their ETCs were likely to be.⁸⁹ The issues of awareness of ETCs, and levels of ETCs, were also raised in responses to our Call for Inputs.
- 7.45 Awareness of ETCs will be improved if information on whether an ETC is applicable is made available at several stages of the purchasing journey, including at the outset, during the stage of searching the market for new suppliers and services and at the point of switching. Although our desk research indicates that not all communications providers give information on their websites as to whether ETCs are payable in standard business contracts, this information is available in the terms and conditions of SME contracts. Furthermore, the evidence we have gathered in the course of our review suggests that this information is provided at the point of switching (when the gaining-provider-led process is followed) or when the SME contacts the communication provider to cancel the service (which might be before or after the SME has signed up with the new provider).
- 7.46 As mentioned earlier in this section, we will take action under GC10 to ensure that communications providers comply with transparency rules. As part of our wider dialogue with communications providers to improve the availability and clarity of the information made available by some providers on their websites, we will also discuss improving transparency on the applicability and calculation of ETCs.
- 7.47 In addition, the new switching rules, which came into force fully on 20 June 2015 and which require the losing provider to communicate the ETC payable during the switchover period, are likely to result in increased awareness of likely levels of ETCs payable at the point of switching for micro-businesses.⁹⁰
- 7.48 In relation to the level of ETCs, we note that there are a number of different approaches that communications providers use to calculate ETCs. For example, some charge the contractual payments due for the remainder of the term, others apply a discount to the remaining payments, while others charge a discounted rate plus a fixed fee. We also note that there may be occasions when the ETC is waived or reduced. One communications provider told us that while it sets out its ETC policy in its terms and conditions, it does not in fact charge the contractual amount. A minority of SMEs also said they did not pay their ETCs.⁹¹
- 7.49 Given the concerns that have been raised by some SMEs about the level of ETCs they are charged, we will be examining some of the methodologies used by providers

⁸⁸ The report from our qualitative research also notes that SMEs are not always aware of the ETC before starting the switching process; they may have forgotten or never realised that an ETC was attached to their service contract, so it can be the switching process itself that alerts them to the ETC and then the cost of the ETC puts them off switching. This latter group tend to be the most frustrated by the ETC.

⁸⁹ Cancellation charges represent 227 complaints made to Ofcom by businesses last year (of which 191 were from micro-businesses).

⁹⁰ The August and December 2013 statements on consumer switching are available here: <http://stakeholders.ofcom.org.uk/consultations/consumer-switching-review/>.

⁹¹ Landline: 14% said they were subject to an ETC and paid it, and 8% said they were subject to an ETC but did not pay it. Internet: 11% and 4%. Mobile: 13% and 3%.

to calculate ETCs more closely in order to understand the rationale for the methodology that is used and their potential impact on switching by SMEs.

- 7.50 In relation to other contractual terms such as length of contract and notice periods, we found fewer concerns. We found from our information request that the main communications providers normally provide information on length of contract and notice periods, either at the point of sale or as part of the contract. Only one respondent mentioned the length of the contract as an issue, although the FSB also reported some dissatisfaction with contract lengths among its members, highlighting the need to have different contract lengths to cater for the differing needs of SMEs. Contracts of three or five years are still offered, and while there may be some benefits for SMEs taking those contracts, such as certainty of spend or lower prices offered, the vast majority of SMEs on fixed-term contracts said they were on contracts of two years or less.

Automatically renewable contracts (ARCs) are already banned for micro-businesses, and we will work to improve transparency of these terms for larger SMEs

- 7.51 Ofcom has banned automatically renewable contracts (ARCs) for micro-businesses, which form the vast majority of SMEs. ARCs are still offered by some communications providers to businesses with more than ten employees, but we did not find a high prevalence of ARCs among communications providers surveyed. Therefore, while between two and three in five SMEs reported being on an ARC in our quantitative research, we suspect that this is due to the nature of the question asked, and possibly some confusion among SMEs about the nature of ARCs.
- 7.52 Communications providers responding to our formal information request (with one exception) reported that they tell customers that the contract is an ARC, either directly or in the contract. However, concerns about ARCs were more likely to be raised in relation to smaller resellers in our qualitative research, raising a question about their awareness of the ban on ARCs for micro-businesses. Therefore we are writing to smaller resellers to remind them of the ban on ARCs.
- 7.53 In the course of our project we found examples where only one service in a bundle is subject to an ARC and where the different services in the bundle have different contract end dates, which do not necessarily coincide with the period of time during which the SME can decide whether or not to renew the ARC. We will be looking more closely at the transparency of these interlinked termination dates where one contract is an ARC, and considering the extent to which they may impact on the ability to switch of SMEs which purchase such bundles.

Ongoing switching initiatives will help micro-businesses

- 7.54 Process issues when switching may frustrate the switch or deter future switching. These issues include temporary suspension of services and poor billing. In particular, some respondents to our Call for Inputs argued that SMEs cannot lose business-critical communications services for any length of time and may be less inclined to switch in order not to incur this risk.
- 7.55 For standard fixed voice and broadband services, switching regulations apply to micro-businesses, which form the vast majority of SMEs. We expect that the new provisions, to introduce gaining-provider led switching, will benefit switching by SMEs with ten or fewer employees. In particular, requirements concerning the simultaneous

transfer of services when switching bundles should help to prevent loss of broadband service while switching.

- 7.56 We receive some complaints about communications providers abusing the ‘cancel other’⁹² process, whereby a losing provider inappropriately cancels a legitimate switch. We take this issue very seriously and we have an open monitoring and enforcement programme into fixed-line mis-selling, including inappropriate use of cancel other.⁹³ We will act if we find communications providers deliberately breaching our rules, as we have in the past, for example as a result of our investigation into Axis.⁹⁴
- 7.57 A minority of SMEs switching services also mentioned as an issue experienced when switching that they received bills for the cancelled service.⁹⁵ This is an issue which Ofcom will consider as part of a recently opened monitoring and enforcement programme into cancellation and termination arrangements.⁹⁶ Our programme will investigate, among other things, the issue of billing continuing after the contract has ended, an issue that applies across residential customers and businesses.

Processes can be inherently more complex for larger SMEs, but those using standard processes are likely to gain some benefits from our new switching rules

- 7.58 SMEs with more than ten employees which switch simple, standard fixed services do not benefit from the same protections as micro-businesses. However, we expect that the harmonised process and new switching rules, while not mandatory for these SMEs, will in practice be convenient for communications providers to use to switch their customers on standard services and will therefore benefit these SMEs.
- 7.59 We will monitor the implementation of our new switching regulations, and complaints to Ofcom about switching, from micro-businesses and businesses in general. We will also consider switching for SMEs with more than ten employees within the overall context of our work and our priorities in relation to consumer switching.
- 7.60 For SMEs buying more complex fixed products (e.g. multiple sites, multiple lines, additional features), the switching process is more likely to be ‘provide and cease’ than the gaining-provider-led process; i.e. the SME arranges provision with a new provider and separately ‘ceases’ its contract with their existing provider. This is less likely to be able to be standardised and requires more time on the part of the SME to manage the switching process.
- 7.61 New provision can be subject to delays, based on past Openreach performance, but as part of the 2014 Fixed Access Market Review (FAMR), Ofcom imposed remedies designed to address the decline in Openreach’s performance in relation to provision

⁹² Protections are in place that allow a losing provider to request the cancellation of a transfer where the customer thinks they have been slammed, or where the gaining provider has failed to cancel the transfer when requested by the customer.

⁹³ http://stakeholders.ofcom.org.uk/enforcement/competition-bulletins/open-cases/all-open-cases/cw_01137/

⁹⁴ http://stakeholders.ofcom.org.uk/binaries/enforcement/competition-bulletins/open-cases/all-open-cases/cw_01045/axis.pdf

⁹⁵ 20% of SMEs switching landline mentioned as an issue that they received bills for a cancelled service, 11% in relation to the internet, and 12% in relation to mobile.

⁹⁶ http://stakeholders.ofcom.org.uk/enforcement/competition-bulletins/open-cases/all-open-cases/cw_01158/

and repair activities – see paragraphs 5.20-5.25 of Section 5. Ofcom is already actively monitoring Openreach’s performance across services, and we have seen an improvement in performance.

- 7.62 There are developments within industry to address the complexities around switching of fixed services, which may help protect SMEs, and help ensure consistency between providers. For example, the FCS (an industry association representing resellers and dealers offering communications services to businesses) is exploring the development of a switching kitemark.
- 7.63 In relation to mobile switching, around one in ten SMEs reported technical issues as problems when switching mobile services, rising to 18% for SMEs with more than 50 employees. We will consider this issue within the overall context of our work and our priorities in relation to consumer switching.
- 7.64 In relation to mis-selling and slamming, the survey showed that the incidence of slamming and mis-selling was very low (less than 1% of respondents identified these as problems). While mis-selling and slamming make up two of the highest volumes of complaints from businesses to Ofcom, most complaints are made by micro-businesses (possibly because of the much larger number of micro-businesses), where we can already take enforcement action. Our new switching proposals will also help address slamming complaints, as some of these are likely to be caused by the transfer of lines made by mistake, and our rules will help reduce the impact of such mistakes.

We will embed our focus on SMEs in existing work programmes as current regulations already offer protections to micro-businesses

- 7.65 Micro-businesses benefit from similar protections to residential consumers under the General Conditions which Ofcom makes and which apply to communications providers. The only exception to this is the ban on contracts of more than two years, which applies only to residential consumers, but we found that most SMEs are on contracts of two years or less. A list of the General Conditions (GCs) which apply in favour of micro-businesses, and those which apply in favour of all businesses, is available on our business portal.⁹⁷
- 7.66 In relation to businesses with more than 10 employees, it is worth noting that the General Condition banning terms which are a disincentive to switch (GC9.3) applies to all businesses. Some of the General Conditions do not apply in favour of businesses with more than ten employees, in particular those relevant when switching, e.g. the ban on automatically renewable contracts, the rules preventing mis-selling and slamming, and the gaining-provider-led switching processes.⁹⁸ However, as we discuss earlier in this section, in each of these areas we have identified ways to address issues, or we will monitor developments:
- On automatically renewable contracts, where we found examples of bundles of linked services where one service is an ARC, we will be looking more closely at the transparency of different termination dates which apply, and considering the

⁹⁷ <http://consumers.ofcom.org.uk/ofcom-for-business-consumers/>

⁹⁸ GC9, 22 and 23. For completeness, rules relating to complaints, in particular the requirement for having an ADR scheme (GC14.4), apply only to micro-businesses, not to all businesses. However, this focus on residential consumers and micro-businesses originates in legislation and is not within Ofcom’s remit to change. In addition, we found that businesses are confident in complaining, and the majority resolve their complaints partly or fully.

extent to which they may impact on the ability of SMEs which purchase such bundles to switch

- On mis-selling and slamming, incidence was very low (less than 1%), most complaints are made by micro-businesses where we can already take enforcement action, and new switching proposals will also help address slamming complaints.
- On switching processes, we will continue to enforce our existing switching regulations, with a particular focus on complaints about providers inappropriately cancelling switches (through 'cancel other') to frustrate the switching process. We will monitor the implementation of our new switching regulations, and complaints to Ofcom about switching, from micro-businesses and from businesses in general. We will also consider switching for SMEs with more than ten employees within the overall context of our work and our priorities in relation to consumer switching.

7.67 In addition, we will write to smaller communications providers and resellers to remind them of their regulatory obligations – particularly highlighting obligations under GC10 (transparency), banning of ARCs for micro-businesses and the new switching rules under GC 22.

Section 8

Next steps

- 8.1 We propose the following actions for Ofcom and others in order to address the key issues that our research has identified.

Infrastructure availability

- 8.2 As part of Government interventions to improve superfast broadband availability, we consider explicit consideration should be given to setting targets for availability of services to SMEs, alongside any more general targets. Ofcom will work with the Government to help understand the needs of SMEs and how these translate into connectivity requirements.
- 8.3 Ofcom will continue to use its triennial Infrastructure Reports and their annual updates to monitor the availability of superfast broadband to SMEs. Data collection for the 2015 annual update is underway, with publication scheduled for the autumn. Where possible, we will make this data publicly available in order to facilitate market-led deployment; for example, by identifying clusters of businesses without superfast broadband in order to stimulate demand aggregation both by large providers and through targeted small network deployments.

Quality of service

- 8.4 Through our market review programme we will continue to ensure that Openreach delivers high quality of service in its wholesale products. Interventions to require minimum standards on its copper products and publish KPIs on a wide range of products have delivered improvements in fault resolution and provisioning times. Future market reviews, including the next Fixed Access Market Review (which begins later this year and will conclude in 2017), will assess the performance of Openreach and consider whether further intervention is necessary in order to improve the quality of service delivered to residential and business consumers. We propose implementing minimum standards for leased line products in the current Business Connectivity Market Review.
- 8.5 The highest broadband service care level offered by Openreach (SCL4, six-hour fix) is not widely available from retail providers, including BT Business. We have agreed with BT Business that we will discuss this matter further. The issue of quality of service is one we will return to in our Strategic Review of Digital Communications.

Retail market

- 8.6 We will look again at the retail market structure and competitive intensity for SMEs alongside our next review of the Business Connectivity market (which will begin in 2017 and conclude in 2019). This will include an assessment of the extent to which large-scale alternative network providers have been successful in challenging BT Business, as well as the extent to which smaller providers, including re-sellers, continue to be able to enter the market and compete effectively.

SMEs' ability to navigate the communications markets

- 8.7 We will work with industry with the aim to ensure that information on broadband speeds for business broadband services is fully transparent. We have discussed this with three of the leading providers which are already signatories to the current Broadband Speeds Code Practice for residential consumers (BT, Virgin Media and TalkTalk). They are committed to the principle of transparency and will work with Ofcom over the next three months to explore whether a broadband speeds code can be created for business services. We will follow up with these and other providers of business services to develop a plan for transparency of speeds information in the autumn.
- 8.8 We will expand our recently launched business portal to help SMEs' understanding of the communications markets. We will disseminate the business portal (through stakeholders such as Government, communications providers, commercial intermediaries, Go On UK, SME business networks, and SME representatives like the Federation of Small Businesses), in order to reach a larger number of SMEs.
- 8.9 We will ensure that SMEs benefit from the current range of protections under our existing regulatory framework. In particular we will focus on four areas:
- we will take action to ensure that communications providers comply with the transparency regulations under General Condition 10;
 - we will also consider switching for SMEs with more than ten employees within the overall context of our work and our priorities in relation to consumer switching, and continue to enforce existing switching rules;
 - in the light of the concerns that SMEs have expressed about the level of ETCs, we will examine more closely the methodologies used to calculate these charges; and
 - we will write to smaller communications providers and resellers to remind them of their regulatory obligations – particularly highlighting obligations under GC10 (transparency), banning of ARCs for micro-businesses and the new switching rules under GC 22.
- 8.10 As part of embedding our work on SMEs alongside our programmatic policy and enforcement work, we will report on progress in our next *Consumer Experience Report* in early 2016.

Annex 1

Summary of responses to the CFI

- A2.1 We received 32 written responses to our Call for Inputs (CFI), *Communications services and SMEs*, published in November 2014.⁹⁹ Respondents included SMEs, trade associations, consumer interest groups, communications providers, and communications resellers. Non-confidential responses can be found on our website.¹⁰⁰
- A2.2 This annex comprises a summary, grouped by theme, of the main points raised in response to the CFI. We requested input from stakeholders in seven key areas:
- i) the needs of SMEs compared to residential consumers and large enterprises;
 - ii) the availability of communications infrastructure;
 - iii) the availability of suitable retail products;
 - iv) quality of service;
 - v) transparency of information;
 - vi) the nature of the switching process; and
 - vii) the level of consumer protection available to SMEs.
- A2.3 The responses predominantly focused on fixed broadband internet access, although some respondents commented on mobile coverage.
- A2.4 The majority of respondents emphasised the diverse needs of SMEs. Respondents also considered that SMEs have more complex needs than residential consumers, and are more sensitive to cost than large enterprises.
- A2.5 A significant proportion of comments related to the availability of fibre-to-the-cabinet (FTTC) broadband. A significant proportion of respondents considered that FTTC broadband would address many of the issues facing SMEs, if it were available.

SME's connectivity needs

The needs of SMEs vary greatly and will continue to evolve

- A2.6 Communication providers emphasised that SMEs have diverse needs. The term 'SME' encompasses a wide range of businesses of varying size, with larger businesses being viewed as having more complex needs. Communications providers remarked that the number of employees is only one factor determining connectivity needs, noting that small start-ups that work in specific industries (e.g. media, graphic design or hi-tech sectors) can have demanding connectivity needs.
- A2.7 The Internet Service Providers' Association (ISPA) stated that SME's communications needs will evolve as they grow, and the Federation of Small

⁹⁹ http://stakeholders.ofcom.org.uk/binaries/consultations/smes-cfi/summary/SMEs_CFI.pdf

¹⁰⁰ <http://stakeholders.ofcom.org.uk/consultations/smes-cfi/?showResponses=true>

Businesses (FSB) stated that SMEs are often unable to assess their future needs. As a result, it is helpful for broadband packages to be flexible and easy to upgrade in order to suit evolving business needs. BT echoed this sentiment, noting that SMEs *“are likely to take a longer-term view of their investment, sometimes buying with growth in mind”*.

For many SMEs, internet connectivity is vital

- A2.8 Respondents considered that SMEs required internet connectivity for a variety of functions. Citizens Advice noted that a third of the small businesses surveyed mentioned that they would be unable to trade without the internet.
- A2.9 It was also observed that reliable connectivity was important to facilitate remote working through the use of virtual private network (VPN) services, and to allow for the adoption of cloud services.
- A2.10 Respondents frequently mentioned the importance of video conferencing platforms to SMEs, as a means of communicating with clients based both across and outside the UK. The FSB noted that low levels of latency and jitter are important to small firms which use video conferencing as a means of communicating with suppliers, employees or customers.
- A2.11 Respondents based in rural and remote locations highlighted that strong internet connectivity is vital, for several unique reasons. For example, Argyll and Bute Council explained that *“access to reliable internet connections is particularly important for our farmers who are required to complete paperwork electronically in order to access payments.”* A medical practice based in the Outer Hebrides highlighted that *“remote and rural SMEs need Skype and other desktop VC [video conferencing] platforms in order to access meetings without wasting time and money on travel”*.

SMEs emphasised the need for a reliable internet connection

- A2.12 Given the increased dependence on the internet, SMEs often stressed reliability as being the most important factor; internet connectivity was often *considered “mission-critical”* for the operation of business. As a result, loss of connectivity was considered to have a greater impact on SMEs than on residential consumers. Furthermore, the Consumer Communications Panel explained that the loss of internet connection could be *“detrimental and highly disruptive, with relatively fragile micro-businesses often being less able to absorb the resulting loss of business”*.

SMEs often require higher upload speeds than residential consumers

- A2.13 Unlike residential consumers, SMEs often consider the upload speeds offered by asymmetric broadband products to be insufficient for their needs. Tees Valley Unlimited noted that *“SMEs also have more complex needs than residential consumers, particularly in regard to upload speeds and the need for symmetry between upload and download.”*

Affordability is a key concern for SMEs

- A2.14 A number of respondents considered that compared to large enterprises, affordability was more of a concern for SMEs. One respondent explained that reliable connections are needed for businesses, but highlighted that *“most SMEs*

don't have the budget for expensive connections like leased lines and EFM [Ethernet in the first mile] unlike larger organisations”.

- A2.15 A number of respondents said that there was an absence of affordable high-speed business grade connectivity products that adequately met the needs of SMEs. Tees Valley Unlimited, and the Federation of Communications Services (FCS) amongst others, considered there to be a price gap between residential broadband products and Ethernet leased lines.
- A2.16 The FSB outlined that *“while most SMEs are able to afford a basic broadband package, leased line products may well be too expensive, both in terms of installation and contract costs.”* As a result, many SMEs do not feel that they are able to access the services that they require.
- A2.17 Some SMEs expressed that as well as having less to spend on connectivity; they also lacked the bargaining power with communication providers that large enterprises possess.

Infrastructure availability

- A2.18 A number of respondents identified fibre-to-the-cabinet (FTTC) broadband as a product that meets SME connectivity needs at an affordable price. As a result, the availability of FTTC was a major focus of many of the responses.

Some respondents raised concerns that fibre roll-out was focused on residential areas at the expense of business areas

- A2.19 A number of SMEs, trade associations and communication providers considered that fibre roll-out was being focused on residential areas at the expense of business areas and science parks. Retromarques (an automotive company based in Worcester) stated that *“our own business park has virtually no broadband...the effect is a constant struggle for internet access, email connectivity and file transfers.”* Retromarques highlighted its inability to move to a cloud-based network infrastructure as a result of slow broadband speeds.
- A2.20 Fairford Electronics (an electronics business based in a large industrial estate in Devon) commented that *“residential areas either side of the industrial estate already have fibre optic broadband, yet BT Openreach has decided to ignore the SME customers in this area”.* The respondent added that *“we would be prepared to pay many times more than a residential customer, just to get fibre optic broadband”.*
- A2.21 The Internet Service Providers' Association (ISPA) said *“BDUK and commercial BT rollout plans have focused on residential areas so micro-businesses in those areas have benefited. Smaller businesses in non-residential areas are likely to be less well served by the roll-out.”* This concern is also expressed by the FCS, which commented that FTTC rollout *“has been to street cabinets serving residential rather than business premises”.* And Tees Valley Unlimited noted that although BDUK Phase II will further increase fibre roll-out, there will still be a number of gaps affecting local SMEs.
- A2.22 The FSB said that many of its members believe that communication providers are refraining from fibre roll-out in business parks in order to protect their leased-line business.

A number of respondents raised specific concerns about lower broadband availability in rural areas

- A2.23 A survey conducted by the FSB found higher levels of dissatisfaction for broadband speed, reliability and mobile coverage in rural areas. The FSB also cited Ofcom's *Infrastructure Report 2014*,¹⁰¹ highlighting that 16% of SMEs in rural areas do not have access to superfast broadband (SFBB).
- A2.24 A number of respondents expressed concern over lower levels of both fibre and ADSL broadband provision to rural areas. Argyll and Bute Council said that in several rural areas there was no broadband availability, leading small businesses to rely on satellite connectivity. However, a business that did rely on satellite connectivity stated that it was *"inflexible and expensive for the service it gives"*.
- A2.25 The National Farmers' Union (NFU) noted that rural SMEs have access to satellite broadband in all locations, although given its high cost, it called for more affordable solutions.

SMEs in some city areas are also affected by slow internet speeds

- A2.26 Respondents stated that poor connectivity can also be an issue in urban areas. The FSB and FCS highlighted that many businesses in some inner-city areas, such as in central London, can struggle to obtain fast internet speeds due to inadequate street infrastructure and the prevalence of exchange-only lines.

Respondents called for a range of actions to improve infrastructure availability

- A2.27 Respondents proposed a number of potential solutions to extend the rollout of fibre broadband. A number of communication providers considered the need for regulated access to dark fibre as a priority. For example, Metronet (UK) outlined that *"access to dark fibre with which to build core network infrastructure is a limiting factor in our business development and the availability of this product is costly and by no means universal"*.
- A2.28 Other communication providers called for new planning permission rules through reform of the Electronic Communications Code. Communications providers considered that infrastructure deployment was often delayed as a result of prolonged negotiations with landlords. Therefore, they called for reform to target easier access to premises.
- A2.29 Tees Valley Unlimited and The Bit Commons Limited proposed that installation of fibre should be a legal obligation for new buildings.
- A2.30 A number of respondents also called for universal service obligations. The FSB and the NFU urged the Government to provide a strategy for delivering universal superfast broadband coverage. Tees Valley Unlimited called for the current non-binding universal service commitment of 2Mb/s should be enshrined into legislation.
- A2.31 The FCS, FSB and others called for the Competition and Markets Authority (CMA) to undertake a full review of the broadband market. They also called for further consideration of whether the structural separation of BT and Openreach would benefit consumers.

¹⁰¹ <http://stakeholders.ofcom.org.uk/binaries/research/infrastructure/2014/infrastructure-14.pdf>

- A2.32 Tees Valley Unlimited proposed that in a period when local authorities are facing increased cost pressures, a higher proportion of funding for BDUK roll-out should come from central Government rather than local authorities.
- A2.33 BT considered that as superfast broadband roll-out continues, in order to meet the Government's aim to deliver it to 95% of UK premises by 2017, it *"would anticipate such coverage levels significantly benefiting both SMEs as well as the wider consumer market"*.

Respondents also raised concerns about mobile coverage

- A2.34 The FSB, communications providers and small SMEs in rural areas were concerned about the prevalence of mobile 'not-spots' i.e. areas where there is no coverage from any of the mobile operators. Numerous stakeholders complained about 3G and 4G coverage specifically, although comments tended to relate to mobile coverage as a whole rather than as a specific concern that only affected SMEs. A communications provider highlighted that small businesses are becoming increasingly dependent on 3G and 4G. Rural areas were said to be the worst affected, but it was noted that urban areas could also experience problems. This respondent also highlighted a concern about a lack of mobile coverage on major roads and railways.
- A2.35 Finally, a communication provider encouraged both the Government and Ofcom to investigate methods of increasing mobile coverage *"as a matter of urgency"*. The FSB, communication providers and several SMEs urged the Government to consider implementing national mobile roaming in order to provide greater coverage. The FSB suggested increased infrastructure sharing between providers as a possible short-term solution.

Choice of products and providers

We received a range of views on the level of choice at both the retail and wholesale level

- A2.36 The FSB's research found that many SMEs did not believe that there was sufficient competition between providers, and noted that this view was more prevalent among larger SMEs. The Trade Association Forum (TAF) mentioned its *"amazement that there is so little choice, variety or availability in a market which is so vital to empowering the future of British business"*. The NFU encouraged the Government to do something to encourage a wider range of providers and new types of technology to enter the market.
- A2.37 In contrast, the ISPA believed that there was generally choice in the market, but noted that the choice for Ethernet products was wider than for other products.
- A2.38 Agritron Ltd (an SME) commented that *"there is a lot of choice in all aspects if you know where to look"* and also noted that the quality of response to faults varies depending on provider. The FSB also welcomed the fact that subsequent to its survey of its members in 2014, Virgin Media Business, BT and TalkTalk had all started promoting new products specifically targeted at business consumers. BT noted that *"the retail market is adapting to providing easier access to tailored services for SMEs"*.
- A2.39 Respondents in rural locations considered that SMEs had less choice when selecting communication providers and therefore a lack of alternative providers to

switch to. Argyll and Bute Council explained that *“even where there are a number of service providers there will often be just one which provides a level of service which, while not necessarily good, will represent the best”*. The ISPA highlighted that because network availability was more limited in rural areas, SMEs based in more rural areas may have less choice.

- A2.40 The ISPA, communications providers and resellers considered there was insufficient choice at the wholesale level. The FCS thought there was lack of choice in the wholesale market, which it believed resulted in *“essentially a monopoly at the network level”*. It explained that even though there was *“no shortage of potential comms providers”*, none offered a genuine choice as they were *“constrained at the wholesale level by the state of the local network, which is beyond their control”*. The FCS believed that this paucity of wholesale suppliers meant that retail providers lacked the opportunity to switch provider in the event of poor service.
- A2.41 However, other communication providers stated that there no issues with the current wholesale offering for SMEs. Commenting on BT Wholesale, one respondent remarked that in the past few years the market had evolved to provide products suited to SMEs, such as through BT’s provision of generic Ethernet access (GEA) and EFM products.

Quality of service

A number of respondents considered the service level agreements on offer to be inadequate

- A2.42 SME respondents cited the need for *“100% reliable fast broadband”*... Resellers noted that most business broadband packages do not come with SLAs, and that SMEs are generally not aware of SLAs.
- A2.43 The FCS observed that while leased-line and other Ethernet products were accompanied by SLAs, copper broadband products were not. Nine Group considered that *“if [SMEs] buy services such as ADSL (asymmetric digital subscriber line) or FTTC, with no or poor SLAs, then they should expect reliability issues”*, reiterating that a leased line connection was required for good SLAs. Nine Group stated that although it offered a 20-hour-fix SLA, it was a rarely taken up, as it cost 50% more.
- A2.44 The FSB identified that small businesses tended to buy a residential service, where the fault repair service requirements can leave businesses without communication services for an extended period of time.

A number of respondents raised concerns with respect to Openreach line installation and repair times

- A2.45 A communications provider reported that the main problems for consumers related to how providers responded to internet and fixed-line outages. It noted that micro-businesses were particularly critical of slow responses, since they prolonged the impact of disruptions.
- A2.46 Respondents based in remote rural locations often considered that repair times were too long. One rural SME raised concerns about *“wasted time” spent with engineers that had been sent with the wrong information and described the failure of engineers to fix faults in the time expected as a “constant theme”*.

- A2.47 Citizens' Advice found that, of the small businesses it surveyed which had experienced problems, about a quarter were not satisfied that their issue had been resolved.
- A2.48 However, Agritron Ltd felt that in its experience BT had responded well, recounting that following a recent complaint about the performance of its router, it was immediately sent a fully-programmed replacement.
- A2.49 A number of communications providers and resellers specifically raised concerns about Openreach's quality of service in relation to line installations and fault repair:
- The FCS stated that there were *“significant and ongoing problems with BT Openreach and the timely delivery of new services to business users.”* The feedback the FCS had received from SME-facing providers indicated that Openreach failed to meet agreed timescales in a quarter to a third of cases. The FCS noted that *“one FCS member, a business-only communication provider, cites 26% of analogue line orders, 23% of ISDN2 orders and 15% of MPF orders in the last three months of 2014 failed to meet customer required dates. Repair times were also said to be failing to match up to customer expectations.”*
 - Respondents considered that Openreach's performance had deteriorated in recent years. One respondent emphasised the impact of this by adding that *“failed engineering visits, missed appointments and delayed installations cost SMEs time and money”*. Nine Group highlighted that Openreach's failure to deliver adequate quality of service could have a severe impact on the reputation of small businesses, as well as resellers.
 - Metronet (UK) remarked that the *“quality of installation of those services by traditional fibre carriers is an issue”*. They commented that lead times for installation were excessive and felt that this was a *“worsening situation”*.
 - One communications provider commented that there were underlying issues with Openreach's quality of service. However, it added that it was confident that Ofcom's work in the Business Connectivity Market Review (BCMR) and the Fixed Access Market Review (FAMR) would result in regulation to address these problems.

Some respondents expressed dissatisfaction with the level of compensation received when faults occur

- A2.50 Of those that commented on the issue, respondents were generally dissatisfied with the level of compensation received when there were prolonged faults. The FCS regarded the compensation offered when SLAs for broadband products were not meant to be *“token compensation”* and considered that a mechanism should be found that delivered damages that were proportionate to a business's loss of earnings.
- A2.51 One SME commented that there is *“limited compensation”* if there is any broadband service downtime, but felt that *“the extent of financial redress is ludicrously inadequate”* as *“in no way does it reflect the actual loss incurred to the business”*.

Transparency of information

The level of digital skills possessed by SMEs means that many find it difficult to understand which products meet their connectivity needs

- A2.52 A group of respondents, including: the FSB; FCS; and the communications providers Metronet and Nine Group, highlighted that SMEs often lack the resource and knowledge to assess the communications market. As a result, smaller businesses tend to lack both the time and the expertise to understand their connectivity needs.
- A2.53 These respondents remarked that SMEs wanted simple broadband products that are easy to understand. In recognition of this, a number of communications providers which responded to our Call for Inputs, including BT, said that they ensured their products targeted at SMEs were presented clearly. They also acknowledged that SMEs tend to require more support during the purchasing process.
- A2.54 The FCS stated that there was a *“general lack of awareness among SME owners of what business-grade connectivity looks like”*, as they were *“not sufficiently educated to distinguish between suppliers in terms of quality, service or value-add.”* As a result, discussions surrounding the sale of services to SMEs tended to relate largely to price.
- A2.55 Relevant communications providers believed that SMEs tend to lack expertise on communication services and are *“time-poor”*. They considered that SMEs expect a high degree of account management, which places additional resource challenges on providers, and expressed that it can be challenging to provide cost-effective customer support.

Navigability problems can be caused by the lack of skills possessed by SMEs, particularly by smaller businesses

- A2.56 Some respondents, in particular: the FSB; FCS; Nine Group; and Metronet, outlined the differences between SMEs and larger businesses in respect of the skills they hold to assess the market and make effective decisions.
- A2.57 Nine Group and the FSB stated that, unlike big businesses, SMEs (and smaller firms) lack a dedicated IT manager with a specific procurement remit and negotiation skills to navigate the market. They often rely solely on employee or owner knowledge, which can put them at a disadvantage. Metronet summarised that *“few SMEs know what their communications needs are in any specific way.”*
- A2.58 In addition, Nine Group argued that this lack of skills results in SMEs failing to see the *“true business value of their connection to the internet, so [they] can struggle to justify a true business grade connection which is uncontended and includes an SLA.”* Metronet pointed to the leased-line sector, where pricing is often bespoke and opaque, as a particular area in which SMEs lack skills and the knowledge for effective engagement.
- A2.59 These respondents also drew attention to a general characteristic of smaller SMEs in the market, who typically lack the resources to assess all the information presented to them. The FCS described SMEs as being *“not aware of the improvements in productivity, flexibility and cash-flow... available to them via modern hosted IT and communications solutions.”*

A range of respondents called for a greater level of advice and education for businesses

- A2.60 A total of four individual and SME respondents, two communications providers, and two trade organisations noted that SMEs may face difficulty in navigating the market and understanding communications services. Both by a lack of available advice in the market, and by a SMEs' skills gap can intensify this issue. Respondents called for either the government or Ofcom to take up a role in improving the available advice, or by educating SMEs about the communications market.
- A2.61 In relation to these issues, some respondents did not think that there was enough guidance and advice available. RetroMarques Ltd stated that it was "*not sure very much information is available to businesses at all*", and Argyll and Bute Council highlighted that, notably, there was limited information and advice available offline.
- A2.62 The FCS, Metronet and another respondent cited the impact that this can have on SME behaviour; arguing that a general lack of understanding inhibits SMEs and can affect their purchasing decisions. They reiterated a need to develop further education in the SME space.
- A2.63 Some respondents made suggestions for improvements in the provision of advice and guidance: the CCP called for an advice hub for micro businesses; while RetroMarques Ltd called for a "*central advisory group*" to be established.
- A2.64 Two respondents, Tees Valley Unlimited and the ISPA called for Ofcom to ensure SMEs have better access to information. The ISPA questioned whether Ofcom could provide education to SMEs, and Tees Valley Unlimited called for Ofcom to research and provide a comparison of installation charges in the market.

Within the supply of information to SMEs there are a number of transparency issues, highlighted by SME respondents and by trade associations

- A2.65 A range of SMEs and trade associations reported that there exists a lack of transparency of information within the communications market and this can be problematic for SMEs. Information regarding products and services can be lacking, resulting in SMEs remaining unaware of the potential benefits of services, whilst a general lack of transparency of communications can make life difficult, particularly for smaller SMEs.
- A2.66 Problems stemmed both from the supply of information to SME customers, and from the lack of expertise of SME customers to process it. The FCS and FSB noted that SMEs may rely on using "*similar assessment criteria*" for business products to those used for residential services, a behaviour that is exacerbated by the lack of transparency on business products. Moreover, SME's experience of the residential market can lead to unrealistic expectations over business grade connectivity.
- A2.67 The ability of SMEs to think ahead and plan relocation of business premises was pointed to as a potentially harmful effect of poor information. The FCS and one other respondent stated that SMEs can fail to be informed, or check for themselves beforehand, the connectivity of new business premises.
- A2.68 Respondents emphasised further problems over the supply of information to SMEs. One confidential respondent described that the lack of information and an absence of communication from communications providers made it difficult to understand what and when maintenance activities were planned. Both the CCP and Agritron

Ltd stated that a lack of skilled customer service contacts makes navigating the market and dealing with issues problematic. Ineffective call centres can impede efficient information flow.

Problems with the structure and supply of information in the market, and limited comparison tools, mean that navigating the market can be problematic for SMEs

- A2.69 Many respondents described navigability issues for SMEs, with respect to the market structure and the level of prescribed information for comparison purposes. This included discussion of the ability to compare the market, the understanding of SLAs, and a discussion of business products by the FCS, CCP, Nice Group, Argyll and Bute Council, and one other respondent; who all cited the wide array of tariffs and technologies, combined with a difficulty of engaging communications providers, as a problem for SMEs.
- A2.70 In particular, the wide range of services and solutions available in the business market were often described in esoteric language that was difficult to understand, reinforcing the need for them to be more clearly explained. The CCP stated that it is *“vital that information about such contracts is in unambiguous language... [with] transparency about key contract terms”*.
- A2.71 The FSB was concerned that smaller firms may suffer from a ‘confusopoly’ of tariffs and products, with another respondent adding that larger communications providers give only limited advice in a *“take it or leave it fashion”*.
- A2.72 The limited availability of comparison tools was highlighted by some respondents, who sought to illustrate that when attempting to compare communications providers’ offerings, problems can arise. The FSB suggested that it would be *helpful if there was a way for the different products to be compared quickly*. Tees Valley Unlimited stated that SMEs face difficulty in comparing information that is often complex and not readily available. The ISPA noted that many SMEs chose FTTC solutions when they should be buying Ethernet services.
- A2.73 Both the FSB and one additional respondent picked out SLAs as a low-awareness area. They noted that many SMEs need a reliable service, but that many are not aware of the associated SLAs provided with particular products, which may be caused by a lack of information being readily available.

We received a range of views on the supply and clarity of information provision, and on issues regarding broadband speed advertising

- A2.74 An additional three areas were raised regarding the provision of information: the reliability and clarity of information provided; the communication of key information; and the level of information provision on broadband connectivity and speeds.
- A2.75 On the reliability of information provided, the FSB, and two further confidential respondents pointed to negative practices that occur within the market. Concerns were raised about information at the point of sale, lack of transparent information, and information over installation timescales. The CCP provided evidence from its surveyed businesses to indicate that many SMEs do not trust suppliers. Both the CCP and Tees Valley Unlimited pointed to coverage as an area where there was insufficient data, leading to scepticism among businesses about what they were told.

- A2.76 The supply and communication of information was raised by a small number of respondents. Tree of Life Enterprises and one other respondent both raised grievances about the supply of information from BT and Openreach, whom they argued were reluctant to engage with SMEs, and had ignored requests for information sent through MPs. BT outlined its views on this subject, stating that there was a “*wealth of information*” available online, including tools such as self-assessment and feature comparison. BT felt that information flow between SMEs and itself was of a high standard.
- A2.77 A range of trade associations and SME respondents believed there were problems with broadband connectivity information, especially for rural locations. Geoff Preston Associates stated that generic ‘up to’ speeds were an inaccurate representation of achievable speeds in rural areas, while the NFU and one other respondent felt that information provided by postcode was not always specific enough for the purpose required. Both The Bit Commons Limited and one other respondent argued that providers needed to improve the quality of broadband information, and should give more technical comparators about their products. Two respondents: the NFU and the TAF also raised concern over the difficulties encountered in establishing contact with someone who held information about connectivity or roll-out.

Consumer switching

SMEs can be put off the switching process by the associated costs, in particular by early termination charges

- A2.78 A number of respondents highlighted the difficulties SMEs face when opting to switch their services, many of whom are required to pay ETCs. Respondents pointed to costs that befall the SME as a result of temporary downtime, loss of business, and the overall price of moving to a new system or services, which have a cumulative financial impact on business operation.
- A2.79 The FSB, FCS and RetroMarques Ltd all specifically raised ETCs as a barrier to switching. They argued that the fees charged, which are high in some cases, can be used to tie the customer into the agreement. The FCS noted that this can be particularly compounded by the fact that “*only after having signed a contract with the new provider do [some SMEs] examine their contract with their losing provider...*” often leading to lengthy disputes.
- A2.80 By contrast, one communications provider, Metronet, stated that in practice, the application of cancellation charges is “*very uncommon*” and is not a significant issue. Relish raised the impact of installation costs and delays as a barrier to switching.

Respondents suggested that SMEs may prefer to ‘stick it out’ with a problem, rather than risk switching

- A2.81 Alongside the contractual obligations that can become a deterrent to switching, it was reported that SMEs may attempt to put up with a problem rather than tackle it or consider switching.
- A2.82 BT argued that, commonly, in comparing SMEs to residential customers, there is more risk involved in changing providers and using new services. In its response, Relish echoed this judgement, explaining that SMEs have a tendency to tolerate certain problems and are reluctant to switch, adding that they are “*deterred from*

switching providers as a result of previous experiences...” This mentality can be reinforced when a SME is tied into a long-term contract, as Tees Valley Unlimited noted.

A reluctance to switch often stems from the fear of ‘downtime’, technical issues, or lack of a viable alternative

- A2.83 Within the responses, the problems associated with ‘downtime’, a period without service, were most commonly mentioned as the source of a reluctance to switch.
- A2.84 The CCP explained that this was particularly prevalent in micro businesses, because of *“the expected service disruption, which was seen as intolerable from a business perspective”*. Those who switched frequently could end up regretting their decision.
- A2.85 Downtime during an SME switching its services may arise as a result of the more complex nature of the switching process, caused by the array of products used. Nine Group, Metronet, and one other respondent all illustrated technical problems which can include: changes to static IP addresses; alterations to DNS and firewalls; reconfigurations or replacement of routers; and a general adjustment of the business IT set-up. Metronet stated: *“for smaller SMEs... changing provider can be daunting due to the work involved in changing the internal IT systems.”*
- A2.86 As noted earlier in this summary, a reluctance to switch may also stem from the lack of a viable alternative option in the market, especially in rural locations which may be less well served. A range of SME respondents informed Ofcom that they lacked providers to whom they could switch their communications services.

Those who do switch are driven to do so by a range of factors

- A2.87 We received a range of views regarding the factors taken into account by SMEs considering changing their communications provider.
- A2.88 Several respondents, including: BT; FCS; and one further respondent, pointed to an appetite to achieve a reduction in costs as a major driver to switching. BT said this was particularly prevalent among smaller businesses, which tended to switch in order to save money. However, businesses with over ten employees have a greater focus on faster and more reliable internet.
- A2.89 The FCS attributed the drivers of the switching decision not to a coherent, well informed logic, but to a greater degree of emotional factors; arguing that *“we are not convinced business owners take a reasoned, strategic approach to switching providers... very often it is a price-driven decision...or a negative desire to punish a supplier”*.
- A2.90 Metronet stated that switching to them tended to be in order to seek improved customer service.

Consumer protection

Respondents most frequently mentioned mis-selling as a potential bad practice

- A2.91 The CFI questioned whether there was evidence of harm and bad practice within the market. Whilst responses gave a wide array of opinions in response to this

question, evidence supporting these views was limited. However, the dangers of mis-selling were raised by a group of respondents. The NFU, FCS, RetroMarques Ltd, and Metronet all cited the dangers to SMEs of mis-selling and a lack of clarity over contractual obligations or product quality, which can lead to problems post-sale.

- A2.92 Two respondents drew attention to mis-selling caused by unrepresentative assessments of the connectivity achievable at a geographic location as a potentially damaging problem. RetroMarques Ltd notified Ofcom that customers can be sold broadband for a particular location, only to find that it did not function there. The FCS stated that there was evidence of clearly unrealistic advertising claims of ubiquitous high speed connectivity, leading to bitterness among disillusioned business owners, who know such claims are unrealistic.
- A2.93 The NFU noted that actual provision, in comparison to suggested statistics, caused problems at times in which expectations were not met. This may lead to a perception of mis-selling. Metronet indicated that EFM services are often mis-sold as leased lines.
- A2.94 Two of this group of respondents did indicate that a perception of mis-selling may be due to the lack of understanding among SMEs of the market they are trying to navigate. They thought that SMEs may lack the necessary technical understanding and therefore struggle in their purchasing decisions. There was also evidence to suggest that some SME owners neglected due diligence before entering into contracts, leading to subsequent disputes with communications providers over service quality and provision.

Other contractual issues could be a cause for concern

- A2.95 One confidential respondent was concerned that SMEs are either forced, or tricked, into signing up to long contracts, and that the use of renewing contracts can cause harm to SMEs, who may have lost their original contract documentation.
- A2.96 A small group of respondents raised their experiences of SMEs that had been invoiced beyond their contract cancellation date by their communications provider.

A few respondents drew attention to the extent to which protection is already in place for some SMEs

- A2.97 The ISPA reminded Ofcom that businesses with ten employees or fewer have the option to use dispute resolution or the ISPA's own complaints procedure set up with member companies.
- A2.98 BT explained its approach to helping SMEs with connectivity issues, stating that it had dedicated teams present to help SMEs when issues arose, and systems in place to capture reports of unfair practices. These activities provide protection for SMEs.
- A2.99 The FCS noted that that there is an additional complication in dealing with SMEs with fewer than 10 employees, because they are protected in many of the same ways as the general public. They believed that this imposes additional costs and has the effect of "*inhibiting innovative approaches*" to contracting with SMEs.

Other

A number of respondents cited their own data on SME satisfaction levels

- A2.100 The FSB, the FCS and the TAF disagreed with the finding in the Ofcom research conducted by Jigsaw,¹⁰² which found that 85% of the SMEs surveyed said they were “*well served by the communications market*”. The FCS remarked that it “*did not recognise anything like the 85% satisfaction levels quoted in the Jigsaw survey*”.
- A2.101 The FCS cited a study conducted by the TAF which found that 80% were dissatisfied with their current connectivity, although 70% agreed that they were prepared to ‘*make do*’ with what they had. The FSB noted that the majority of SMEs with more than ten employees were dissatisfied with download speeds.
- A2.102 However, Citizens’ Advice found that 87% of those surveyed were “*at least fairly satisfied*” with their broadband service. Despite these levels of satisfaction, 31% of those surveyed mentioned that they had experienced problems with their connection.

¹⁰² *SME experience of communications services – a research report*, October 2014, http://stakeholders.ofcom.org.uk/binaries/research/telecoms-research/sme/sme_research_report.pdf