



Citizens Advice response to Ofcom call for inputs on Communication Services and SMEs

The Citizens Advice Service

The Citizens Advice service provides free, confidential and impartial advice to help people resolve their problems. As the UK's largest advice provider, the Citizens Advice service is equipped to deal with any issue, from anyone, spanning debt and employment to housing and immigration plus everything in between. We value diversity, promote equality and challenge discrimination.

The service aims:

- To provide the advice people need for the problems they face.
- To improve the policies and practices that affect people's lives.

Citizens Advice Bureaux deliver advice services from over 3,500 community locations in England and Wales, run by 382 independent registered charities. Citizens Advice itself is also a registered charity, as well as being the membership organisation for these 382 member bureaux. In Scotland 61 Citizens Advice Bureaux (CAB) help over 250,000 clients with over half a million new problems every year.

This response has been prepared by the Consumer Futures division of Citizens Advice which represents the interests of consumers across essential, regulated markets in Great Britain. We use compelling evidence, expert analysis and strong argument to put consumer interests at the heart of policy-making and market behaviour. Representing the interests of small business and small non-domestic consumers is a key part of work of the Consumer Futures Unit.

Introduction

Small businesses often have the same problems and concerns in regulated markets as domestic consumers, and operate at similar levels of market engagement and understanding. They are not necessarily better equipped to take forward a complaint when things go wrong and can enjoy fewer protections and less access to third-party redress than domestic consumers. Research into small business behaviour across a number of regulated sectors such as energy, water, finance and communications reveals that small businesses are consistently less engaged in markets than larger businesses.¹

Whilst many small businesses may not have a very large spend on communications or have very complex needs, reliable phone and internet connections are a vital business tool for

¹ A study in to small businesses as consumers by the University of East Anglia for the FSB reviews research into small businesses engagement by sector regulators across a number of markets

small businesses. Therefore Citizens Advice welcomes this call for input and Ofcom's commitment to providing better advice to SMEs and understanding more about the way they use communications in its wider SME work programme.

This response is not confidential and we are happy for it to be published.

In early 2014 Citizens Advice carried out a survey of 2000 small businesses (businesses with up to 49 FTE) across the United Kingdom to understand more about their experiences of essential services. We commissioned this work to inform the development of our policies on small business consumers. The key areas the research looked at were Water, Energy, Communications and Postal Services (including services provided by Post Office Limited) This research gave us a good evidence base for some of the key issues and concerns that small businesses have in relation to each of these markets. As the research covered a number of markets the study was necessarily broad rather than deep. The full report is available on our website.² We would also be happy to make the raw data available to Ofcom on a confidential basis.

We will be using results from the section on the communications sector to inform our response to this consultation, all statistics quoted are from this research unless otherwise stated.

Small business groups, small business themselves and providers are much better placed than us to answer the detailed questions posed by Ofcom. However our recent research has given us a good idea of how small businesses use communications and some of the key issues they face. Therefore we felt it would be helpful to Ofcom if we outlined some of the key findings and what they mean for SMEs and communications.

Q1. What are the communications needs of SMEs and how may these differ by: business size; sector and business model; location; other relevant factors?

Our research gathered a large amount of information on the various communications channels used by small businesses and what they used them for.

SMEs and use of communications

Use of the main forms of communication channels is widespread amongst small businesses, with only one per cent of businesses in our survey claiming that their business did not use any communications channels. This rose to five per cent for small businesses based in Wales.

Fixed line telecommunications is the most widespread communication method with 89% of small businesses questioned using a fixed telephone line. Mobile phone usage is also high with 72% of small businesses saying their business used mobile telephony. Internet usage is widespread but not universal, with 88% of small business questioned having an internet connection (nine per cent of these businesses used dial up connections).

The larger businesses are, the more likely they are to use a number of communications channels. For example 98% of businesses with 20 – 49 employees have fixed line

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http://www.citizensadvice.org.uk/index/policy/policy_publications/the_experiences_of_small_businesses_as_consumers_in_regulated_markets.htm

telephony compared to 88% of sole traders. However figures for using mobile telephony are fairly constant across business size, perhaps indicating that the convenience and flexibility of mobile phones are appreciated and used by all sizes of small business.

Usage of fax machines is fairly low across all businesses, 27% of small businesses use a fax machine. Usage of fax machines is much higher amongst certain types of business- 64% of businesses with 20 – 49 employees and 47% of those in manufacturing.

Use of the internet

Whilst the large majority of small businesses questioned have internet access, 10% of small businesses with an internet connection claim they rarely or never used the internet in their business dealings, in addition to the 12% of small businesses that do not have access to the internet at all, there is a small but significant group of small businesses who may be classed as digitally excluded in their business dealings.

The most popular uses of their internet connection by small businesses are:

1. Accessing and sending email – 88%
2. Ordering stock – 71%
3. Managing and paying bills – 71%
4. Comparing prices – 67%

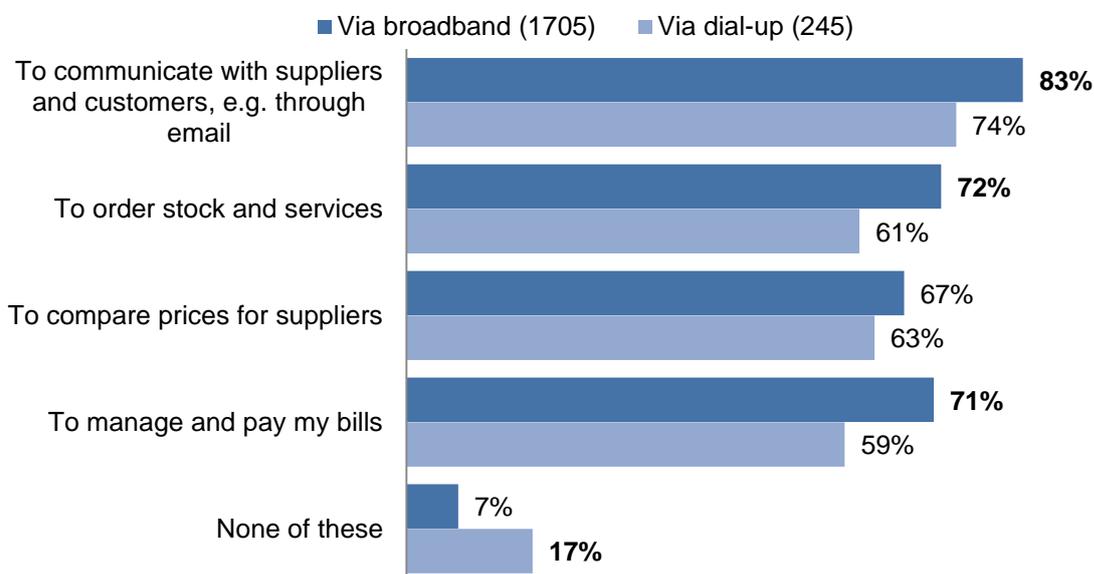
The percentage of small businesses using the internet to host a website is lower with 65% having a website. Within this the most popular usage of website was for advertising and publicity purposes, half of small businesses with a website use it purely for advertising their business. Use of website for e-commerce is low amongst small businesses, particularly those in other production (only eight per cent of these businesses use their website for e-commerce compared to 13% of small businesses overall)

Social media usage is fairly low with only 34% of small businesses having an account of social media sites such as Facebook, Twitter or LinkedIn. However new businesses are significantly more likely to make use of social media with 60% of businesses formed in the last three years saying they used social media in their business.

As with other communications channels usage of the internet rises with the size of the business and varied somewhat between types of businesses with retail and transport businesses being least likely to have an internet connection at all. However where businesses have an internet connection it is those in Other Production that are least likely to use their internet connection for any of the uses stated above.

Finally, only 9% of the small businesses questioned used a dial up connection and their usage of their internet connection for email, website, social media, ordering stock and comparing prices was lower across the board than those with a broadband connection. However a surprising finding was that those with dial up internet connections were more likely to use their website for e-commerce (24% compared to 13% of those with broadband) We do not fully understand why this is the case but it may be explained by the fact that rural businesses are more likely to rely on dial up connections and may also be more likely to take orders or booking via their website.

Ways in which the internet is used, by type of internet connection – prompted, multiple response (where has internet access) ³



A reliable internet connection is something that is of great importance for a good number of small businesses interviewed in our research. Just over a third of small businesses said that they could not trade at all without a reliable internet connection, rising to over a half for London based businesses, those in business services and businesses led by minority ethnic groups. Businesses established for three years or less are also more likely to place more importance on a reliable internet connection with 43% of these businesses saying they would not be able to trade without one.

Q2. How do the needs of SMEs for communications services differ from (a) residential consumers and (b) large enterprises?

We believe that business groups and SMEs themselves will be best placed to answer this question in detail. As outlined in our answer to Question One the size of a business does have some bearing on how they use communications equipment, with very small businesses and sole traders being more likely to use communications equipment in a similar way to domestic households. However, the type of business activity will also have a very important bearing on the way small businesses use communications services. For example a sole trader involved in business services activities may have more complex communications needs than a much larger manufacturing organisation. We know from our research that newer businesses, whatever their size, can be much more dependent on a reliable internet connection and make much more use of social media to support and promote their business activities, so increasingly even very small businesses will have more complex demands of their communications providers. The sheer amount of small businesses that are home based (58% rising to 64% for sole traders) also means that a lot

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http://www.citizensadvice.org.uk/index/policy/policy_publications/the_experiences_of_small_businesses_as_consumers_in_regulated_markets.htm

of small businesses will be managing their communications infrastructure at home, often without specialist IT staff to support or advise them on procurement of these services or assist them if things go wrong.

However these increasingly complex demands may not be matched by experience or ability to engage in the market. We know from our experience advising and supporting small businesses in other complex regulated markets such as energy that it is not just the needs of small businesses that are important but also their experience and ability to navigate the market. Some very small SMEs may have complex communications needs but will have no more knowledge or ability to engage in the market or address problems than the average domestic consumer. We know from our own research and that of other organisations that many small businesses tend to engage in complex regulated markets in a similar way to domestic consumers. Citizens Advice has recently commissioned some qualitative research to understand more about the behaviour of very small business consumers in regulated markets and some of the issues they face. We will be happy to share the results of this research with Ofcom in Spring 2015.

Infrastructure availability

Q3: What are the types and degree of network availability issues that affect SMEs, for example issues with specific locations or services and what is the effect of these issues on SMEs' businesses?

We are not best placed to answer this question in detail.

Q4. What opportunities do communications providers see in serving the SME market and how are these evolving as a result of developments in technology and infrastructure?

This question is aimed at providers so we will not be providing an answer.

Product availability, technical characteristics and pricing

Q5. How far does the choice, quality and price of products in the retail market meet the needs of SMEs?

We do not have enough information to answer this question and feel small business groups and small businesses themselves are best placed to answer this.

Q6. Are there challenges for communications providers in targeting the SME sector, and do these vary by geography, SME size and SME sector?

This question is aimed at providers so we will not be providing an answer

Q7. Are there issues facing retail providers in engaging with wholesale providers in order to offer retail products which meet the needs of SMEs?

This question is aimed at providers so we will not be providing an answer

Quality of service

Q8. How far does the quality of service delivered by communications providers meet the needs of SMEs?

The small businesses interviewed in our research had a high satisfaction rate with their communications contracts, with 87% agreeing that they were at least fairly satisfied with the service they received.

Where small businesses did express dissatisfaction over their communications contracts the top three complaints were:

1. Broadband speed - 54%
2. Poor customer service – 24%
3. Cost – 20%

Rural customers are more likely than average to complain about their broadband speed (67%), whereas urban customers were more concerned with the cost of their contracts (27%).

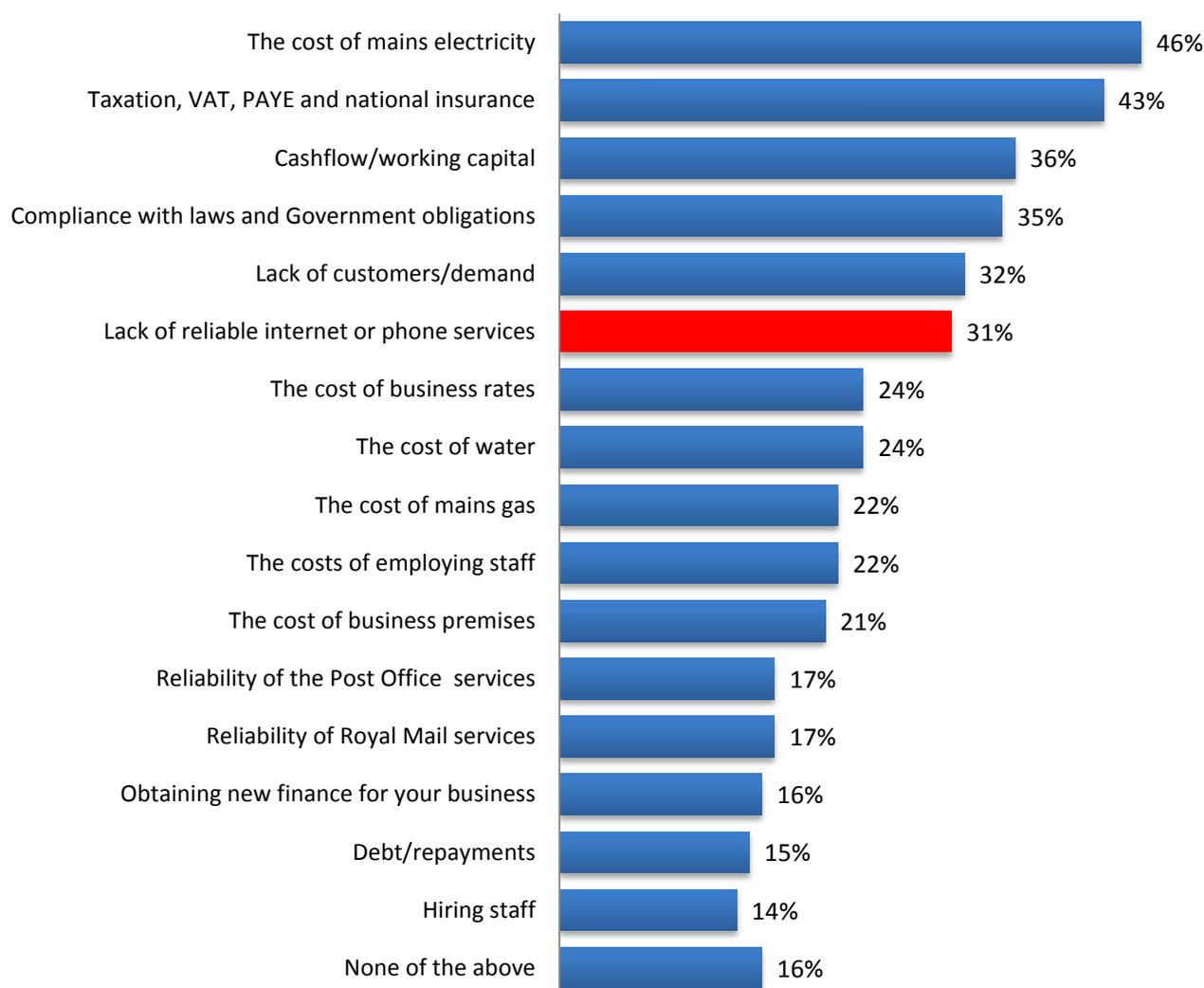
Whilst satisfaction with contracts is fairly high, just under a third of small businesses say they had experienced problems with their communications contracts. This level is high relative to other regulated utilities. For comparison only 8% of small businesses have experienced problems with their electricity provider and just 2% experienced problems with their water provider.

The vast majority of problems experienced relate to loss of service and connection issues, with 92% of businesses who experience problems citing this issue. Much further behind were issues such as:

1. Failure to provide the promised service - 29%
2. Poor customer service – 28%
3. Higher than expected bills – 13%

It is unsurprising how many businesses cite lack of connection, especially to the internet, as a problem. Reliable communications connections are increasingly becoming an essential for many small businesses, especially in certain sectors. When asked to identify their significant concerns from a list of sixteen possible issues, lack of reliable phone and internet services came in at the sixth highest concern for our survey participants.

Significant concerns for business; prompted, multiple response (all respondents)⁴



There are also some groups who are more likely than average to experience problems with the following groups more likely than average to say they had experienced problems with their communications contracts:

1. Those employing 2-4 employees, 35%
2. Those employing 10-19 employees, 41%.
3. Businesses in the business services sector, 35%.
4. Multi-site businesses, 43%
5. Young businesses (up to 3 years old), 38%

Sole traders and very small businesses are the most likely to experience problems with their communications services with 76% of small businesses saying they have experienced a problem having no more than one employee.

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http://www.citizensadvice.org.uk/index/policy/policy_publications/the_experiences_of_small_businesses_as_consumers_in_regulated_markets.htm

Q9. What issues face SMEs in ensuring that they have appropriate SLAs and are able to gain redress when quality of services falls below the standards expected?

We do not have enough in depth information to be able to answer this question.

Q10. What products and service enhancements are available, at what indicative price points, to deliver on SMEs' quality of service needs (e.g. in terms of technical product characteristics or fault resolution)?

We do not have enough technical knowledge to answer this question.

Switching

Q12. What factors do SMEs take into account when they are considering changing their communications service or provider. Please identify any that you consider may deter SMEs from switching and your reasons for this view?

We know from our quantitative research that a small amount of small businesses, seven per cent, that had problems with their communications contracts experienced problems switching, rising to 24% for manufacturing businesses. However we do not have any more information on why these problems occur and the detriment caused. This is something we hope to explore in greater detail in our upcoming qualitative research.

Other potential sources of consumer harm

Q13. What evidence is there of issues where bad practices by communications providers causes harm to SMEs?

We do not have enough information to be able to answer this question in detail.

Conclusion

Q14. Are there any other issues in relation to the provision of communications services to SMEs, or SMEs' experience of these services, which you consider should be included within our assessment?

Ofcom should not only look at the provision of services to small businesses and whether their needs are met, but also their ability to engage in the market as this has an important effect on everything from getting the most suitable contract to being able to achieve redress.

Ofcom should also look at the complaints process, whether it is easily navigable and works for small businesses. From our research we know that a good proportion, 76%, of small businesses who experienced problems with their communications services took their complaint to their provider. This could be seen as a relative success as customers are sufficiently engaged to complain about their problem or that the industry makes it relatively simple for customers to register a complaint, certainly the levels of small businesses with a problem who subsequently complained to their supplier is higher in communications than other industries such as energy or water. However one in four (24%) of those who complained were not satisfied their complaint had been resolved.

Finally a key issue to look at is that of digital exclusion. From our research we know that around 22% of small businesses can be described as not having access to the internet or behaving as if they do not have access. In a world that is increasingly online it is important

Ofcom explores the reasons for this and any potential barriers that may exist preventing these businesses from getting online.

Q.15 For any issues identified in response to any of the questions above do you have any views on how they may be resolved?

Our evidence base and policy lines are not sufficiently developed in this area yet to be able to provide any clear policy solutions or resolutions to some of the issue identified in our response.

One approach we would like Ofcom to take, along with other utilities regulators, is to take a holistic approach to small businesses as consumers and to work to understand some of the wider issues they may face as consumers in complex regulated markets as well as sector specific issues. It would also be beneficial when looking at any potential remedies or regulation to consider if the issue requires cross market or sector specific regulation.

Once we have completed our qualitative research project looking at how some of the smallest businesses behave as consumers we will be able to share the results along with our emerging policy thinking with Ofcom and other stakeholders.

