

This response has been prepared on behalf of Nine Group. Nine Group provides a wide range of communications services to business customers, mainly SMEs, in the UK. Nine Group offers its services directly to end user customers through its Nine Telecom division and via resellers through the Nine Wholesale operation. Nine has in excess of 400 reseller partners of all sizes located throughout the UK.

We welcome this opportunity to respond to Ofcom's call for inputs in this important area. SMEs are the drivers of the UK economy and increasingly need access to appropriate communications services to perform effectively. It is a key part of Ofcom's remit, therefore, to ensure that this happens.

The size, business models and needs of UK SMEs vary widely. Happily, the UK benefits from the most diverse communications services market in the EU and is currently well equipped to meet these needs. Business customers in the UK benefit from a communications market which includes a large number of local and specialised resellers and which is consequently flexible, innovative and highly responsive to the specialist needs of these customers.

Resellers of communication service are themselves SMEs and understand how small businesses work. Research carried out by FCS in 2010 demonstrated clearly that independent resellers are much better at meeting the needs of SMEs than the national operators. SME respondents to the FCS survey rated independent and local reseller providers higher on all the key measures surveyed.

Independent resellers are also particularly good at capitalising on new technology which they adopt and bring to market quickly to deliver innovative and cost effective solutions using, for example, IP based services. However, fundamentally, the ability to deliver such services to the required quality depends on the availability of appropriate connectivity, especially in respect of fibre.

To provide good quality service to their customers, resellers need access to good quality wholesale products. It is, therefore, very important that there is easy and equivalent access to such wholesale products. New and creative wholesale inputs from Openreach, such as Fibre to the Remote Node, Fibre on Demand and Single Order GEA help to increase the reach of high speed broadband and offer opportunities for innovation in service delivery.

Network coverage is also important; access to high speed fibre broadband (FTTC and FTTP) and a reliable mobile signal are already critical to most businesses and becoming increasingly more important. For this reason, Nine supports calls for national roaming and measures to actively promote the delivery of fibre infrastructure to business parks.

Resellers need a level playing field to compete effectively. It is important that the regulator ensures that smaller resellers can access wholesale products, including fibre, on the same basis and on equivalent commercial terms to larger players. Access to competitive wholesale mobile services is also still an issue for many resellers. Absolute price is not the main issue as long as all providers are consuming wholesale products on the same basis.

Quality of service in wholesale provision is also important. Where wholesalers such as Openreach fail to deliver adequate levels of quality in provision, repair and network reliability, this can have a severe impact on end user businesses who may suffer loss of business and reputational damage.

Such failings can also be harmful to resellers, as the CP providing the service is likely to be blamed by the customer who may believe (whether it is true or not) that BT's downstream divisions still have better access to BT's wholesale services. Consequently, Nine Group

supports full separation of Openreach from BT Group to improve its focus on delivering quality service and meeting the product needs of its whole customer base.

Our responses to the individual questions posed by Ofcom as part of its call for inputs are set out below:

SME needs

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

Fundamentally, businesses need access to a range of services which offer higher levels of sophistication and reliability than consumers. Business customers also need a provider who is responsive, can support the required level of technical complexity and provide integrated solutions.

From an internet connectivity perspective SMEs do not always see the true business value of their connection to the Internet so can struggle to justify a true business grade connection which is uncontended and includes an SLA.

Our business does not focus on any specific industry sector but our view is that the sector they operate in does not affect businesses' choice of connectivity. Location can be an issue as we find that many of our SME customers are based on business parks and trading estates where the availability of FTTC is far lower than the overall figure for the UK as the Openreach fibre roll out has a distinct residential focus.

Over the past 18 months, we have seen a definite shift of mind set in a subset of SME customers where they can justify spending more than the £20-£50 per month cost of ADSL or FTTC and will move to GEA FTTC and EFM. The fact the cost of Ethernet fibre has fallen due to the cost reductions Openreach have made to ISP's for EAD and also the competition between backhaul providers such as BT Wholesale, TTB, Vodafone etc are also factors..

As cost is a major buying factor for SME's, a common question is "why do I need to pay for a phone line I will not use" which is also a common residential complaint. SME's would like to buy a broadband service which includes the copper pair with no dial tone on it and the copper can be an integral part of the broadband support journey as opposed to the copper being linked to a PSTN and a potentially different CP and support path.

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

a) Micro businesses act in a very similar manner to residential users, which is reflected in their choice of solution and the suppliers they use. However, once an SME has several employees they undergo a change of mind-set; the loss of an Internet connection is now affecting them more acutely as they have a higher turnover and staff who are unproductive. SMEs will begin to want to use technology to make them more efficient and also to aid the service they offer to their customers.

b) Large enterprises tend to have employees with a key or specific remit to procure communications services. On this basis they make informed buying decisions and have the knowledge to negotiate more effectively and source suppliers who meet their requirements.

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?*

The main driver of availability is the location of the business, whether an SME or a large enterprise. The more rural the location, the slower a broadband connection will be; EFM becomes less obtainable and where available the attainable speed is generally lower and finally Ethernet fibre connections tend to be more expensive for rural locations due to the fibre length and there is a higher chance of excess construction charges (over and above the levels absorbed by Openreach and Virgin).

Slow speed broadband connections are a real issue for working effectively or efficiently. Where speeds are very low, it precludes being able to run IP voice, VPN for remote working and can mean frustration for employees as they cannot work to their available level. We experience the support calls from companies where the speed of their connectivity is really frustrating for them even if they have used the checkers to see the speed they are likely to get. At this stage, we can suggest they move off broadband to an EFM or similar technology but the cost increase which can be 10 times their current spend is prohibitive.

Poor mobile signal and "not spots" are also a key concern for rurally based businesses.

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?*

Product availability – faster connections are often requested but we push for SMEs to look at services with more robust fix times inbuilt to support the importance of a connection to the internet for most UK SMEs

Technical characteristics – the range of services offered (ADSL, FTTC, FTTP, GEA FTTC, EFM and Ethernet Fibre) can be very confusing for SMEs and as a CP, we work hard to simplify the terminology and technology to the SME end user benefit by designing awareness material to address the known gaps in SMEs technological knowledge and to challenge and dispel misconceptions.

A good quality internet connection enables us to offer big company functionality (DDI, voicemail etc.) to smaller businesses very cost effectively through the use of hosted IP services.

Pricing – From a CP perspective, the downward price pressure on ourselves and our suppliers by lower headline costs and thus margins means the amount a CP makes per connection is falling and this puts pressure on the support offered. A good example is Openreach who have a regulatory requirement to reduce the costs to industry each year. However, if they cut out certain systems and levels of staff resource this can push higher costs downstream onto CP's this wiping out any saving provided. Here CP's want to see support responses and metrics linked to Openreach products where they operate a near monopoly, not just price reductions.

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?*

If an SME is located in a geographic area where they have a true choice in supplier and connectivity technologies in play today, the retail market is working well. The challenge for a CP is finding solutions for SMEs in areas where they may be limited to a poor ADSL speed or a costly Ethernet fibre connection. This choice is also linked to the quality and the price of the products offered to these SMEs.

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

We have nothing to add to our responses to Questions 2, 3 and 5.

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

The availability of the good quality fibre and mobile infrastructure which is required to support business grade products is the key issue for resellers.

Another issue here can be the length and number of links in the supply chain. For in-life support this is less of an issue for connectivity, especially if you have obtained the correct contractual commitments to meet your end user SME's needs. Our key challenge is during the provisioning phase. For example an order from an SME for an Ethernet fibre Internet connection would be placed on our CP business, who place the order on our Wholesale business, who place an order on the chosen ISP, who place an order on a backhaul provider who place an order on a last mile fibre provider (Openreach) who may then use a subcontractor to do the work.

The challenge of understanding through the supply chain as to what has happened at the customer premise by the subcontractor so the CP can keep the SME informed is a major issue and a source of SME irritation. If the systems along the line were better integrated and the fibre provider had a requirement to provide detailed and timely job updates it would aid SME's confidence greatly.

Quality of service

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

Broadband which is the major product sold into SME's for their Internet connectivity has no guarantees as the speed is "up to", and the fix times start at 40 clock hours making them highly unsuitable for any SME who relies on an Internet connection to trade. If we could get guarantees on broadband at a reasonable cost, SMEs could be persuaded in the main to accept a higher cost without resorting to higher cost EFM type services.

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?*

In the UK market for Connectivity, SLAs are only available on dedicated Internet connections and not broadband. Having read many SLAs (and also written some) an SLA provides a percentage of a monthly rental off a future bill if a service restoration or availability level is not met. As these amounts are 10 or 20% of a rental of £200 - £500, the amounts are fairly small and can be more costly to process than pay.

As a CP, we would always recommend that if an Internet connection is critical to the effective functioning of an SME, the SME should buy a backup solution via a different access technology and ideally physical route into the building. Backup solutions on dedicated Internet connections can cost as little as £20 per month so an SME should focus on the right solution for their needs, rather than a percentage of the rental back. The current margin achieved in the industry on dedicated connections will never be able to support a claim for actual financial loss and an SME would need to secure an insurance product if this is a key need.

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 offer improved target fix times from the standard 40 clock hour fix on broadband connections to the enhanced care 20 clock hour fix. However, on our broadband base, less than 1% of connections select this option. As it costs 50% of the broadband rental, it is often dismissed as too costly (at £10 per month) until a fault on the broadband occurs.

As detailed in Q9, we tend to promote backup solutions on dedicated connections but again the take up is low. UK SME's seem unwilling to invest in any service over and above the default.

Transparency of information

Q11: *What information is available to SMEs to enable them to select communications services appropriate for their business needs? Please identify any additional information or measures which you consider would enhance transparency for SMEs and your reasons for this view?*

For broadband, the freely available web based checkers based on a CLI or address are very important at the sales stage for a CP when talking to an SME. Setting the right expectation as to the likely broadband speed means the end user has advance knowledge of the likely speed and avoids costly support issues and a damaged relationship with the CP.

On dedicated connections which are a far more consultative solution sale, we often present a range of options with the benefits and drawbacks of each to enable the SME to make an informed decision. As these products have a higher rental and margin, they allow a more in depth discussion plus as the SME often commits for 3 years it is vital to install the correct solution for today and to account for future plans.

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 support Ofcom's project to harmonise switching of all products within a simple gaining led processes.

However, switching a broadband service using the MAC process has been fairly straightforward and is well known to most SMEs. They still have reservations about potential downtime, the cost of procuring a new router or reconfiguring an existing device and also the IT costs to reconfigure their IT set up if the change of static IP address makes this a requirement.

Switching from an LLU provider is more complex as the MAC process does not exist in the same manner so requires more sales and provisioning effort. This can be off putting to an SME who fears a break in service.

On dedicated Internet connections, there is no mechanism for switching so a new connection is always needed to change suppliers. SMEs are often surprised that the fact they already have an Ethernet fibre connection into the building, there is no reduction in cost (Openreach still charge the ISP a new connection cost) or that the lead-time does not reduce. However, the fact fibre exists into the building, it reduces the chance of wayleave needing to be sought and also excess construction charges being levied but as we always must say to SME customers – all orders are subject to survey.

Other potential sources of consumer harm

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

The cost Openreach charges to install a fibre connection into a building is a source of harm as it dictates this type of connection must be taken on a 3 year term to allow the connection charge to be amortised over a period of time. In addition for the vast majority of sites we connect via Ethernet fibre, our only choice of supplier is Openreach and thus we must accept their timeframes and levels of support. These can be very good but on occasions very poor. An SME does not understand how an Internet connection can take so long to install, especially when it affects their ability to trade until it's made live.

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?*

No further observations.

Q15 *For any issues identified in response to any of the questions above do you have any views on how they may be resolved?*



Openreach must have more accountability to industry for their actions and not be able to hide behind unhelpful systems, “deemed consent” or MBORC. If they fail, it must hurt them where any commercial organisation feels the pain – that is financially.

In addition while Openreach remains a part of the BT Group we feel we are always at a disadvantage to BT Retail as in the consumer and SME’s mind, BT is BT and not a set of separate trading entities. BT is still a safe choice – there used to be the saying “No one ever got fired for buy IBM” and in this sense, in the current communications market, BT could easily be substituted for IBM.

In terms of mobile coverage, we believe that only implementation of a national roaming agreement will deliver a significantly improved and acceptable level of availability.

We trust that the above response is helpful and would be happy to discuss any of the issues raised with the Ofcom team in further detail.

Kind regards

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