



# Competition to supply business telecoms

A report of the key findings of quantitative research  
studies

Research Studies conducted by Continental Research  
and Research in Communications (Recom) on behalf of  
Ofcom

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## Section 1

# Summary

## Background and research objectives

Regulation of BT has been reduced over the last two years. For business telecoms services regulation is now confined to exchange lines, inland calls from fixed lines, and low bandwidth leased lines (up to 8 megabits per second). Regulation no longer applies to services such as VPNs (including IPVPNs), SMDS, ATM, and Frame Relay. The key obligations in respect of the remaining regulated services are 'to adhere to standard published tariffs' and 'not to unduly discriminate'.

Following the Strategic Review of Telecoms Ofcom now needs to:

- examine purchasing behaviour between regulated and unregulated markets;
- assess differences in behaviour and attitudes according to business size, and telecoms expenditure;
- understand what the business user thinks about the scope for further deregulation of BT

Research into this will assist Ofcom determine whether, or how to, reduce regulation further.

## Overview of research studies

This report provides analysis of the behaviour and attitudes of telecoms purchasers across a range of businesses, and business sizes in order to help to assess whether regulation should be amended in any of the remaining regulated fixed markets. Three individual studies were conducted as outlined below:

- **Large businesses** - online interviews with telecoms decision makers in UK businesses (251+ employees) via Ofcom's online panel;
- **Medium businesses** - telephone interviews with telecoms decision makers within medium businesses (51-250 employees);
- **Communications Management Association members (CMA)** - telephone interviews with telecoms decision maker/influencer in member companies of the CMA.

## Research findings

### Some diversity in telecoms decision-making amongst large businesses

- While the majority of decision-making within both large and medium sized businesses appears to be being made at an overall level (81% of large business respondents were able to respond for their whole organisation compared to 87% amongst medium businesses), some is structured around particular aspects of the business. For example, decision-makers for particular regions or departments – both of which were more common amongst large businesses.

**Most large businesses use leased lines and all use BT for at least some of their telecoms requirements**

- There was almost ubiquitous use of PSTN exchange lines and inland calls from fixed lines across businesses regardless of size. However, use of ISDN and leased lines and broadband (via DSL or cable) was more concentrated amongst large businesses and CMA members.
- More large businesses claimed to use BT for each of the fixed services compared to medium businesses. However, there are indications that medium businesses spend a higher proportion of their overall telecoms spend with BT (c. 55% compared to c.40% amongst large businesses). This may be due to higher use of other corporate services amongst large businesses and lower use of BT for these.

**Reliable and resilient service is most important aspect to businesses when choosing a supplier**

- There was a consistent view across the different business samples that the five most important aspects of service when choosing a supplier were:
  - 'a reliable and resilient service'
  - 'good customer service/account management'
  - 'getting the lowest price'
  - 'serves all sites across the UK'
  - 'can provides all services'.
- The majority of businesses (80% large, 72% medium) stated that a reliable and resilient service was their number one priority when selecting a supplier. The CMA survey also found the reliability and resilience of service were the most important factors (although this was asked in a different way). Price was more of a secondary consideration for most (around one in ten amongst large and medium businesses).
- There were indications that the importance of 'price' rose amongst higher spenders however, so did the importance of coverage. This may be explained by the correlation between higher spend and an increased number of sites.

**Large businesses are more likely to have considered switching suppliers than medium businesses, although equally as likely to have switched**

- Medium and large businesses are equally as likely to have switched supplier for various services in the fixed telecoms markets. Inland calls from fixed lines were the most common service businesses have switched supplier for. Generally large businesses were more likely to at have at least considered switching, even if they hadn't actually done so.

**There are perceptions of at least some level of negotiating costs with BT, even in regulated markets**

- Almost half of large businesses and CMA members and around a third of medium businesses said they had negotiated costs with BT – however, respondents may be referring to negotiated discount structures as opposed to bespoke deals.

## Competition to supply business telecoms

- Around a fifth of large and medium businesses that had ever negotiated with BT (regardless of size) considered this process either very or fairly easy - this perception was also consistent across markets. BT's ability to provide all of the businesses required services was the key stated driver for remaining with BT in the absence of any price negotiations.
- While price and the ability to negotiate on price were important to most businesses this was not the only factor considered. The ability to provide several services, or service multiple sites appeared to be as important, if not more so, to many businesses. Ultimately, the main consideration was reliability and resilience - a view common across all businesses regardless of size or fixed telecoms spend.

### **Large businesses are more likely to consider BT disadvantaged due to regulations than medium businesses**

- The majority (81%) of large businesses said they considered BT was unfairly disadvantaged due to the restrictions in place surrounding non-negotiation of bespoke deals and 58% of medium businesses considered this was the case. However, this does not necessarily equate to the view that they feel these restrictions should be removed, as respondents may not have considered the impact of doing so on competition in these markets.
- CMA members' views were broadly similar to those reported by medium businesses (61% considered BT was unfairly disadvantaged). Also around two-thirds (69%) agreed that BT should be allowed to offer bespoke prices in areas of significant competition whilst 65% agreed it should continue to be regulated in non-competitive areas.

## Section 2

# Research Details

## Methodology

Three individual studies were conducted in order to give an understanding of the behaviour and views of businesses of different sizes:

- **Large businesses** - 113 online interviews with telecoms decision makers in UK large businesses (251+ employees) via Ofcom's online panel;
- **Medium businesses** - 500 telephone interviews with telecoms decision makers within medium businesses (51-250 employees);
- **Communications Management Association members (CMA)** - 200 telephone interviews with telecoms decision makers/influencers in member companies of the CMA.

## Large businesses

Current figures indicate there are around 10,000 large businesses (251+ employees) in the UK. In research terms this makes them a relatively small universe from which to draw a sample. Telecoms decision makers within large businesses are constantly under pressure from both marketing companies and researchers making them a particularly difficult group to research. To overcome these issues Ofcom maintains an online panel of around 600 telecoms decision makers in large businesses, which is run by Continental Research. Members of the panel are contacted regularly to help inform Ofcom's regulatory decisions and have been used to provide input to this project.

The online survey was conducted between 11 April and 2 May 2005 and a total of 113 large businesses from Ofcom's panel responded. This report has been prepared by Ofcom, based on the results provided by Continental Research. Given the relatively small sample size results from the entire sample are subject to error margins of 6-9%. These error margins rise even more amongst smaller sub-groups.

## Large business panel respondents

The businesses that responded to this survey were biased towards larger businesses in comparison with data from the Department of Trade and Industry<sup>1</sup>. This is largely a result of the design of Ofcom's large business panel as this is deliberately over-represents larger companies (with over 1,000 employees) to ensure large enough samples to report on this group. The data reported on large businesses as a whole are therefore weighted to give a representative picture, whilst comparisons by business size are based on un-weighted data.

Data reporting fixed telecoms spending levels are based on 92 respondents that were able to answer for the whole of their organisation. Therefore data on telecoms spend should be treated as indicative only as it based on self reported estimations from a relatively small sample. On average participants in the large business online panel said they spend just under £1M on telecoms annually however most of the sample said their telecoms spend was between £50K and £1M per year (see Annex 1).

<sup>1</sup> DTI data indicates 47% of large businesses employ between 250-499, 26% employ 500-999, 19% employ 1000-4999, 7% employ 5000+, whereas in this sample 23% employ 251-500, 28% employ 501-1000, 27% employ 1001-5000 and 22% employ 5000+. There is no data available on profile of business telecoms spend, number or location of sites. See charts in annex A for more information about sample profiles.

## Medium businesses

There are approximately 100,000 medium businesses in the UK. Ofcom commissioned Continental Research to conduct a bespoke telephone survey amongst a representative sample of telecoms decision makers within UK medium sized businesses (51-250 employees). The research fieldwork was conducted between the 10th and 31st May 2005. The findings were prepared by Ofcom, based on the results provided by Continental Research.

The survey was conducted amongst a representative sample of medium businesses in the UK, reflecting the UK profile in terms of business size, sector and region. Chart 2 in Annex 1 illustrates the profile of UK medium businesses who took part in the survey. The error margin for this survey of 500 medium businesses is about 3-4%, but is higher amongst smaller subgroups. Results referred to as 'significantly' different, have been tested at the 95% level of confidence and hence are outside of the error margins and therefore can be considered real changes. All data shown is weighted data whilst un-weighted base sizes are shown on charts and tables to show the number of businesses who responded to each question.

### Profile of medium businesses

The majority (95%) of medium businesses reported that they spend less than £50K per year on telecoms.

## Communications Management Association

Communications Management Association (CMA) is a UK business communications membership association. CMA members are drawn from the ranks of the top 1,000 businesses and corporations across the public and private sectors and spend around £11 billion per annum in the UK Information Communications Technology (ICT) market.

CMA is a registered charity and represents corporate enterprises in both the public and private sectors and individual professionals who have responsibility for or manage communications systems from throughout the value chain.

Telephone surveys were conducted amongst 200 CMA members by Research in Communications (Recom). The research was conducted between 18th May and 2nd June 2005. All respondents were either telecoms decision makers or had influence into these decisions.

### Profile of CMA members

The profile of this sample in terms of the number of employees falls in between the medium and large business samples. The detailed profile of the CMA sample and the full report prepared for Ofcom by Recom and CMA is contained in Annex 2.

### Section 3

# Telecoms decision-making structure and use of suppliers

## Decision-making<sup>2</sup>

### Large businesses

Decision making within large businesses in the UK is fairly diverse. While the majority of panel members that responded to the online survey were able to answer questions on behalf of their whole organisation (85%), the remainder had various purchasing roles. Some were responsible for certain regions (5%), others for particular departments (4%), specific sites (3%), or just for the head office (3%).

A large proportion of telecoms decision-making appeared to be taking place within IT departments (43%) in positions such as Head of IT or IT Manager/Director. Around a fifth (16%) of the sample had a senior role in telecoms/communications departments and similar proportions (20%) were managers for technical/network support services. The remainder had varying roles and responsibilities.

### Medium businesses

Decision making in medium businesses was similar with 87% able to respond on behalf of their whole organisation. The roles of those responsible for only part of their organisation were also broadly similar to large businesses - (7% responsible for the head office, 4% specific sites, 1% certain regions, and 1% for particular departments). The medium business survey did not collect information on respondents' job titles.

## Use of fixed services and suppliers

### Inland calls/exchange lines (regulated markets)

As illustrated in figures 3 and 4, the majority of businesses (both large, medium sized and CMA members) make inland calls from fixed lines and use exchange lines. However, large businesses were more likely to use ISDN lines and each of the other fixed services discussed below in comparison to medium sized businesses.

### Leased lines (low bandwidth leased lines – regulated market)

Leased lines were used by most large businesses - mainly analogue (67%) or low capacity digital leased lines (up to 8 megabits per second) (71%). Similarly a high proportion of CMA members used analogue leased lines (58%) and low capacity digital leased lines (73%). Medium sized businesses were around half as likely as the large businesses to use each of these.

In comparison just under half of large business panel respondents said they used leased lines with over 8 megabits per second capacity. In fact, large businesses appeared as likely to use corporate services such as VPN and Frame Relay as they were to use high bandwidth leased lines. Use of corporate services was significantly lower amongst medium sized businesses – see figure 3.

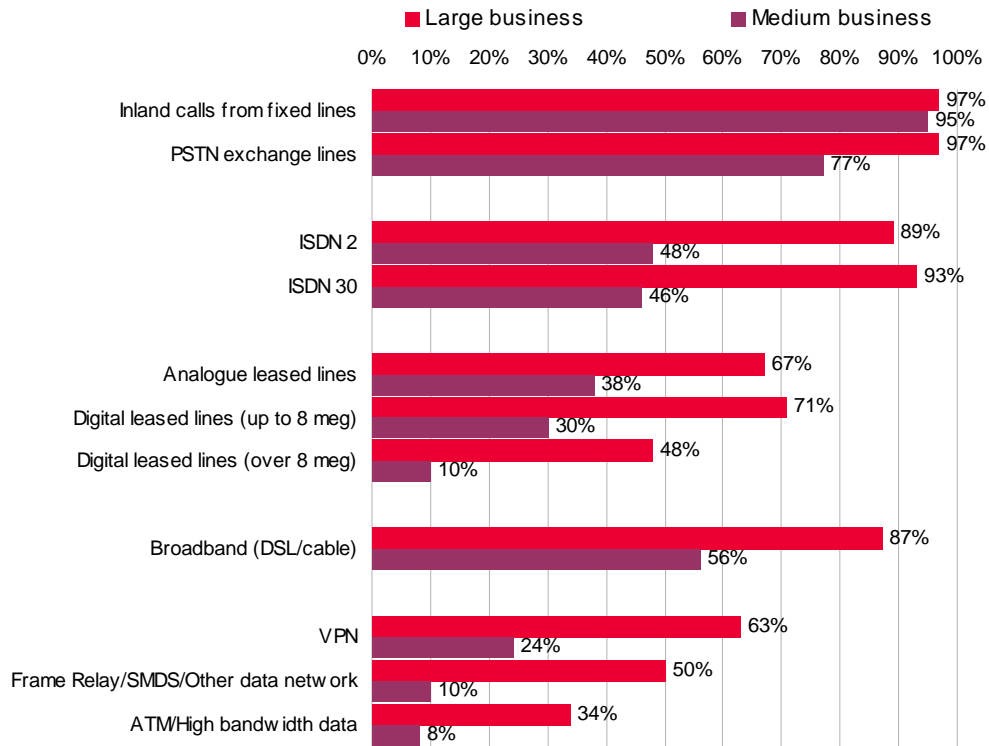
<sup>2</sup> No comparable data on decision-making is available with the CMA survey, therefore only large and medium businesses have been reported upon in this section.

**Broadband/ADSL**

Most large business respondents and CMA members said they used a broadband connection via DSL or cable – 87% and 83% penetration respectively, which compared to just over half (56%) amongst medium sized businesses (see figures 3 and 4).

In addition, Ofcom’s tracking data suggests penetration of broadband amongst small businesses was around 59% (Q1 2005) – broadly similar to medium sized businesses.

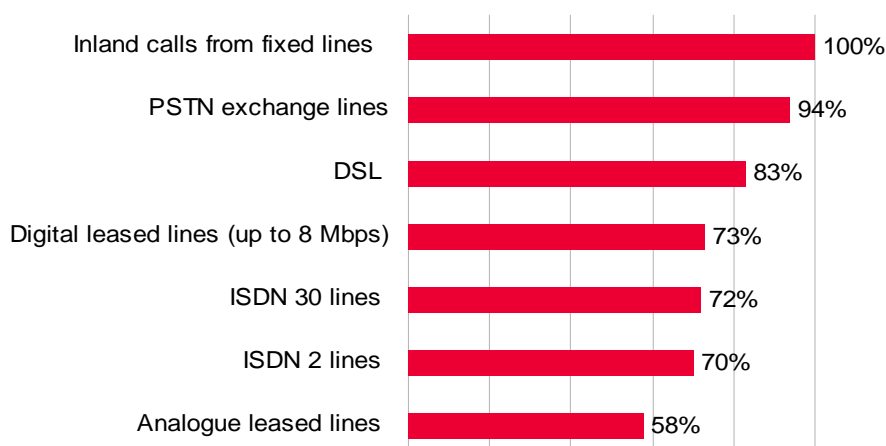
**Figure 3: Use of fixed services amongst UK large and medium businesses**



Base: 113 telecoms decision makers in large businesses, Apr-May 05, Ofcom online panel/Continental Research, 500 telecoms decision makers in medium sized businesses, May 05, Continental Research

## Competition to supply business telecoms

**Figure 4: Services used amongst CMA members**



Base: 200 CMA members

### Spend with BT for fixed services

The entire sample of large business panel respondents said they used BT for at least some of their telecoms services which compares to 87% of CMA members and 81% of medium businesses. However, on average the proportion of overall telecoms spend on BT decreases with business size among the medium businesses (see figure 5).

On average large businesses estimated that around 40% of their overall telecoms expenditure goes to BT, this compares to around 55% amongst medium businesses and c. 50% amongst CMA members.

**Figure 5: Estimated mean spend on BT as proportion of overall telecoms spend**

	CMA members	Large businesses	Medium businesses		
			Total	<£7M turnover	>£7M turnover
% of overall telecoms spend on BT	50%	40%	55%	60%	40%

Base: 200 CMA members, 113 large business decision makers, 500 medium businesses decision makers.

### Use of BT for fixed services

Estimates from large business panel members suggest that around nine in ten used BT for PSTN exchanges lines (85%) and ISDN lines (89% - low capacity and 87% - high capacity). The proportion using BT for inland calls was slightly lower at 69% and lower still for low bandwidth leased lines (56%) (see figure 6).

Medium businesses appear to be less likely to use BT in each of the regulated markets with propensity to use BT falling with business size, as illustrated in figure 6.

Figure 6: Large and medium business self-reported use of BT in fixed markets

Use of BT in fixed market – indicative results

	Large business total (Base: 92)	Total (Base:500)	Medium businesses			
			Annual turnover		Annual telecoms spend	
			<£7M	>£7M	<£10K	>£10K
Inland calls from fixed lines	69%	48%	51%	37%	52%	40%
PSTN exchange lines	85%	63%	69%	52%	66%	57%
ISDN 2	89%	63%	73%	53%	72%	56%
ISDN 30	87%	63%	67%	57%	62%	60%
Analogue leased lines	77%	65%	64%	67%	68%	63%
Digital leased lines (up to 8 meg)	*56%	51%	65%	38%	78%	42%
Digital leased lines (over 8 meg)	*53%	55%	**			
Broadband (DSL/Cable)	51%	62%	68%	54%	60%	63%
VPN	*37%	54%	**			
Frame Relay/SMDs/Other data network	*38%	39%				
ATM/High bandwidth network	*38%	49%				

\* small base size so treat as indicative only

\*\* base sizes too small to analyse by turnover or spend

Base: Variable bases dependant on ownership, ranging between 40 for ATM and 110 for inland calls amongst large business telecoms decision makers, Apr-May 05, Ofcom online panel/Continental Research, and 34 for ATM and 474 for inland calls amongst medium business telecoms decision makers, May 05, Continental Research.

Small base sizes mean differences (indicated in figure 6) are not statistically significant and should be treated as indicative only. Base sizes for the large business data are too small to enable a comparison by turnover or telecoms spend for most markets individually.

The research with CMA members asked about the main supplier of different services rather than any use of a provider therefore has not been included here, however the full report is included in Annex 2 for reference.

### Bundling of services

The prevalence of purchasing multiple services or supplying multiple sites using a single supplier increased with business size. Almost all large businesses said they purchased at least two fixed services from the same supplier. In contrast, bundling services was not as popular amongst medium sized businesses (two in five).

## **Competition to supply business telecoms**

'Ease of management/convenience' and 'cost savings/obtaining a better deal' were the main stated reasons for bundled purchasing amongst businesses regardless of size. However, there were indications that the importance of convenience rose with business size. Other reasons stated but to a lesser extent were: 'reputation of supplier', and 'previous positive experience of supplier'. A small proportion of large businesses said they 'had no alternative'.

## **Multiple providers of services**

Large businesses were asked about their use of multiple suppliers for certain services. Around six in ten large businesses said they used more than one supplier for the same fixed service, with the key reasons being 'resilience' or 'different suppliers for different sites'. When prompted almost a fifth said they 'achieved a better deal if they used different suppliers at different sites'. Other reasons for using more than one supplier for a single service included 'additional capacity', and 'availability of services'. The CMA research also found that where organisations who had more than one supplier for a service, tended to be from larger organisations (2501+ employees).

## Section 4

# Telecoms decision-making factors

## Decision-making and choosing a fixed telecoms supplier

### Large businesses

In order to understand the impact of the restrictions on BT with regards to price negotiations Ofcom explored the importance of price in relation to other aspects of service provision. Respondents were shown a list of attributes (see figure 7) and asked to rank their importance when choosing a supplier. The top three reasons listed as either 'very' or 'fairly important' were:

- 'Reliable and resilient supplier' – (99%)
- 'Good customer service' and 'account management' – (95%)
- 'Getting the lowest price' – (92%).

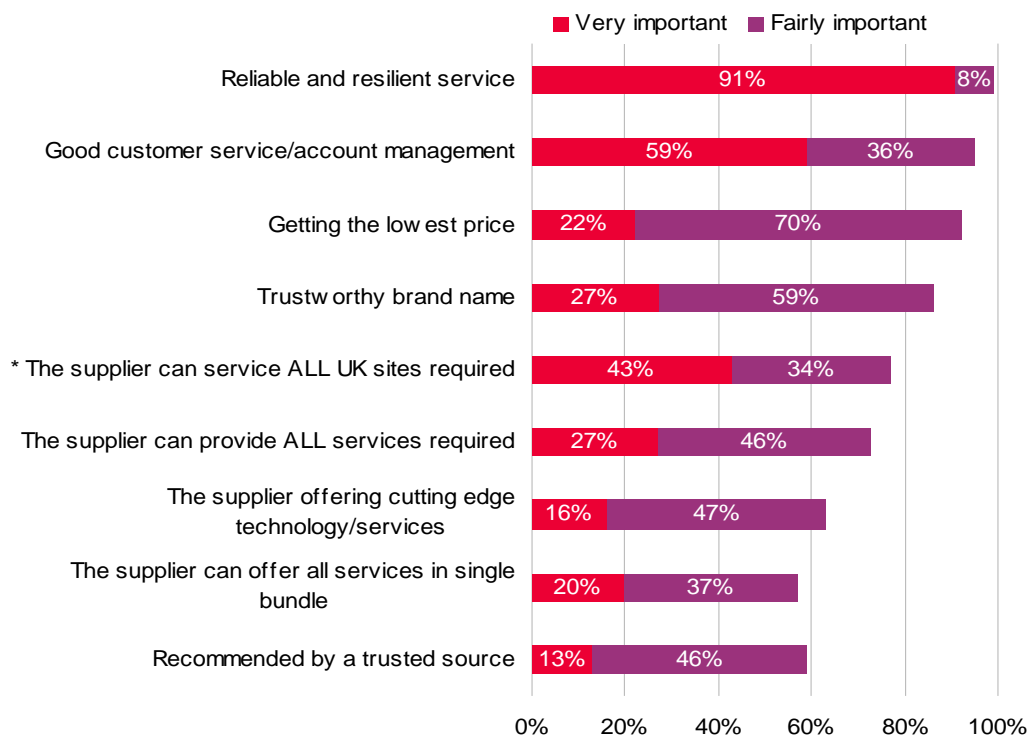
While coverage did not appear in the top three aspects when combining 'very important' and 'fairly importance' responses, this aspect was amongst the top three 'very important' aspects (43%) and ranked above 'getting the lowest price' (22%).

There were indications that price was more important amongst higher spenders (spending over £500K per annum) with 27% saying it was 'very important' compared to 20% amongst those spending less than £500K. Higher spenders also appeared more likely than average to consider coverage (provision of services to all sites) as 'very important' (56%). This is perhaps due to the correlation between higher telecoms spend and larger number of sites. Due to small bases (under 50) these findings are not statistically significant and should be treated as indicative only.

When looking at the total rankings, the results clearly indicated that a 'reliable and resilient service' was the number one priority for large businesses. Nearly nine in ten (86%) stated this as the most important aspect when selecting a supplier, a common opinion across all businesses regardless of size, telecoms spend or business sector.

The second most important aspect varied across businesses with almost a third stating 'customer service/account management', a fifth citing 'lowest price' and the remainder being split fairly equally between 'coverage/ability to provide services to all sites', and 'provision of all services'. Generally, a supplier's ability to service all sites or provide all services was either a second or third priority for most large businesses. The importance of price appeared to increase with the amount spent on fixed telecoms services although caution should be applied as these findings are not statistically significant.

**Figure 7: Aspects of importance to large businesses when selecting a telecoms supplier, weighted data**



Base: 113 telecoms decision makers in large businesses, May 05, Ofcom online panel/Continental Research

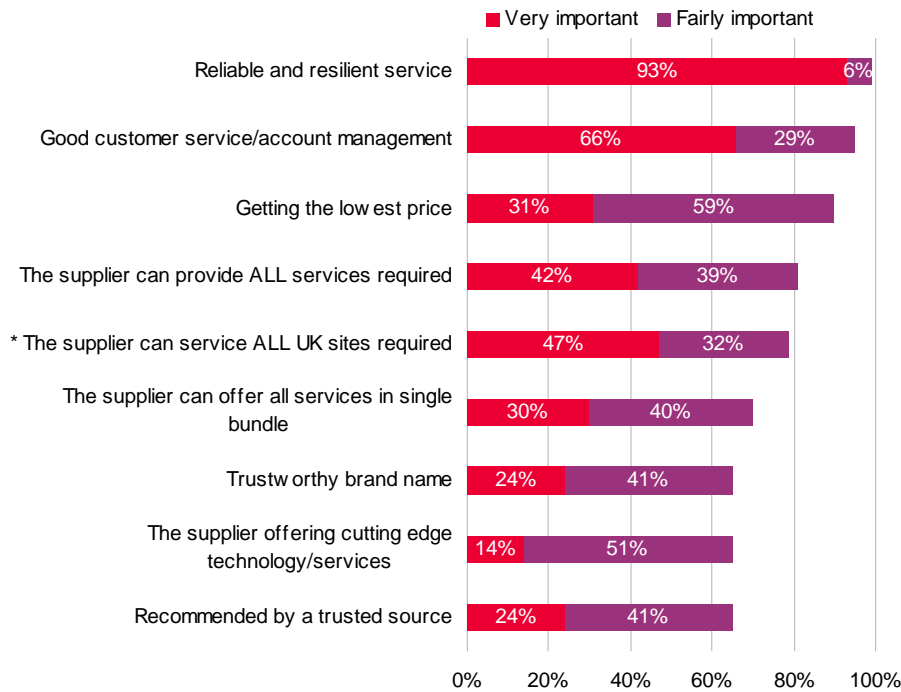
### Medium businesses

Findings were broadly similar amongst medium businesses with 'reliability/resilience' and 'customer service' stated as top priorities in choice of supplier (see figure 8). Similarly to large businesses, 'lowest price' was stated third although consolidation (either of suppliers or services) ranked higher when comparing aspects rated as 'very important'. Views were broadly similar across all medium businesses in terms of size (turnover, and spend on telecoms), including the importance of price.

Medium sized businesses were also asked to rank each of these aspects in order of importance. Results again were broadly comparable to large businesses – with 'reliability/resilience' the most important aspect (72%), with 'cost/getting the lowest price' (11%) and 'customer service/account management' (9%) stated as second most important. 'Coverage/provision to all sites' and 'ability to provide multiple services' were stated as the most important factors by 2% of medium businesses each.

Overall findings amongst large and medium sized businesses illustrated that while price and the ability to negotiate on this aspect was important to businesses when selecting a supplier, it was by no means considered in isolation. For some, the ability for a supplier to service various sites or provide multiple services was of greater importance than obtaining the lowest price. Ultimately reliability and resilience were of greatest importance across all businesses regardless of size or telecoms spend.

**Figure 8: Aspects of importance to medium businesses when selecting a telecoms supplier**



\* based on medium businesses with more than one site

Base: 500 telecoms decision makers in medium businesses, May 05, Continental Research

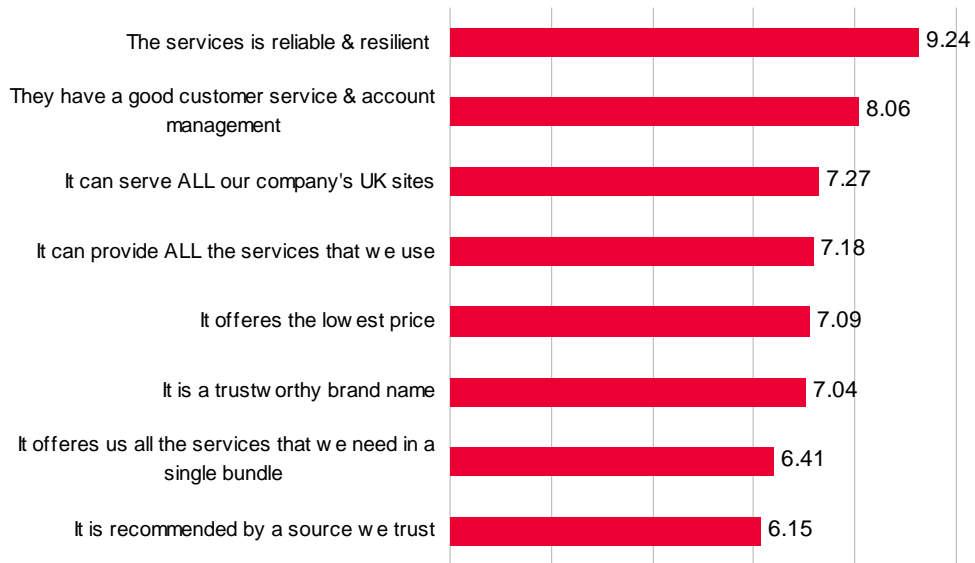
### CMA members

CMA members were asked about the reasons behind their choice of suppliers in a different way to the large and medium businesses. Respondents were asked to give spontaneous reasons for supplier choice and then separately asked to rank a list of attributes in order of importance (using a scale from 1 to 10, 1 means 'not important at all' and 10 means 'very important').

When answering from the top of their mind, 'it offers the lowest price' was most often mentioned (53%), however with more thought and consideration of prompted list of reasons, the factors also identified by large and medium businesses were seen as most important (see figure 9).

Competition to supply business telecoms

Figure 9: Reasons for choosing main supplier, overall score for any services, spontaneous



Base: 200 CMA members, 1 = not at all important, 10 = very important

Section 5

# Changing fixed suppliers

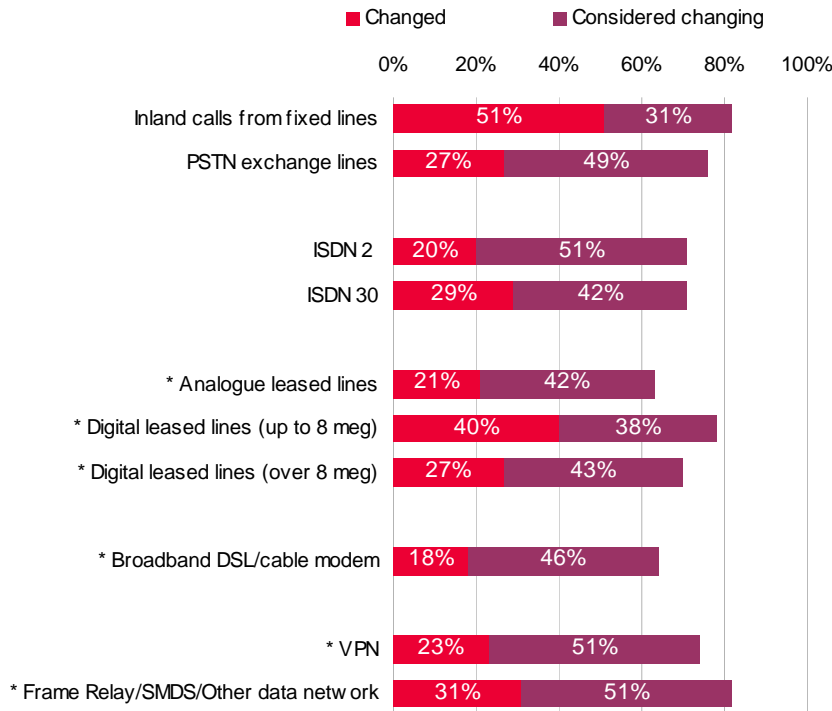
## Switching suppliers<sup>3</sup>

### Large businesses

Suppliers for inland calls from fixed lines and low bandwidth leased lines (two of the regulated services) were most likely to have been switched in the last 5 years (51% and 40% respectively). More large businesses had considered changing supplier for each of the other services than the proportion that had actually switched.

Please note the small base sizes for most of these services therefore treat these results as indicative only.

**Figure 10: Whether large businesses have changed or considered changing supplier in the past five years, weighted data**



\* base sizes less than 100 so treat as indicative only

Base: 113 telecoms decision makers in large businesses, May 05, Ofcom online panel/Continental Research. Variable bases dependant on ownership, ranging between 22 for ATM and 88 for inland calls.

Looking specifically in the regulated markets, switching and considered switching was broadly similar across all business types in terms of size and fixed telecoms spend for users of PSTN exchange lines or inland calls. There were indications amongst higher fixed telecoms spenders using low bandwidth leased lines of a greater propensity to have changed supplier (although this finding is not statistically significant).

<sup>3</sup> The CMA study did not ask questions about frequency of switching therefore is not reported upon here.

## Competition to supply business telecoms

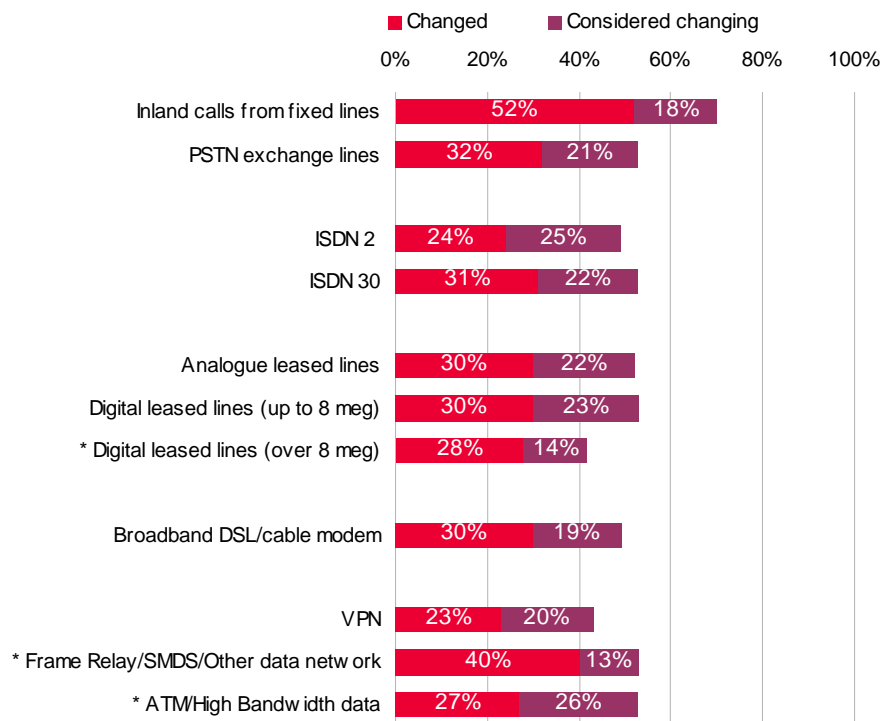
Most of the switching behaviour in the regulated markets (inland calls, exchange lines and low bandwidth leased lines) was away from the dominant provider BT although this was similarly true of the de-regulated markets. However, amongst those businesses that switched away from other providers – many began using BT. Sample sizes of businesses that have switched are too small to produce any further analysis.

### Medium businesses

Levels of switching amongst medium businesses were broadly comparable with those in large businesses. However, they were generally less likely to have considered changing supplier. The highest switching levels were reported for inland calls (52% had switched and a further 18% had considered doing so).

Similarly to switching behaviour amongst large businesses, while some businesses moved away from using BT for certain fixed services – others switched to BT.

**Figure 11: % medium businesses changed or considered changing supplier in past five years**



\* base sizes less than 100 so treat as indicative only

Base: Variable bases dependant on ownership, ranging between 22 for ATM and 88 for inland calls.

Section 6

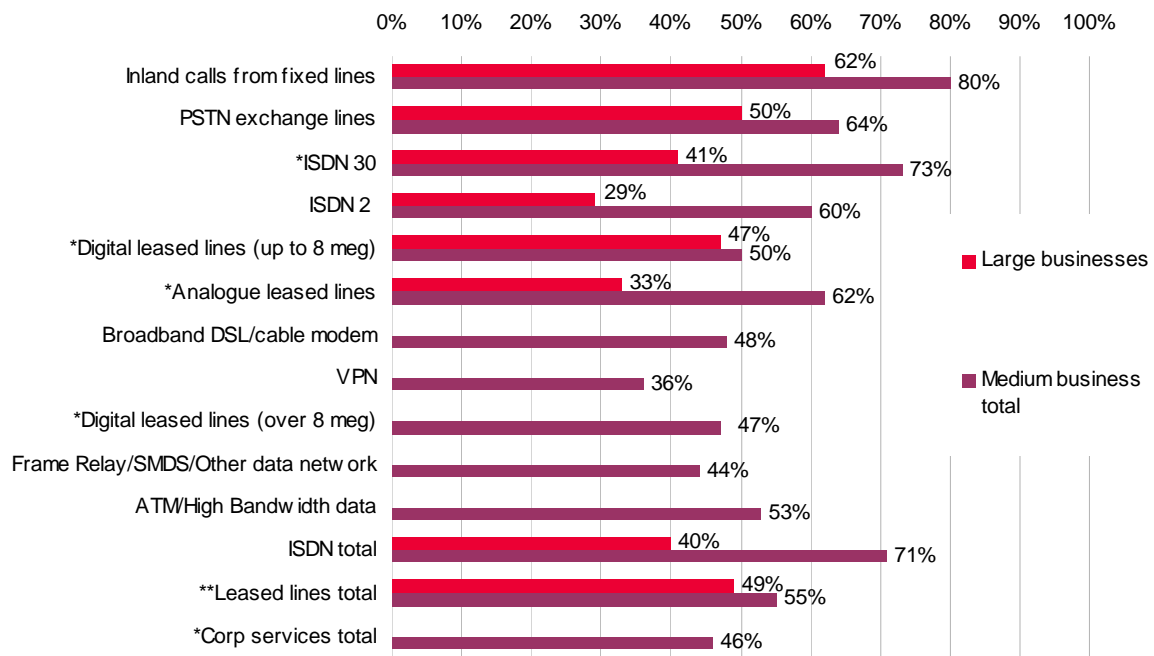
# BT - Negotiation process and attitude towards regulations

## Extent of negotiating with BT

### Large and medium businesses

Figures 12 and 13 indicate that businesses claim that they are able to negotiate to some level on price with BT despite the regulation restricting this. However, as indicated in the CMA research (Annex 2) it is not clear if respondents are considering requesting the 'standard discount' prices as negotiating.

**Figure 12: % businesses ever negotiated cost with BT in the last five years**



\* base sizes less than 100

\*\* base sizes for large businesses less than 100

Base: Variable bases – businesses that use BT for each of the fixed services, don't knows are excluded, May 05, Ofcom online panel/Continental Research. Data has not been shown where base sizes were less than 30.

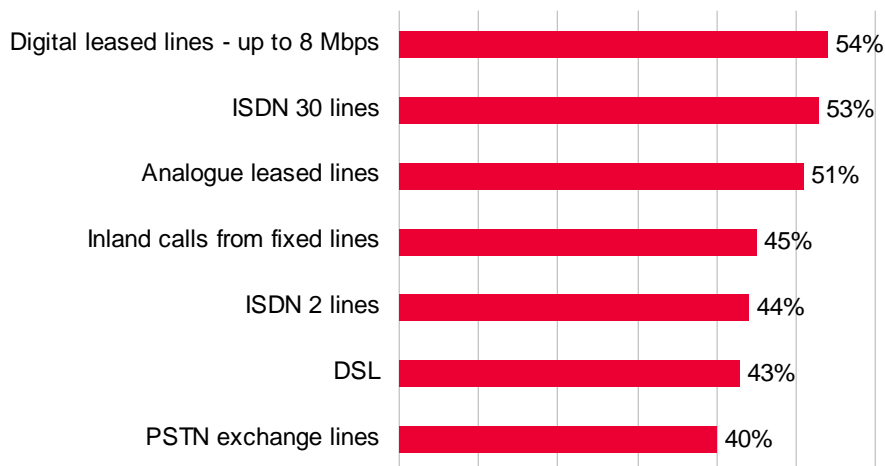
Large businesses were generally less likely to say they negotiate with suppliers on price than medium sized businesses. Just over six in ten (62%) large businesses that used BT said they had negotiated costs with BT for inland calls in the last five years, half said they had entered into negotiations on PSTN exchange lines (50%) or low bandwidth leased lines (47%) while four in ten said they negotiated on price for ISDN lines.

Medium businesses were more likely to say they had negotiated with BT on price across all fixed markets (where comparable data was available for large businesses). Eight in ten medium businesses said they had negotiated prices with BT for inland calls, seven in ten for ISDN lines, and slightly lower at around six in ten (64%) for PSTN exchanges.

### CMA members

A considerable amount of CMA members using BT also claim to have negotiated on price<sup>4</sup>. 54% claimed they had negotiated the prices with BT for digital leased lines up to 8 Meg, 45% mentioned inland calls from fixed lines and 40% for PSTN exchange lines.

**Figure 13: % of organisations that negotiated with BT**



Base: All CMA members using BT for any service, 174 overall

### Perceptions of ease of negotiating with BT

As mentioned above businesses may have considered various degrees of negotiation when rating how easy or difficult negotiations with BT were which may affect opinions regarding the ease of this process. Some may have considered discount structures as a form of 'negotiating', while others may have negotiated bespoke deals – this should be borne in mind when interpreting this data.

### Large and medium businesses

Around a fifth of large businesses that use BT for some services said that negotiating with BT on the price of regulated fixed services (exchange lines, inland calls and low bandwidth leased lines) was 'easy'. Perceptions of the ease of negotiations were broadly similar in the de-regulated markets. Sample sizes for separate fixed markets were too small to analyse.

Similarly, around a fifth (22%) of medium businesses said that negotiating with BT on the price of services within regulated markets was easy.

<sup>4</sup> The CMA study found an indication that large organisations tend to negotiate more than smaller companies which contradicts the findings in the large and medium businesses (see annex B).

## Reasons for remaining with BT

Most large and medium businesses said they decided to use BT for its ability to provide all of the required services, even though they were restricted in negotiations on price. There were no differences according to the fixed market being discussed or business size.

Therefore although price was important to most businesses in selecting a supplier and there was a perception that it was possible to negotiate with BT, price was not considered in isolation. In fact, the ability to provide several services, or service multiple sites appeared to be as important, if not more so, to many businesses. Ultimately the main consideration for the majority of businesses was a reliable and resilient service. This was a common view regardless of business size.

## Perceptions of BT's prices versus competitors

The CMA survey explored members' perceptions of BT's prices in fixed markets in comparison to those offered by competitors. Regardless of business size, sector or location the general view was that the competitors' prices were lower or about the same as BT's (over half in each market) (see Annex 2).

## Business' attitude towards the regulations on BT

### Large and medium businesses

Both large and medium business telecoms decision makers were asked whether they felt BT was unfairly disadvantaged by being prevented from offering bespoke prices for inland calls, exchange lines and low bandwidth leased lines (i.e. the obligation that BT has to offer all businesses the same published prices and discount schemes for these services).

Most (81%) large business panel members considered BT was unfairly disadvantaged because of this obligation. Results indicated that this was a common view amongst panel respondents regardless of business size or spend. However, this does not necessarily equate to the view that they feel these should be removed as respondents may not have considered the impact of doing so to competition in these markets.

Decision makers in medium businesses were less likely than those in large business to consider BT at a disadvantage, nevertheless 58% of them still said this was the case.

### CMA members

Results amongst CMA members were broadly comparable to medium businesses with 61% considering that BT at a disadvantage.

Around four fifths (83%) of CMA members agreed that BT should have more flexibility in areas with significant competition and 82% agreed that BT should continue to be regulated in non-competitive areas.

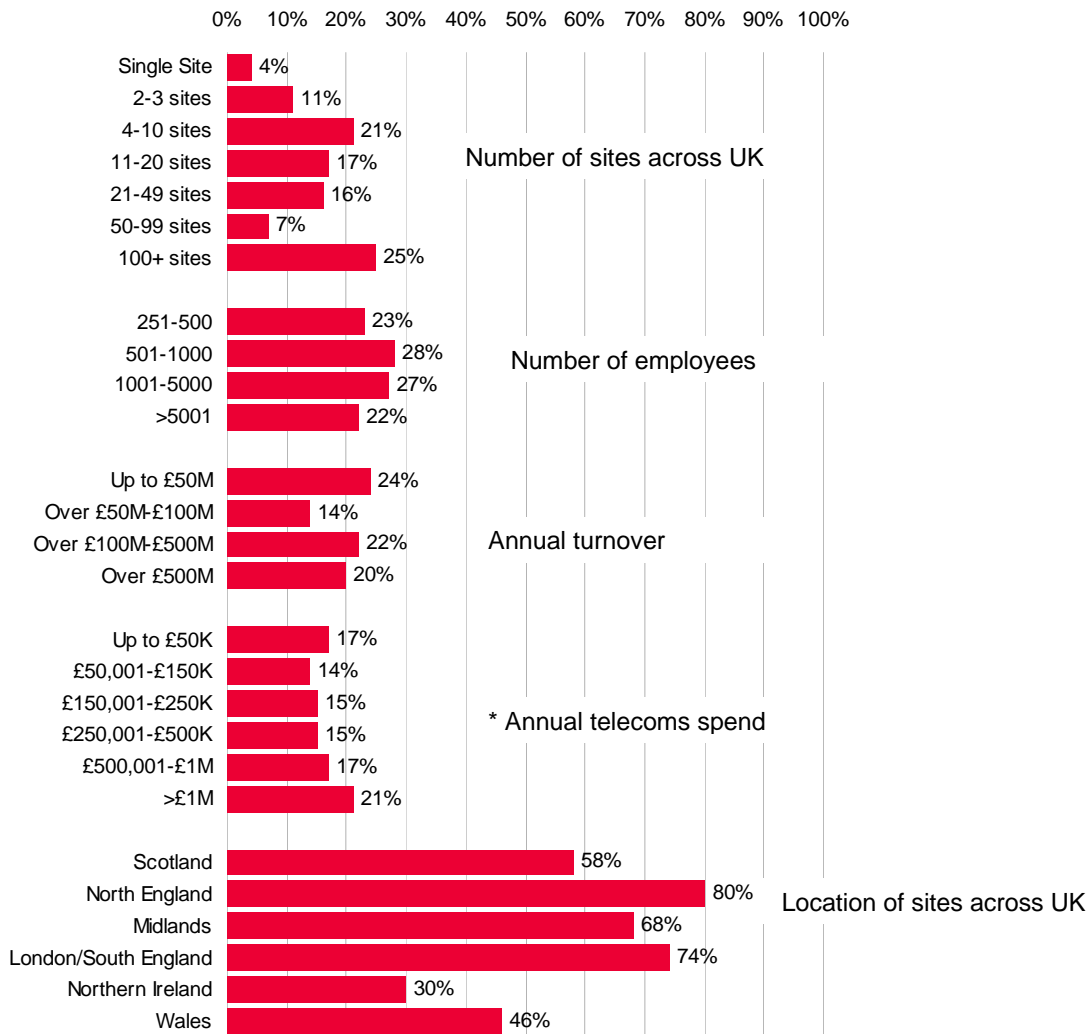
More CMA members considered that removing regulations on BT would have a positive impact on competition demonstrated by just over two-thirds (69%) agreeing that giving BT greater flexibility to negotiate on price would lead to increased price competition and 65% agreeing that it would lead to increased service competition.

This compares to just under half (47%) that thought removing these regulations would give BT an unfair competitive advantage. These results were irrespective of business size, sector or location. The full results are illustrated in annex 2.

Annex 1

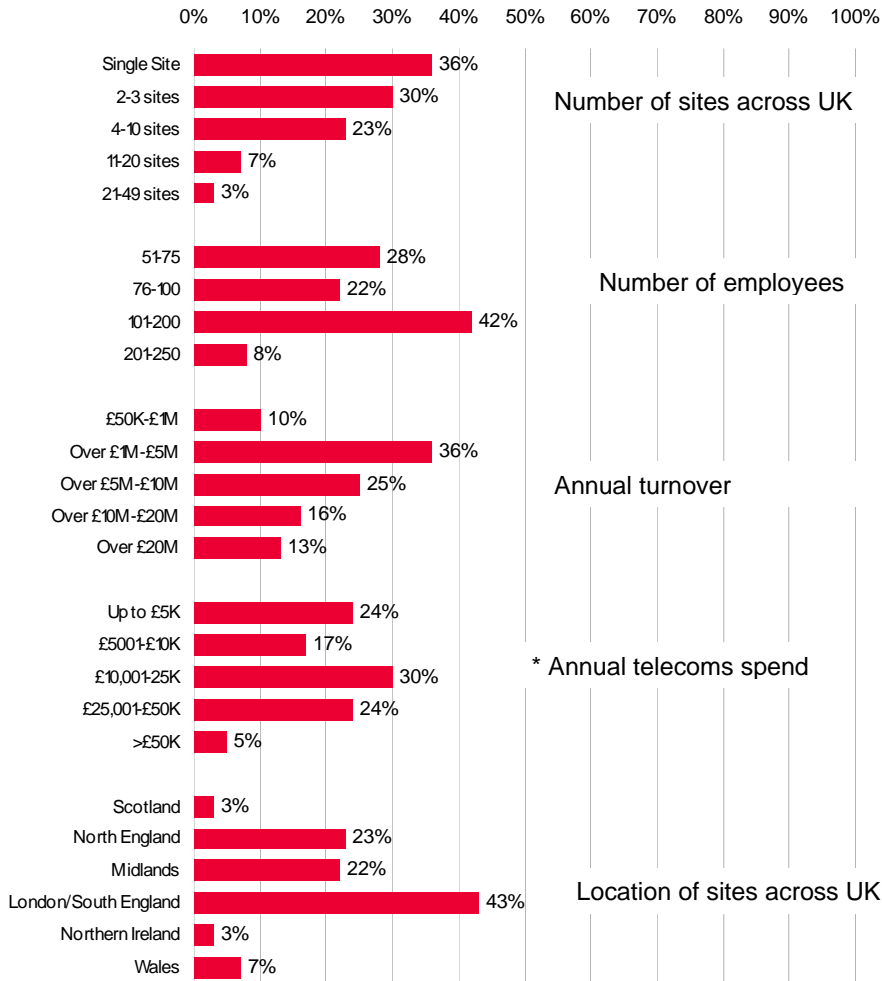
# Profile of large and medium business research samples

Chart 1: Profile of large business panel respondents



\* based on 92 respondents able to respond on behalf of whole company.  
 Base: 113 telecoms decision makers in large businesses, Apr-May 05, Ofcom online panel/Continental Research.

Chart 2: Profile of UK medium businesses



\* based on 441 respondents able to respond on behalf of whole company.  
 Base: 500 telecoms decision makers in medium businesses, May 05, Continental Research.

## Annex 2

# CMA Survey Summary

- The respondents who took part in the survey were representative of the CMA membership.
- Overall, the organisations represented in the survey have similar views irrespective of respondents' responsibilities, organisation size, activity and turnover.
- In terms of suppliers used, BT is by far the main supplier for all the services surveyed.
  - Respondents from smaller organisations (up to 250 employees) tend to buy more of their telecommunications services from BT whilst larger organisations (2501+ employees) tend to have multiple suppliers. However, the majority of the organisations had a single supplier for any of the services investigated.
- **Reliability** and **price** are the most frequent 'top of mind' reasons when choosing a telecoms supplier.
  - The main reasons for choosing BT are its **network coverage and reliability**.
- Overall, irrespective of services, prices of other suppliers are considered lower or about the same than BT's prices.
- Approximately, half of the respondents have negotiated on price with BT. There is a tendency for larger organisations to negotiate more than smaller ones. This may be due to: a) their purchasing power and b) requirement of bespoke solutions that large organisations require.
- In terms of deregulation of BT, the views held by the CMA members were similar irrespective of organisation size, turnover, activity and respondent's job titles. There was general agreement regarding the following statements:

"greater flexibility to negotiate with BT on prices for inland calls, exchange lines and low bandwidth leased lines, would lead to increased **price competition** (69% of respondents agree or strongly agree) and **service competition** (65% agree or strongly agree)"
- However, regarding deregulation, there was no clear agreement or disagreement to following statements:

"give BT an unfair competitive advantage"

"have no effect on the company's purchasing"
- Furthermore, there is indication that respondents from rural locations, 21% of the sample, were more likely to be concerned about the effects of deregulation since there is less competition in those areas. A greater proportion of organisations based in rural areas also disagreed with the statement: "BT is unfairly disadvantaged".

- To conclude, respondents are in favour of BT being allowed to offer bespoke prices in areas where there is significant competition (83% of the respondents agree or strongly agree) but believe BT should continue to be regulated in areas where there is no other competition (82% agree or strongly agree).

### Profile of the CMA's Membership

The profile of the respondents who took part in the survey reflects the CMA membership profile:

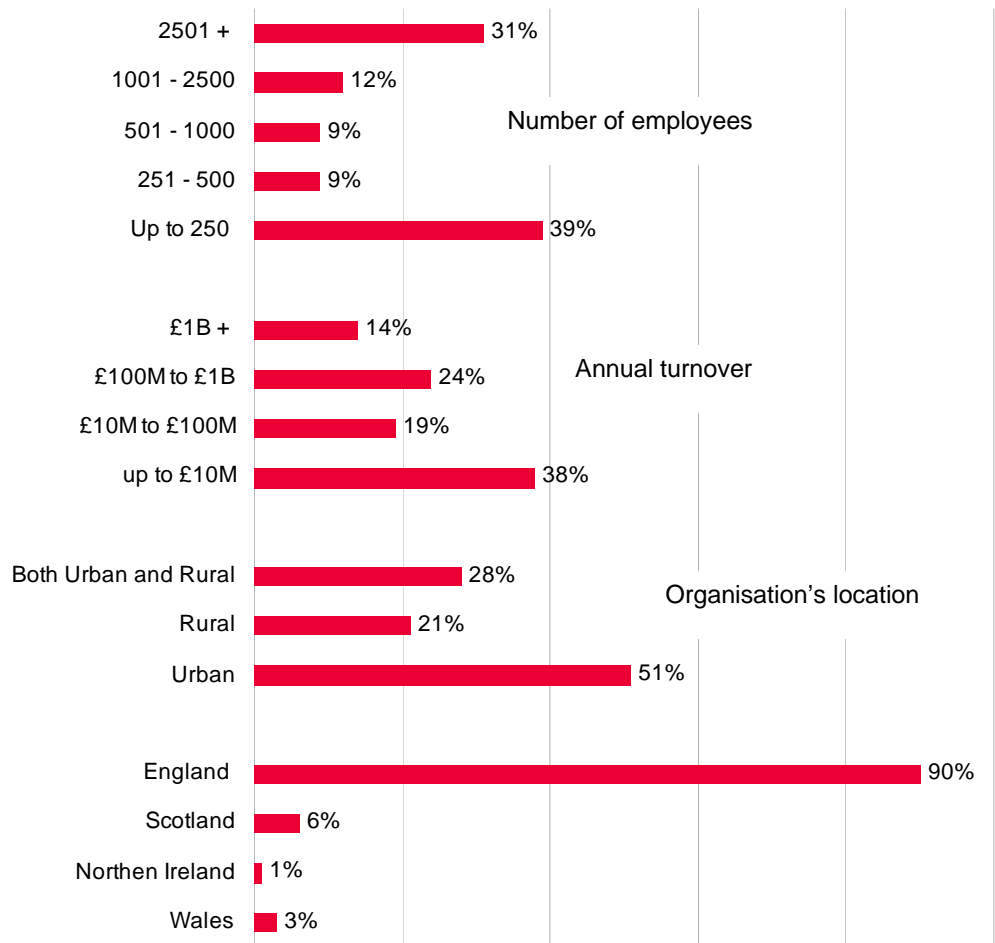
- The organisations represented in the survey were spread over a variety of industry sectors.
- More than half of the organisations were predominantly located in urban areas, while a third were located in both urban & rural and a fifth were exclusively based in rural areas.
- 90% of the organisations were based in England, 6% in Scotland, 3% in Wales and 1% in Northern Ireland.
- A considerable share of the large businesses is represented in the sample with 31% of the organisations employing more than 2501 employees. 24% of the organisations approached have a turnover between £100 million and £1 billion and 14% over £1 billion.

It is not surprising to see that the larger the organisations, the more likely they will have a telecoms / IT department where the decisions are made. With organisations with less than 250 employees, often specialist skills (consultants) are brought in. The consultants that took part in this survey were specifically speaking on behalf of the current/last organisation they have worked for.

For further details on the profile of the CMA members, please see figures a and b.

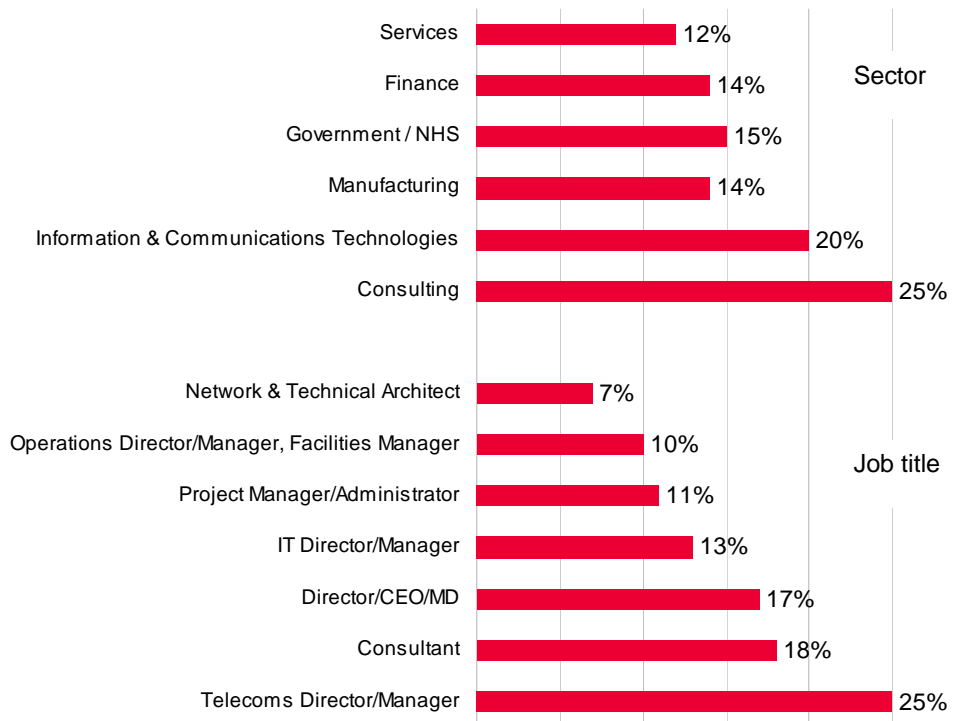
## Competition to supply business telecoms

Figure a: Profile of the CMA members<sup>5</sup>



<sup>5</sup> Base: 200 CMA members

Figure b: Profile of the CMA members<sup>6</sup>



## Telecoms services and suppliers used

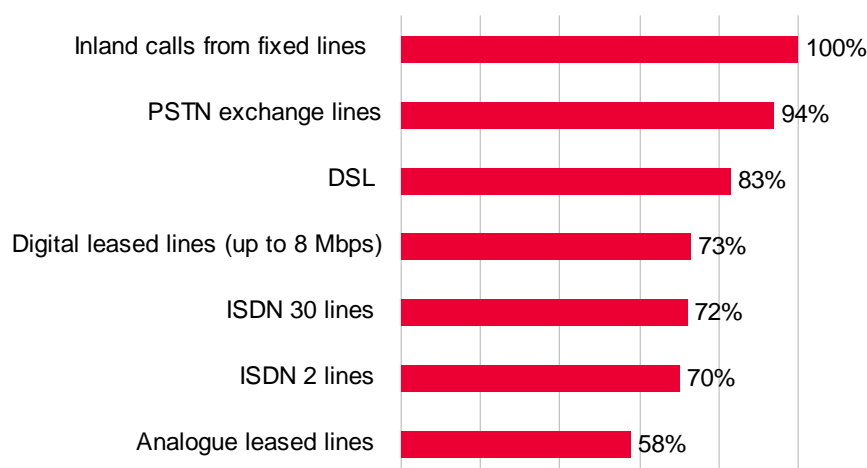
### Services used

Not surprisingly, all the organisations responding to the survey make calls from fixed lines. As shown in the figure c below, nearly all of the organisations used PSTN exchange lines (94%), just over four fifths DSL (83%), and just under three quarters used digital leased lines (up to 8Mbps) (73%), ISDN 2 lines (72%) and ISDN 30 lines (70%). Analogue leased lines are less popular with 58% of the respondents using the service. Furthermore, we can see from the figure that DSL has now surpassed ISDN.

Buying through e-auctions is currently not common practice, 98% of the respondents stated they did not purchase any of their services through e-auctions. Amongst the three respondents who bought some services through e-auctions, two were from large organisations with more than 2501 employees.

<sup>6</sup> Base: 200 CMA members

Figure c: Services used<sup>7</sup>



### Frequency of renewing contracts

When asking the respondents when they renew their telecoms procurement contracts, the most frequent answer was “every year”, irrespective of organisation size, activity, location or services used. Other respondents on average, renew between 2 to 2.5 years. Nevertheless, for approximately a fifth of the respondents, contracts are renewed when deemed appropriate.

Figure d: Frequency of renewing telecoms contract procurements<sup>8</sup>

	Inland calls from fixed lines	PSTN exchange lines	ISDN 2 lines	ISDN 30 lines	Analogue leased lines	Digital leased lines, up to 8 meg	DSL
(Base)	(200)	(188)	(140)	(144)	(117)	(146)	(166)
Every 6 months	3%	3%	1%	1%	0%	0%	1%
<b>Every year</b>	<b>40%</b>	<b>39%</b>	<b>39%</b>	<b>31%</b>	<b>36%</b>	<b>33%</b>	<b>45%</b>
Every 2 years	9%	8%	7%	15%	9%	13%	12%
Every 3 years	15%	15%	14%	21%	18%	23%	12%
Every 5 years	10%	13%	14%	17%	16%	14%	9%
When appropriate	18%	20%	22%	18%	18%	15%	18%
<i>Estimated mean (years)</i>	2.21	2.25	2.39	2.63	2.56	2.49	2.01

### Suppliers used

#### 1. Single / Multiple suppliers

As shown in the figure e below, the majority of the organisation irrespective of size, sector and location, had a single supplier for the services investigated. However, where organisations had more than one supplier for any of the services investigated, these tended to be from large organisations (2501+ employees).

<sup>7</sup> Base: 200 CMA members

<sup>8</sup> Base: all respondents using the specific service (number of organisations differ)

Figure e: % of respondents who have multiple or single suppliers<sup>9</sup>

	Inland calls from fixed lines (200)	PSTN exchange lines (188)	ISDN 2 lines (140)	ISDN 30 lines (144)	Analogue leased lines (117)	Digital leased lines, up to 8 meg (146)	DSL (166)
Single supplier	84%	82%	90%	83%	90%	79%	89%
Multiple Suppliers	17%	18%	10%	17%	10%	21%	11%

## 2. Main suppliers used

Although a number of suppliers are used: BT remains by far the main supplier used, irrespective of the services.

87% of organisations use BT, as supplier or main supplier for any of the services investigated.

- Cable & Wireless is overall the second most frequent main supplier used. However, even Cable & Wireless' market share in comparison to BT's, is very low amongst the CMA members. For further details, see figures f-h.
- 'Other suppliers' as represented in the figures f-h, include the following (but overall had very low market share, up to 3%): MCI Worldcom, Thus, Equant, Energis, Global Crossing, AT&T, Easynet, Fibernet, Opal, PSInet, Telia, Interoute, Pipex, Onetel, Sprint, Demon, Your communications, Spitfire, IDN, Protel, Telstra, InTechnology, Wanadoo, Newnet, Tiscali, Bulldog, Westcom, BIS ltd, Aircom, Primus, Neos Networks and Virgin.
- As shown in the figures, Colt, NTL and Telewest Business have also very low market shares and the only reason why they have been represented individually and not grouped with 'other suppliers' category is for illustration purposes.

<sup>9</sup> Base: all respondents using the specific service (number of organisations differ)

Competition to supply business telecoms

Figure f: Main supplier used for Inland calls from fixed lines, PSTN exchange lines and ISDN lines (2 & 30)<sup>10</sup>

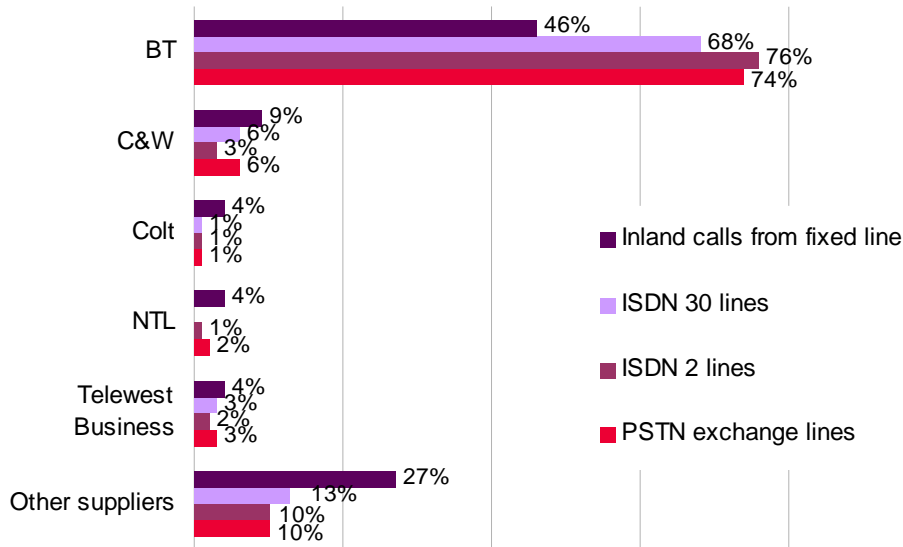
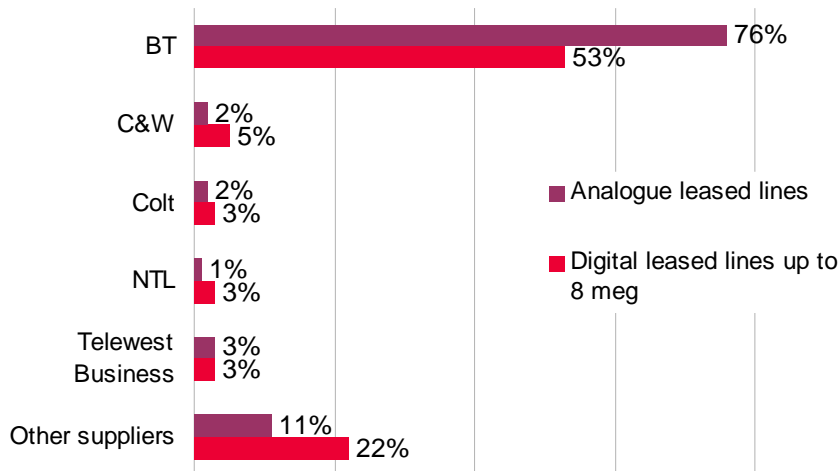


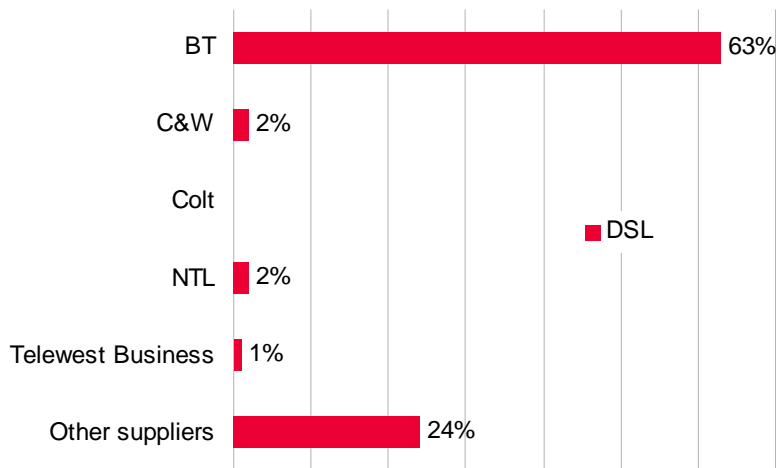
Figure g: Main supplier used for leased lines: analogue and digital up to 8 Meg<sup>11</sup>



<sup>10</sup> Base: all respondents using the specific service: (number of organisations differ)  
 PSTN Exchange lines: 188; ISDN 2 lines: 140; ISDN 30 lines: 144 and Inland calls from fixed lines: 200  
 'Don't know' answers are not shown

<sup>11</sup> Base: All respondents using the specific service: (number of organisations differ)  
 Digital leased lines up to 8Mbps: 146; Analogue leased lines: 117  
 'Don't know' answers are not shown

Figure h: Main supplier used DSL<sup>12</sup>



### Reasons considered when choosing telecoms suppliers

#### 1. Spontaneous reasons for choice of telecoms supplier

The primary reason for choice is that the service must ‘meet expectations’; therefore the service has to be reliable and resilient.

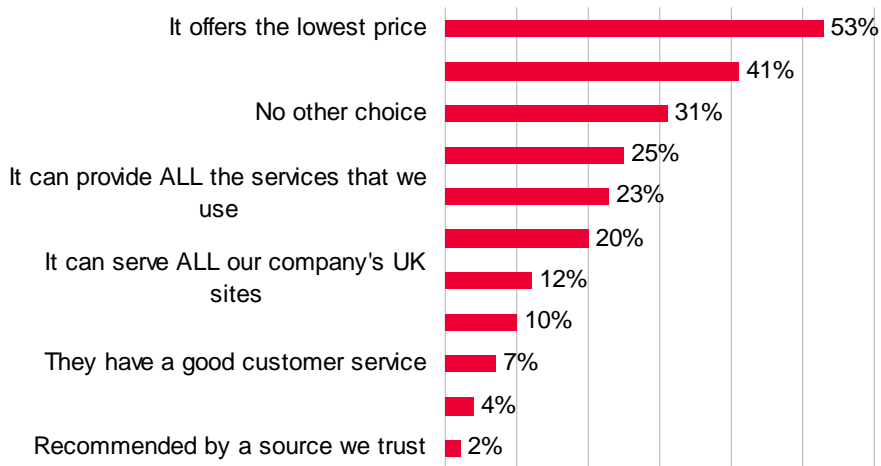
However, price was also a major consideration and when asking the respondent “what were the reasons for choosing their main supplier”, top of mind reasons given for choosing a supplier were:

- price (53%)
- reliability of the service (41%)

Interestingly, a third (31%) stated they did not have other options available and a quarter stated ‘historical’ reasons such as using the same suppliers as before, since they were satisfied with their service and price. Respondents who stated ‘no choice’ or ‘historical’ tended to have BT as a main or sole supplier. Figure j shows reasons given when choosing suppliers.

<sup>12</sup> Base: 166 CMA members using DSL: ‘Don’t know’ answers are not shown

**Figure i: Reasons for choosing main supplier, overall score for any services, spontaneous<sup>13</sup>**



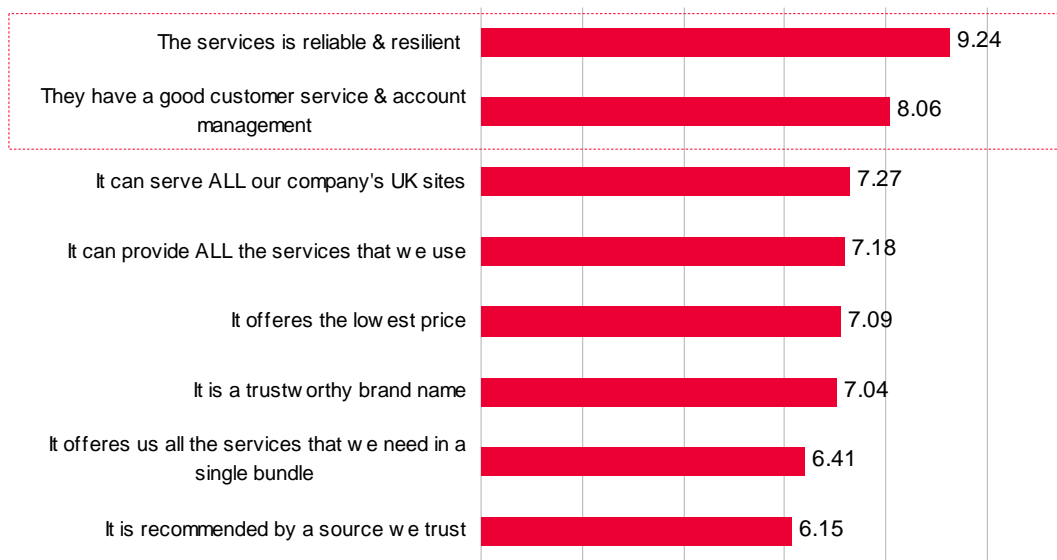
## 2. Important attributes when choosing a supplier

In order to explore further the reasons behind the choice of suppliers for telecoms services, respondents were asked to rank various attributes in order of importance (using a scale from 1 to 10, 1 means “not important at all” and 10 means “very important”).

As shown in the figure j below, all the attributes investigated were overall important. However, the top two most important aspects were:

- ‘a reliable and resilient service’ (mean = 9.24)
- ‘a good customer service and account management’ (mean = 8.06)

**Figure j: Importance of attributes when choosing a supplier<sup>14</sup>**



<sup>13</sup> Base: respondents using any of the services, 194

<sup>14</sup> Base: 200 CMA members (1 = ‘not important at all’ and 10 = ‘very important’)

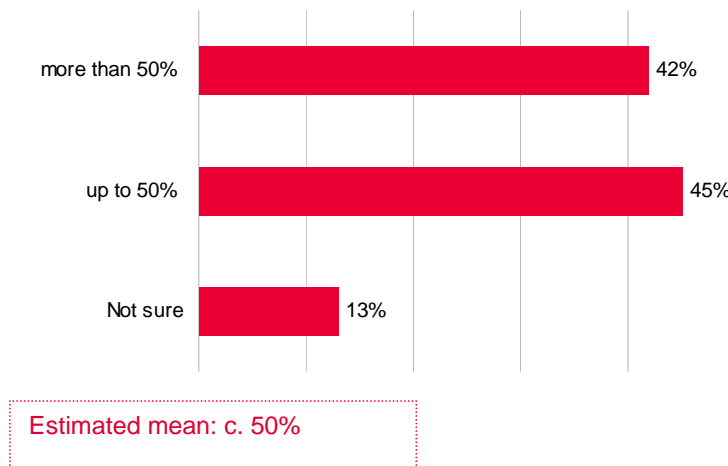
## BT users

### Organisation's spend on BT

87% of organisations use BT as a supplier or main supplier for any of the services investigated. Amongst them, 42% spend more than 50% of their overall telecoms spend on BT (please see figure k below), irrespective of industry sector and location.

Interestingly, there are indications that smaller organisations (up to 250 employees) tend to spend more as a proportion of their overall spend with BT than larger organisations. (However, due to low bases, these differences were not statistically significant and therefore should be treated as an indication only.)

**Figure k: Spend on BT in % of overall telecoms spend<sup>15</sup>**



### Why BT?

Organisations that used BT as a supplier or main supplier were asked specifically why they chose BT for any of the services investigated. The answers given for choosing BT are in line with what respondents consider important. As illustrated in the figure l below, “coverage” and “reliability” are the main reasons why respondents chose BT, with 43% of the respondents stating BT “could meet their needs on a national level” and 39% believing BT was “more reliable”.

Results are overall irrespective of organisation size (number of employees and turnover), sector of activity, and location. However, looking at figure m where the reasons are shown by location (urban, rural, both urban & rural), it is interesting to note that a greater proportion of organisations based in rural areas stated that when it came to using BT they had “no other choice.” (Bases are low; please consider results as indicative only).

<sup>15</sup> Base: all respondents using BT for any service, 174

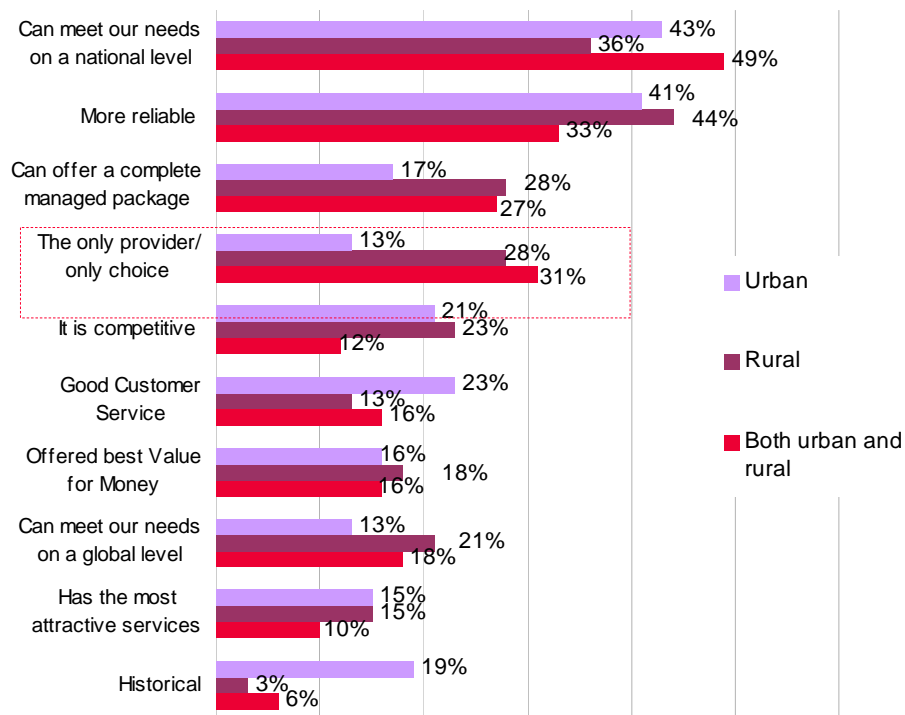
Note: the answers to this question were self-reported estimates of spend and should be regarded as indicative only

## Competition to supply business telecoms

**Figure I: Reasons for choosing BT<sup>16</sup>**



**Figure m: Reasons for choosing BT by respondents' location<sup>17</sup>**



<sup>16</sup> Base: CMA members using BT for each service, 174 total

<sup>17</sup> Base: CMA members using BT for each service, 174 total

Urban: 102, Rural: 41, Both Urban & Rural: 57 respondents. *Bases low, results to be considered as indication only*

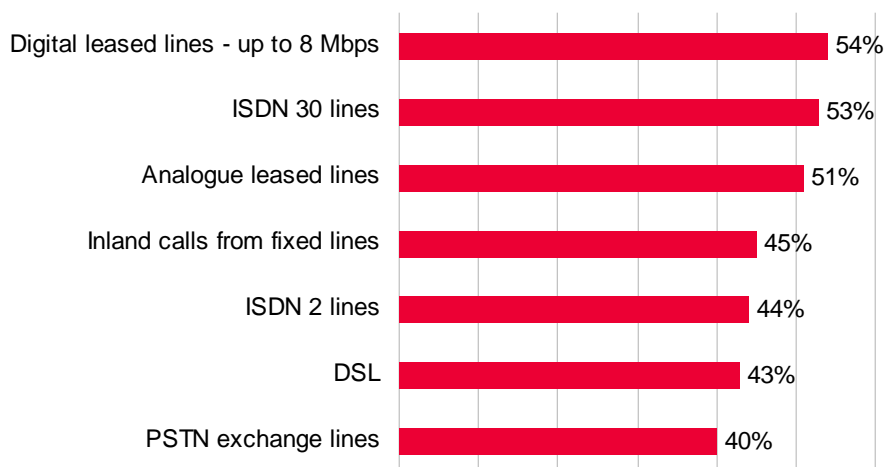
## Negotiating with BT

### 1. Extent of negotiation with BT amongst CMA members

Overall, half of respondents using BT have negotiated on price. There is an indication that large organisations consider they negotiate more than smaller companies do. Large organisations tend to have the volume and the bespoke solutions, therefore their purchasing power a) justifies the effort required to negotiate and b) is an incentive from a supplier's point of view to negotiate with the client.

Furthermore, as shown in figure n below, 54% negotiated the prices with BT for digital leased lines up to 8 Meg, 45% for inland calls from fixed lines and 40% for PSTN exchange lines. Considering that these markets are currently regulated it may appear that 'regulation on BT' for these markets is ignored. However, it is unclear from the results if respondents may consider requesting the 'standard discount' prices as negotiating.

Figure n: % of organisations that negotiated with BT<sup>18</sup>



### 2. Reasons for not negotiating with BT

Amongst the respondents who did not negotiate with BT, the main reasons given to why they did not were as follows:

- There are "No unpleasant surprises"
- Company "Bills were within expectations"
- The "Savings did not justify the time invested"
- Purchasing from BT "A standard product, not a strategic product"
- Because the service "Was not bought in bulk"
- Because it "Was not a bespoke solution"

There was an overall impression that even though they were aware that it was possible to negotiate respondents cannot negotiate enough of a discount to justify the resources required to go through this process.

<sup>18</sup> Base: CMA members using BT for each service, 174 total

## Competition to supply business telecoms

Amongst the few respondents who still chose BT even though they were unable to negotiate, the main reasons given were that BT was a reliable supplier and that BT met their needs on a national level.

**Figure o: Reasons given for not negotiating with BT (Number of respondents)<sup>19</sup>**

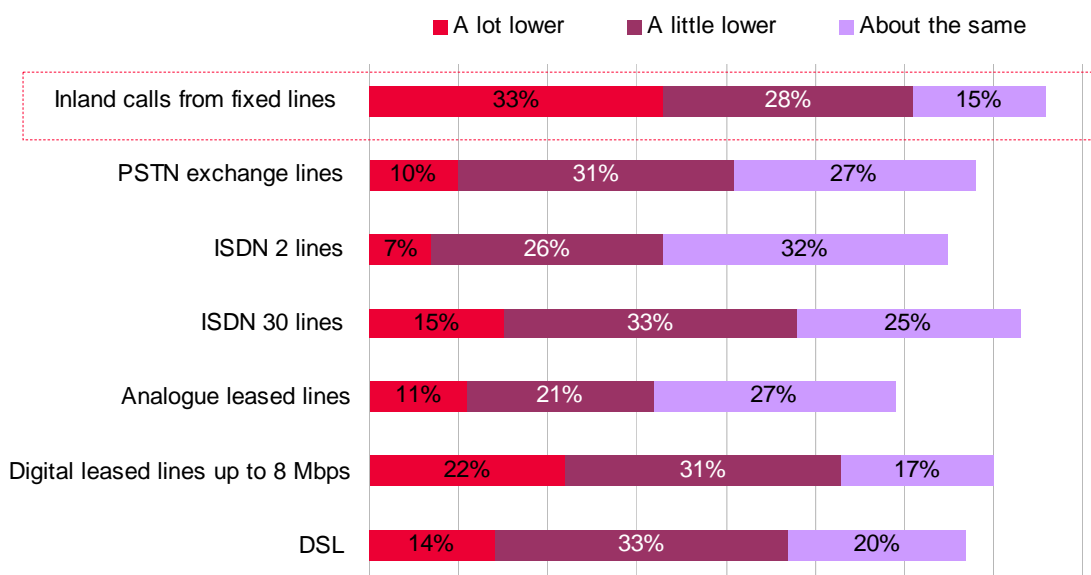
(Base)	Inland calls from fixed lines (46)	PSTN exchange lines (77)	ISDN 2 lines (51)	ISDN 30 lines (39)	Analogue leased lines (37)	Digital leased lines, up to 8 meg (33)	DSL (55)
Not strategic / not worthwhile	20	26	16	11	13	11	23
BT don't negotiate	8	14	11	10	11	9	7
We were not aware if was possible	8	24	6	9	8	8	16
We have a long standing deal pre agreed	6	12	9	9	5	3	7
We were satisfied with the prices	6	5	3	3	3	3	7
Other	1	4	2	2	1	3	2

## Perception of BT's prices compared to the competition

All respondents (including users and non-users of the services) were asked how BT's prices compared with those of other suppliers.

Irrespective of services, organisation's size, activity and location, the majority of respondents perceived the prices of the other suppliers to be lower than BT's or about the same. The extent to which this is the case for each service, is shown in figure 10 below.

**Figure p: Perception of prices of other suppliers in comparison to BT<sup>20</sup>**



<sup>19</sup> Base: CMA members who said they did not negotiate with BT

<sup>20</sup> Base: CMA members using each service, don't knows not shown on this chart

## CMA members' views on BT deregulation

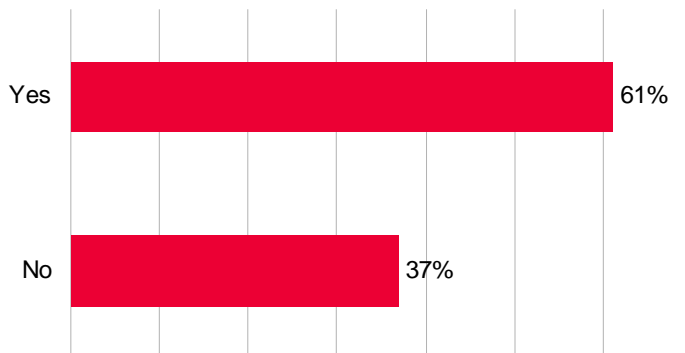
### Should BT be deregulated?

The majority (61%) of the respondents believe BT is unfairly disadvantaged by regulation, a perception that tends to be stronger amongst urban-based organisations as illustrated in figure r (bases are low, please consider results as an indication only).

Larger organisations due to their purchasing power and requirements can justify a dedicated team in order to ensure that the best deals are requested and achieved whilst smaller organisations tend not to have such resources. Yet it does not appear that this had any effect on perceptions of whether 'BT is unfairly treated'.

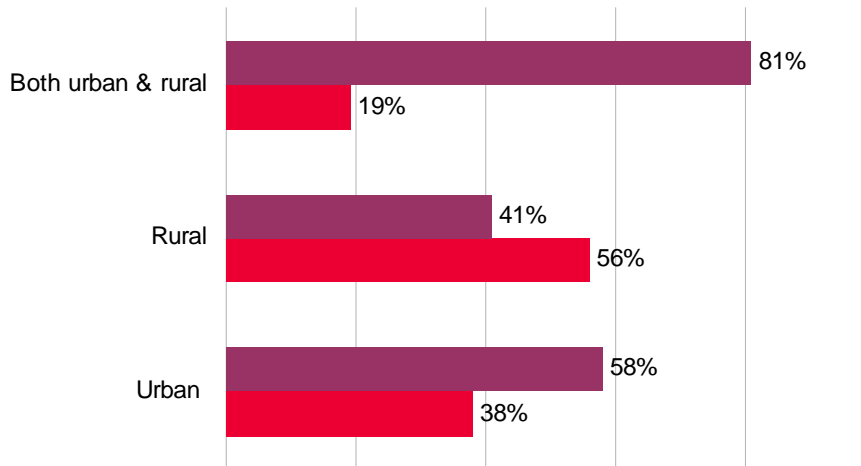
As illustrated in figure s, only where there is competition, BT is considered to be unfairly 'treated', as most of the respondents agree that BT should be allowed to offer bespoke prices in areas where there is significant competition (83% of the respondents agree or strongly agree). However, where there is no other competition, i.e. rural areas, they are in favour of regulation on BT remaining in place (82% agree or strongly agree).

**Figure q: "Is BT unfairly disadvantaged because of regulation?"<sup>21</sup>**

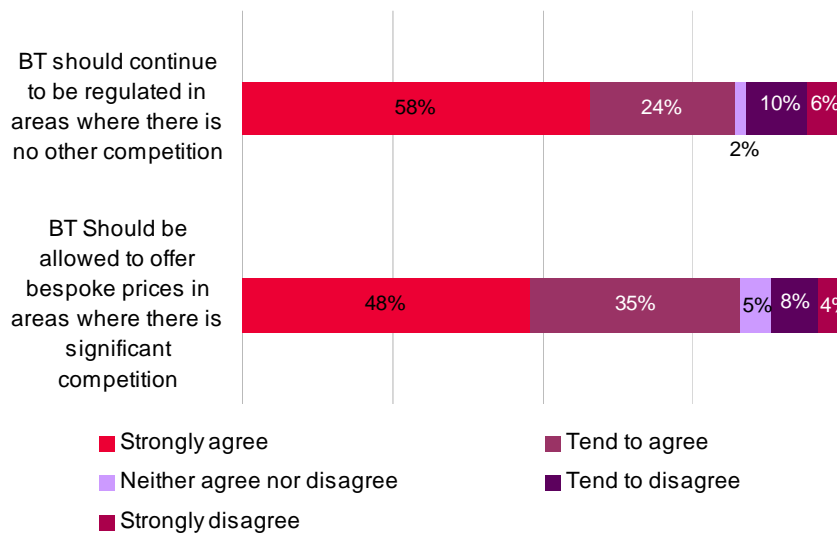


<sup>21</sup> 200 CMA members

**Figure r: “Is BT unfairly disadvantaged because of regulation?” By location (Bases are low, please consider results as indication only)<sup>22</sup>**



**Figure s: Opinions on where should BT be deregulated<sup>23</sup>**



### Perception of the consequences of BT’s deregulation

Overall, irrespective of organisation size, sector or location, there was a general agreement regarding the following effects of greater flexibility to negotiate on prices for inland calls, exchange lines and low bandwidth leased lines:

- “this would lead to increased price competition in these markets” (in total 69% of respondents agree)
- “this would lead to increased service competition in these markets” (in total 65% of respondents agree)

<sup>22</sup> Note: Bases for figure 11b: Urban: 102, Rural: 41, Both Urban & Rural: 57 respondents

<sup>23</sup> Base: 200 CMA members

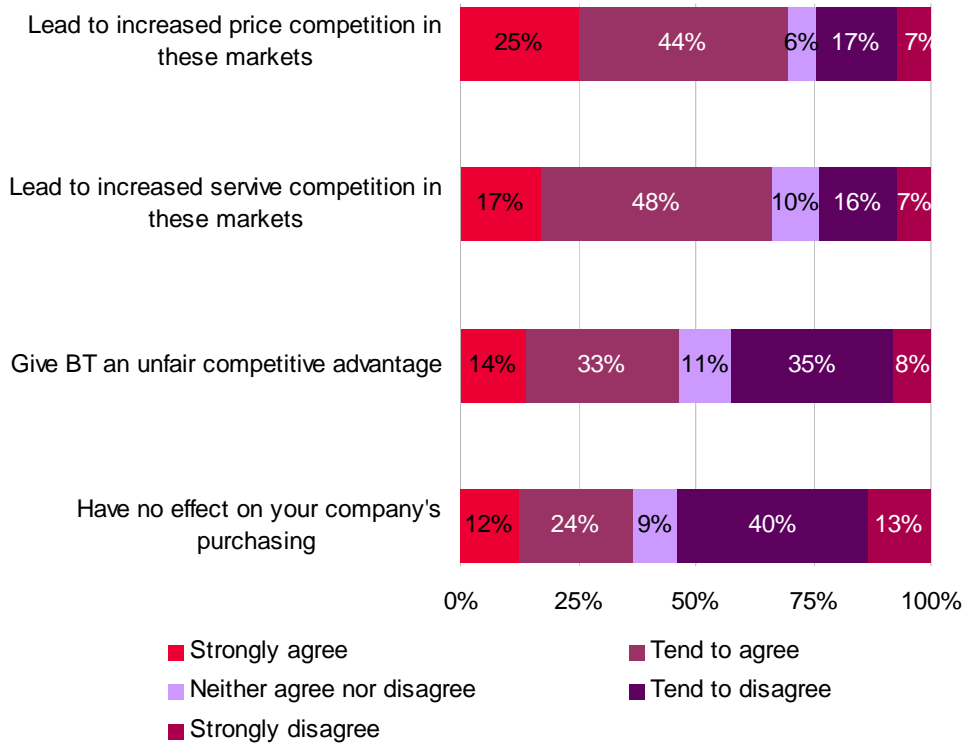
## Competition to supply business telecoms

Despite the consensus on deregulating BT (in areas where there is significant competition), opinions of the CMA members are mixed since there is no clear agreement or disagreement to the following statements:

- “this would give BT an unfair competitive advantage”
- “this would have no effect on the company’s purchasing”

For further details, see figure t below.

**Figure t: “If BT were allowed greater flexibility to negotiate on prices for inland calls, exchange lines & low bandwidth leased lines, this would...”<sup>24</sup>**



<sup>24</sup> Base: 200 CMA members