FSB **Federation of Small Businesses**
The UK's Leading Business Organisation

REASSURED, OPTIMISED, TRANSFORMED:
DRIVING DIGITAL DEMAND AMONG SMALL BUSINESSES

Report by
Federation of Small Businesses

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Acknowledgements

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The views expressed in this report are solely those of the FSB except where otherwise stated.

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DIGITAL CONNECTIVITY = PRODUCTIVITY AND GROWTH

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FSB

"Sales grew **40%** in a year due to being online
FSB Member "

CONNECTIVITY

75% of members say broadband is vital to business

70% of members say mobile phones are vital to business

SUPERFAST BROADBAND

27% use it

46% would like to upgrade to superfast broadband

BENEFITS OF CONNECTIVITY

94% of businesses interact with customers and suppliers online

94% of businesses use internet banking

70% of businesses use connectivity to innovate

51% of firms do business online
15% plan to in the future

BUSINESSES USING INNOVATION

65% use social media

55% use cloud computing

11% have an app

42% see digital skills as important for future business growth

Verve: Telecoms Survey

Foreword

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Mike Cherry
FSB Policy Director

In July 2014, the FSB published the 'The Fourth Utility' – a discussion paper setting out the importance of broadband and mobile services to small businesses across the country.[1] This paper highlighted the significant issues which small businesses faced in accessing the digital infrastructure which they reported they needed to grow. The paper called for the Government to set new ambitious targets for the delivery of superfast broadband.

Equally importantly, the FSB wanted to see a Universal Service Obligation (USO) created and delivered in order to help businesses in areas which were especially struggling. This is most notable in rural areas where the market may otherwise not deliver acceptable levels of service.

We also raised our concerns about how the market is structured, and whether there was adequate competition to deliver fit for purpose services at affordable prices for the small business market. In our view, there was insufficient provision of these services to small businesses. The promotion of greater competition in telecoms markets would, we argued, help small business consumers access the services they need at reasonable prices.

The 'Fourth Utility' report primarily focussed on supply-side issues such as infrastructure availability and market structure. These are important issues which the FSB continues to engage with the Government and regulators on.

Since the publication of 'The Fourth Utility', the FSB has welcomed the increased recognition from the Government, Ofcom and the communications providers that the small business market has not been as well served as it could have been, especially in comparison to the successes which have been delivered for the residential market. This recognition provides an opportunity to take action to ensure that small businesses will be able to benefit from increased competition and choice within the telecoms markets in the future. We are already seeing policymakers taking positive strides in this direction.

Recent research carried out by Ofcom into the experience of small businesses in the telecoms market provides an additional set of data illustrating that there remain problems which need to be addressed.[2] The FSB supported many of the conclusions of this report as the issues and actions identified should help improve the quality and availability of telecoms services for small businesses.

The previous Government's commitment in the Digital Communications Infrastructure Strategy (DCIS) to create a USO is also welcome, as is the ambition to deliver ultrafast broadband to nearly all households.[3] As will be discussed in greater detail, and as Ofcom has recommended, it is important that explicit targets for small business coverage are included within any USO.

We also recognise that good progress has been made on the delivery of infrastructure, especially in areas where Broadband Delivery UK (BDUK) has been working with BT to roll out fibre infrastructure in areas where a commercial deployment would otherwise not have taken place. This large scale infrastructure programme is continuing to improve the quality of infrastructure available and is on

1 FSB, The Fourth Utility: Delivering universal broadband connectivity for small businesses across the UK, July 2014. Available at http://www.fsb.org.uk/policy/assets/FSB-The-Fourth-Utility.pdf Accessed July 2015
2 Ofcom, Broadband services for SMEs: assessment and action plan, July 2015. Available at: http://stakeholders.ofcom.org.uk/binaries/research/telecoms-research/sme/bb-for-smes.pdf Accessed July 2015
3 DCMS, Digital Communications Infrastructure Strategy, March 2015. Available at: https://www.gov.uk/government/publications/the-digital-communications-infrastructure-strategy/the-digital-communications-infrastructure-strategy Accessed July 2015

track to meet the current target of delivering superfast broadband to 95 per cent of the country by 2017. Aside from this programme, both BT and Virgin Media are continuing to invest in the commercial roll out of digital infrastructure which is also helping to bring better services to more and more small businesses, although more still needs to be done to plug gaps in availability.

'The Fourth Utility' clearly demonstrated the critical importance of a broadband connection to small businesses across the country. What we wanted to better understand following this research was how small businesses actually use the internet, and importantly, whether there were other barriers stopping them doing more online or taking up superfast broadband.

This new report is based on the premise that almost all small businesses should, and could, be doing more online. Despite this, many small businesses are not taking full advantage of the different benefits using online services can offer. This report therefore moves from looking at supply side issues to that of how to stimulate demand in the most effective manner.

A small business owner will need to carry out many different functions within their business, but many small and micro businesses may not have the knowledge or experience to effectively interact with the telecoms market. In many ways, small business owners may therefore engage with the telecoms market in much the same way as consumers in residential markets do. A key goal of this research is to better understand how small businesses interact with the wider telecoms market, and whether additional regulatory protection is warranted as a consequence of this.

We present quantitative and qualitative research, commissioned from an independent research agency, Verve, which explores what the benefits to small businesses are in doing more online and what barriers are preventing them from taking these steps.

This report shows how small businesses can grow through embracing digital technologies. We present a series of case studies, based on both our conversations with our membership and on our externally commissioned research. Taken together, these case studies present the positive case to all small businesses as to why they should invest the time, effort and financial resources to increase their use of digital services.

Our research also uncovered some of the barriers stopping small businesses from taking up superfast services and from doing more online. Based on these findings, our conclusion is that more needs to be done to reduce these barriers and to stimulate demand by the Government, regulators, industry stakeholders, and indeed, from business groups like the FSB. The research we have carried out serves as an evidence base upon which we base our policy recommendations.

The executive summary highlights key findings from our research, along with summarising our main policy recommendations. Section one looks at how small businesses currently use online services, and summarises the benefits that doing more online can deliver. This is followed by section two which identifies the reasons why small businesses are not making full use of digital services. It also considers small businesses as consumers and identifies the challenges they face in interacting with telecoms markets. Section three examines how small businesses are using mobile services in their business. Finally, section four summarises the key policy recommendations from the FSB. A separate annex describes the methodology used in creating this report and sets out how we ensured that a full range of views and experiences were captured. Fuller details of the case studies gathered for this report are available on request.

Executive summary & recommendations
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Small businesses are the foundation of the British economy. They make up 99 per cent of all businesses in the UK. They contribute 33 per cent to private sector turnover and employ 48 per cent of the private sector workforce.[4] More and more small firms are using digital services to appeal to new and existing customers; to optimise their operations; and to transform their business to compete in an increasingly globalised and digitalised marketplace.

It is clear from our research that access to reliable and fit for purpose digital communications services is critical to small businesses for a variety of different functions. What our findings also demonstrate is that the market is complex, fast moving and can be hard to engage with for many small firms. While many are already benefitting from taking up superfast broadband, or from using different online services, there are others which are being left behind for a variety of different reasons.[5]

Addressing the issues stopping small businesses from doing more online will help generate growth and provide significant benefits to the UK economy. In particular, research has shown that labour productivity and business growth opportunities for small businesses have both been enhanced through a greater use of digital technologies.[6,7,8] Increasing the use of digital technologies by small businesses could therefore drive economic growth in the UK.

> The FSB wanted to better understand a series of key questions:
>
> - What benefits do small businesses currently get from using digital communications services?
>
> - What barriers stop small businesses from either doing more online or taking up superfast broadband, or both?
>
> - What policy changes from Government, Ofcom, industry and business groups are necessary to address these barriers and drive the demand for digital technology?

It is important to also recognise that progress is being made on a variety of different fronts, including on the delivery of fibre infrastructure across the country. This report seeks to build on the progress achieved to date through outlining a series of policy recommendations which, if implemented, will help small businesses to increase their use of digital communications services and in turn benefit from doing more online.

This report is a call to action for all interested parties to come together to help drive digital demand amongst the small business community.

Our recommendations are based on evidence gathered from small businesses across the country - with both survey work and in-depth interviews having been carried out by our independent survey partner, Verve.[9]

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4 BIS Statistical Release, November 2014 https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/377934/bpe_2014_statistical_release.pdf Accessed June 2015
5 For the purposes of this report, we use the Government definition of superfast broadband. This refers to download speeds of 24Mbps
6 Superfast Cornwall Evaluation Report: Available at http://www.superfastcornwall.org/aboutsfc/superfastimpact Accessed July 2015
7 Superfast North Yorkshire Interim Report: Available at http://www.superfastnorthyorkshire.com/media/970722/Interim-Evaluation-of-NYnet-Final-Report.pdf Accessed July 2015
8 Superfast Lancashire Evaluation Report: Available at https://www.superfastlancashire.com/media/1049645/Evaluation-of-Superfast-Lancashire-Business-Support-Programme-%E2%80%93-A-report-by-Edge-Hill-University-January-2015.pdf Accessed July 2015
9 Verve: Telecoms survey (1216 responses) and 65 interviews

Summary of findings

Many small businesses have already started to use digital services and are increasingly taking up superfast broadband as they recognise the benefits they can realise from doing so. We have developed an analytical framework to better categorise the benefits which being online can offer to small businesses:

- **Business reassurance:** For some businesses, the key benefit is simply having a new and reliable way of connecting to customers, suppliers and employees.

- **Business optimisation:** For others it is the time and cost-savings an internet connection can bring to business operations.

- **Business transformation:** For the most digitally advanced businesses, being online provides a springboard to do new and different things in a way that helps the business expand.

The distinction between these benefits is important as it recognises that businesses have different needs from their broadband connection, along with different expectations in terms of what more they could be doing online.

Our research also found that:

- Almost all small business owners (99 per cent) rate the internet as being highly important to their business.

- Half of all small businesses (51 per cent) are already offering goods and services online, with an additional 15 per cent planning to do so in the near future.

- Nationwide, the take up of fibre products among small businesses closely tracks the residential market at 27 per cent.[10] This demonstrates the comparative importance with which this service is held within the small business community.

- A further 46 per cent of all small businesses said they would like to upgrade to these services in future.

- Among the small businesses that know that their business is in an area with superfast broadband, the take up of fibre services is 56 per cent.

- Our qualitative work found widespread recognition that businesses could benefit from doing more online, with a strong appetite to offer new services in future.

- Mobile phones are increasingly becoming a key element of connectivity for small business owners. This applies for voice, SMS and data services. Many owners similarly would like to further integrate mobile technology into their existing business models.

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10 Ofcom, Communications Market Report 2014, which found residential take-up of superfast broadband was 26.7% in Q1 2014. The 2015 Communications Market report found take-up in the residential market is now 30.0%. Available at http://stakeholders.ofcom.org.uk/binaries/research/cmr/cmr14/2014_UK_CMR.pdf Accessed July 2015

Barriers

A range of different barriers were identified among the small businesses which had not yet upgraded to superfast broadband or which were not making full use of digital services. We found confusion and misconceptions about different elements of the telecoms market among many small businesses. These concerns meant some businesses disengaged from the market out of fear that they would make costly mistakes.

Many business owners were sceptical about the speeds promised by broadband providers, with some of those currently subscribed to fibre-optic broadband still saying that they did not have access to what they considered to be superfast broadband. This issue contributes to a lack of trust of communications providers, and can again lead to disengagement from the marketplace.

There is no direct or straightforward relationship between received speed and satisfaction; what is also important to small businesses is the reliability of the network and the overall quality of service they receive. Regardless of what small businesses were doing online, we found a lack of confidence in navigating telecoms markets, with many small businesses feeling like they did not have the information or skills to do so.

The barriers to doing more online can be split into three broad categories:

- **Satisfaction with the status quo:** Some businesses have performed a cost-benefit analysis and feel that their current speeds are sufficient for their business needs now and in the foreseeable future. Other small business owners were sceptical about the benefits of superfast broadband for their business. The question remains whether small businesses have access to sufficient information to make these decisions, or whether they are making these choices without a full understanding of the market.

- **Infrastructure:** A lack of fixed and mobile infrastructure in some areas is still preventing some businesses from accessing the telecoms services they need. Our research - supported by findings from Ofcom[11] – continues to show that fibre availability remains a key issue. While progress has been made on the delivery of superfast broadband, both as part of BT's commercial rollout and of BDUK's delivery programme, more remains to be done to ensure all businesses can access fit for purpose digital services, as we set out in our previous report, 'The Fourth Utility'.[12] Mobile coverage, while improving, remains insufficient for many small businesses, particularly in rural areas and in the devolved nations.[13]

- **Quality of service issues affecting small businesses as consumers:** Small businesses may not employ IT or telecoms experts, meaning that they may often interact with the market with the same level of understanding as might be expected from the majority of consumers in the residential market. This can mean that many small businesses do not feel like they have the expertise to fully understand their telecoms requirements, or to fully integrate this technology into their business. As a result, they delay taking steps to do more online based on a fear that this process would be long and complicated. Quality of service issues can also lead to some small businesses disengaging from

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11 Ofcom, Broadband services for SMEs: assessment and action plan, July 2015. Available at: http://stakeholders.ofcom.org.uk/binaries/research/telecoms-research/sme/bb-for-smes.pdf Accessed July 2015
12 FSB, The Fourth Utility: Delivering universal broadband connectivity for small businesses across the UK, July 2014. Available at http://www.fsb.org.uk/policy/assets/FSB-The-Fourth-Utility.pdf Accessed July 2015
13 Ofcom, Infrastructure Report, December 2014. Available at http://stakeholders.ofcom.org.uk/binaries/research/infrastructure/2014/infrastructure-14.pdf Accessed July 2015

the telecoms market. Others feel that they lack the perceived skills required and believe they need more independent guidance than is currently on offer to them. Concerns about cyber security also stop some businesses from going online.

Our research also uncovered the following findings:

- One third (33 per cent) of small businesses do not plan to offer online services, and a quarter of small businesses do not plan to take up superfast broadband at any point.

- Only 36 per cent of businesses know that superfast broadband is available in their area. This is significantly lower than the Ofcom findings of 56 per cent availability for small businesses.[14]

- 12 per cent of small businesses already think they are doing all they can online. This is more often thought by business owners who are less likely to be offering goods and services online or to have taken up fibre services.

- Some businesses continue to view the cost of communications services as stopping them from taking up superfast broadband.

- Businesses continue to express frustration about the length of time taken to repair faults and to install new services. The perception of some that they are subject to unfair and unclear contracts mean some small businesses disengage from the market in order to avoid making expensive mistakes.

- Many of these issues also apply to cloud computing, a service which is explored separately at the end of this report.

- Many small businesses are not effectively integrating mobile services into their business, with a lack of reliable mobile coverage being a key factor holding them back. This is particularly true for 4G coverage in rural areas and in Scotland, Wales and Northern Ireland.[15]

- There remains low awareness of the Broadband Connection Voucher Scheme, contributing to low take up. This comes despite recent welcome improvements in the volume of vouchers being claimed by small businesses.[16]

A coordinated and collaborative approach is therefore needed from the Government, industry, regulators, business groups and other interested stakeholders to address the range of barriers and challenges identified above. Doing so will help to stimulate further demand in the small business market.

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14 Ofcom, Infrastructure Report, December 2014. Available at http://stakeholders.ofcom.org.uk/binaries/research/infrastructure/2014/infrastructure-14.pdf Accessed July 2015

15 Ofcom, Communications Market Report 2015, August 2015. Available at http://stakeholders.ofcom.org.uk/binaries/research/cmr/cmr15/CMR_UK_2015.pdf Accessed August 2015

16 DCMS Press Release, June 2015. Available at https://www.gov.uk/government/news/25000-small-businesses-get-broadband-boost-from-connection-voucher-scheme Accessed August 2015

Recommendations

The following policy changes would help to drive digital demand from small businesses.

To overcome satisfaction with the status quo and stimulate demand	The Government should continue to promote the Business Is Great campaign, and tailor messaging to align it to the different benefits that superfast broadband can bring to different small businesses. Emphasising the financial benefits of going online could help to raise the willingness to pay among many small businesses for broadband services.
	More effective messaging is also required to support the integration of mobile services within small businesses. Our evidence shows that few small businesses are making as much use of mobile services as they could do.
	All stakeholders, business groups and others should continue to promote the message that small businesses could be doing more online and should nurture peer-to-peer, local networks to help provide advice and share experiences among small businesses. Co-ordination and collaboration between these stakeholders will serve to make these messages as powerful as possible.
To improve access to infrastructure	Our main objective remains for the Government and Ofcom to continue to pay heed to the recommendations of the FSB's Fourth Utility report.[17]
	As Ofcom has recommended, the Government should set explicit targets for superfast coverage for small businesses within any new Universal Service Obligation (USO). The FSB is of the strong view that this new USO should be set at 10Mbps rather than 5Mbps as is currently being suggested. A delivery plan for rolling out ultrafast broadband should also be announced as a priority.
	Low awareness about the availability of superfast broadband is holding back take up rates. Suppliers and local authorities should invest more in raising awareness of infrastructure availability.
	More needs to be done to raise awareness of the Broadband Connection Voucher scheme. As funds run down for the programme, a new Community Voucher Programme should be established to help small businesses in rural areas. This new scheme should be available as widely as possible to open up availability across the UK.
	Mobile coverage is continuing to improve, but Ofcom and the Government need to hold the mobile operators to the terms of the 2014 deal to improve mobile coverage rates. The Government also needs to make the deployment of mobile infrastructure easier, whether through reform of the Electronic Communications Code or through the planning regime.

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17 FSB, The Fourth Utility: Delivering universal broadband connectivity for small businesses across the UK, July 2014.
   Available at http://www.fsb.org.uk/policy/assets/FSB-The-Fourth-Utility.pdf Accessed July 2015

| A new Broadband Code of Practice for business customers | Quality of service issues affecting small businesses should be addressed via a new voluntary Code of Practice, offering enhanced protection and information for small businesses. This could sit alongside the existing proposals from Ofcom to create a Broadband Code of Practice specifically focussed on available download speeds.

A range of provisions could be included, either within this new Code or incorporated within Ofcom's existing work programme to improve the quality of service offered to small business. These measures could include:

- An expectation that communications providers provide clearer information about the service on offer to enable a better comparison of these products. The Business Banking Insight program, supported by the FSB, offers a model which could be replicated by the telecoms industry.

- A requirement that contracts should be clear, transparent and easy to understand. If necessary, enhanced scrutiny of contracts would increase small businesses confidence in engaging in the contracting process.

- In cases where one provider is unable to provide required services, there should be a requirement for communications providers to provide referrals to other providers who may be able to provide this service. We also support Ofcom's efforts to introduce Gaining Provider Lead switching (GPL), and would like to see the entire process for switching providers for all communications services made as simple as possible for small business consumers.

- Ofcom should set out clear guidelines to ensure that communications providers give more accurate information about installation dates and times.

- Ofcom should also consider whether to introduce escalating penalties for failure to repair faults within previously agreed service level agreements (SLAs), and introduce further penalties for persistent failure to resolve faults. Small business consumers also need more accurate information about what is causing a fault, and clear timescales for fixing the issue.

- Ofcom should challenge all suppliers to adopt a more consistent approach when assessing and advertising achievable speeds in a given premises, using minimum instead of maximum speed as a benchmark. This could be introduced within the existing proposals to bring in a Code of Practice focussed on available speeds. |

To improve knowledge and skills and to boost confidence when interacting with the market	All stakeholders should develop and promote easy-to-use tools that help small businesses to ask the right questions about their needs and rights. The FSB is willing to work with any interested parties to ensure that these tools are as effective as possible, and to signpost them where appropriate.
	Digital skills training, especially for adults would provide valuable support for some small businesses. Many of our members identified marketing and social media as two areas where they would benefit the most from further skills support. Growth Hubs and LEPs should provide and signpost towards this support. Targeting skills investment towards digital skills could provide significant economic benefits for small businesses and the wider economy.
	The Government's Cyber Essentials Scheme should be strengthened by ensuring it comprehensively covers the full range of factors which constitute small businesses' cyber vulnerabilities.
	Cloud computing offers many of the same challenges as other digital services. One particular challenge relates to liability, especially when data is lost or stolen. Clearer information is needed to help small businesses understand these issues.

There are significant challenges to overcome on both the supply and demand side before all small businesses are able to make full use of digital communications services. Work is also required to overcome the perception among some small businesses that digital technology offers little to them. The potential benefits to the wider UK economy mean that this is a goal which all stakeholders must now work together to achieve. The FSB looks forward to playing an active role in these ongoing debates.

Section one:
Benefits of digital connectivity for small businesses

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Digital connectivity, both via fixed line and mobile services, is critical to many small businesses across the country. Small businesses use the internet to communicate with suppliers, customers, employees, their bank, national and local government and other public services. Being online allows many small businesses to sell goods and services in markets they would otherwise not be able to access, and for consumers across the world to search them out. Small businesses also increasingly see the internet as enabling them to use video content, cloud based services and remote working.

The internet allows small business owners to work from home or to work on the move. It has also enabled innovation and helped many small firms to transform their business through the use of digital technology. The internet has proved to be a powerful force which has transformed the operations of many different sectors, including banking, publishing, retail and tourism. The increased integration of telecoms services into businesses does however mean that business owners and their employees increasingly need access to reliable, ubiquitous, digital connectivity.

Small businesses across the country are also starting to embrace some of the new services which mobile telephone services offer them. At a minimum, many small business owners are currently using their mobile phone to provide an additional source of connectivity. More digitally astute businesses are either already using mobile services to enhance their digital offerings or are considering how best to do so.

The UK is in a relatively good place in comparison to international competitors in terms of the use of digital technologies, and was ranked as one of the top global innovators in a recent report.[18] Despite the concerns raised in this, and other reports, the UK also compares well on the availability and price of digital services, albeit whilst faring less well, until recently, on creating a long term strategy for delivering ultrafast broadband.[19] The British public has embraced e-commerce, buying and selling more online than consumers in any of the other G20 countries.[20] Small businesses are taking up the opportunities offered by these trends.

> *"We initially started keeping track of our stock online, rather than using the internet as a sales tool. Since we've started selling our products online, we have seen huge growth. Last year our business grew by 40 per cent. Being online is fully responsible for achieving this."*
>
> David, outdoor goods retailer, Worcestershire

There are clear benefits to the wider UK economy if the demand and uptake of digital services by small businesses increase. The evidence presented from multiple sources shows that increasing the use of digital services will help small businesses to grow. The previous Government estimated that

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18 Cornell University, INSEAD, and the World Intellectual Property Organisation, Global Innovation Index, September 2014, Available at https://www.globalinnovationindex.org/userfiles/file/reportpdf/GII-2014-v5.pdf Accessed July 2015
19 Ofcom, International Communications Market Report 2014. Available at http://stakeholders.ofcom.org.uk/binaries/research/cmr/cmr14/icmr/ICMR_2014.pdf Accessed July 2015
20 Boston Consulting Group, The Internet Economy in the G20, 2012. Available at https://www.bcg.com/documents/file100409.pdf Accessed July 2015

for every £1 of investment in broadband, the UK would see a £20 benefit.[21] McKinsey estimated in 2011 that small businesses could increase productivity by 10 per cent through doing more online.[22]

Similarly, Booz and Co estimated that if all small businesses maximised their use of digital services, growth would increase by £18.8 billion per annum.[23]

It is clear that the internet is a key driver of growth in the modern UK economy. According to a report from the Boston Consulting Group (BCG), in 2010 the UK Internet economy contributed £187 billion to the overall UK economy, which equated to 8.3 per cent of GDP. This was a higher figure than that contributed by the construction or education sectors and is projected to rise to £347 billion by 2016 (12.4 percent of GDP). This compares to a 4.1 per cent average for the G20 nations.[24]

The same applies for mobile services. The BCG recently found that the mobile economy already generated around €90 billion in revenues in just five European countries in 2013. They anticipate that by 2017, these revenues will have more than doubled to €230 billion by 2017.[25] Research by Plum Consulting found that mobile technology could offer new ways to increase the take up of digital services.[26] This research also showed how many new technologies and applications for digital technologies primarily derive their value from being available via mobile only.

The mobile app industry in the UK is more advanced than in other parts of Europe. In 2013, the UK accounted for over a third of the total app revenues generated in the countries making up the EU28. Worth £2.9 billion in 2013, the industry is expected to exceed £4 billion in 2014 and reach £5.5 billion in 2015, representing an annual growth rate of 38 per cent between 2013 and 2015.[27]

It is positive to see that the Government recognises that the internet can serve as a driver for growth and innovation within the wider economy.[28] We agree that there is significant growth potential which could be unlocked through getting small businesses to do more online. This growth could best be delivered through a concerted effort between government, industry and business groups to overcome barriers identified within this report.

Our evidence demonstrates the different ways in which small businesses can benefit from embracing digital technologies

The research presented below presents a positive case for small businesses as to how they can use digital services to deliver benefits to their business. The interviews we carried out demonstrate some of the financial and efficiency gains they have been able to realise through increasing their use of online services, or from taking up superfast broadband.

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21 DCMS, UK Broadband Impact Study, November 2013. Available at https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/257006/UK_Broadband_Impact_Study_-_Impact_Report_-_Nov_2013_-_Final.pdf Accessed June 2015
22 McKinsey, Global Institute, Internet Matters: The Net's sweeping impact on growth, jobs and prosperity, May 2011. Available at http://www.mckinsey.com/insights/high_tech_telecoms_internet/internet_matters Accessed July 2015
23 Booz and Co, with Go ON UK, This is For Everyone, The Case for Universal Digitalisation. Available at http://www.go-on.co.uk/wp-content/uploads/2013/12/The-Booz-Report-Nov2012.pdf Accessed July 2015
24 Boston Consulting Group, Greasing the Wheels of the Internet Economy, March 2012. Available at https://www.bcg.com/documents/file100409.pdf Accessed July 2015
25 Boston Consulting Group, The Mobile Internet Economy in Europe, December 2014. Available at https://www.bcgperspectives.com/content/articles/telecommunications_digital_economy_devices_mobile_internet_economy/ Accessed July 2015
26 Plum Consulting, Mobile Inclusion – a digital future for all, March 2015. Available at http://www.plumconsulting.co.uk/pdfs/Plum_March_2015_Mobile_inclusion_-_a_digital_future_for_all.pdf Accessed July 2015
27 VisionMobile, UK App Economy 2014. Available at http://www.visionmobile.com/blog/2014/06/uk-app-economy-2014/ Accessed July 2015
28 HMT, Fixing the Foundations: Creating a more prosperous nation, July 2015. Available at https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/443898/Productivity_Plan_web.pdf Accessed August 2015

The quantitative work which was carried out also showed the widespread importance of different applications being used by small businesses. The qualitative research which followed enabled us to develop an analytical framework with which to consider what the benefits of upgrading to superfast broadband are.

Under our framework the benefits of using digital technologies fall into three broad categories. The different benefits which businesses have found will not necessarily sit entirely within one category, and may use some applications in ways which are more similar to those in other categories.

|	Types of Business	Core Requirements
Business reassured	Tend to be businesses which have less data-heavy but still frequent, basic tasks.	Reliability of service is viewed as essential, with small businesses wanting the reassurance that their connection will maintain sufficient capacity to permit basic business activity. Download speed is not always critical to the business operation, but any increase in speed provided by superfast broadband is seen as reassuring and confidence-inspiring. For these businesses, the internet is viewed as a secure platform for future growth.
Business optimised	Tend to be businesses that rely on broadband to carry out frequent, relatively more data heavy tasks, often with multiple staff	Range of existing online tasks being done quicker provided important timesaving efficiencies. Download and upload speeds gain in importance for these users. Productivity gains meant that owners and staff have more time to focus on clients, product development and improving the core business.
Business transformed	Tend to be businesses that have always aspired to carry out more digital activities, or whose customers push them towards increasingly digital channels.	Businesses are enabled to do new and different things online to expand and increase custom. These businesses see increased use of multimedia data sharing, social media activity, Voice over Internet Protocol (VOIP) telephony, remote sales and training. Importantly, this category is not restricted to 'digital' businesses: traditional industries looking to future-proof their business by offering new services online are also represented.

Applying this framework across the wider evidence base which we have assembled offers an opportunity to better understand the different benefits of doing more online. It is also clear that small businesses at any level of digital maturity could still benefit from doing more online.

Across different demographic sub-sections, businesses view the internet as critical, and are increasingly taking up superfast broadband

Many small businesses have already integrated digital technologies into their business. This integration can fall on a spectrum, ranging from the relatively basic level of using email to efficiently connect staff members through to the full incorporation of technology into existing and new business processes.

This is reflected in the near-unanimity with which small businesses view digital technology as important to them. 93 per cent of small businesses say that access to the internet is either critical or very important to their business.[29] Just 1 per cent said that the internet was not important to their business.[30] This reflects the findings of our previous research[31] and the findings of recent research carried out by Ofcom.[32]

Chart One: How important is an internet connection to your business?[33]

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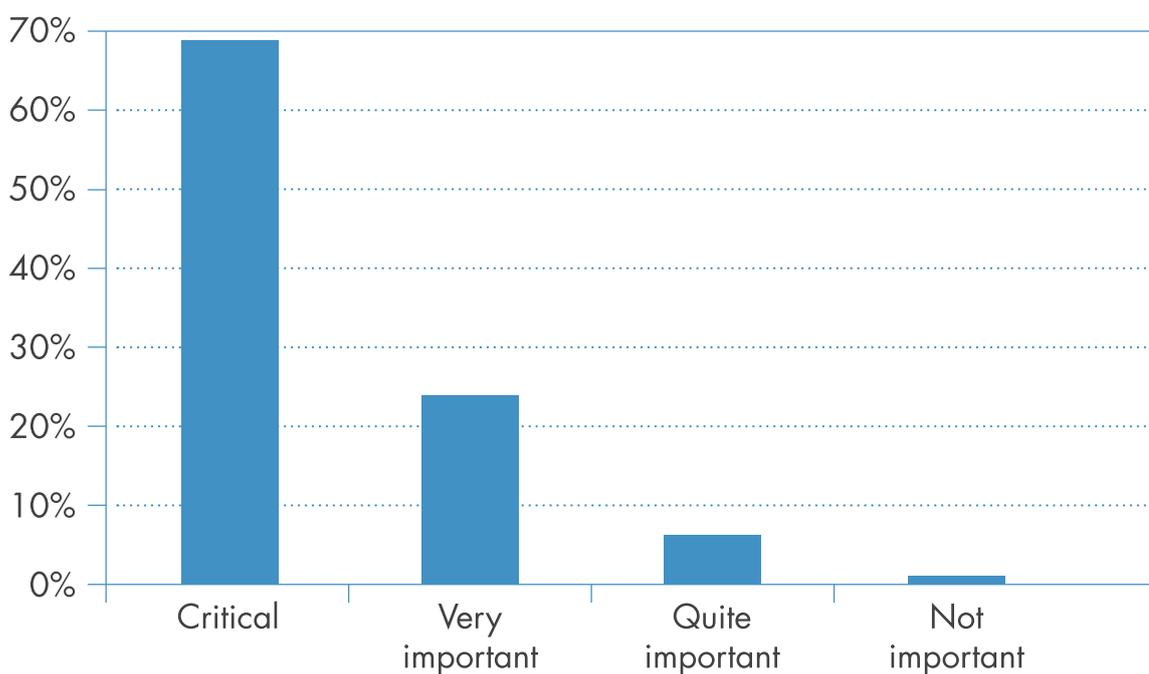
29 Verve: Telecoms survey, April 2015
30 Verve: Telecoms survey, April 2015
31 The Fourth Utility report found that 94 per cent of small businesses viewed an internet connection as critical or very important to their business
32 Jigsaw research for Ofcom, SME experience of communications services, December 2014. Available at http://stakeholders.ofcom.org.uk/binaries/research/telecoms-research/sme/sme_research_report.pdf Accessed July 2015
33 Verve: Telecoms survey, April 2015. Base: 1216 responses

Our research shows that 27 per cent of small businesses already access the internet via a superfast connection. This figure compares to the 26 per cent of residential properties which Ofcom found in the 2014 Communications Market Report (CMR) had taken up superfast broadband.[34] The take up figures in the 2015 CMR are higher at 30 per cent, but are excluded from this analysis to allow for figures over a comparable timescale to be used. The fact that the statistics on take up track relatively closely to those published by Ofcom demonstrates the representative nature of the sample used by the FSB. Across all businesses, another five per cent say that they are in the process of upgrading their connection. A further 46 per cent claim that they would consider upgrading to superfast broadband in future.

Among the small businesses which knew that superfast broadband is available in their area, 56 per cent say that they have upgraded to superfast broadband. However, the take up of leased line services is low, currently standing at four per cent, which reflects the high cost of these products.

Some businesses in rural areas are currently using satellite broadband, but this figure is currently low at just 3 per cent.

69 per cent of small businesses say that they are currently using a business broadband package, with 27 per cent using a residential service. Again, this closely tracks Ofcom's recent research which found 26 per cent of small businesses were using a residential contract for their broadband.[35] Among businesses which are not currently offering any kind of goods or services online, the number of businesses on a residential contract rises to 32 per cent. 57 per cent of sole traders have a residential contract – a figure which falls to less than three per cent for any business employing over 10 members of staff.

Three quarters of businesses (76 per cent) are currently spending less than £60 per month on their broadband package, with 44 per cent of the total sample spending between £20 and £40. There is also a correlation between the numbers of employees a firm has compared to how much they are spending on their internet connection, with larger firms spending more on their broadband package. This is likely to be explained through the greater bandwidth requirements which would be generated through having multiple members of staff carrying out different online tasks.

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34 Ofcom, Communications Market Report, August 2014. Available at http://stakeholders.ofcom.org.uk/binaries/research/cmr/cmr14/2014_UK_CMR.pdf Accessed July 2015
35 Ofcom, Broadband services for SMEs, June 2015. Available at http://stakeholders.ofcom.org.uk/binaries/research/telecoms-research/sme/bb-for-smes.pdf Accessed July 2015

Chart Two: What is the monthly cost of broadband to your business?
(by number of employees)[36]
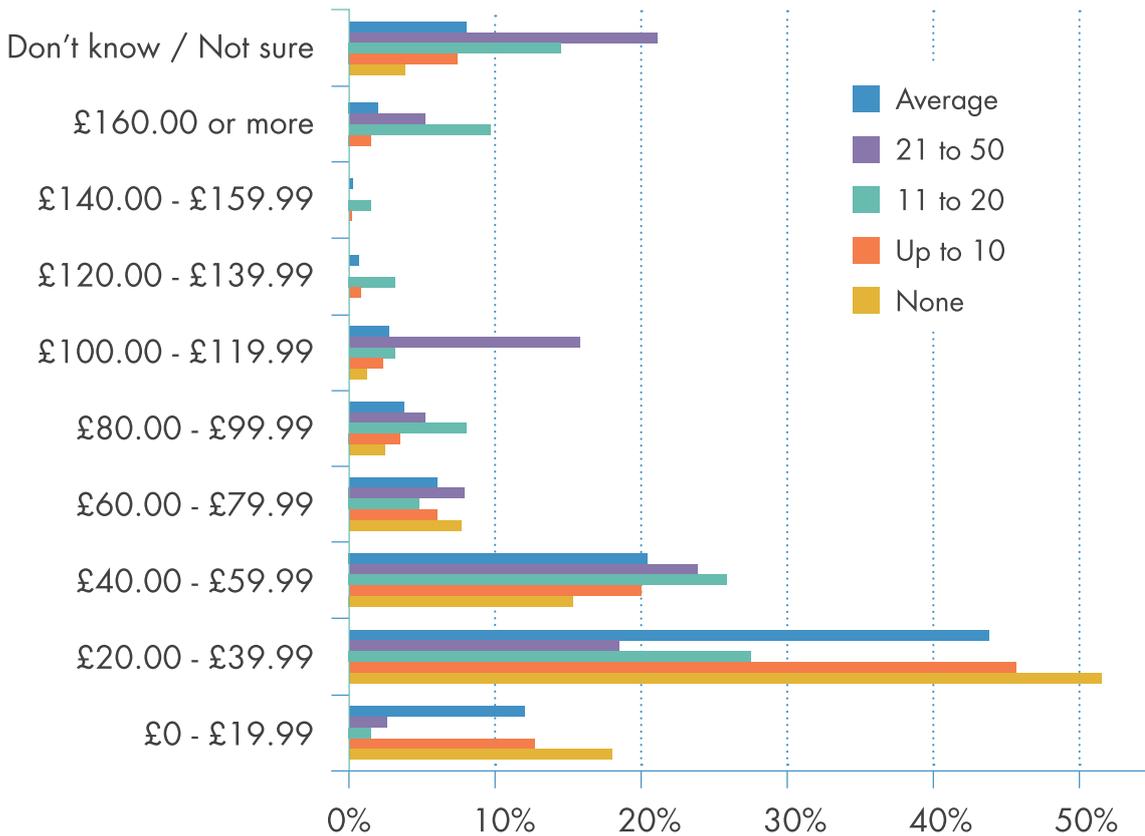
Many small businesses are already offering goods and services online

Over half (51 per cent) of all small businesses are now offering goods or services online and an additional 15 per cent plan to do this in the near future. This still leaves close to one third (33 per cent) of businesses that do not plan to offer goods or services online. The barriers stopping this group from considering whether to offer online services are discussed in greater detail in the next section.

It is noticeable that among those planning to upgrade, a larger group are already offering goods or services online. 64 per cent of small businesses which are in the process of upgrading their broadband services already offer goods or services online, which is a higher proportion than the rest of the small business market. This suggests that many businesses which are already doing a lot online have carried out a cost benefit analysis and have decided that they need a higher quality connection in order to allow them to effectively carry out these functions.

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36 Verve: Telecoms survey, April 2015. Base: 1216 responses. Note: Most responses come from businesses which were either sole traders or employing less than 10 employees, reflecting the wider pattern of employment across all small businesses

In a well functioning market, this cost-benefit analysis should be relatively easy to carry out. However, the evidence presented in the next section suggests that there is a group of businesses who struggle to carry out this analysis. As will be seen, this is affecting the take up of superfast broadband, as businesses choose to not upgrade due to misconceptions or concerns about considering these products.

Digital connectivity is viewed as important by almost all small businesses, regardless of size or sector

Broadband access is important across all different sub-sets of the small business market. Larger companies were more likely to state that broadband is important to their business, although 91 per cent of sole traders still viewed this service as critical or very important. Companies employing 10-49 employees were more likely (73 per cent) to view a broadband connection as being critical to their business compared to sole traders (63 per cent) or those employing less than 10 employees (68 per cent).

Unsurprisingly, different sectors place differing levels of importance on their broadband connection, although across each of the different sectors small businesses are categorised in, there remains strong agreement that a broadband connection is important to their business. As would perhaps be expected, businesses in the information and communication sector were most likely to view a broadband connection as critical. By contrast, the construction and transportation sectors are most likely to view the internet as either being just quite important or unimportant to their business. Even so, this represented just 18 and 12 per cent of each sector respectively.

Chart Three: How important is an internet connection to your business? (by SIC Code)[37]

| | Critical | Very important | Quite important | Not important |
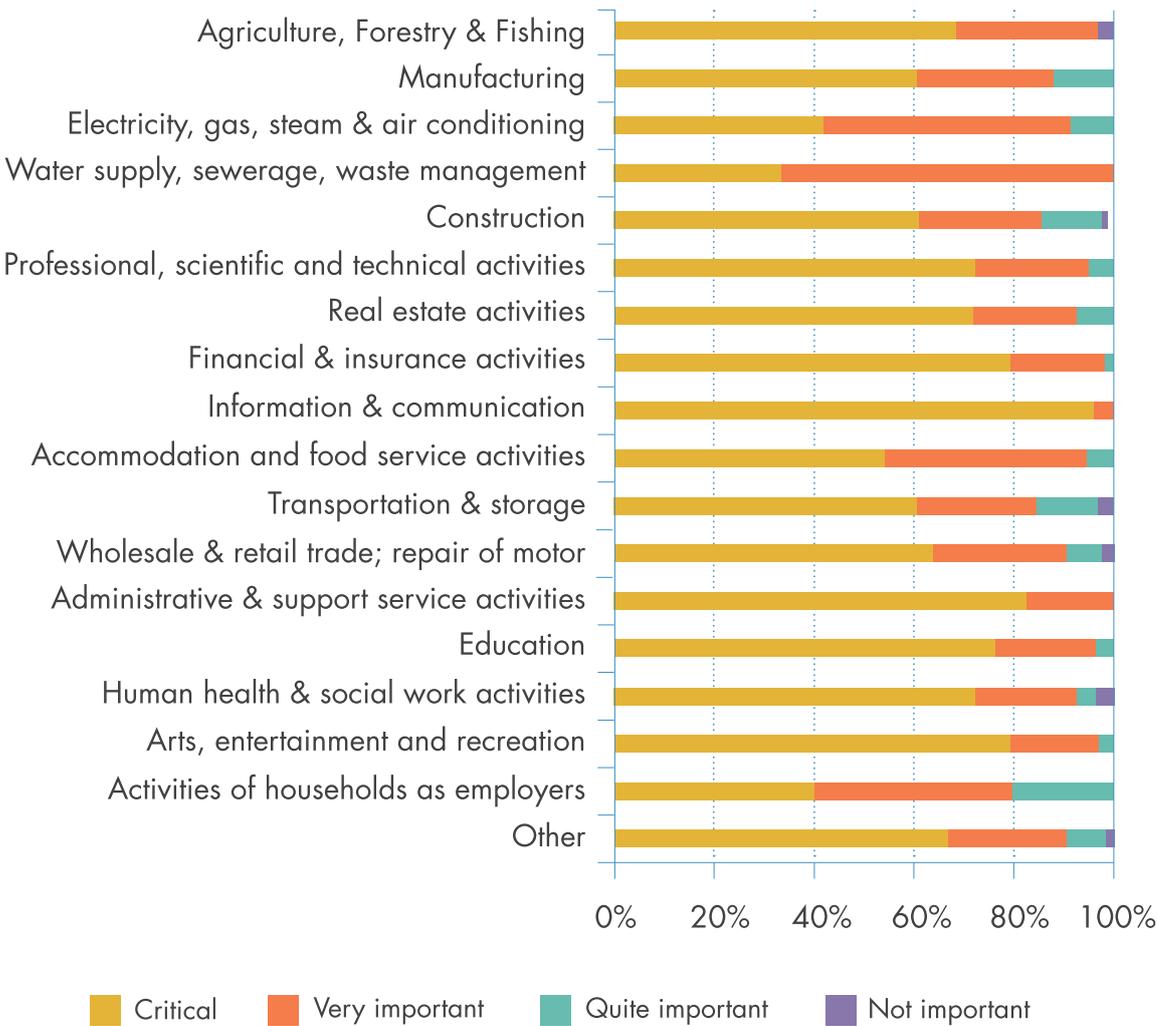
Business owners who work from home for significant parts of their working week, or who spend a lot of time in transit, are more likely to report that having access to a fixed line connection is important to them. For business owners who work from home throughout the week, 78 per cent view their broadband connection as being critical. This falls to 64 per cent among those who work from home less than 8 hours per week. Digital connectivity can therefore be seen as giving both owners and employees the flexibility to allow them to work away from a fixed office environment.

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37 Verve: Telecoms survey, April 2015. Base: 1216 responses. Note: We received no responses from businesses in the mining and quarrying, public administration and defence or extraterritorial bodies sectors, so these have not been included in this graph. The number of responses in some other sectors is also too low for statistical validity

There is a clear trend for younger small business owners to view an internet connection as being particularly critical compared to older owners. This matches findings from a range of other survey responses, including our own previous research.[38,39] The sample sizes for some age groups are small so should be viewed with some caution, but 80 per cent of 16-44 year olds viewed an internet connection as critical. This figure falls to 60 per cent for the over 65 age group. 100 per cent of the 16-24 age cohort viewed an internet connection as either being critical or very important to their business.

The comparatively high level of digital engagement among younger business owners does not leave room for complacency. The majority of business owners are older than the general population[40], and are increasingly likely to continue working into their retirement years. Enabling this group to realise their digital potential will offer significant benefits to the wider UK economy.

Businesses use their broadband connection to enable constant connectivity, to optimise their business and to transform their business through offering new goods and services

As referenced above, for the purposes of this paper, the FSB and Verve have created a framework through which to assess how small businesses are currently using the internet, and what is important to them as a result of this. This framework consists of three categories: 'business reassurance', 'business optimisation' and 'business transformation'. We have grouped the different potential uses of online services into different categories which reflect the different value placed on them by different businesses at varying levels of digital engagement.

Table One: Business reassurance

Business activity	Percentage identifying as important
Email	99
Web browsing	98
Internet banking	94
Interacting with customers	94
Interacting with suppliers	89
Interacting with government	82

It is clear from the different applications which all businesses use that having a reliable connection to external and internal contacts is the most important benefit which all small businesses experience

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38 Ofcom, Communications Market Report, August 2014. Available at http://stakeholders.ofcom.org.uk/binaries/research/cmr/cmr14/2014_UK_CMR.pdf Accessed July 2015
39 FSB, The Fourth Utility: Delivering universal broadband connectivity for small businesses across the UK, July 2014. Available at http://www.fsb.org.uk/policy/assets/FSB-The-Fourth-Utility.pdf Accessed July 2015
40 FSB Member Survey 2014. Available at http://www.fsb.org.uk/policy/assets/uk%20voice%20of%20small%20business%20member%20survey%20report%20feb%202012.pdf Accessed August 2015

from being online. There were four core services which over 90 per cent of businesses viewed as important, although all of these uses of the internet are viewed as important by large majorities of small businesses.

Businesses which did not have particularly data-heavy or sophisticated online needs – our 'business reassured' cohort - were most likely to use services listed in Table One. These businesses depend on a reliable connection for frequent, basic tasks, particularly to allow them to communicate with customers and external stakeholders. At the same time, the bandwidth requirements for these businesses are not necessarily high.

The key functional advantage of taking up superfast broadband for these businesses was improved reliability rather than speed. The main benefit which different businesses identified was the knowledge that for simple but critical tasks, their internet connection could be relied on. It was expected that the higher speeds offered by superfast broadband would mean that even in the event that the speeds on offer did not match the advertised speeds, they would still be sufficient to carry out these tasks. 17 per cent of small businesses viewed an increase in reliability as a key reason to upgrade to superfast broadband.[41]

Prior to upgrading to superfast broadband, 'business reassured' owners spoke of 'coping' with their existing connection, but at the same time, having to take inconvenient or sometimes costly measures to avoid the problem of connection drop-out. These workaround actions included measures such as uploading large files overnight, or using landline rather than Voice over Internet Protocol (VOIP) for calls they considered particularly important.

> *"I coped well enough before with my old service, so it is not a step-change, but now I have just a bit more security in what I do."*
> Mike, South Coast, care home software and training provider, sole trader

> *"We could do everything we needed to before but we were very much muddling through. We would send large files and just hope they got through."*
> Gordon, urban area, Sheffield, software development & sales

VOIP services were viewed as being increasingly valuable in allowing for seamless integration of different communications services. The challenge for small businesses in using this service was placing greater reliance on their broadband connection. Businesses using VOIP technology were even more reliant on ensuring that their connection was maintained at all times.

The quantitative data which we gathered showed that those businesses that were in the process of upgrading to superfast broadband were often the most likely to be already using different online services. This suggests that businesses in this group are digitally aware, and having carried out a cost benefit analysis, are prepared to make an investment in taking up a more expensive broadband package.

The experience of unreliable broadband can be a source of considerable anxiety and frustration. At an extreme, it can also lead to lost business opportunities. The result of upgrading to superfast broadband was therefore a sense of freedom from anxiety, and developing the confidence to put the internet connection to the back of the mind and focus on developing the business. Both of these are powerful motivators for small business owners.

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41 Verve: Telecoms survey, April 2015

> *"Everything runs more smoothly which means I can spend more time in the lab where I want to be getting more products developed and doing more marketing rather than waiting for pages to load."*
>
> Marianne, rural area, Cornwall, produces organic skin products, 5 employees

The different online applications from Table One could all be described as providing reassurance for businesses. In particular, internet banking provides reassurance to small businesses through being able to check finances and carry out business critical functions easily.

Large numbers of small businesses also identified engaging with the Government as an important activity enabled by the internet. The introduction of 'digital by default' government services has been welcomed by the FSB as it will deliver time and cost saving benefits for small businesses and consumers whilst saving taxpayers money. The main benefit for small businesses is the ability to interact with government at convenient times, which may be outside of conventional office hours. It is clear that many small businesses are already engaging with government via digital channels. However, if all businesses are going to be expected to carry out these functions, it is important that the Government ensures that all businesses have access to the infrastructure and skills support needed to enable them to be able to carry out these transactions.

Our research found no statistically significant variation between businesses in rural and urban locations which were interacting with public services online. Nevertheless, the Government needs to carefully consider which transactions could be transitioned to digital channels most effectively in order to avoid the mistakes of the past.

These mistakes were clearly seen in the attempt to introduce digital only applications for the Basic Payment Scheme (BPS), which provides financial support for farmers in the UK. Following concerns raised by the FSB and other bodies representing rural stakeholders, it became clear that many farmers simply did not have sufficient digital connectivity, or the necessarily skills, to complete applications. The temporary move back to a paper based application process was welcomed, but represented a stressful period for many farmers which could have been avoided through better planning and consideration of the different factors affecting rural communities.

Table Two: Business optimisation

Business activity	Percentage identifying as important
Marketing	88
Business development	86
Enabling home working	84
Selling goods and services	79
Innovation	70
Taking payments	63
Managing employees[42]	41

Many small businesses are also taking advantage of using digital services to optimise their business. When asked to name the key benefits of doing more online, 17 per cent identified efficiency and productivity gains as one of the key benefits. In addition, a further 15 per cent believed that upgrading to superfast broadband would allow them to save time, either by reducing wasted time, or improving time management.

This second type of benefit tended to be felt by businesses whose operation involves the performance of frequent online tasks and interactions, often by multiple staff. This could be anything from frequent communications with suppliers and customers via email, to constant interactions with in-house software monitoring orders, supplies, prices, customer databases and bookkeeping information. Many businesses also recognise the value of the internet in developing their marketing strategies.

For these businesses, a slow internet connection often had a significant impact on productivity:

"Before we upgraded, we were getting 9Mbps download speeds and only 1 to 1.5Mbps upload. We were unable to Skype clients abroad so had to make costly phone conversations and couldn't send large reports via email - it would take too long so I had to put them onto disks and send them via post."

Dominic, urban area, Northern Ireland, occupational psychologist, sole trader

When superfast broadband was used, more time was freed up to enable the business owner and staff to focus on other areas critical to the business. The benefits of upgrading were keenly felt and enthusiastically articulated during the interviews we carried out. Saving time, even if not providing directly quantifiable benefits, was an important metric in the small business owner mentality, as were cost savings.

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42 It is likely that the percentage of small business owners who viewed the ability to manage their employees as an important benefit of being online is artificially low owing to the understandably low value placed on this by sole traders. If these businesses are excluded from the sample, the percentage of responses identifying the ability to manage their employees as being important to them increased to 63 per cent

> *"The main thing is that we are now able to do all our admin stuff about three times quicker."*
> Marianne, rural area, Cornwall, produces organic skin products, 5 employees

> *"A significant difference in terms of efficiency. Our business is constantly interrogating the in-house system and now everything happens a lot more quickly."*
> George, urban area, Stockton, office supplies, 6 employees

> *"We save on travelling costs as I can now talk to my clients online rather than go and see them. And I can fit more demonstrations in one day and do them from my home."*
> Gordon, urban area, software development & sales, five employees

> *"I used to spend about £800 a year on post, whereas now I spend practically nothing."*
> Richard, kennel owner, South Bedfordshire

The developing trend towards working across different sites, or at home, is reflected within Table Two. Many employees increasingly require flexible working arrangements, which business owners should support as much as is possible. Some small businesses will also be able to save money by reducing the office space required by allowing increased home working.

> *"We're saving about £1000 a month in rent and business rates as we no longer need retail space. Almost all of our sales are now done online."*
> Ahmad, hardware reseller, Stockton

> *"We use Google software which allows multiple users to collaboratively edit documents. This allows staff members on different sites, or whilst working from home, to simultaneously work on the same document without needing to worry about version control."*
> Alan, urban area, education software provider, +20 employees

> *"Superfast broadband has transformed our capabilities. The technology has allowed us to liberate our staff to work from home."*
> Brian, urban area, advertising agency, 15 employees

Table Three: Business transformation

Business activity	Percentage identifying as important
Content distribution	71
Social media	62
Data analytics	59
Online trading	57
Cloud computing	55
Video conferencing	29

The third type of benefit delivered through upgrading to superfast broadband was observed mostly in businesses which were to some extent already interested in the potential benefits of more digital activity, or whose customers' increasingly digital lifestyles had necessitated a move towards online-based channels.

There are clear benefits for businesses that increase their use of the internet to transform their business offering. This is supported by research from a range of other organisations. Among small businesses which were found to be taking better advantage of the internet than others, export revenues have been found to be twice as large as in firms doing less online.[43] Heavy users of online services were found to be nearly 50 per cent more likely to sell goods and services outside of their immediate region, reflecting the value placed on this by small businesses in this survey.[44] The most technology friendly firms were also found to create more jobs and to increase their revenue compared to those small businesses making more limited use of technology.[45]

> "We no longer have to do sales visits - instead 90 per cent of our business comes to us via the internet. We invested heavily in technology and search engine optimisation to ensure we were the first result to come up, in what is otherwise a niche market. Allowing our staff to work from home has also helped with staff retention. We now also export to over 70 countries as well."
>
> FSB member, difficult to find metals dealer

A central question is whether the internet causes this growth, or whether firms which were already more likely to export are simply taking advantage of the opportunities which the internet delivers. While there is no simple answer to this, our research did however demonstrate that small businesses which otherwise would not have considered exporting or growing their business, have been able to do so as a result of integrating digital technology into their business.

During the course of our research, we heard how superfast broadband enabled the 'business transformed' cohort to do new and different things online, resulting in an expansion of their offering

43 McKinsey, Global Institute, Internet Matters: The Net's sweeping impact on growth, jobs and prosperity, May 2011. Available at http://www.mckinsey.com/insights/high_tech_telecoms_internet/internet_matters Accessed July 2015

44 Boston Consulting Group, Greasing the Wheels of the Internet Economy, January 2014. Available at https://www.icann.org/en/system/files/files/bcg-internet-economy-27jan14-en.pdf Accessed July 2015

45 Boston Consulting Group, Ahead of the Curve: Lessons on Technology and Growth from Small Business Leaders, October 2013. Available at http://www.bcg.com.cn/en/files/publications/reports_pdf/BCG_Ahead_of_the_Curve_Oct_2013.pdf Accessed July 2015

and an increase in custom. Some had been awaiting superfast broadband in their area in order to be able to do more; for others, conversely, it was the arrival of superfast broadband that triggered the realisation of new possibilities:

> *"All sorts of things I wouldn't have considered doing if I didn't have faster speed – such as using social media, and setting up an online shop."*
> Lynn, urban area, East Anglia, Fairtrade retailer, sole trader

We heard a range of examples of new services being adopted as a consequence of upgrading, including the use of multimedia file-streaming in day-to-day interactions with suppliers and customers, increased engagement with customers via social media, the adoption of VOIP telephony, webinars, remote sales and training, and so on.

> *"We've made about 12 per cent of our total sales through engaging potential customers via Twitter. We don't have the budget for marketing, but we now find that we go into meetings and people know all about us. Any business which is not using Twitter is potentially missing a trick."*
> Steve, Derby, video content producer, partnership, two employees

> *"Using a VOIP system allows me and my partners to seamlessly transfer calls as we work in different locations. It allows us to give the impression to customers that we are all based in one location, which makes us look more professional."*
> Philip, Hereford, consultant

As outlined earlier, younger business owners are more likely to use social media as a tool to engage existing and new customers compared to older business owners. One business owner had used a scheme supported by Connecting Cumbria to improve her social media ability. These free schemes can be very useful in helping small businesses understand and make full use of the opportunities offered by social media tools.

The cases of businesses transformed by superfast broadband, and the resulting ability to do more and new things online, were not simply those whose core trading model was online-based. We spoke to three small retail businesses for whom the adoption of new technology and digital channels was seen as crucial in helping them achieve the very 'traditional' shopkeeper's goal of staying in touch with and engaging customers.

> *"It's a massive improvement. Things that were impossible are now possible....it's freed me up to focus on business, on customers; I get more customer loyalty with social media which has meant more repeat custom and all the cost efficiencies that brings."*
> Carolyn, Helmsley, Jewellery Boutique, two employees

"We're testing customer relationship management systems and superfast broadband has enabled me to be much quicker and efficient. The time saving alone saves me around £130 a month."
Dominic, urban area, Northern Ireland, occupational psychologist, sole trader

"My business now couldn't exist without the internet. I do all my work from home and view the internet as my window to the world. I can find new stock far more easily than I used to, and generate new sales via email and a website."
FSB member, bookseller, Yorkshire

The number of small businesses which are using the internet to fundamentally transform their business remains low in comparison to some of the other online services currently being used. It may be that some businesses are not yet aware of how they could benefit from incorporating these services into their business. This presents an opportunity to drive additional take up of these services, through removing other barriers and promoting the benefits which using these services would deliver.

Some of the businesses spoken to during the course of our research said that they were interested in starting to use video content as a method of either making sales, delivering training or managing employees. It was generally accepted that there would be benefits to doing this. However, many of these businesses did not believe that the quality of their internet connection was sufficient for them to reliably be able to use these services. This issue, along with the other barriers to doing more online are explored in further detail in the next section.

Section two:

Barriers to development

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Despite the positive evidence showcasing the many different ways that small businesses across the UK are using digital services to build their business, this is not universally the case. There remain a number of barriers preventing other small businesses from being able to harness the benefits of being digitally connected.

Significant challenges remain to creating a fully digital economy. As the FSB has previously reported, there is widespread concern about the availability of the infrastructure needed by small businesses.[46] This comes despite the welcome improvements in the availability of superfast broadband in many areas which is being delivered as part of both the commercial and BDUK roll out programmes.

Our research also highlights a lack of relevant digital skills and concerns about costs as barriers to small businesses doing more online. It is also important to note that many businesses may simply feel that they are doing all they need to do online, or feel that doing more online will not deliver any measurable benefits to their business. In some cases, businesses have been able to carry out an effective cost benefit analysis of their requirements to determine this. What is more concerning is that many businesses feel they do not have sufficient information to make these decisions.

More generally, there was also a perception among small business owners that they do not have the information or bargaining power to effectively engage with the telecoms market. Some small businesses lack the confidence to use digital services, and others do not believe that they have enough information from independent and trusted sources to do so. These findings are similar to that of other organisations.[47]

> *"I'm not tech-minded… I don't actually know what the term superfast broadband means and if it will actually be faster for me. Is there anyone who can actually guarantee that it's faster?"*
>
> Pearl, rural area, North Scotland, pet supplies retailer, sole trader

Sole traders and micro businesses that employ fewer than 10 employees make up 96 per cent of the business community.[48] Small business owners are therefore required to make decisions on a range of different issues affecting their business, potentially including HR, procurement and IT issues. Any one of these tasks would often be carried out by an employee or team of employees at larger firms – meaning small business owners have to interact in multiple markets, of which they may have little or no understanding. At the same time, they also need to focus on running the core business.

> *"I'm not especially internet savvy. People talk to me about things like the Cloud, and I don't really understand what they're talking about. I'd definitely benefit from skills training, or from taking on an employee to sort that kind of thing out."*
>
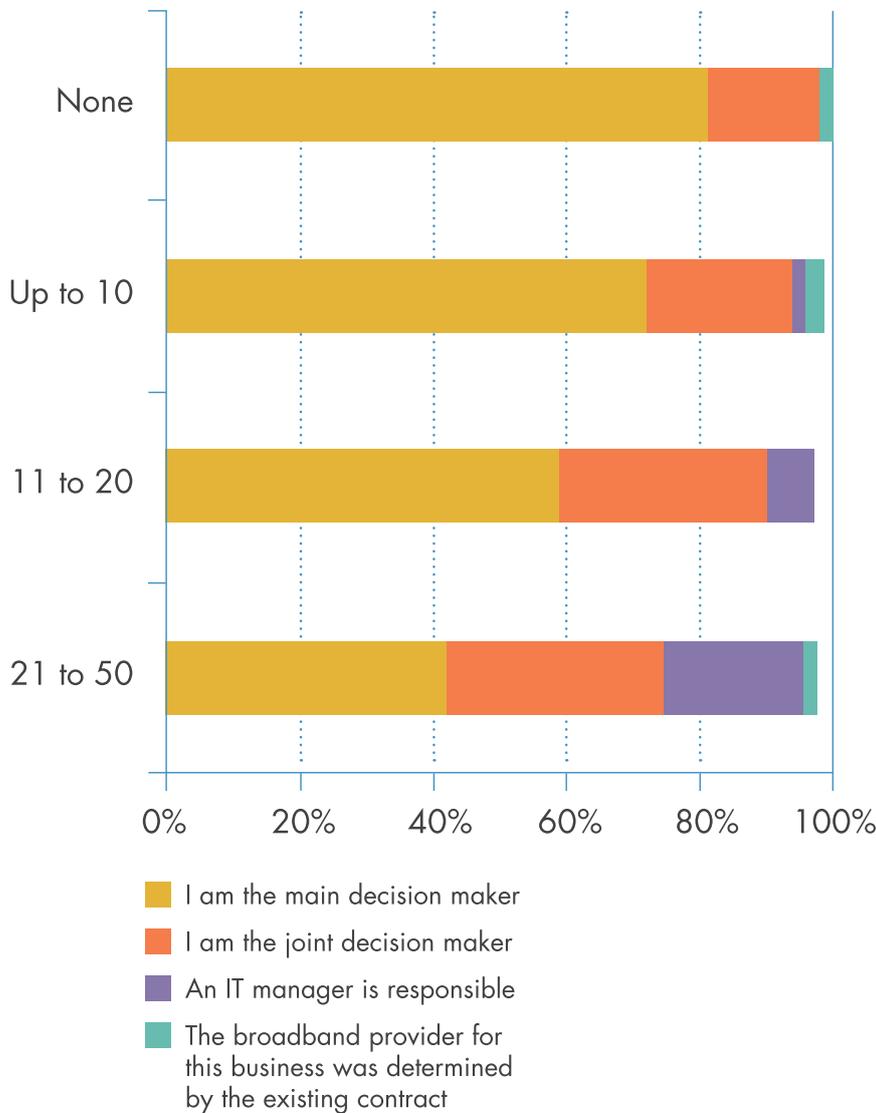> Mike, rural location, industrial engineer, six employees

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46 FSB, The Fourth Utility: Delivering universal broadband connectivity for small businesses across the UK, July 2014. Available at http://www.fsb.org.uk/policy/assets/FSB-The-Fourth-Utility.pdf Accessed July 2015
47 Communications Consumer Panel, Realising the potential: Micro businesses' experience of communications services, September 2014. Available at http://www.communicationsconsumerpanel.org.uk/downloads/panel-micro-business-report-final.pdf Accessed July 2015
48 BIS, Business Population Estimates, October 2014. Available at https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/377934/bpe_2014_statistical_release.pdf Accessed July 2015

Our research found that 71 per cent of the small business owners surveyed said that they were the main decision maker when it came to setting up their telecoms services. An additional 22 per cent said that they were the joint decision maker. Just 3 per cent employed an IT manager who made those decisions. There is a substantial jump in the number of businesses employing an IT manager between those who employ less than 20 members of staff and those who employ more. Among businesses with between 11-20 employees, only five per cent had an IT manager. This figure rose to 24 per cent for those employing 21-50 members of staff.

Chart Four: Main decision maker for IT issues (by number of employees)[49]

Legend:
- I am the main decision maker
- I am the joint decision maker
- An IT manager is responsible
- The broadband provider for this business was determined by the existing contract

Most small business owners therefore have to make decisions about telecoms issues where they may not have significant levels of technical expertise, and will not necessarily have members of

49 Verve: Telecoms survey, April 2015. Base: 1216 responses. Note Figures do not add up to 100% through excluding those who answered "Don't know"

staff who are able to assist them. As a result, the FSB believes that small businesses owners in these circumstances need to be treated much more like residential consumers rather than businesses.

This was recognised with the Communications Act 2003 which established the current regulatory regime for the broadband market. In this Act, small businesses employing fewer than 10 employees are treated as residential consumers for regulatory purposes. Ofcom has recently carried out research looking at the experience of small businesses in the telecoms market.[50] As discussed above, this research illustrated several issues which require further intervention to resolve.

The result of the barriers described above is that one third of businesses are not planning to offer online services or products. In addition, 25 per cent of small businesses claim that they do not plan to upgrade to superfast broadband at any point.

While the group making up this 25 per cent of our small firm sample is important and should not be excluded from analysis, there is also a larger group representing 46 per cent of small businesses who say that they plan to upgrade their broadband package, but have not done so to date. Over the course of the qualitative work which we carried out, we tried to understand what was stopping these small businesses from upgrading.

A report by Lloyds and Accenture found that despite the possible gains deliverable from increasing the use of online services, many small businesses were held back from doing so. They estimated that 1.85 million small businesses had a very low level of digital understanding, with many making little to no use of the internet. A further 2.35 million businesses demonstrated a medium level of digital capability, but still were not doing all they could do. The remaining 1.2 million businesses showed that they had a high level of digital maturity.[51] Overcoming the barriers stopping small businesses from increasing their digital capabilities should be a key focus for the Government and other stakeholders.

Based on these insights, two important questions to address are:

i. How to help small businesses that want to upgrade their connection to do so.

ii. Whether there is anything which could be done to encourage small businesses that do not plan to upgrade to change their minds.

Possible solutions to address these issues are addressed later in the report. At this stage, it suffices to say that the barriers we identify within this report serve to hinder the digital capabilities of small businesses at all stages of digital maturity and that removing these barriers will help grow the UK economy.

Small businesses expressed a range of different reasons about what was holding them back from doing more online. In order to capture the full range of responses, we first provided several free text fields within the survey. This allowed us to capture unfiltered responses, which were then coded and aggregated.

Following this, we provided a list of different reasons why small businesses were not going online or upgrading to superfast broadband. Members were then asked to rank these in order of importance to them. These issues were then assigned a mean score based on the rankings given to them across the survey panel.

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50 Ofcom, Broadband services for SMEs: assessment and action plan, July 2015. Available at: http://stakeholders.ofcom.org.uk/binaries/research/telecoms-research/sme/bb-for-smes.pdf Accessed July 2015

51 Lloyds Bank, UK Business Digital Index, March 2015. Available at http://resources.lloydsbank.com/insight/uk-business-digital-index/ Accessed July 2015

An unreliable broadband connection was viewed as the most significant issue, with a mean score of 2.20 out of 5. This unreliability meant that many of our respondents felt that they could not increase their use of online services, as they did not feel the quality of their broadband connection was sufficient that they could rely on it for core functions.

The issue of having an unreliable broadband connection was closely followed by cost (2.33), an unreliable mobile signal (2.95), that small businesses are currently doing all they need to online (3.37), concerns about security and fraud (3.49) and a lack of digital skills (4.55).

The different issues which small businesses identified as holding them back from either taking up superfast broadband or in generally doing more online can be categorised into three different categories.

Satisfaction with the status quo: Businesses are either satisfied with the status quo, or do not think that the benefits to doing more outweigh the costs. This can lead to the rejection of considering superfast broadband as being appropriate or necessary for the business currently or in the future, based on a set of underlying perceptions around the benefits of superfast broadband. If businesses have sufficient information to carry out this analysis, this is evidence of a well functioning market. The evidence we have gathered suggests this may not be the case.

Infrastructure issues: Small businesses continue to suffer from lower infrastructure availability than in the residential market.[52] A lack of knowledge about whether the infrastructure is in place also hinders take up.

Quality of service issues affecting small businesses as consumers: Often working without a dedicated IT manager or strong understanding of different markets, small business owners may engage with the telecoms market in much the same way as residential consumers. There are a variety of different points where a lack of expertise can cause difficulties for small businesses, leading them to avoid making decisions out of a fear of making mistakes. Quality of service issues can lead to disengagement and serve to reduce the ability of firms to take advantage of the opportunities offered to them within a competitive market.

Some businesses felt their existing service was sufficient for their current requirements. There is also a lack of awareness about what the benefits of doing more online would be.

Our research found small business owners who believe that they have sufficient information, skills and technical understanding to carry out a cost benefit analysis and to decide on that basis that they do not need to increase their bandwidth. This is a rational economic decision which would be expected to hold true within a well functioning market.

Some other businesses are limited by the size of their premises, so are unable to take advantage of any other digital opportunities. This was particularly apparent in the tourism industry, where bed

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52 Ofcom, Infrastructure Report, December 2014. Available at http://stakeholders.ofcom.org.uk/binaries/research/infrastructure/2014/infrastructure-14.pdf Accessed July 2015. The figures in this report exclude the experience of sole traders, so is not fully reflective of the entire small business market. Despite this, there is a clear gap affecting small businesses with 1 or more employees which needs to be addressed as a priority

space puts a firm limit on the benefits offered by increased marketing and efficiency. In these cases, they may again make a well informed and economically rational decision not to invest in doing more online or upgrading their existing service.

> *"I get an average 15Mbps with my ADSL line. There's no point trying to sell me a big van when my smaller one is doing the job fine."*
> Chris, urban area, Bognor Regis, PC sales, one employee

> *"Realistically, I don't think there's much more we need to do online at this time. I can't justify the extra cost of superfast broadband as I'm not uploading/downloading massive files, I don't need it."*
> Kieron, urban area, Somerset, telescope sales, one employee

There are however underlying signs that some businesses are not able to make these decisions effectively. 13 per cent of small businesses claimed that they are already doing everything online which they could be doing. It is noticeable that those who sit within categories which are generally associated with doing less online - such as sole traders and older business owners - are more likely to say that they are already doing all they can online. This suggests that they are either in sectors where there are not obvious additional benefits to do more online, or they lack the knowledge to identify these opportunities.

If it is the latter, then further education is required to ensure that small businesses are able to understand what the benefits of being online can deliver. Demonstrating the value of taking up new digital opportunities would be a way of encouraging small businesses to investigate these opportunities further.

We spoke to other business owners who felt they did not have sufficient information to assess what the benefits of being online would be. In some cases, a lack of understanding about bandwidth requirements resulted in the over purchasing of services and as a result a sub-optimal economic outcome. One small business owner we spoke to had very limited bandwidth requirements but had purchased a 152Mbps service. With a better understanding of actual requirements, this small business owner would have been able to save money through purchasing a more appropriate service.

The FSB has created a series of resources - available on our intranet – designed to help members understand how they can integrate digital technology into their business. We intend to follow this up with a series of sponsored events across the different regions of the FSB. The intention is that this will get members engaged in the issues, and provide them with better information on which to base assessments of their exact requirements. Go ON UK similarly provides workshops and other resources which can help small businesses better understand these issues.

The Business is Great campaign, supported by BIS, is similarly providing helpful resources for small business. DigitalSkills.com, run by Go ON UK, offers resources to help small businesses better understand the different benefits of going online.[53] Tailoring these messages towards helping businesses understand these benefits will help to drive take up.

Research from Go ON UK demonstrates that peer to peer networking is a key way in which small

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53 DigitalSkills.com. Available at https://www.digitalskills.com/business Accessed August 2015

businesses can understand the benefits of being online. The FSB intends to use our nationwide influence to facilitate this networking. The case studies presented in this report should also serve to demonstrate to small businesses the different ways in which some of their peers have embraced online technologies.

Larger corporations could have a role to play in facilitating these activities. Supported by local branches of the FSB, Google has launched a pilot programme in Leeds to provide a forum for small businesses to receive long term training, and to meet other small businesses who are at similar levels of digital maturity. This is a positive initiative which other larger companies could look to replicate.

Through promoting these tools, demand can be stimulated through providing small businesses with the information they need to effectively carry out a cost benefit analysis into whether investing time and resource into doing more online would be worth it to them.

Cost remains a key concern

Second to the availability of infrastructure, cost was the most important reason given for businesses not having superfast broadband. Besides the direct financial costs of buying or upgrading new technologies or hardware, there was also a resource and opportunity cost incurred through investigating whether a new technology would be appropriate for a business. Among those who have not upgraded to superfast broadband, there was a disproportionate focus on cost (27 per cent).

> *"Upgrading would cost an extra 20 per cent a month for the first year, and then 50 per cent in the next. I'd have to commit to a two year contract and don't think it is really worth paying the extra money at this stage. What I need is for someone to tell me why it is necessary to upgrade to superfast broadband and why it is worth paying more. I can then weigh up the choice."*
>
> James, consultant, London

In areas where superfast broadband was available, cost was the main barrier to upgrading to superfast broadband, and was cited by 51 per cent of small businesses in these areas. Among this group, the other reasons given for not doing more online were reliability (6 per cent), inconsistent speeds (11 per cent) and a lack of suppliers (3 per cent).

However, among the sub-group which had upgraded, a significantly higher percentage (59 per cent) did not rank cost as an issue at all. Within this group, the numbers citing cost as a major barrier to upgrading were substantially lower than among other groups. This suggests that amongst those who have made a decision to upgrade, the benefits are recognised as outweighing the upfront and ongoing costs.

Most small businesses will carry out cost benefit analysis on a daily basis to assess what actions to take. Despite the upfront costs, the evidence here suggests that those who have upgraded to superfast broadband generally feel like they have benefited from doing so.

The evidence shown in Chart Two suggests that many small businesses are not paying significant amounts for their broadband service. On the other hand, they recognise the potential value of using the internet for a variety of different measures.

In order to increase the willingness to pay for new services, businesses need to be able to better quantify the benefits of doing so. Future messaging from different stakeholders, including the FSB,

should seek to emphasise the benefits of going online, through using real life examples of how businesses have been able to benefit from this. Once small businesses are able to better understand the benefits of being online, they should demonstrate increased willingness to pay for these services.

Questions about the availability of infrastructure continue to be raised

The availability and reliability of fixed and mobile connectivity was a major concern identified by small businesses. As would be expected, those working in areas where fibre services were not available overwhelmingly identified both the lack of infrastructure availability (81 per cent) and BT/ Openreach (13 per cent) as the primary barrier to taking up superfast broadband.

As Ofcom has shown, there is a significant gap between the availability of superfast broadband in the residential market compared to the small business market.[54] Despite the continuing progress which has been made as part of the ongoing BDUK roll out, much more needs to be done to ensure that this gap is closed as quickly as possible. Ofcom have stated that if no further action is taken, the end of the BDUK programme will see small business coverage lag the residential market by 83 per cent to 95 per cent.[55]

Besides the fact that the Ofcom analysis excludes sole traders – and therefore a substantial percentage of the small business market – their figures are still highly concerning. When the current estimates of superfast coverage are applied to the non sole trader small business population, it is clear that there are significant numbers of firms and their employees who may not have access to superfast broadband services.

54 Ofcom, Infrastructure Report, December 2014. Available at http://stakeholders.ofcom.org.uk/binaries/research/infrastructure/2014/ infrastructure-14.pdf Accessed July 2015
55 Ofcom, Broadband services for SMEs: assessment and action plan, July 2015. Available at: http://stakeholders.ofcom.org.uk/ binaries/research/telecoms-research/sme/bb-for-smes.pdf Accessed July 2015

Table Four: Superfast coverage by business size[56]

	Superfast coverage (2014)	Total number of businesses, by employee size (2014)	Estimated number of businesses without superfast broadband (2014)	Estimated range of employees without superfast broadband (2014)
Micro business premises (1-9 employees)	58%	1,044,385	438,641	438,461 – 3,947,775
Small business premises (10-49 employees)	51%	194,755	95,429	954,299 – 4,676,068
Medium business premises (50-249 employees)	47%	31,475	16,824	841,242 – 4,189,388
	Total estimated number of employees without superfast broadband access:			2,234,184 – 12,813,231

As demonstrated by Table Four, Ofcom's estimates of the percentages of small businesses with employees who currently do not have access to superfast broadband suggests that an estimated 550,714 small businesses, which together employ anywhere between 2,234,184 and 12,813,231 members of staff, may not have access at present to these vital services. This represents between 9 and 51 per cent of the total employed population of 25,229,000 employees.

These figures are derived by applying the percentage found by Ofcom of small business premises without superfast broadband by the potential number of employees working there. As the population estimates from BIS provide only wide ranges of numbers of employees, especially in the case of medium sized businesses, the total estimates reflect a similarly wide range.

It is expected that this situation will improve as coverage continues to improve as part of the BDUK roll out programme through to the end of 2017, even without further policy interventions. It should also be noted that many businesses, particularly medium sized ones which employ larger numbers of staff, will likely use leased lines to ensure reliable connectivity. There will also be a broad range of employee numbers within the BIS population estimates, rather than every business in the group employing the maximum number of employees to be classed within that range. These caveats mean that the total number of employees will in reality be closer to the lower end of these estimates.

Despite these important caveats, we would suggest these figures show that there are potentially a

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56 Small business population and employment estimates are from a BIS Statistical Release, November 2014 https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/377934/bpe_2014_statistical_release.pdf Accessed June 2015. The different estimated percentages for superfast broadband availability are from Ofcom, Broadband services for SMEs: assessment and action plan, July 2015. Available at: http://stakeholders.ofcom.org.uk/binaries/research/telecoms-research/sme/bb-for-smes.pdf Accessed July 2015

large number of businesses with employees who cannot access superfast broadband at present. The exclusion of sole traders from the Ofcom analysis does not mean that the issue of fibre availability can be dismissed.

As outlined, for the economic growth reasons set out in this report, it is critical that all small businesses are able to access digital services. As we highlighted in 'The Fourth Utility', there are a range of measures which we believe the Government should implement to ensure that the infrastructure is in place to enable this.

Small businesses have low knowledge about the availability of infrastructure

Ofcom's Infrastructure Report for 2014 contained data on the availability of superfast broadband for small businesses for the first time. This data is based on their analysis of data provided to them by communications providers. They found that superfast broadband was available to 56 per cent of small businesses employing one or more staff in the UK. The report also found that superfast broadband was available to 75 per cent of residential properties.[57] More recent estimates from Ofcom estimate that availability of superfast broadband to the residential market is now at 83 per cent.[58]

We asked the small businesses who had heard of superfast broadband whether this service was available in the area where their business was located. Just 36 per cent said that it was. 17 per cent said it was not yet, but that it would be available in the near future. Another 17 per cent said they did not know.

These figures are significantly different to the data presented by Ofcom. This could be explained as being because many small businesses are simply unaware that superfast broadband is available in their local area. The percentage of those who knew that superfast broadband was available in their area combined with the percentage which did not know comes to 53 per cent, which is close to Ofcom's figures. Alternatively - and of more concern if true - would be that the data presented in the report is incorrect in some areas. It is also possible that the gap could be explained by a mixture of both these explanations.

Assuming that the data contained within the Infrastructure Report is correct, these statistics are still concerning, and go some way to explaining why small businesses are not necessarily taking up superfast broadband. Among the group of small businesses who do not know if they can access superfast broadband, 41 per cent do not offer online services at present and do not plan to do so in future. This figure was just 29 per cent among businesses who were able to give an answer about whether superfast broadband was available to them or not.

Of those who know that superfast broadband is available in their area, 56 per cent have taken up these services. In contrast, 55 per cent of small businesses who do not know whether superfast broadband is available do not plan to upgrade their connection at any point. The average across the whole sample which did not plan to upgrade to superfast broadband was 25 per cent.

It would be a mistake to assume that there is a causal link between small businesses being aware

57 Ofcom, Infrastructure Report, December 2014. Available at http://stakeholders.ofcom.org.uk/binaries/research/infrastructure/2014/infrastructure-14.pdf Accessed July 2015
58 Ofcom, Communications Market Report, August 2015. Available at http://stakeholders.ofcom.org.uk/binaries/research/cmr/cmr15/CMR_UK_2015.pdf Accessed August 2015

of whether there is superfast broadband available in their area and deciding to either start offering online services or upgrading to superfast broadband. What the data instead reflects is that many small businesses do not have good enough information to help them make these decisions.

Our evidence also found that 8 per cent of small businesses have not heard of superfast broadband, or are not aware of what the concept means. The sample size for this group is too small for statistically meaningful analysis, but it is clear that these tend to be small business owners with relatively low levels of information. While this is a small group, it is worth considering whether information could be targeted more effectively in order to raise this group up to a minimum standard of awareness. This role could be played by the Government or by other stakeholders such as the FSB.

Though improving, awareness of the Broadband Connection Voucher Scheme remains low, and with funds running out, it is time to consider how best to target any new initiatives

The Broadband Connection Voucher Scheme is a key element of the Super Connected Cities fund, a government scheme which aims to improve connectivity within urban areas which are not eligible for the main funding streams of the BDUK programme due to state aid concerns. Small businesses in eligible areas are able to apply for up to £3,000 to subsidise the cost of installing the necessary infrastructure to enable them to take up superfast broadband.[59]

Following a slow start, the scheme was refocused, which appears to have had a positive impact, with the most recent estimates in June 2015 showing that over 25,000 vouchers have been issued.[60] This success has however meant that funding for the scheme is projected to run out before the end of 2015, meaning that new initiatives are now required to maintain the positive momentum of this programme.

Within the context of the wider small business market however, the take up of the voucher programme remains low with only one per cent of FSB members surveyed having used the scheme. A further seven per cent of small businesses suggested that they were interested in using a voucher to improve their connection.

The primary issue holding back take up of these vouchers is a lack of awareness. 57 per cent of small businesses had still not heard of the scheme. The FSB has a role to play in promoting these types of government initiatives to our members, but more could be done to raise awareness across the small business market.

The FSB has also argued that the voucher scheme should be extended as widely as possible to allow as many small businesses as possible to access these funds. 13 per cent of small businesses told us that they were aware of the scheme, but were ineligible to participate based on their location. Relaxing the eligibility criteria would allow businesses in a wider area to access the voucher scheme.

Some small businesses had looked into taking up a voucher, but were put off either by the bureaucracy involved in applying or the need to coordinate with other businesses in their area.

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59 Further information about the Connection Voucher scheme can be found here: https://www.connectionvouchers.co.uk/
60 DCMS press release, June 2015. Available at https://www.gov.uk/government/news/25000-small-businesses-get-broadband-boost-from-connection-voucher-scheme Accessed August 2015

> *"We'd like to use a voucher. Unfortunately, not all of the businesses in our business park need a faster connection. To proceed we would be responsible for the overall bill, with a potential maximum market size of 12 customers to split it with. If they don't want to proceed, we would be responsible for the balance. It just doesn't work."*
>
> ThinkLogic, IT reseller, Poole

The changes made to reduce the difficulty in applying for a voucher - introduced earlier in 2015 - have helped address some of these concerns. This illustrates that many businesses need simplified processes from the outset in order to take full advantages of the opportunities offered by programmes such as this.

The FSB has promoted this scheme to our membership, which could account for higher take up in our survey than has been seen across the national small business population. As the fund for this project starts to run out, it is time to consider how to build on the lessons learnt to develop a new scheme which will help small businesses to improve the quality of their broadband connection.

We would like to see funding made available for a new Community Voucher Programme to continue this work. This could build on the lessons learnt from the current programme. Targeted local advertising - with early buy in from groups like the FSB - would help raise its profile, addressing one of the key issues of the current programme.

The difficulties in coordinating different businesses in order to aggregate vouchers could also be reduced as far as possible in order to drive take up of this new Community Voucher Programme.

The process of upgrading telecoms packages can have a number of different challenges which disincentivise small businesses

Across the course of our qualitative fieldwork we found consistent evidence that the process of upgrading to superfast broadband itself can play a part in explaining some of the perceived and real barriers to doing so.

An upgrading 'journey' should be a simple linear process whereby those interested in upgrading go through a number of steps to achieve their goal. We found that a significant number of upgraders, and those at earlier stages of the upgrade journey, experienced barriers at one or more points in the upgrade process.

As part of the Ofcom 'Action Plan for SMEs', it was announced that a Broadband Code of Practice for Business to provide more accurate information about accessible speeds would be developed in collaboration with communication providers.[61]

The FSB supported this proposal, but believes that a wider Code of Practice which covers other quality of service metrics would help provide important new protections for small businesses. As we highlighted in our recommendations, the issues raised by small businesses in this section of the report should either therefore be addressed within any future Code of Practice, or be considered separately

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61 Ofcom, Broadband services for SMEs: assessment and action plan, July 2015. Available at: http://stakeholders.ofcom.org.uk/binaries/research/telecoms-research/sme/bb-for-smes.pdf Accessed July 2015

within Ofcom's continuing work programme to address quality of service issues.

These will affect small businesses in much the same way as the residential market so any regulatory reforms to further protect residential consumers should also be replicated for the wider small business market.

Across all of the different issues which were raised was the common theme that small businesses did not feel like they had access to enough information to make informed choices. This lack of information caused problems as they interacted with the telecoms market in a variety of different ways, including:

• A lack of contract transparency, with overly technical language
• Difficulty in comparing products
• Switching processes
• Complicated installation processes
• Delayed fault repair
• Significant gaps between advertised speeds and actual performance

In Figure One we have mapped out the process of upgrading in detail, in the style of a 'customer journey', which we call the path to superfast broadband. Residential consumers will likely go through a similar journey, and experience many of the same issues in the same way.

Requirements during the upgrade process

Small business owners have a number of requirements or expectations of the path to superfast broadband, which if met, should make for a smooth and efficient consumer journey. We found these requirements to be largely consistent irrespective of the size, sector or location of the business.

It is important to note that small business owners do not necessarily need government support to get information about superfast broadband. Many are already proactively researching and keeping abreast of the benefits. Many others rely on their support network to get this information. However, they do need reassurance that the available information is honest and reliable, as well as guidance on where to go to find this kind of information. We found a clear appetite for increased support and available information across all metrics of quality of service.

Figure One: The Path to Superfast Broadband

'Available' ▷ 'Aware' ▷ 'Consider' ▷ 'Apply' ▷ 'Install' ▷ Experience

Stage of upgrading process	Small business requirements
Available: Knowledge about infrastructure availability	Reliable information as to when and if superfast broadband will be available, not only in their area, but also to their business premises specifically.
Aware: Understanding of how to start the process	Ability to find relevant and reliable information for themselves about the availability of superfast broadband in their area.
Consider: Getting advice about their actual requirements and the potential services which will most effectively provide measurable benefits at a reasonable price	Independent advice and guidance from a trusted source. The FSB and the Government are seen as such a resource at the more general level, though small business owners also require more tailored local advice. Use of plain and simple language as opposed to technical language or jargon. This requirement is relevant to all information sources but is made in reference to suppliers in particular. Whilst some technical language is unavoidable, small businesses felt that language generally was too hard to understand at present. Online tools and checklists to review • How to start and what the steps are when upgrading to superfast broadband • What speed is needed and feasible given hardware and infrastructure (this could include more guidance on what level of increase in speed is enough to warrant upgrading) • Support in assessing their actual requirements and their level of need A choice of suppliers and packages and the ability to compare prices / packages / speeds across available suppliers, thereby giving reassurance that the price of the package is reflective of the service on offer.
Apply: Initial conversations with suppliers	The use of plain and simple language by the supplier is considered critical to making the right decisions at this phase. Open discussion with the supplier as to physical factors that will impact the possible speed / reliability e.g. distance from the cabinet, presence of any speed caps, number of users connected to the one line etc.

Install: Process of installation	A smooth installation process in which the engineer arrives at the pre-agreed date and time, and carries out the work as paid for in the agreed time period.
Experience: Post upgrade experience	Reduction in the gap between advertised speeds and actual speeds being delivered. Regulation of suppliers to provide reassurance that their claims are accurate.
	Commitment from the supplier post installation to resolve any issues with unacceptable speed or the reliability of the service.
	In essence, small business owners are looking for their supplier to be a trusted advisor both during and after the upgrade.

The experience of upgrading can be difficult at various stages of the process

Through our qualitative interviews we repeatedly heard that a number of the requirements and expectations of businesses are not being met. Most of those we talked to had at some point in the process encountered barriers which slowed down the upgrade process. For some this was a significant drain on time, caused a great deal of stress, and resulted in confusion or even mistrust of the supplier.

The upgrade process is not always fraught with difficulty - we spoke to small business owners who found that certain aspects went very smoothly – but our intention is to highlight the types of issue that small business owners may encounter along the way, which can slow down and jeopardise their ability or willingness to upgrade.

AVAILABLE AND AWARE

This stage of the process can often be difficult: too much relies on the individual to go to the right sources, ask the right questions and gather the right information. For those who have not yet upgraded, many assume that upgrading will be very time consuming and difficult. Those who are in the process are often still uncertain as to whose responsibility it is to provide information, find the right solution and resolve any upgrading issues, be it themselves, the supplier or another independent body:

> *"I'm planning to upgrade in the future, but don't really know where to start. I've been receiving leaflets and emails about superfast broadband for a year but it doesn't tell you what to do. I'd like to know more about who's responsible for the terms and conditions and the set up?"*
> Hanus, urban area, York, perfume shop, two employees

> *"There's confusion about who you can trust."*
> FSB member, urban area, Yorkshire, scientific and technical activities, two employees

BT provides an availability checker on their website which allows users to get up to date information about the availability of superfast broadband in their specific location. Similarly, Ofcom provide post code level data on the availability of superfast broadband. Whether small businesses are aware of these services remains an open question.

Our evidence shows that there is a latent demand for superfast broadband, which is being held back by a lack of knowledge about the availability of the product. The communications providers should invest more resource into raising awareness among small businesses once the infrastructure is in place.

CONSIDER

The consideration stage can be a lengthy one. The time taken is largely based on small business owners carrying out their own research, at their own pace. This can take considerable time, which for time-poor business owners, has the potential to be off-putting. Most of those we spoke to said there was a real need for some kind of central independent and trusted source of information, providing reassurance to potential upgraders that they have the right information to make a considered and timely decision.

Ofcom was identified as a potential source of independent and reliable information by a limited number of small business owners, although it was felt that the information currently provided may be more targeted towards larger enterprises. Ofcom has created a new portal to help small businesses understand their rights and offers guidance on engaging with the telecoms market.[62] The FSB has signposted this support to small businesses, and will continue to investigate whether the information being provided by Ofcom for small businesses could be improved.

> *"Telesales staff are ill-informed and may even be mis-selling superfast broadband packages to small businesses in areas where it is not even available."*
> FSB member, West Midlands, real estate activities

> *"I don't know where we'd go for more information... information from suppliers is useless and from Ofcom it never seems to actually apply to your situation, e.g. their idea of a small business is 20-30 people, but ours is two to three."*
> Craig, communications agency, London, three employees

> *"I don't know where to start and don't have the time or energy to investigate this further. I need someone to give me three or four options, along with the right questions I should be asking."*
> Maf, Cumbria, shop owner, three employees

Small businesses struggled with a lack of information about what service would best meet their needs. They wanted clear, readily comparable information which would allow them to make purchasing decisions. It was generally considered that this information was not currently available in a form which would allow small businesses to make these decisions with confidence.

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62 Ofcom 'Advice for Business' portal: Available at: http://consumers.ofcom.org.uk/ofcom-for-business-consumers/ Accessed May 2015

> *"The small print said that there was no compensation available if there was a problem with my service. When I had a long term outage, I felt that there was no desire to resolve the issue as a result."*
>
> FSB member, artist, rural location, sole trader

Some small business owners felt that there was a disconnect between the information and support given when they were applying for either residential or business contracts. For residential contracts they received a lot of information on upgrading, while with business contracts they felt they had to go out and find it themselves.

Several other members highlighted issues they had with contract transparency, with others worrying that if they made a mistake, they would be trapped in an expensive and unsuitable contract with no recourse to leave it early. Several interviewees talked about the over-technical language used by suppliers. Even those who were more digitally aware often found the language confusing. Small business owners called for the use of 'plain and simple' language. They felt this would not only speed up and take some of the pressure out of the upgrading process, but also help to guard against ending up with the wrong type of package post installation.

The transparency of contracts similarly caused concern for many small businesses, who did not feel like they were able to make good choices based on the information available to them. In some cases, the response to this was to disengage from the market completely, so as to avoid making potentially costly mistakes.

> *"I could have done with better information about contracts. I don't really know what questions I should be asking, so didn't want to take the first step in case I made a mistake. I took up a VOIP system recently which doesn't work that well, but I am now stuck with it."*
>
> FSB member, ecological contractor, Gloucestershire

We note that some providers are considering whether shorter contracts would increase small businesses confidence in taking up services. This market led development is welcome, as it would allow small businesses to start using a service with the opportunity to walk away if the quality of service experienced is insufficient for the business.

APPLY

Some of the small business owners we spoke to said that they did not have a choice of suppliers to provide superfast broadband. Whilst this could reflect low awareness about potential smaller providers, this also caused considerable frustration. These feelings were exacerbated when other businesses around them, sometimes in the same street, were with a supplier from whom they had been told they could not have superfast broadband.

We found that concerns about service continuity were stopping some businesses from considering switching their providers. Small businesses did not want to risk a gap in service so instead remained with existing providers who may not otherwise have been their preferred choice.

INSTALL

The importance of access to the internet meant that many owners were concerned about gaps in service owing to issues caused by installation. A number of owners talked about the stress of installation.

> *"It was a nightmare, very, very stressful - it took them about 6 months and there were five aborted installations. We tried to upgrade two years ago but couldn't get it. We had contracts with two different providers but couldn't get more than 2Mbps."*
> Gordon, urban area, Sheffield, software development & sales

> *"I knew I could get a superfast broadband from a supplier in my shop so arranged a business package. The contract was all agreed and signed, but when the engineer came, he was obviously very upset about something. He finally came to me, said he cannot do it today, and left. The next thing we got was an email from the supplier, the rudest I have ever experienced, telling me I cannot get superfast broadband."*
> Lynn, urban area, East Anglia, Fairtrade retailer, sole trader

A few of the small business owners interviewed mentioned that they felt that there was no 'after sales' service or support. Despite paying a premium with a business contract to guarantee faults are fixed within a given time plan, some owners felt they were abandoned by the supplier if the resulting service did not provide the required speed or reliability.

> *"Providers should be a little bit more honest and open in contracts. They are full of caveats such as "we're not responsible for anything; you can't have anything you want". They sell you anything, but there's no after care service."*
> Vincent, rural area, North East, Health & Safety consultancy, one employee

> *"The suppliers don't help you once they've delivered the broadband to your door – they don't actually come inside - they bring the connection to your door but don't care what happens beyond it."*
> Ian, urban area, South East, Hotel business, seven employees

As referenced earlier, many businesses raised the unreliability of their broadband connection as a key issue stopping them from doing more online. In a separate survey, carried out by the FSB in December 2014, we asked small businesses about their satisfaction with the reliability of their broadband service, and their satisfaction with the speed of fault repairs. The tables below demonstrate the low levels of satisfaction with both of these elements of quality of service.

Table Five: How satisfied are you with the following element of the different telecommunications services your business uses?[63]

	Very satisfied	Somewhat satisfied	Neither satisfied or dissatisfied	Somewhat unsatisfied	Very unsatisfied	Not applicable / do not use this service
Broadband reliability	18%	30%	14%	22%	15%	1%
Speed of fault repairs	10%	22%	26%	19%	12%	11%

These relatively low levels of satisfaction can be explained by the number of times small businesses experienced faults and drop outs in service on a regular basis. As is highlighted in Table Six below, with 20 per cent of small business reporting daily faults with their broadband connection, this suggests that a significant section of the market is unable to rely on constant connectivity.

Delays in fault repair are of particular concern, especially for businesses which relied on the internet for core business functions. Ofcom has imposed new targets on Openreach which are designed to improve the speed with which faults are addressed, which have had an impact on improving fault repair times. Of concern as well is the long tail on faults which are not being addressed anywhere near the targets. These businesses can experience significant disruption as a result of failed repairs.

We recognise that many of these faults will be caused by software issues rather than network problems, and that communications providers cannot be held solely responsible for these issues. On the other hand, when there are issues caused by the network, a lengthy repair time can cause significant hardships to business.

Table Six: On average, how often does your business experience problems with your broadband connection? (by number of employees)[64]

	Total	None	Up to 10	11-20	21-50	+51
On a daily basis	20%	23%	19%	25%	12%	23%
On a weekly basis	23%	19%	22%	32%	27%	38%
On a monthly basis	15%	14%	15%	15%	27%	8%
Less frequently	25%	24%	25%	21%	19%	0%
Rarely / never	17%	19%	18%	8%	13%	31%
Don't know	1%	1%	0%	0%	2%	0%

63 FSB, Snap poll, Communications Services, December 2014. Base: 1311 responses
64 FSB, Snap poll, Communications Services, December 2014. Base: 1311 responses

What were viewed as particularly damaging to small businesses were the faults which took extended periods of time to resolve. These caused significant amounts of stress, especially when multiple attempts to resolve the fault were unsuccessful.

These issues by definition generally affect small businesses which are already operating in the telecoms market. The frustrations small businesses experience from these issues can however cause small business consumers to disengage from using – or from increasing their use - of telecoms services.

A poor experience during the upgrade process can leave small business owners feeling that they have been mis-sold to or provided with misinformation. When combined with some of the other negative experiences that can arise such as failed installations or confusion over technical jargon, small businesses confidence in interacting with the market can be shaken.

> *"The providers are mis-advertising the speeds - if they tell you you'll get XYZ, you'll only get a third of it, if you're lucky."*
>
> Mike, urban area, South Coast, care home software and training provider, sole trader

> *"There is lot of confusion as to who the best suppliers are. Also when spending the amount set per month there does not seem to be the guarantee that you get what you pay for and a lot of confusion for the ordinary business man unless they have a degree in computing."*
>
> FSB member, urban area, Scotland, manufacturing, two employees

It is clear that the gap between what suppliers can advertise and what speeds are actually available causes considerable frustration for many small business owners. Which? has recently highlighted this issue in the residential market, finding that many residential consumers are unable to access anywhere close to the speeds which were advertised.[65]

Small businesses therefore can experience significant challenges when engaging with the telecoms market at different stages of the upgrading process. This can act as a significant disincentive to deciding to upgrade to superfast broadband, especially for smaller firms which might lack this technical expertise.

A lack of digital skills was not generally viewed as a significant issue; however, many small businesses did not feel that they have sufficient information to interact with the market

The comparatively low level of concern about skills was unexpected, especially when compared to the findings from reports such as the Lloyds Business Digital Index.[66] This Index found that a lack of skills was a major reason for small businesses not to be online.

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65 Which?, Broadband advertising not up to speed, June 2015. Available at http://www.which.co.uk/documents/pdf/broadband-advertising-not-up-to-speed-june-2015-406391.pdf Accessed August 2015
66 Lloyds Bank, UK Business Digital Index 2015. Available at: http://resources.lloydsbank.com/insight/uk-business-digital-index/ Accessed May 2015

As discussed in the annex, it should also be recognised that as our survey work was being carried out with an online panel, it is likely that the businesses which we spoke to had an elevated ability to use the internet compared to the general small business population. As a consequence, they were perhaps more likely to be unconcerned about their digital skills. It is also possible that some small businesses do not view a skills shortage as important because they are already unlikely to carry out online functions. Alternatively, some small businesses who responded to the survey may also not be willing to admit that they do not have sufficient levels of skills to effectively run their business in the modern business environment.

Nevertheless, the Lloyds Business Digital Index identified digital marketing as a key skill which businesses thought they could use more support in utilising. This reflected the view of the businesses we surveyed, who frequently identified this – and the use of social media - as a major gap in their skill set.

> *"I'd like to use social media and digital marketing, but don't feel like I have the skills to do so."*
> Helen, engineering company, Derbyshire, three employees

Most small businesses we spoke to identified skills as a second order issue – especially in areas where they were more concerned about infrastructure availability. Our more in depth interviews did however uncover that many small businesses did not feel that they had sufficient information to make informed decisions, suggesting the existence of knowledge gaps. This suggests that while small businesses owners may not have explicitly identified skills as an issue, they remain unsure about interacting comfortably in the telecoms market.

> *"Because I'm not tech-minded I would want information that tells you about superfast broadband in plain language. I'd also want to hear that it's readily available, cost effective, more efficient – most importantly, and reliable."*
> Pearl, rural area, North Scotland, Pet supplies retailer, sole trader

A separate survey carried out by the FSB in May 2015 [67], found that digital skills were viewed as being important to helping in the future growth of small businesses, with 43 per cent identifying as being most important. However, when compared to other elements of the skills mix - such as attitude to work, communications skills and people skills - digital skills were viewed as being comparatively low on the agenda.

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67 FSB, Education and Skills survey, May 2015. Base: 2045 responses

Chart Five: Which of the following skills are most important for the future growth of your business?[68]
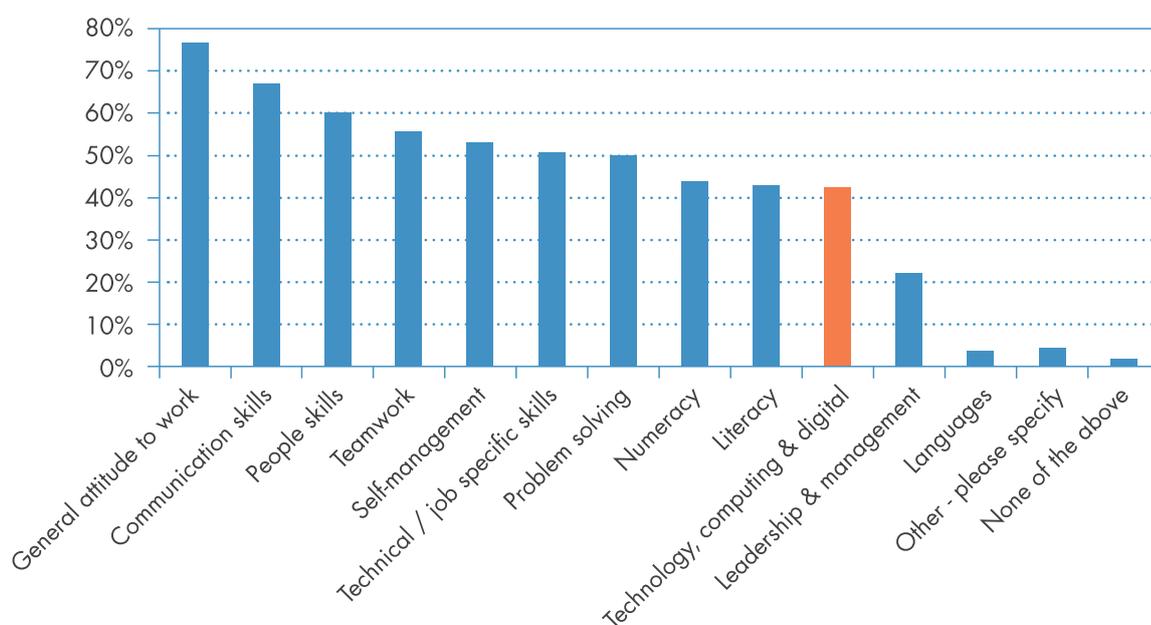
As our research has found, younger business owners are more likely to view their use of technology as being important to their business. When asked about gaps in the general skills matrix of candidates being recruited, across almost all measures, older workers were viewed as more likely to have the necessary skills.

> *"Training would be of help… it feels like we are the last generation to have been bought up with computers – I think there is a total lack of support for us."*
> Angela, recruitment consultant, Tunbridge Wells

The two areas where younger workers were viewed as being more likely to have the right skills compared to older candidates were in digital skills and languages. The gap, as shown on the chart, below is substantial only in the case of digital skills.

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68 FSB, Education and Skills survey, May 2015. Base: 2045 responses

Chart Six: When recruiting, which skills, in your view are most commonly lacking in candidates? (by candidates over 50 and candidates under 24)[69]
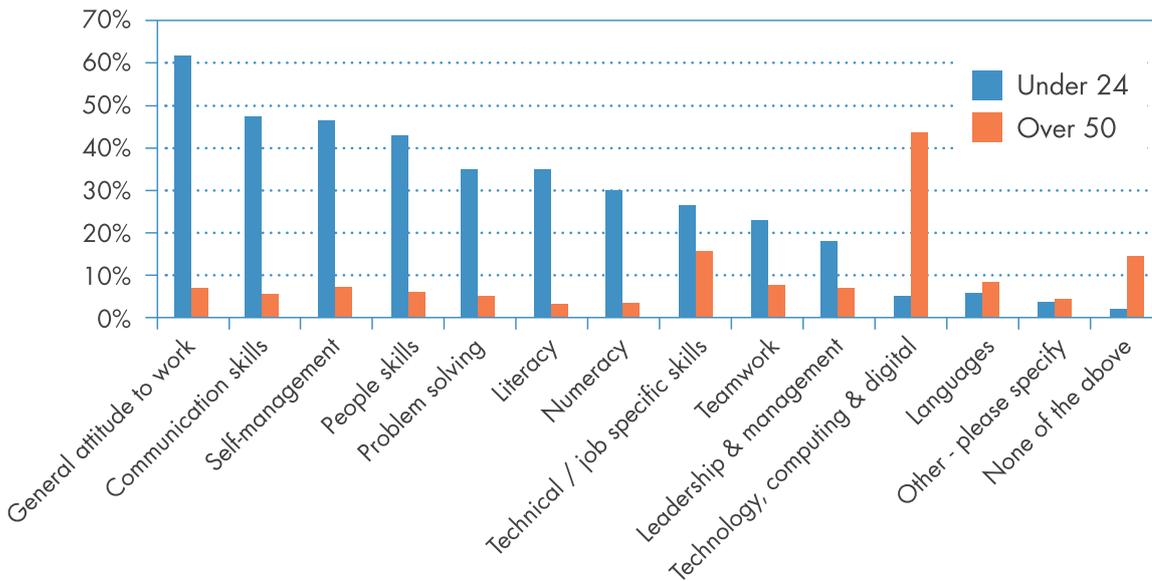
More broadly, many businesses expressed concern that they did not know where best to find independent advice about telecoms issues. More digitally aware small business owners recognised that the key to a successful upgrade process is to get sound, independent advice before approaching suppliers, as there is a risk of being mis-sold or being recommended an inappropriate product or package:

> *"If you need faster broadband – it's a no-brainer but get good, local advice as there's a lot of misinformation in the market."*
> Mike, urban area, South Coast, care home software and training provider, sole trader

When a small business owner is deciding to do more online, or considering whether to upgrade to superfast broadband, a significant number of issues arise which can affect the decision making process. Many of these issues can be challenging for a business owner based on the fact that they may not have the skills or knowledge base within their business to comfortably make these decisions. Having external sources of business support which is tailored to small businesses' concerns would be a valuable resource for many small business owners.

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69 FSB, Education and Skills survey, May 2015. Base: 2045 responses

Cyber security was raised by some small businesses, although less so than other issues

Cyber crime is increasingly a concern for small businesses, and can act as a barrier to them doing more online. In particular, some small businesses identified the security of their own data along with that of their clients as particular challenges.

The Government has estimated that cyber crime costs the wider economy up to £27 billion per year, a figure which may well be low due to under reporting.[70] The costs in this estimate from 2011 is likely to have increased since then.

Despite this, relatively low numbers of small firms identified cyber security as a significant challenge for them. This should be of concern to the Government, as it suggests that many small businesses may be unaware of the risk posed to their business. Indeed, Cyber Streetwise estimates that 66 per cent of small businesses do not consider their business to be vulnerable to cyber attacks.[71]

The nature, scale and costs of security breaches are also escalating, with the scale and cost of attacks rising substantially in recent years.[72] Research by the FSB estimated in 2013 that the average annual cost of fraud and online crime to a small business was around £4,000 per year on average. [73]

Some firms are concerned enough about the potential risks posed by cyber security that they have set up separate computers which were deliberately not connected to the internet. Other firms were so worried about the risks posed by cyber security that they had made a decision to significantly limit their use of online services.

> *"I limit what I do online because of security risks. I don't have a website as I don't want to make myself a target for cyber criminals. So long as there is a risk of being targeted, I prefer to use word of mouth and networking to source new business."*
>
> Paul, translation service provider, sole trader, Peterborough

Other small businesses are taking basic steps to protect themselves, with 59 per cent now regularly updating virus scanning software and 47 per cent updating their firewall frequently.[74]

All small businesses should be taking preventative steps to reduce the risks posed by cyber crime. Building the resilience of small businesses to cyber crime is important. This can be done both through improving the security of the networks they use, and also through raising awareness among staff members.

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70 Detica and the Cabinet Office, The Cost of Cyber Crime, February 2011. Available at https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/60943/the-cost-of-cyber-crime-full-report.pdf Accessed July 2015
71 Cyber Streetwise 2015. Available at: https://www.cyberstreetwise.com/blog/your-business-falling-any-cyber-security-%E2%80%98myths%E2%80%99 Accessed July 2015
72 HMG/ PwC, 2015. '2015 Information Security Breaches Survey: Executive Summary'. Available at http://www.pwc.co.uk/assets/pdf/2015-isbs-executive-summary-02.pdf Accessed July 2015
73 FSB, Cyber security and Fraud survey, 2013
74 FSB, Cyber security and Fraud survey, 2013

Many of the issues highlighted above also apply to cloud computing

In December 2014, the FSB carried out a survey of our members which focussed on their experience of using cloud computing.[75] This found that 60 per cent of small businesses are currently using cloud computing service for their business.

Cloud computing services are mainly used for sharing and storing files, email, calendar and contacts. Around two-thirds of small businesses currently use cloud computing for these services. Meanwhile, 37 per cent say they use cloud computing services for accounting or finance applications. Less than a fifth use cloud computing services for specialised applications such as design software, customer relationship management, training and HR.

There would be considerable benefits to small businesses and the wider economy if the number of small businesses using cloud computing services were to increase. On average, small businesses using an above number of cloud services grew 26 per cent faster than those not using cloud computing technology. They were also more profitable by around 21 per cent on average.[76]

> "Cloud computing offers endless opportunities for my business. Through removing duplication of administrative effort, we have made considerable time saving efficiencies. We have used these time savings to free up staff to do more useful things for the business."
>
> Clare, accountant, Yorkshire

The barriers stopping the 38 per cent of businesses which are not using cloud computing services are broadly similar to the barriers stopping small businesses from taking up superfast broadband more generally. The primary barriers stopping small businesses from using cloud computing services are:

Concerns about cyber security: Half of businesses not using cloud services said this was because they were concerned about data being compromised, either via loss or theft. Across the entire sample, 61 per cent of small businesses reported that the risk data might get compromised was an important risk to using cloud computing services

Infrastructure availability: A lack of a reliable internet connection was cited by 20 per cent of businesses. 23 per cent of those currently not using cloud services say this is because of a lack of broadband speed. 55 per cent of small businesses say the risk of not being able to always access data is a risk of using cloud computing services.

Uncertainty about contracts and data ownership: Nearly 30 per cent of those currently not using cloud services say this is because they do not know who is liable in the event that issues emerge. As a consequence they are unsure about who owns their data and do not want to be tied into what could be an inappropriate contract. Over a quarter of the survey reported that not being able to understand the small print of contracts, and being tied into a contract, are risks of using cloud computing services.

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75 Verve: Cloud computing survey, December 2014. Base: 1226 responses
76 Deloitte: Small Business, big technology. How the cloud enables rapid growth in SMBs, September 2014. Available at https://www2. deloitte.com/content/dam/Deloitte/global/Documents/Technology-Media-Telecommunications/gx-tmt-small-business-big-technology.pdf Accessed August 2015

Lack of understanding: 20 per cent of those currently not using cloud services say this is due to being unaware of how to start the process.

"You need an interpreter to understand all the technicalities behind the Cloud."
Mike, model agency, Berkhamsted

There was support for different policy ideas which could help to overcome these barriers. Just under half of small businesses said that the following measures would help to encourage them to start using cloud services:

- Clearer terms and conditions, written in plain English
- More transparent pricing
- A clearer balance between the rights and responsibilities of users and providers
- Clearer information on cloud services and training

The barriers to taking up cloud based services are much the same as those stopping businesses from taking up superfast broadband or from doing as much as they could be doing online.

One specific concern relating to cloud computing was the balance between the rights and responsibilities of users and providers and was seen as a significant challenge for small businesses. In particular, where data passed between different jurisdictions, some small business owners were concerned that they would inadvertently break the law.

"I'd be worried about transferring personal data into the Cloud. I'm not sure what the rules are, and don't want to incur any avoidable issues."
Helen, graphic designer, Bristol

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There are considerable issues on both the supply and demand side which need to be addressed before all small businesses are able to make full use of digital technologies

The evidence from both the quantitative and qualitative data we have gathered is clear that more remains to be done in order to remove barriers to being online for small businesses. Most small businesses interact with the telecoms market without feeling like they necessarily have the skills or independent sources of information to do so effectively. As a result, there are a series of different actions which should be carried out to stimulate demand by the Government which we will turn to in section four of the report. Doing so will help small businesses to take advantage of the different possibilities on offer.

Section three:
Small businesses' use of mobile services

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The use of mobile devices was viewed as being almost as important to small businesses as a fixed line internet connection. 70 per cent of the small businesses surveyed viewed access to mobile voice and data services as either being critical or very important to their small business.

British consumers have been early and enthusiastic adopters of smart phones.[77] The use of mobile devices changes the way in which consumers interact with different markets, along with their expectations of what service they will receive from the companies they transact with. As a result, small businesses will increasingly need to include mobile offerings within their business in order to meet the demand from consumers. Already, the UK is a leading consumer across the EU for downloading apps, with over 250 million monthly app downloads - a trend that is set to continue as mobile commerce grows.[78]

Currently mobile services primarily provide backup connectivity for small businesses. Most mobile users view these services through the lens of providing reassurance, although increasing numbers are also using it to optimise their business offering. As can be seen in Table Seven, the numbers of small businesses which have used mobile services to transform their business remain low.

This could be because many businesses have not yet fully understood the potential value of mobile services for their business. Our interviews did however also illustrate that coverage remains a concern for many businesses, particularly in rural areas and in Scotland, Wales and Northern Ireland.

As with fixed broadband access, the high value placed on mobile services was reflected across different sub-sets of the small business market. Younger small business owners were more likely to view their mobile as being critical to their business than older business owners. Even so, among the over-65s, 70 per cent still viewed a mobile phone as either being critical or very important to their business. There was however a larger group within this age cohort who didn't view a mobile phone as important to them (12 per cent) than in other age groups.

Close to half of small businesses spend less than £40 per month on mobile telephone services. There was a long tail of responses to this question, with six per cent of small businesses claiming to spend over £160 per month on their mobile. As would be expected, and replicating the results seen when asked about spend on fixed broadband services, larger companies were more likely to report that they had higher monthly expenditure on mobile phone contracts than smaller ones.

A clearer gap in the importance of mobile telephony emerged between smaller and larger businesses. 62 per cent of sole traders viewed mobile and voice services as critical or important. By contrast, 79 percent of the owners of firms employing 11 – 50 employees felt that a mobile connection was critical or very important to their business.

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77 Ofcom, Communications Market Report, August 2014. Available at http://stakeholders.ofcom.org.uk/binaries/research/cmr/cmr14/2014_UK_CMR.pdf Accessed July 2015
78 VisionMobile, UK App Economy 2014. Available at http://www.visionmobile.com/blog/2014/06/uk-app-economy-2014/ Accessed July 2015

In particular, owners of larger companies are disproportionately likely to rely on their mobile to manage employees, video conference and to use internet banking services. The owners of multiple businesses are also more likely to view a mobile connection as critical to their business in order to manage employees. Mobile services therefore continue to provide most small businesses with the ability to optimise their business rather than being used in a more transformative manner. Business owners operating out of multiple locations or with larger numbers of staff are more likely to put a premium on being able to stay in contact on a continuous basis than business owners with fewer staff or locations to manage.

Sole traders and companies employing less than 10 people are more likely to rely on their mobile phone to make sales. This could be because this group is less tied to an office environment, so might be using their phone more to make sales whilst on the move.

Those who viewed mobile services as being critical to their business are disproportionately likely to also view access to the internet as being critical as well. This group of businesses which are highly dependent on both a fixed line and mobile connection to the internet make up around one third of small businesses.

Among small businesses offering online services generally, there was a higher value placed on mobile services. Close to half (47 per cent) of all businesses offering online services view their mobile phone as critical.

For those who currently use mobile services, the evidence is clear that they are using their mobile phone to maintain connectivity to their core business. This can provide them with the assurance that they can continue to operate their business whilst travelling or from working from home. This is particularly clear when the importance of mobile services are broken down by business owners who spend a lot of time outside of a primary business premise.

Among the small business owners who do not spend any time working in transit or from home, only 15 and 12 per cent respectively viewed mobile services as critical to their business. By contrast, business owners spending between 30-45 hours a week either working in transit or from home, 59 and 55 per cent said their mobile phone was critical to them. From this perspective, it is clear that mobile services provide business assurance for these business owners. In total, 54 per cent saw their mobile as being critical or very important in helping them to work from home.

Furthermore, small businesses are increasingly using mobile services to optimise the efficiency of their business and to provide a substitute for connectivity. Nine out of the ten top uses for mobile phones relate to providing an alternative source of connectivity, with the sole outlier being that of business development.

Applying the same framework to that used for fixed broadband access shows that many businesses are still making use of mobile technologies to benefit their businesses.

Table Seven: Business reassurance

Business activity	Percentage identifying as important
Email	91
Interacting with customers	89
Web browsing	77
Interacting with suppliers	74
SMS	70
Voice	66
Internet banking	63

Where businesses are using mobile technology in their business, the primary benefit remains the ability to provide backup connectivity. It is perhaps surprising that voice services are not viewed as important to businesses as email. This could reflect the fact that many businesses may be continuing to use a landline for voice services, especially if they are based primarily in a fixed location.

"When my internet connection falls over, I can still use my mobile to carry out some of the more important tasks for my business. It basically serves as a back up when I need it."
Maf, shop owner, three employees

In areas where superfast broadband is not available, there are disproportionately high numbers of small businesses who say that they used their mobile phone for internet banking and to interact with customers and suppliers. Again this points to the value of a mobile phone primarily being to provide an alternative source of connectivity for critical functions of the business.

As has been seen in the fixed voice residential market, some businesses are considering substituting a mobile phone for some, if not all, of their landlines. This could deliver some cost savings for these businesses.

Table Eight: Business optimisation

Business activity	Percentage identifying as important
Enabling home working	77
Business development	66
Marketing	65
Selling goods and services	63
Managing employees[79]	42
Taking payment online	39

Mobile services are allowing some small businesses to take advantage to optimise their business. This was viewed as particularly important to enable home working, or to manage employees across multiple sites.

Some businesses which are using mobile services to market their services to new consumers are in industries where the average consumer is either younger, or more digitally literate. In this way, small businesses are starting to meet consumer demand through further integrating mobile technology into their business.

"Most of our clients are in the 3-18 age group, and their parents are 25-45. The biggest way they access information is through social media on their mobile – it was vital that we optimised our website for mobile as a result."

Geoff, dance studio owner, Chelmsford

Table Nine: Business transformation

Business activity	Percentage identifying as important
Social media	57
Content distribution	49
External business apps	47
Cloud computing	43
Online trading	41
Data analytics	37
Own business app	22
Video conferencing	22

79 Note, as with fixed broadband, the importance given to managing employees is artificially lowered through including sole traders who place low value on this. Excluding sole traders increases the percentage of small businesses using their mobile phone to manage their employees to an average of 62 per cent

It is noticeable that high end mobile services which would allow small businesses to transform their offering are not being taken up by large numbers of small businesses at the moment. There is low use of both own brand and external business apps and low use of data analytics. Few businesses are using mobile as a platform for online trading. Similarly, there is low use of mobile as a method of content distribution.

Businesses which have started to integrate mobile technology into their business have noticed the benefits however. At this stage, mobile offerings allow businesses to differentiate themselves from their competitors.

> *"We have developed an app which allows our models to upload photos to their personalised portfolios, and to easily share these with casting agents. Whilst it is too early to see if this has increased sales, it offers a point of difference to our competitors which I think will pay dividends in the long run."*
>
> Mike, model agency, Berkhamsted

The figures above demonstrate that mobile services are viewed as being useful for low bandwidth applications like using social media. Some of the businesses we spoke to however said that while they appreciated being able to update Twitter or Facebook via mobile, it was not a significant benefit for them at this stage.

Small businesses are still being held back from making full use of mobile technology in their business

As illustrated earlier, many small businesses are starting to recognise the benefits of integrating mobile technology into their business. The primary advantage for many of these businesses is to provide an alternative source of connectivity, especially when on the move.

Few small businesses however are using mobile services to radically change the way that they carry out their business as a result of these barriers. Only 22 per cent of small businesses say that their own business has an app, while 47 per cent view the use of other organisations' apps as being important. Previous research has demonstrated the significant benefits that using apps and other mobile services can provide for businesses.[80] As a result, many small businesses are missing out on these opportunities.

The main challenge identified by small businesses was that voice and data coverage was not reliably extensive enough for their business to use mobile services more extensively. When offered prompts for the main barriers to using online services were given, the lack of a reliable mobile signal was given a mean score of 2.95 out of 5. This represents a significant challenge when ranked against other issues.

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80 VisionMobile, UK App Economy 2014 Available at http://www.visionmobile.com/blog/2014/06/uk-app-economy-2014/ Accessed July 2015

"If I'm in London and can use 3G or 4G I can use my mobile. But the mobile signal here is appalling! So if I'm driving or am out and about, I don't get emails and have to wait until I get home to be able to read them. It's very patchy and unreliable."

Paul, Ashford, property consultant, five employees

"We can't really do a lot as the coverage is poor. I would like to use the mobile more as it's very important for business. I know my customers like to be contacted via mobile and emails but we have to send them texts as we can't rely on mobile; it takes days to send/receive voicemails. We would also love to have an app that the other businesses are using, or the QR codes, but can't because there isn't even a 2G signal. It's very frustrating for me and the business here."

Carolyn, Helmsley, Jewellery Boutique, two employees

Mobile internet usage is subject to other barriers too, which are similar to those outlined for fixed broadband. Some barriers are attitudinal rather than based on poor connectivity, or simply a case of mobile services being superseded by the existing fixed broadband connection:

"I don't like working from my mobile phone, but I can if I must. My apprentices use mobiles and iPads in the shop but it's not for me."

Lynn, urban area, East Anglia, Fairtrade retailer, sole trader

"We do have business mobile phones but rarely use them now because internet enables me to do everything from my desk so I don't have to spend much time out of the office."

Gordon, Sheffield, Software development & sales

Some members are also concerned about the recent news that Google algorithms had changed in order to optimise search for mobile optimised websites.[81] This wasn't commonly known among members, although those that were aware of this change had generally taken a proactive decision to make changes to their website in order to ensure that their website retained its ranking.

"I heard about the change from a website designer who wanted a contract to optimise my website. I thought the costs he was quoting were far too high, but I do worry that this will eventually affect my ranking."

John, hotelier, Durham

The decision by Google to change their algorithm demonstrates how mobile search will increasingly be a key way for consumers to interact with businesses. As a result, businesses will need to swiftly embed mobile services into their businesses in order to keep up with these trends. Lloyds identified the support for website design and maintenance as two main concerns in their study.

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81 The Guardian, April 2015, http://www.theguardian.com/technology/2015/apr/20/google-mobilegeddon-will-shake-up-mobile-search-results Accessed August 2015

Section four:
Policy recommendations
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The evidence presented above demonstrates that small businesses continue to encounter barriers which are hindering their take up and use of online services. This is not simply a question of infrastructure availability and market supply, but instead requires interventions on the demand side as well. Treating small businesses as telecoms consumers will help government and Ofcom more effectively regulate to remove the barriers stopping businesses doing more online.

Our understanding of small businesses' experiences and perceptions of the telecoms market has led us to conclude that we need a range of policy interventions.

To highlight the benefits of taking up online services and to stimulate demand more effectively:

- **Promotion of the Business is Great campaign:** All stakeholders, including the Government, communications providers and the FSB should take a more proactive role in highlighting the benefits to business of being online. The Government should continue to promote the Business Is Great campaign, and tailor messaging to align it to the different benefits that superfast broadband can bring to different small businesses. Other stakeholders should similarly look to develop further tools to increase demand among small businesses. Doing so will significantly increase the growth potential of the UK economy and allow small businesses to contribute to closing the productivity gap.

- **Promotion of mobile into businesses:** Our research shows that many small businesses are still not fully integrating mobile technology into their businesses. More effective messaging is required to support the integration of mobile services into small businesses' daily operations. This is particularly important as consumers increasingly access the internet via mobile devices, meaning small businesses will need to match consumer expectations. This has been reflected in Google's decision to begin favouring mobile enabled websites in the search algorithm used by mobile devices.

- **Co-ordinated stakeholder action:** The FSB and other stakeholders should continue to promote the message that many small businesses could be doing more online and should nurture peer-to-peer, local networks to help provide advice and share experiences among small businesses. The FSB has committed to delivering a series of events across the country in the coming months. These will provide communications providers and other stakeholders such as Go ON UK with the opportunity to discuss issues of concern with FSB members. It will also provide a forum for FSB members to meet and discuss any concerns they have with their use of digital technologies.

To improve access to digital infrastructure, the main objective of the FSB is for the Government and Ofcom to follow the recommendations of our 'Fourth Utility' report. Besides these recommendations, the FSB would like to see:

- **The delivery of a 10Mbps USO and a plan for ultrafast broadband:** The Government should follow through on plans to introduce a USO, which should be set at 10Mbps. Small business premises should be explicitly included within these targets. This recommendation matches that of successive Ofcom reports. A delivery plan for ultra fast broadband should be published as soon as practicable.

- **Increased action to drive awareness of superfast availability:** Suppliers and local authorities should invest more in raising awareness of infrastructure availability which is currently low among many small businesses. Our data shows that when small businesses are aware about the availability of superfast broadband in their area, the take up of superfast broadband is significantly elevated.

- **A new Community Voucher Scheme:** The FSB has been supportive of the Broadband Connection Voucher Scheme; as funds begin to run out for this project, the Government needs to consider new approaches. Using the lessons learnt from the Connection Voucher Scheme, the Government should establish a new Community Voucher Scheme. This should be available in both urban and rural areas, be easy to understand and allow for the simple aggregation of vouchers. It should be accompanied by a targeted advertising campaign to increase awareness and drive demand for this scheme.

- **Further steps to improve mobile coverage:** There have been substantial improvements in the level of mobile coverage across the UK, especially following different actions Ofcom has taken. We supported the deal announced between the Government and mobile operators to improve mobile coverage and reduce the level of geographic not-spots and expect that this will deliver improvements in mobile coverage. Both Ofcom and the Government need to hold the mobile operators to the terms of the 2014 deal to improve mobile coverage rates. In the meantime, recent announcements about initiatives designed to improve mobile coverage on trains, and to reform the planning process in order to lower the difficulties in deploying mobile masts, will also have a beneficial impact on mobile coverage. Any further steps which the Government can take to incentivise mobile operators to improve the level of geographic coverage will help small businesses and improve their ability to rely on their mobile phone while travelling or working in more rural areas. This is also important in the devolved nations, where mobile coverage is significantly lower than in England. Much of this can be attributed to topography and lower population density in these areas. At the same time, small businesses in these areas will continue to struggle to make full use of mobile services as long as they cannot rely on a reliable mobile service.

To help small business gain the skills and confidence to engage as consumers of telecoms services, and to drive improvements in the quality of service on offer, the FSB would like to see:

- **A new Code of Practice for business customers:** We support Ofcom's decision to introduce a new Broadband Code of Practice focussing on download speeds. This will improve transparency and help small business consumers navigate the telecoms market. Across different quality of service areas, increased information would also help small businesses to effectively make the decisions they need to take to comfortably engage with the telecoms market. We believe that an enhanced Code of Practice, covering more quality of service areas, would provide further benefits to small businesses. This new Code could include additional protections and commitments from communications providers on enhanced information sharing, contract transparency, fault repair and installation times.

- **Greater information transparency which would allow for the better comparison of different products:** An independent body could be established to take charge of ensuring that there is clear, objective information available to guide and support small businesses in considering and choosing how and when to upgrade to superfast broadband. One initiative which has had success in the banking industry is the Business Banking Insight program. This annual survey, sponsored by the FSB and the Chambers of Commerce, provides small businesses with useful information which allows them to make informed decisions about which bank to use. Replicating this in the telecoms market would provide small businesses with an independent source of information which would allow them to decide which communications provider would offer them the best service package. The FSB has also highlighted the guides which Ofcom has produced for small businesses, and has also provided our own resources to help small businesses better understand this process.[82]

- **Enhancing contract transparency and avoiding unclear language:** Contracts should be as clear as possible, with a minimum of unnecessarily technical or confusing language. Ofcom should also consider whether there should be enhanced regulatory scrutiny of contracts in order to ensure that they are sufficiently clear and transparent.

- **Referrals to other providers would increase the ability of small firms to access the services they need:** Improving the switching process will increase competition within the market. In areas where one service provider is unable to provide a service, we agree with Ofcom that small businesses should be able to walk away from contracts. Through provisions in the Small Business Act, the banking sector will have a requirement that small businesses are referred to other providers (via a referral platform) where the bank cannot provide a facility. The FSB believes that such a mechanism should be explored in the telecoms market where the provider is unable to provide access to the required services. Referrals to other providers would help small businesses to access the services they need. Ofcom's decision to introduce Gaining Provider Lead (GPL) switching is a positive decision which will promote competitive pressures within the market. We would like to see the switching process made as quick and as simple for small businesses as possible across all communications services.

- **Enhanced information on installation times:** Small businesses rely on certainty in order to make business decisions. Clearer guidelines about when a new service can be provided will allow small businesses to choose new services and products more effectively.

- **Improvements to fault repair times:** Ofcom should consider whether to introduce escalating penalties on communications providers for failure to repair faults within service level agreements (SLAs). In cases where faults are consistently not resolved, new penalties should be introduced. Small businesses could also be given the opportunity to walk away from their contracts if faults are not addressed. Small business consumers again need more accurate information about what is causing the fault, and timescales for fixing the issue.

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82 Ofcom 'Advice for Business' portal: Available at: http://consumers.ofcom.org.uk/ofcom-for-business-consumers/ Accessed: May 2015

- **Increased transparency in advertising available speeds:** We agree with Which? that there should be a closer correlation between the speeds that can be advertised compared to the actual speeds that are obtainable.[83] The rules governing these adverts should be amended to give small business consumers confidence that they will receive the speeds they think they are paying for. This could include moving to advertising a minimum speed rather than maximum potential speeds. The proposed introduction by Ofcom of a new Code of Practice for Business for download speeds would be a good step towards achieving this. In this, Ofcom should challenge all suppliers to adopt a more consistent approach when assessing and advertising achievable speeds in a given premises, using minimum instead of maximum speed as a benchmark.

Aside from a new Code of Practice to address quality of service issues, there are other actions stakeholders should take to increase the knowledge, skills and confidence with which small business consumers can interact with the telecoms market, including:

- **All stakeholders should develop and promote easy-to-use tools:** These would help small businesses to find the right questions to ask about their needs and rights. The FSB is willing to work with any interested parties to ensure that these tools are as effective as possible. It is also important that these tools are focussed on the needs of actual businesses and sole traders rather than larger companies. The FSB has developed a tool kit to help our members understand what rights they have when interacting with the telecoms market. We have also promoted Ofcom's guide for small businesses as another tool to help small businesses understand these issues. Other stakeholders, including the Government, could also provide tools on their website to help small businesses understand what levels of service they are entitled to receive.

- **Retargeted digital skills training:** Several small business owners who received targeted skills training identified this as allowing them to start to make better use of the internet. In particular, skills support for social media and online marketing were viewed as particularly valuable. Different skills providers and local councils should assess what skills support would be of most value to small businesses and look to provide these services, retargeting support towards digital skills training where necessary. Growth Hubs and LEPs could similarly help signpost small businesses towards skills training which would provide the most assistance and support for the small business market. Go ON UK is currently working with LEPs to develop a Digital Skills portal that could be incorporated in the LEP's Digital Growth hubs. This portal will provide relevant case studies, how to guides and a number of training modules that can be carried out both online and offline. The portal would also offer a number of discounted and free products and services from larger businesses that would help to motivate small businesses to develop their business online.

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83 Which?, Broadband advertising not up to speed, June 2015. Available at http://www.which.co.uk/documents/pdf/broadband-advertising-not-up-to-speed-june-2015-406391.pdf Accessed August 2015

- **Continuing promotion of the Cyber Essentials Scheme:** The FSB has engaged with the Government's Cyber Essentials programme, and continues to raise the need for effective online security to our members. We have also partnered with other organisations to deliver events which highlight the value of effective cyber security precautions for small businesses. We would like to see the programme put more of a focus on the different elements which pose the most risk to small businesses, in particular people and processes. Cyber Streetwise and Get Safe Online similarly offer good support for small businesses. The Government should continue to support these programmes and raise their profile in order to help as many small businesses as possible. Increased partnerships between larger private sector organisations could also help to improve the quality of information available to small businesses. If small businesses have the ability to accurately assess cyber risks within their businesses, they will be better placed to take preventative action.

- **Better information relating to liability for data used in cloud computing:** Cloud computing brings many of the same challenges as other digital services. One particular challenge relates to liability, especially when data is lost or stolen. Clearer information is needed to help small businesses understand these issues.

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Annex:

Methodology

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The FSB has used a variety of different research methods to inform this report. We commissioned quantitative research as a first step through a survey of FSB members. Based on the responses to this, we identified 25 small businesses to target for follow up interviews. Both the survey and the interviews were carried out by Verve, an independent, external research agency which is a member of the Market Research Society.[84]

We received 1216 responses to the initial survey. This high response rate allowed us to segment the data in different ways to demonstrate how different groups responded to various questions. 582 (48%) of these members said they would be willing to participate in further telephone interviews. Within this group, 25 members were selected for these interviews.

The survey was carried out online. As a consequence of this, all responses came from members who had at least a basic level of digital access and skills. Due to resource constraints, the FSB is not able to regularly survey all our members via paper based surveys. We recognise that this will have an impact on the results, as the members who have responded are self-selecting in the sense that they are already at a minimum both willing and able to use email and web browsing to access the survey.

We did however cross reference several data points to check the representativeness of the sample. Whilst there was some variation between the sample which was surveyed and other samples surveyed by other bodies, the demographic makeup of the survey panel is representative of the wider small business community.

Weighting was also applied to the responses to make sure that they reflected the geographic distribution of our membership. Previous analysis of our membership has demonstrated that across a range of metrics, our members are broadly reflective of the diversity of the small business sector. As a result, little weighting was required to bring responses in line with geographic distribution.

The data which informs this report contains information about the take up and use of cloud based services. A separate FSB survey, carried out in December 2014, focussed exclusively on cloud computing. Many of the issues we uncovered in our survey apply equally well to cloud based services as well.

During our interviews, we wanted to ensure that we were speaking to small businesses at different levels of digital maturity. This enabled us to better capture the different ways businesses were using online services. It also allowed us to assess where there were barriers stopping businesses doing more online.

As a result, of the 25 interviews initially scheduled to be carried out, 10 were with businesses which told us that they had upgraded to superfast broadband. The other 15 were with businesses which had not, and were either not planning to, or were planning to upgrade in the near future. We also attempted to get a regional balance and to cover as wide a range of industries as possible. Beyond this, no other selection criteria were imposed on candidate selection.

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84 The Market Research Society sets out a Code of Conduct for members to ensure that all research is carried out to the highest possible standards

All businesses were asked for the post code of their business premise during the quantitative work. This was then cross referenced against the post code level data presented by Ofcom as part of the Infrastructure Report. Ofcom requests this data from fixed and mobile infrastructure providers as part of their efforts to map coverage. In the 2014 Report, Ofcom published the underlying data for the first time, in a positive step to improve transparency and allow for external analysis of the data. Only businesses based in post codes where Ofcom data found superfast broadband to be available were selected for follow up interviews.

The decision to do this was so that we were only interviewing businesses which had the opportunity to upgrade to fibre services. It was anticipated that doing so would allow us to focus interviews on other questions besides the availability of the underlying infrastructure and to consider why small businesses may have made an active choice not to upgrade to superfast broadband. During the course of the interviews it became apparent that the availability of infrastructure remained a concern for many of these businesses.

One interview was held with a small business which was served by the Broadband 4 Rural North (B4RN) network. This is a community run infrastructure programme in rural Lancashire, which has built a separate fibre network in an area where other infrastructure providers had no commercial incentive to provide a network. As the owner was able to access fibre to the premise (FTTP), and was able to access download speeds greatly in excess of most consumers as a result, it was decided he was unrepresentative of the experience of most other small businesses and an additional interview was carried out. As a result, 26 interviews were carried out in total.

Two discussion guides were drafted for the two groups of interviewees. The focus of the interviews with those who had upgraded to superfast services was on the benefits they had experienced through upgrading their connection. Where possible, interviewees were asked to provide concrete examples of financial benefits their business had realised, either through making cost savings or by increasing revenue or productivity.

For those who had not upgraded, we wanted to understand why they had made the decision not to upgrade. We also wanted to understand what barriers were stopping them from doing more online. As almost all small businesses view the internet as important, these interviews also focussed on what these small businesses were doing online.

More broadly, we wanted to consider how effectively small businesses who had not upgraded were able to make decisions on telecoms issues. Carrying out in depth interviews allowed us to assess whether small businesses had the knowledge, skills and information needed to effectively assess what improvements to their business could be generated through taking up more online services.

Mobile services are increasingly important for small businesses. We wanted to capture the full range of how mobile services were used, so made sure that this was captured within both the qualitative and quantitative evidence.

Besides the commissioned research, and to further bolster our evidence base, the FSB also used different communications channels to contact members directly. All 33 regions of the FSB were also

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asked to provide case studies to widen the evidence base being considered. We received 134 case studies from across the country, with interviews carried out with 40 of those businesses. In total, 65 interviews with small businesses across the country were carried out. These discussions followed much of the same format as the interviews carried out by our research partners.

One further interview was also carried out with a small business whose contact details were provided to the FSB by BT. Other organisations, including DCMS, Go ON UK and TalkTalk also reviewed and commented on different elements of this report. As noted above, we thank these organisations for their support in providing evidence for this report.

Federation of Small Businesses

The UK's Leading Business Organisation