

A Survey of Small Businesses' Telecommunications Use and Spending

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This report provides new and much needed data on small businesses' use of and expenditures on telecommunication services. These data provide an important reference to inform policy decisions.

America's 22.9 million small businesses use an enormous amount and variety of telecommunication services, including local landline, long distance, and wireless technologies. Given the pace of technological change affecting the industry, as well as the intense legislative and regulatory debates on such issues as competition and high-speed Internet service, policymakers require extensive information on how these changes affect consumers. Yet public data on small business consumption of telecommunication services has not been available. The dearth of information on small businesses' telecommunication use paralyzes analysis. The current report examines small businesses' telecommunication use and spending.

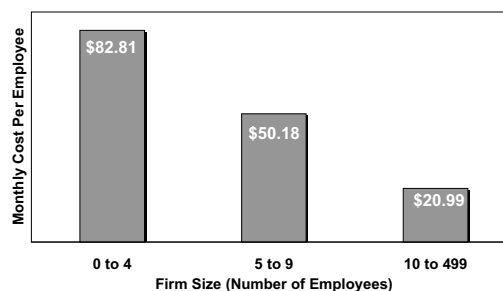
Overall Findings

Small businesses spend a considerable amount for telecommunication services. The level of expenditures varies by industry and firm size. As in so many other areas of regulation, small firms are affected by telecommunication policies in a manner disproportionate to their size.

Highlights

- The cost burden of telecommunication services is much higher for very small businesses than for large businesses. The survey found that very small firms pay four times more per employee for local and long distance services than large businesses do. (See graph.) Firms with 4 employees or less face a per-employee cost of \$82.81 for local and long distance telephone service. Those with 5 to 9 employees pay \$50.18, 40 percent less; and those with 10 to 499 employees face a per-employee cost of \$20.99, 75 percent less than firms with 0 to 4 employees and 58 percent less than firms with 5 to 9 employees.
- Competitive local exchange carriers (CLECs) are competing against the incumbents and serving

Per Employee Cost of Local and Long Distance Services



Source: A Survey of Small Businesses' Telecommunication Use and Spending, U.S. Small Business Administration, Office of Advocacy, 2004, Figure 44.

small business users. The survey found that CLECs now have a 22 percent share and appear to serve more telecommunication-intensive firms. This particular finding strengthens the view that CLECs are able to better fulfill the technological needs of telecommunication-intensive clients.

- Small businesses' use of wireless telecommunication services is substantial, particularly in industries such as construction. Some small businesses even appear to rely on wireless services to the exclusion of local and long distance wireline services. The survey results reveal that 6 percent of small businesses using wireless services did not report long distance expenditures, and 4 percent reported no local telecommunication spending. In addition, 25 percent of the firms in the survey spent more on wireless telecommunication services than on local and long distance services combined.

- Voice-over-Internet protocol (VOIP) is a fairly new technology which converts voice communications into packets that are transmitted over the Internet and then converted back into voice communications. VOIP services are finding a place in the small business market. The survey found 3.3 percent of small businesses using this technology. Here again, the technology is still in the early phase of adoption.

- Small businesses access the Internet in a variety of ways. Thirty-eight percent use dial-up services, 26 percent use cable modems, 21 percent use DSL, 4 percent use satellite, 4 percent use T1, and 3 percent use wireless broadband. All in all, dial-up is still the most popular means for small businesses to connect to the Internet. When looking at all remaining high-speed technology available (satellite, wireless broadband, DSL, cable, and T1), cable commands nearly half of the high-speed data market. More research is needed in this area to determine whether the dominance of dial-up is based on preference, availability, or price.

- Bundling is an aspect of telecommunication services use that has often been overlooked in general telecommunication statistics. Bundled services are a combination of services that telecommunication providers package and sell to consumers at prices generally lower than the cost of buying these services

separately. The survey results suggest that small businesses want to purchase combinations of telecommunication services (bundles) from a single provider. Citing convenience and bundle savings, 79 percent expressed interest, and 85 percent went further in wanting the bundled services on a single bill.

Ordering Information

The full text of this report and summaries of other studies performed under contract to the U.S. Small Business Administration's Office of Advocacy are available on the Internet at www.sba.gov/advo/research. Printed copies are available for purchase from:

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