

Small Businesses Want More Broadband Competition

High broadband prices and low bandwidth are stumbling blocks for small businesses, according to a new survey.

Though Internet access is vital to small businesses, they have limited broadband choices, especially in rural areas, according to a new report prepared by the Columbia Telecommunications Corporation for the Small Business Administration (SBA) Office of Advocacy.

The report, based on a survey conducted in April 2010, was mandated by the same 2008 federal statute that directed the Federal Communications Commission (FCC) to improve its data about broadband services throughout the United States. Rather than defining broadband in technical terms, the authors focused on whether small businesses could access specific applications they needed, ranging from e-mail to high-resolution medical imaging.

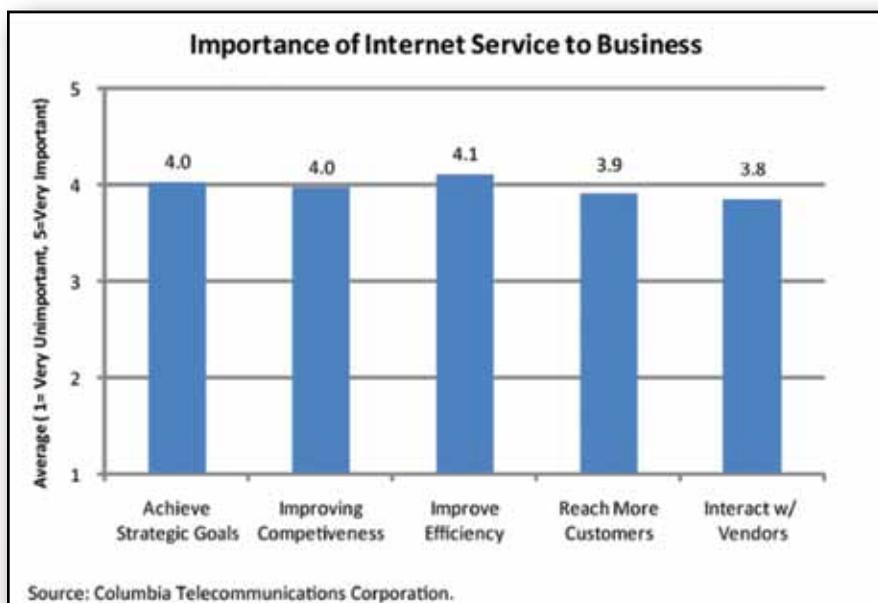
“As the number of applications running on existing small-business Internet connections increases, so will the needed bandwidth,” the authors commented. “What seems acceptable today may not be in the near future.”

Small businesses use the Internet more than households do. Small businesses reported that broadband Internet access was important to them in terms of achieving strategic goals, improving competitiveness and efficiency,



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Small businesses depend on Internet service to achieve many goals.

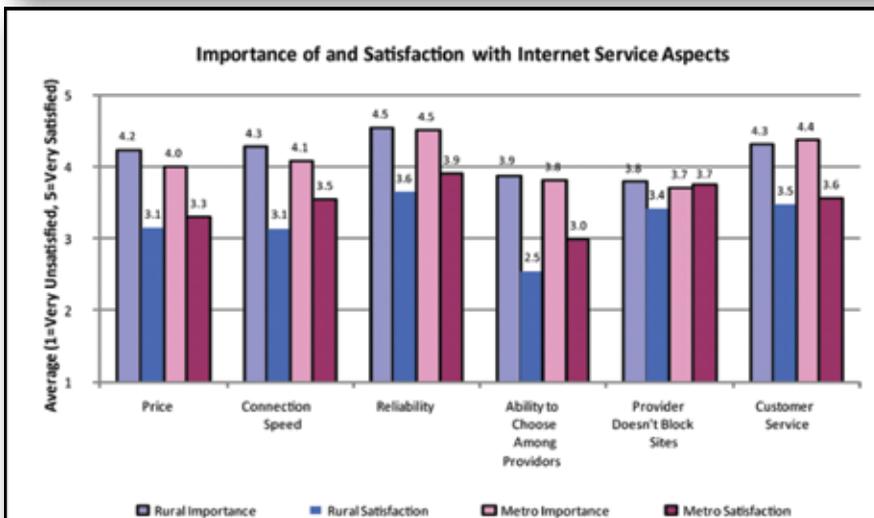
reaching customers and interacting with vendors. The survey found that the small business Internet adoption rate has increased to 90 percent, compared

with the 74 percent of adults who have Internet access in the home and the 65 percent of adults who use their home Internet connection. If small businesses without computers are excluded, the level of broadband adoption jumps to 95 percent.

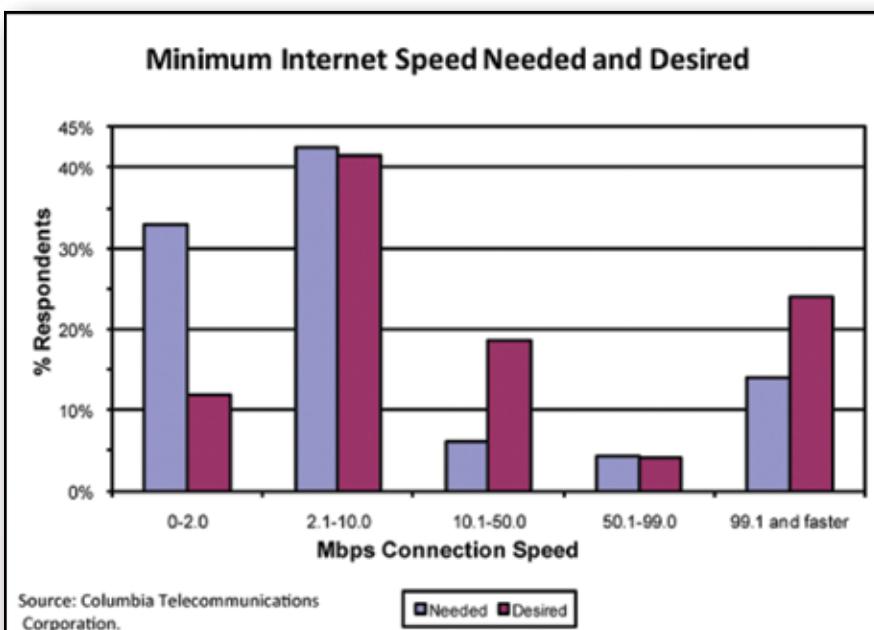
Ninety-five percent of small businesses that have computers are on the Internet – but they aren't always happy with the Internet speeds available or with the prices of Internet service offerings.

Small businesses lack competitive broadband offerings. Small businesses want both competition and choice in broadband services. They see competition as key to innovation, customer service and lower prices. When

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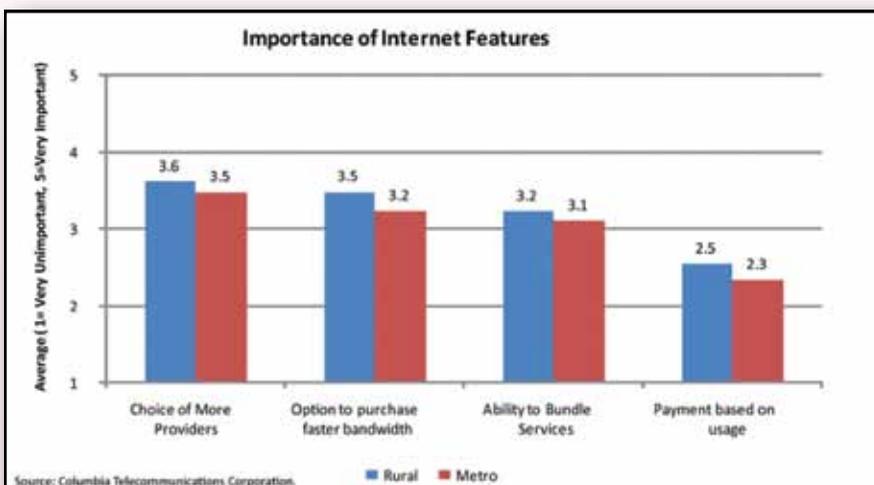


Small businesses are dissatisfied with their choice of Internet providers.



Source: Columbia Telecommunications Corporation.

Even if they can make do with less, many small businesses can find uses for big bandwidth.



Source: Columbia Telecommunications Corporation.

Provider choice is seen as more important than many other aspects of Internet service.

they were asked to identify what aspects of their Internet service were important to them and how satisfied they were with those aspects of their service, small business owners said the largest gap was in their ability to choose among providers.

The survey data corroborate that the market, in most cases, does not provide this competition or choice to small businesses. Any given geographical area is served by very few broadband providers, in most cases just two: the incumbent telco and the cable company. DSL is now the dominant small business Internet connection type except in the Northeast, where more than half the respondents had cable modem Internet connections. A comparison of these results with 2003 SBA surveys shows that, in the interim, dial-up use has dropped to 6 percent from 44 percent.

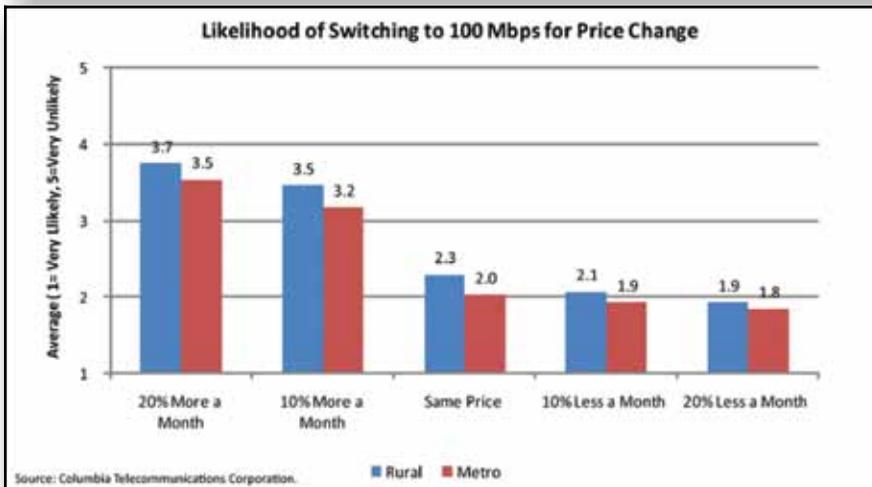
Broadband service is lacking in terms of both performance and price. The results of this limited competition are apparent in terms of both performance and price. Approximately one-third of small businesses surveyed indicated that they would like to have broadband service of at least 50 Mbps – in other words, more network capacity than currently exists in most locations in the United States. (Where this high-bandwidth access is available, it is extremely expensive – typically more than \$1,000 per month.)

Many small business owners said they would be likely to switch to 100 Mbps service, even at a price increase. They displayed less interest in 1 Gbps service, however.

As for price, case studies in Minnesota and Tennessee found that small business Internet customers pay two to three times what residential Internet customers pay for equivalent speeds. Since 2003, monthly prices for small-business Internet access have increased from \$121 to \$294 for leased T1 lines, from \$28 to \$70 for wireless, and from \$60 to \$88 for cable.

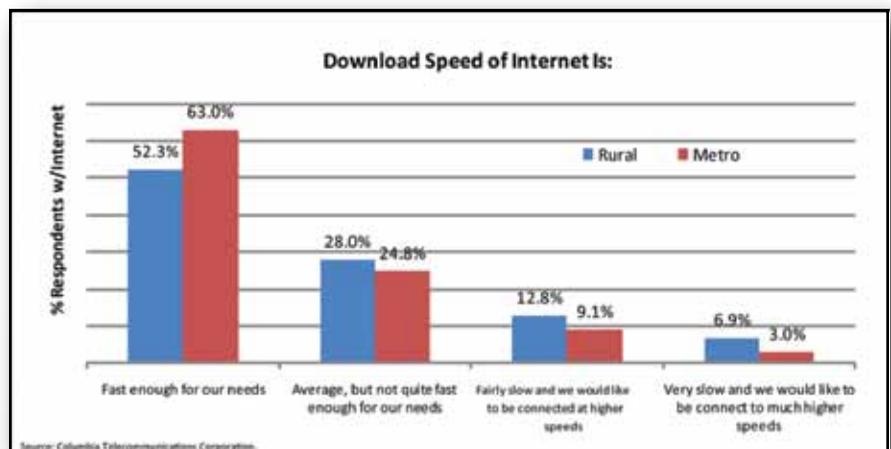
Businesses in rural areas fare even worse. Although there is no statistically significant difference between metro and rural markets in terms of

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Many small businesses would switch to 100 Mbps service, even if the price were higher.

businesses' needs for Internet access, the survey results indicate statistically significant differences between metro-area and rural businesses in terms of broadband availability, speed and price. Rural businesses have fewer choices than metro-area businesses, and as a result, almost half (48 percent) of rural respondents reported that they were not satisfied with their Internet speed, compared with more than one-third (37 percent) of metro respondents. Many of the dissatisfied rural customers were users of dial-up Internet access or satellite broadband.



Metro-area small businesses were more likely to be satisfied with their Internet speeds.

For the same price, rural small businesses received less service than their metro-area counterparts. For the same services, rural small businesses paid higher prices than those in metropolitan areas.

For the same price, rural small businesses received less service than metro small businesses; for the same services, rural small businesses paid higher prices than metro small businesses. One reason for this discrepancy is that metro small businesses can more easily relocate to gain access to better services, while rural businesses do not have that flexibility.

In absolute terms, small businesses

in metropolitan areas actually paid more because they are more likely to lease T1 lines and less likely to use dial-up service. Metro-area small businesses paid

an average of \$115 for monthly Internet service, compared with \$93 for rural small businesses.

POLICY RECOMMENDATIONS

The survey authors offered eight policy recommendations.

1. Stay the course on national broadband planning and implementation of the FCC's National Broadband Plan.
2. Encourage and enable small business broadband providers and other competitors by supporting their unfettered access to existing network infrastructure.

3. Define future broadband speeds to meet small business application needs.
4. Provide small businesses with accurate, actionable data to make broadband purchasing decisions.
5. Protect small business consumers.
6. Consider creating federal broadband incentive programs focusing on small business.
7. Consider rural small business needs in Universal Service Fund reform.
8. Consider efforts that expand small business broadband deployment and adoption. **BBP**

Resources

Small Business Administration Office of Advocacy: www.sba.gov/advo
 Columbia Telecommunications Corporation: www.ctcnet.us
 Link to full report: www.sba.gov/advo/research/rs373tot.pdf