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We are Broadband.

Survey of Small and Medium Business Internet and Data Networking Service Users

Methodology, Results, and Implications

June 2016

Ex Parte Presentation to FCC Wireline Competition Bureau August 8, 2016

Overview of Survey

- Consultant surveyed 795 non-telecom retail businesses with 5 to 100 employees.
  - Online survey of prequalified panel took place April 28 to May 9, 2016.
  - Sample evenly distributed among firm sizes by employees: 5-9; 10-24; 25-49; and 50-100.
  - Firms with 5-100 employees represent 59% of U.S. businesses with 5 or more employees.
- Respondents were knowledgeable about communications services providers.
  - 628 (79%) were involved in decisions to select communications service providers.
  - 167 (21%) did not make the decisions but knew about providers and options.
  - Respondents who were not involved or knowledgeable were screened out of survey.
- Survey asked respondents about two types of services:
  - 702 (88%) had “Business Internet Access Services ” (BI) and 373 (47%) had BI only.
  - 422 (53%) had “Data Networking Services” (DN) and 93 (12%) had DN only.
  - 329 (41%) had both BI and DN.
- Sample included significant representation of Cable customers.
  - 319 (45%) of BI customers used Cable as primary service provider.
  - 167 (40%) of DN customers used Cable as primary service provider.
- Questions addressed switching behavior, and perceptions and preferences regarding service features such as reliability, support, performance, speed, cost, network facilities, and security.

Key Definitions

- The survey defined BI and DN for respondents as follows:
  - Business Internet Access Service (BI):* An Internet service marketed to businesses, typically with assurances of speed, quality, or 24/7 customer support. These services are usually used for basic Internet access or e-mail. They may be sold on a standalone basis or bundled with voice and video services. Examples include cable modem, DSL, or similar services.
  - Data Networking Service (DN):* Dedicated service provided over facilities such as T1/DS-1, T3/DS-3, and dedicated fiber, including carrier-grade Ethernet service. These services are typically used for large data transfers over company networks, management of services requiring high reliability such as webinars or video conferences, or high volume Internet access.

* The BI and DN categories correspond to the Commission's terms "Best Efforts" and "Business Data Services" (BDS), respectively. The "best efforts" services the Commission focuses on are described as mass market "residential" services, while the survey reflects comparable services used by small and medium businesses.

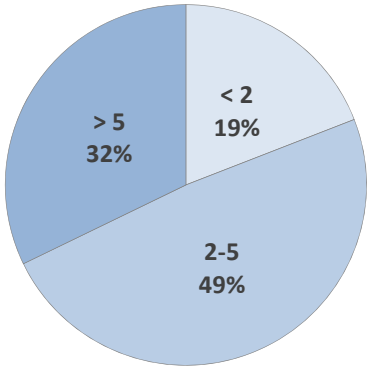
Customer Churn is High for All Service and Provider Types

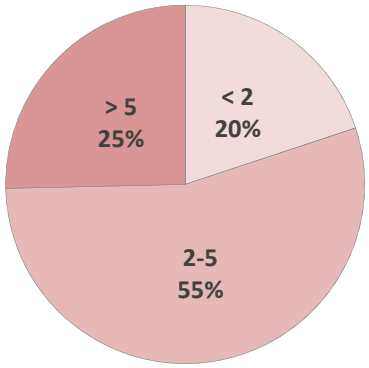
Chart 1: Years with Current Business Internet Access or Data Networking Provider

Business Internet Access

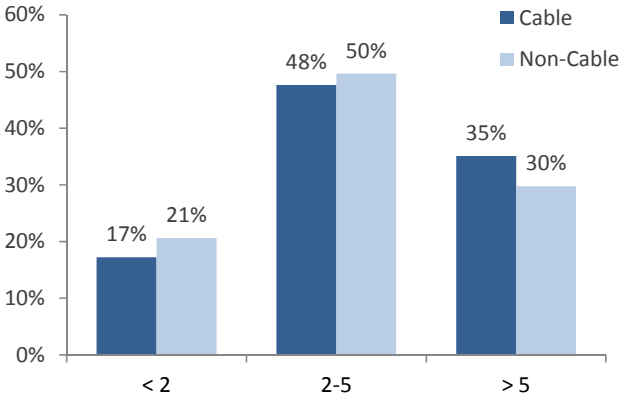
Data Networking

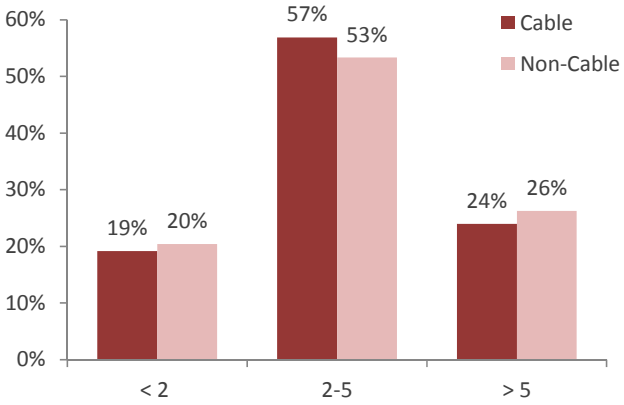
Total





Cable and Non-Cable

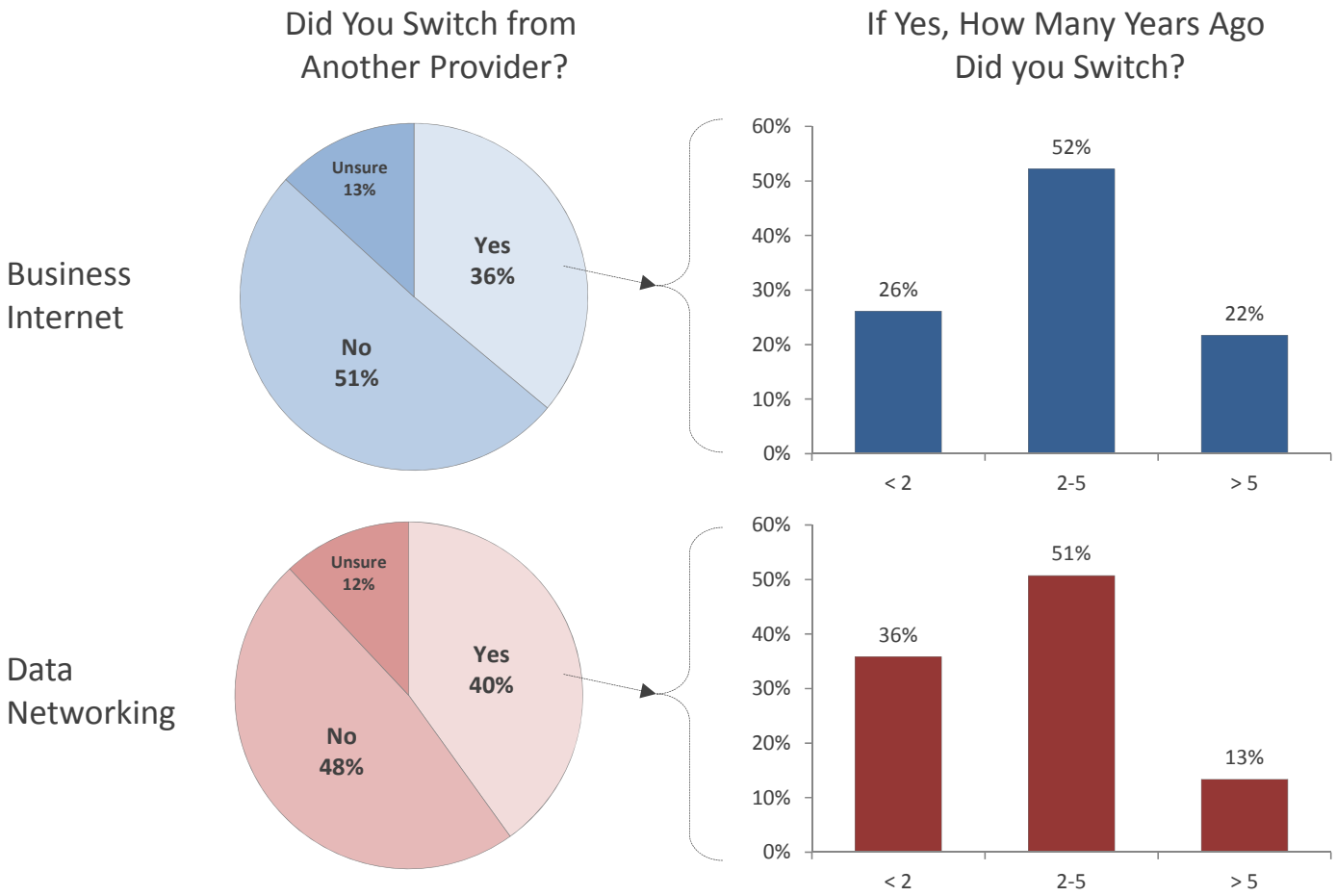




Source: USTelecom and Market Strategies. For Business Internet Access, number of respondents (n) =702. For Data Networking, n=422. For Cable Business Internet Access, n=319. For Non-Cable Business Internet, n=383. For Cable Data Networking, n=167. For Non-Cable Data Networking, n=255.

Many SMB Customers Have Switched to Cable in Recent Years

Chart 2: Customers Switching to Cable



Source: USTelecom and Market Strategies. For Cable Business Internet Access customers, n=319 and for Cable Business Internet customers that switched, n=115. For Cable Data Networking customers, n=167 and for Cable Data Networking customers that switched, n=67.

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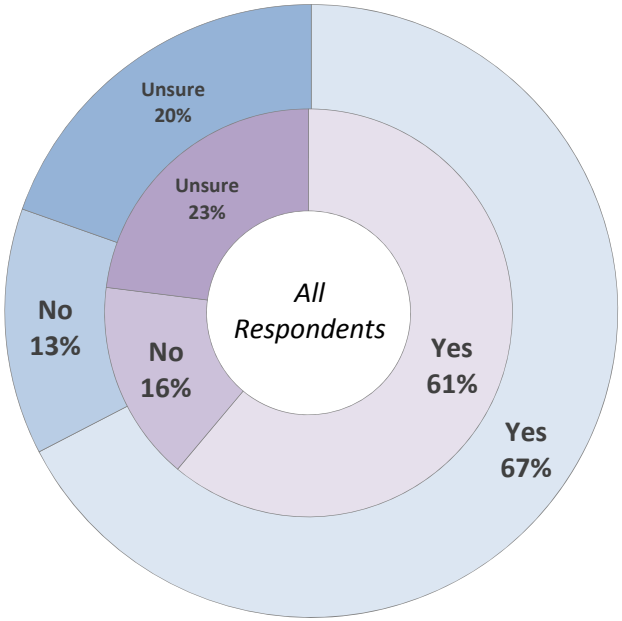
Non-Cable Customers Are Willing to Switch to Cable for BI and DN

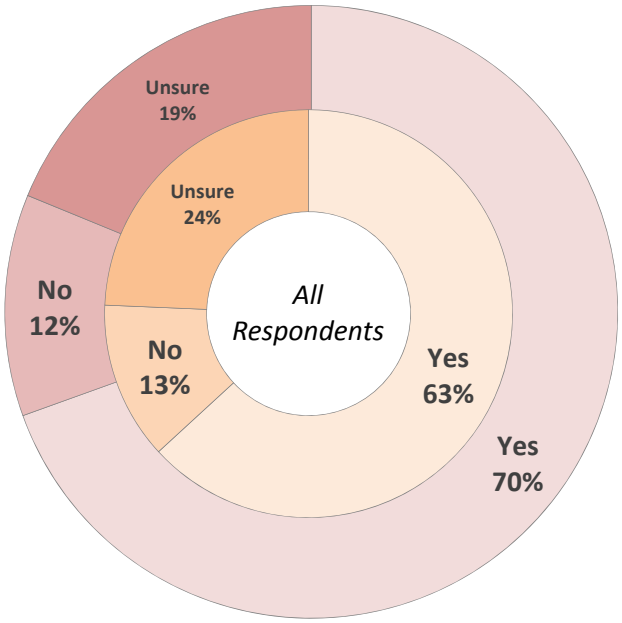
Chart 3: Willingness to Switch to Cable

Non-Cable Business Internet Customers Willing to Switch to Cable?



Actual Decisionmakers Only

Non-Cable Data Networking Customers Willing to Switch to Cable?



Actual Decisionmakers Only

- Only ~15 percent of respondents are unwilling to consider Cable for Business Internet Access and Data Networking.
- The portion willing to switch to Cable increases when you ask only those responsible for making the decisions.

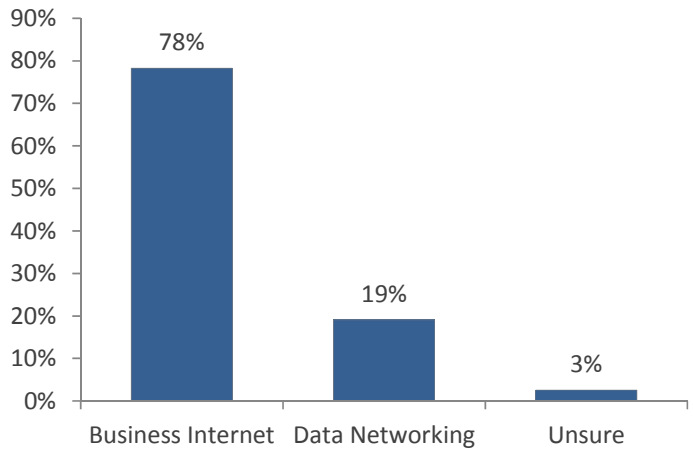
Source: USTelecom and Market Strategies. For Non-Cable Business Internet Access, n=383 and for actual decisionmakers, n=316. For Non-Cable Data Networking, n=255. For actual decisionmakers, n=213.

SMBs are Switching Between Business Internet and Data Networking

Chart 4: Prior Service for Customers Who Switched to Cable

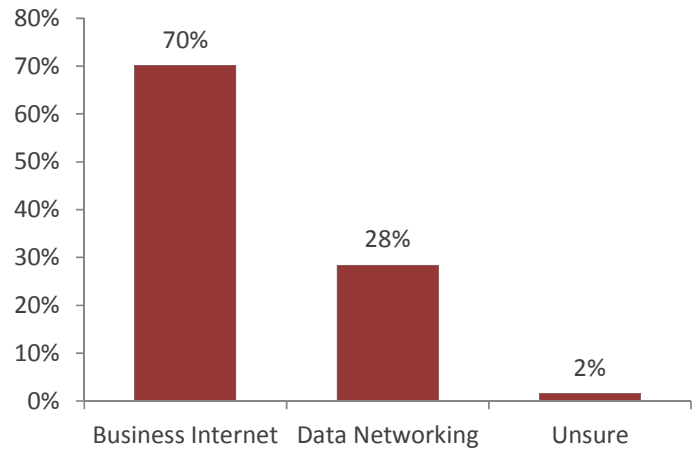
Business Internet

From Which Type of Service Did you Switch?



Data Networking

From Which Type of Service Did you Switch?



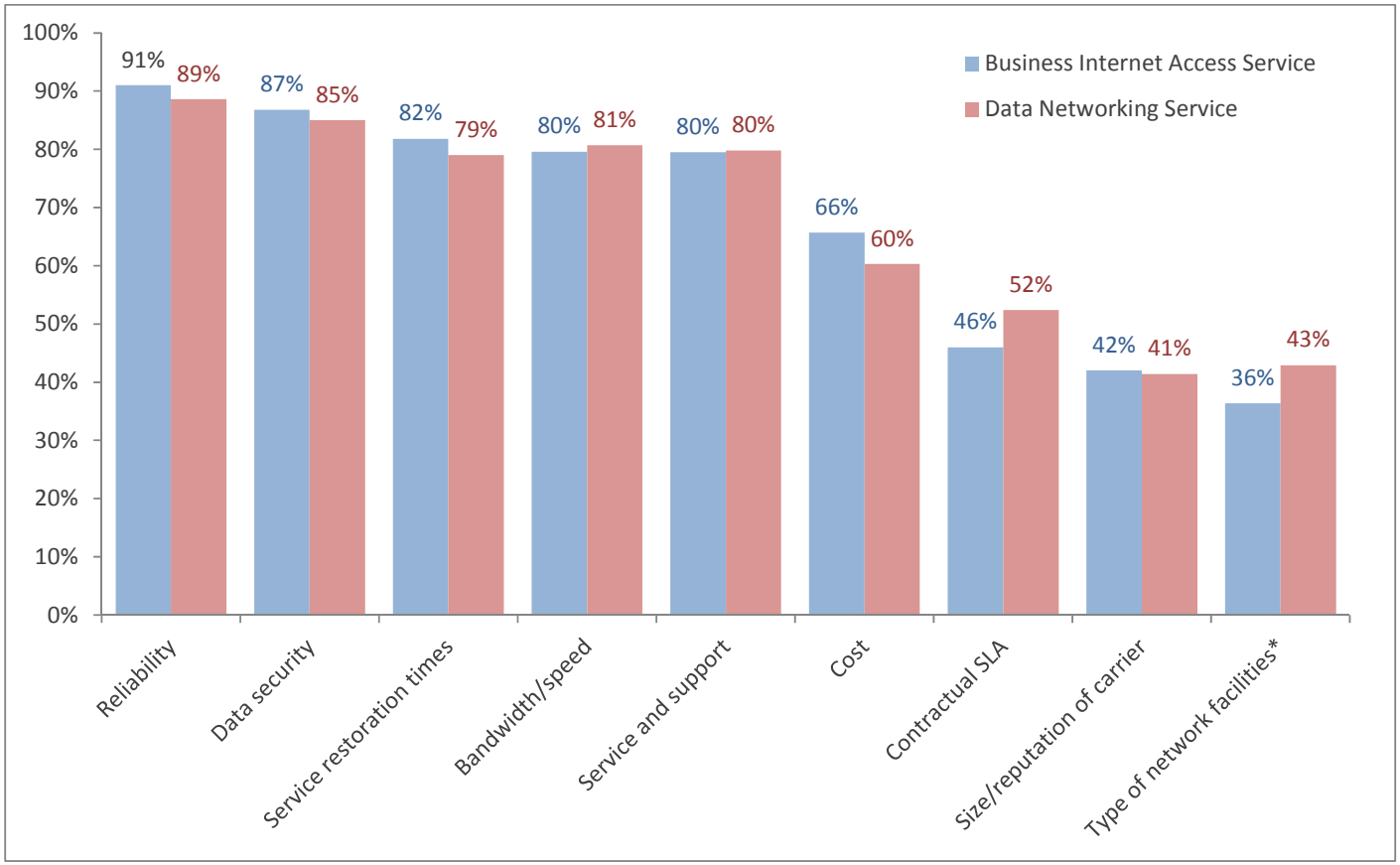
There is significant switching between Business Internet Access and Data Networking Services, in both directions.

These data refute the Commission's key belief that BDS and "best efforts" services are in clearly separate markets that serve different types of customers.

Source: USTelecom and Market Strategies. For Cable Business Internet Access customers who switched to Cable, n=115. For Cable Data Networking customers who switched to Cable, n=67.

Business Internet and Data Networking Users Value Similar Features

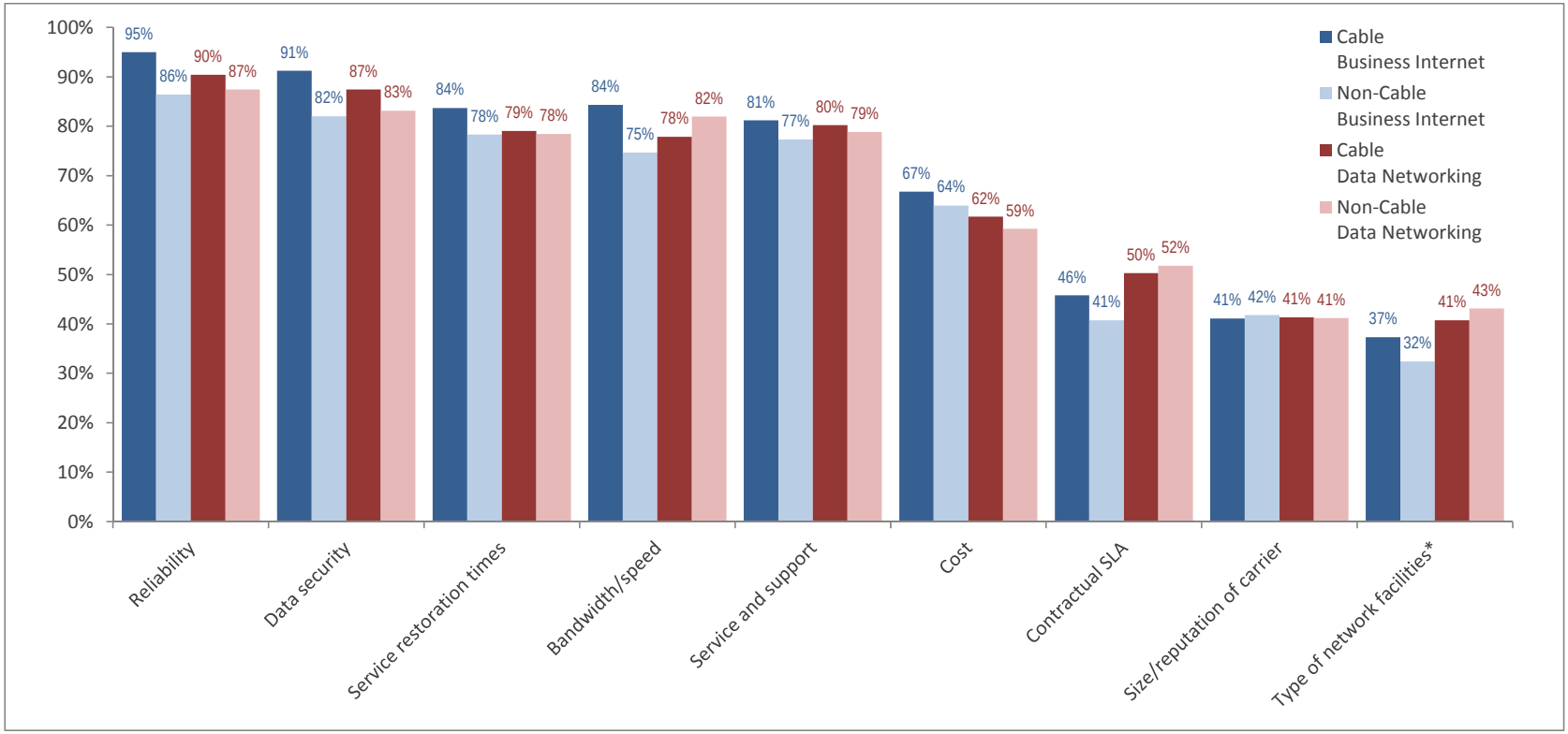
Chart 5: Portion of Respondents by Service Type Ranking Each Factor "Very Important"



Source: USTelecom and Market Strategies. For Business Internet Access, n=702. For Data Networking, n=422. * Potential types of network facilities include copper, coaxial cable, hybrid fiber-coax, and fiber.

Different Network and Service Type Customers Value Similar Features

Chart 6: Portion of Users by Network and Service Type Ranking Each Factor "Very Important"



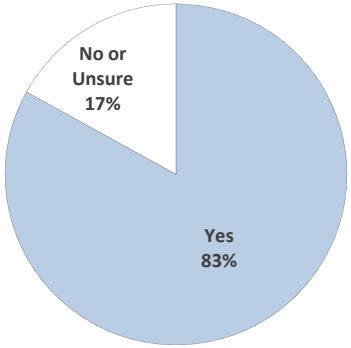
Source: USTelecom and Market Strategies. For Cable Business Internet Access, n=319. For Non-Cable Business Internet, n=383. For Cable Data Networking, n=167. For Non-Cable Data Networking, n=255. * Potential types of network facilities include copper, coaxial cable, hybrid fiber-coax, and fiber.

Most SMBs Surveyed Have Service Assurances or Other Guarantees

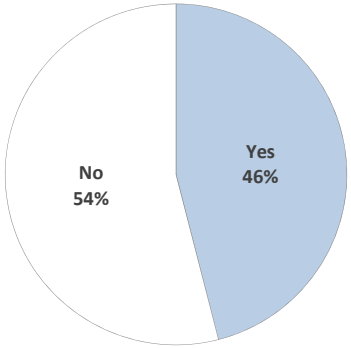
Chart 7: Customers' Views on Service Guarantees and Contractual SLAs

Business Internet

*Does Your Service Come with Promises or Assurances?**

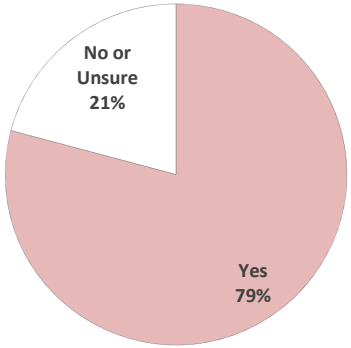


Are Contractual SLAs "Very Important"?

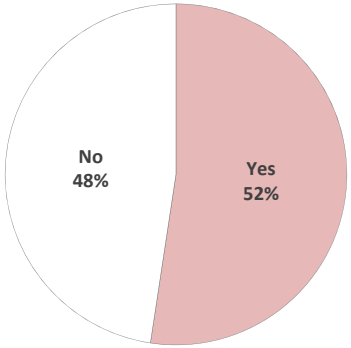


Data Networking

*Does Your Service Come with Guarantees Such As SLAs?**



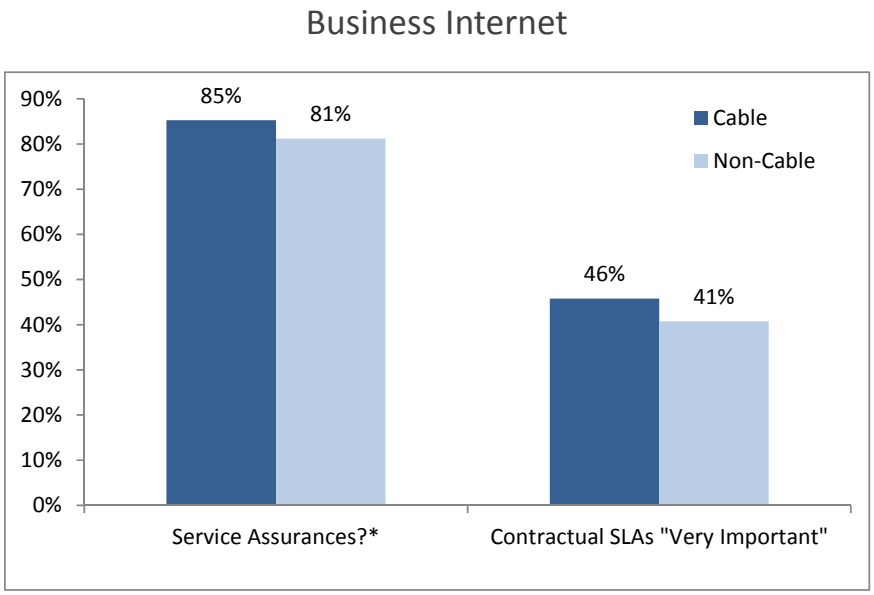
Are Contractual SLAs "Very Important"?

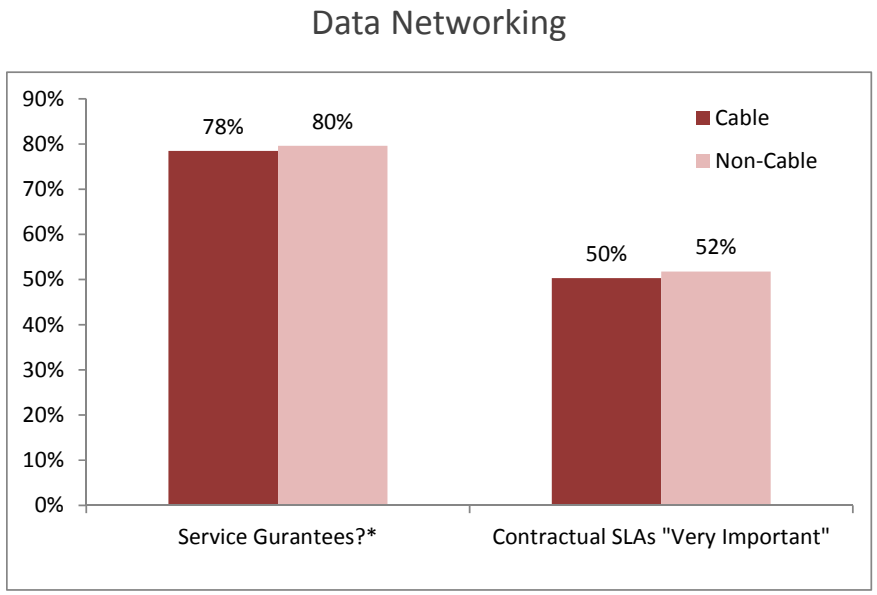


Source: USTelecom and Market Strategies. For Business Internet Access, n=702. For Data Networking, n=422. * Full Questions: Business Internet: "Does your business internet access service come with service promises or assurances such as speed, availability, and 24/7 customer support, commitments?" Data Networking: "Does your data networking service come with guarantees, such as contractual Service Level Agreements (SLAs) that specify speed, availability, and quality performance criteria?"

There Is Little Variation By Provider Type in Views on SLAs

Chart 8: Cable and Non-Cable Customers' Views on SLAs





Source: USTelecom and Market Strategies. For Business Internet Access, n=702. For Data Networking, n=422.

* Full Questions: Business Internet: "Does your business internet access service come with service promises or assurances such as speed, availability, and 24/7 customer support, commitments?" Data Networking: "Does your data networking service come with guarantees, such as contractual Service Level Agreements (SLAs) that specify speed, availability, and quality performance criteria?"

Survey Results Contradict FCC Assertions and Findings

- The survey results, based on direct evidence from business customers, show that customers switch between Business Internet Access services and Data Networking/BDS services.
- The survey results do not support a key role for service level agreements and do not support any clear gap among customers on the value of reliability, service or cost.
- The survey data with respect to churn and switching emphasize that the Commission's 2013 data collection does not reflect current market conditions.

Survey Results Contradict FCC Assertions and Findings (Continued)

FCC Further Notice

"Compared with BDS, best effort[s] services are less reliable, notably in terms of guaranteed uptime, and other service level guarantees" and "in some cases do not offer higher bandwidths." (¶ 191)

USTelecom Survey

SMBs that highly value both service Reliability and Bandwidth/Speed (i.e., deem them to be "very important") have chosen both Data Networking Service and Business Internet Access Service. (Chart 5)

- 91 percent of Business Internet Access Service customers and 89 percent of Data Networking Service customer rank Reliability as "very important" in their choice of service.
- 80 percent of Business Internet Access Service customers and 81 percent of Data Networking customers rank Bandwidth / Speed as "very important."

Survey Results Contradict FCC Assertions and Findings (Continued)

FCC Further Notice

"[C]ustomers would be unlikely to be tempted to switch to a best efforts service even if its price were to fall by a significant amount …. [A] customer currently purchasing a best efforts service would not switch to a BDS with a price of several multiples of the best efforts service, even if the BDS price were to fall significantly."(¶ 193)

- The Commission presumes price changes are not a factor driving switching, even at the margins.

USTelecom Survey

SMBs have, in fact, been switching between Data Networking Service and Business Internet Access Service in both directions over the last five years, when prices for a range of Business Internet and Data Networking services have been falling.*

- Among current Cable SMB customers, 70 percent of those who switched to Cable Data Networking switched from Business Internet while 19 percent of those who switched to Cable Business Internet switched from Data Networking. (Chart 4)
- Moreover, although our survey did not ask participants their reason for switching, it did reveal that fewer SMBs rank Cost as "very important" than rank Reliability and Bandwidth/speed as "very important." This suggests switching occurs for reasons other than significant price reductions. (Chart 5).

* Vertical Systems @ Ethernet 2016.

Survey Results Contradict FCC Assertions and Findings (Continued)

FCC Further Notice

"[T]he characteristics of best efforts service and BDS appear to be very different. BDS comes with substantial reliability guarantees and functionality that do not accompany best efforts services, leading us to the view that the two services do not play important roles in constraining the quality-adjusted prices of each other." (¶ 194)

USTelecom Survey

Four-fifths of Business Internet and Data Networking customers believe they have some kind of service guarantee but few rank contractual SLAs "Very Important," with little variation among the two types of services. This suggests that SMBs do not consider services that lack specified reliability guarantees and functionality to be inferior to BDS. (Charts 7 and 8)

- 83 percent of Business Internet and 79 percent of Data Networking customers believe their service comes with some kind of service assurance or guarantee.
- 46 percent of Business Internet and 52 percent of Data Networking Service rank Contractual SLAs as "very important" among service features.

Survey Results Contradict FCC Assertions and Findings (Continued)

FCC Further Notice

"Consistent with the observed price differences between the different types of services, some end users do not require 'mission critical' connectivity, and prefer best efforts services to BDS, prioritizing cost savings over reliability and specific functionality."
(¶ 194)

USTelecom Survey

Business Internet users as well as Data Networking Service users value factors such as Reliability and Data Security over Cost and there is little variation between the different service types with respect to the features valued most highly. (Chart 5)

- 66 percent of Business Internet customers and 60 percent of Data Networking customers ranked Cost "Very Important." For *both* service types, factors such as Reliability, Data Security, Service Restoration Times, Bandwidth / Speed, and Service and Support were ranked higher.
- If the Commission's analysis were correct, we would see relatively greater portions of Business Internet Access Service customers ranking Cost as "Very Important" and a relatively smaller portion of Business Internet Access Service customers ranking factors such as Reliability and Data Security as "Very Important."

Survey Results Contradict FCC Assertions and Findings (Continued)

FCC Further Notice

"2013 data provides the Commission with valuable information on the capabilities of suppliers and a solid basis for making findings as to the state of competition and the drivers of competition." (¶ 248)

USTelecom Survey

The market, especially Cable BDS deployment, is materially different than it was in 2013. Churn is high and switching has been significant over the last two years.

- Two-thirds of Business Internet and three-fourths of Data Networking SMB customers have changed providers in the last five years and one-fifth of both Business Internet and Data Networking customers switched providers in the last two years. (Chart 1)
- 36 percent of those switching to Cable Data Networking did so in the last two years. (Chart 2)
- Only 12 percent of those who are decisionmakers were unwilling to consider Cable for Data Networking Services, with 70 percent willing to switch and the rest unsure. (Chart 3)
- Separately, USTelecom has filed data on the record at the Commission showing that Cable operators have accelerated deployment of fiber and Ethernet services since 2013.

Conclusions

- The survey found that there is high SMB churn.
- There is significant switching from Business Internet Access to Data Networking Services and vice versa … and many SMBs use both.
- SMBs uniformly value reliability, security, speed, and support more than certain types of facilities and contractual service level agreements.
- Survey findings supply direct evidence from purchasers that conflicts with analysis in the NPRM on market definition, especially the notion that there is a clear distinction between BDS and "best efforts" customer needs and the assumption that prices are not a factor driving switching between the two types of services.
- The survey contradicts claims about customer lock-in.
- The survey support~~s~~ the conclusion that the Commission's 2013 data do not reflect material changes in the current marketplace.