

NEW BROADBAND STUDY FINDS FIERCE COMPETITION IN SMALL AND MEDIUM ENTERPRISE MARKET

Represents \$10-15 Billion Opportunity for Broadband Providers

Washington, D.C., October 20, 2003 – Cable modem and DSL services will be the key drivers for broadband growth in the small and medium enterprise (SME) markets, presenting a \$10-15 billion opportunity over the next five to 10 years, according to a new report released today by Pacific Research Institute and the New Millennium Research Council. The report assesses how well SMEs are being served while the Federal Communications Commission considers whether to carve out a separate product market segment for SMEs.

The groundbreaking report, *Being Served: Broadband Competition in the Small and Medium Sized Business Market*, shows that the outlook for broadband services in the SME segment is strong, with 43 percent of very small businesses, 49 percent of small businesses, and 59 percent of medium businesses expected to increase their Internet usage in the next year.

“The SME market is well served by multiple broadband providers and competition is expected to grow more intensely over the next few years,” said Sonia Arrison, director of technology studies at the Pacific Research Institute and the report’s author. “Given these facts, it does not make sense for the FCC to carve out a separate product market segment for SMEs. Instead, the FCC should allow this market to continue to develop without further government involvement.”

“Small businesses will spend about \$6 billion in 2003 for wireline data services, a 20-percent increase over 2002,” says Arrison. “By 2006, In-Stat/MDR projects small businesses will spend nearly \$9.8 billion on these services.” She notes the SME market is likely to become a battleground for broadband providers over the next two years as the economy improves.

The study also finds:

- Small and medium businesses are a geographically diverse group and are fairly evenly distributed among urban, suburban, small town, and rural locations.
- Small business use of Internet services is expected to grow 74 percent by the beginning of 2004. Half of these businesses indicate that they expect to buy broadband in the form of cable modem services.
- The SME market is highly competitive between DSL and cable modem providers as well as from competitive local exchange carriers and satellite Internet providers.
- 62 percent of cable operators surveyed said they offered some kind of broadband services aimed at small and medium sized businesses. Analysts believe cable operators can capture 30-50 percent of this segment over time.

About PRI and NMRC

The Pacific Research Institute (PRI) (www.pacificresearch.org) champions freedom, opportunity, and personal responsibility by advancing free-market policy solutions to the policy issues that impact the daily lives of all Americans. The New Millennium Research Council (NMRC) (www.newmillenniumresearch.org) fosters policy research focused on developing workable solutions to the issues facing policymakers, primarily in the fields of telecom and technology.

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A copy of the study is available at www.pacificresearch.org or www.newmillenniumresearch.org.