

Small Business eCommerce

Paving the Way for the Next Generation of Opportunity

*An IDC White Paper
Sponsored by NetObjects Inc.*

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Executive Summary

Small businesses and home-based businesses, once among the last to benefit from new technology, are increasingly excited about the opportunities represented by the Internet and ecommerce. Currently, in the U.S., there are more than 25 million home based and small businesses with fewer than 20 employees. Over 20 million of these firms do not have a Web site. However, new services are helping to level the playing field, allowing smaller companies to build and operate the advanced Web sites that will let them serve current customers and attract new ones. Just as desktop publishing allowed small firms to look like big ones in the quality of text production, the new generation of Internet and ecommerce services is letting the smallest organizations participate actively in the emerging Internet economy.

IDC anticipates that the amounts small firms will be spending to establish a Web presence will increase at 45% annually, from \$19.6 billion in 1999 to \$85.4 billion just four years later. This provides a huge market opportunity for companies helping small firms get on board. eCommerce-related revenue is predicted to grow even more dramatically, from \$12 billion in 1999 to \$110 billion by 2003. This translates to an annual increase of roughly 75%.

Overview: Fasten Your eCommerce Seat Belts

Small businesses and home-based businesses have been key drivers of economic growth in the United States over the past decade. There are currently 6.7 million small businesses with fewer than 20 employees and 18.8 million households with income-generating home-based businesses.

Small and home-based businesses have been waking to new opportunities associated with the Internet. Basic Internet use has exploded in the past two years, and the number of small firms going online will continue to grow, from 74.5% of small business and home office PC owners at the end of 1999 to 87.2% by 2004. However, looking at this from a different perspective, there are currently more than 10 million home-based

businesses and small businesses with fewer than 20 employees who do *not* have Internet access — a huge market opportunity.

But getting online is only the first step in what is becoming an increasingly attractive and easy-to-implement process — to build a Web presence and begin to sell online. More and more U.S. small businesses and home-based businesses are investing in the infrastructure that will allow them to make money off the Web. The dramatic growth in the creation and use of Web sites sets the stage for ecommerce. Small firms are learning how to use the Web to enhance customer relations and appeal to new prospects.

In many respects, though, small firms have only just started down the road to ecommerce. IDC research indicates that larger firms still account for the lion's share of ecommerce investment. However, this will be changing as a variety of new capabilities help small firms drive real business through the Internet. While larger firms account for the largest share of Internet commerce investment, the small business piece is growing one and a half times as fast — by 45% annually through 2003, compared with 31% annual spending increases by the largest firms.

Buying online often provides the first “Aha!” to a small business looking for new opportunities to sell. Many companies actively purchase goods and services online but don't even have their own Web sites. Attitude, rather than company size, industry, or demographics, is the key. The “ecommerce-active” small firms are looking to leverage technology in every way possible — and they typically have in place much of the infrastructure necessary to support ecommerce. For many, the puzzle pieces (PCs, LANs, and high-speed access) are already available. It's just a matter of putting them together with some additional investment and maybe some assistance to effect an ecommerce solution.

IDC expects that the emerging small business-to-business (SB2B) and small business-to-consumer (SB2C) efrontier will progress through a hierarchy of improving communication, collaboration, and commerce between small businesses with fewer than 20 employees and home-based businesses and their suppliers and customers. The emergence of emarketplaces has the potential to provide a common framework to help small firms buy and sell, but no one should wait for this to happen on its own. The organization of new selling communities will most likely evolve in unexpected ways, and IDC believes that the most flexible solutions will prove the most enduring.

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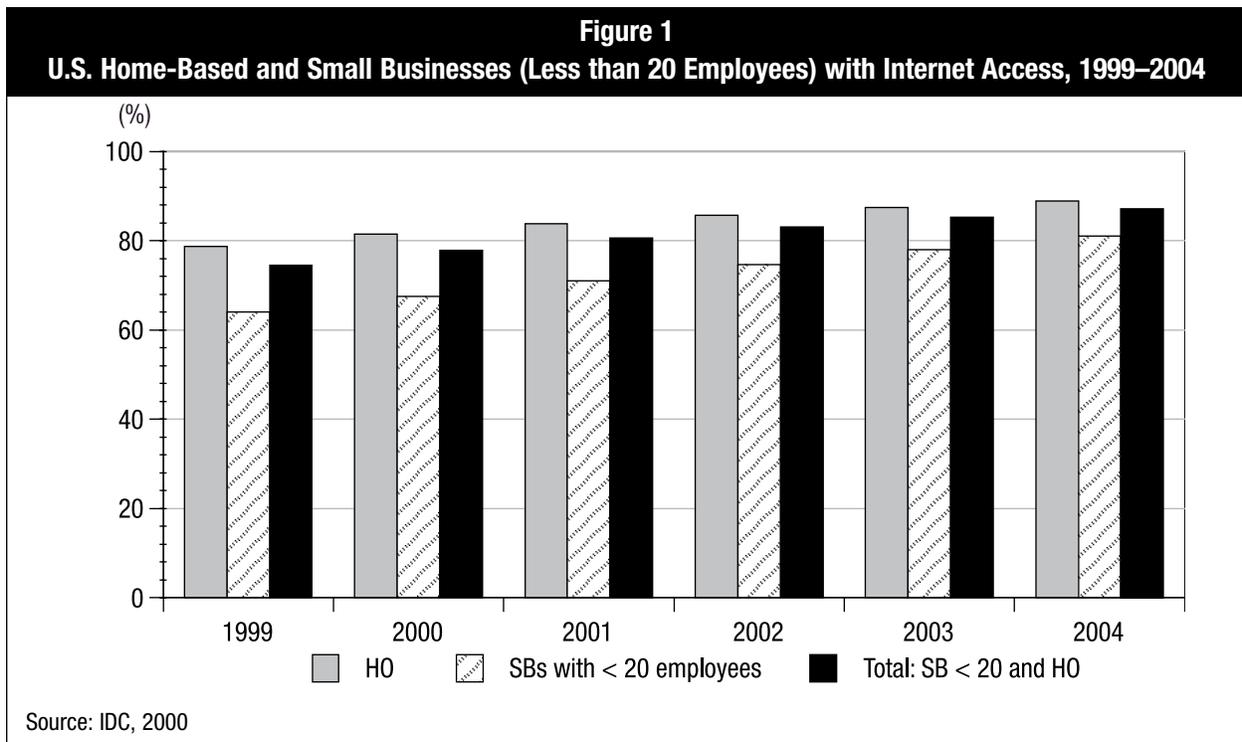


Small Businesses and Home-Based Businesses on the Internet: The Big Picture

From the 20,000-foot level, small business and home-based business Internet and ecommerce growth has been unprecedented. The dramatic increases in adoption of personal computers in the mid-1980s and facsimile from 1989 to 1991 are the only technologies that come close to the Internet in terms of growth rate and impact on business practices. The pace of Internet adoption has been both faster and more widespread than that of any previous technology.

The Small Business/Home Office Story: Basic Market Sizing and Expected Growth

Small businesses and home-based businesses are well connected to the Internet. In 1999, more than 70% of PC-owning small businesses and home-based businesses had Internet access (see Figure 1). The growth rate will slow as the market matures (fewer small firms are left unconnected each year), but IDC predicts that more than four out of five small businesses and home-based businesses will be online by 2004. Not only are more companies online, but more people in each firm are using the Internet and are using it more often and for a longer list of applications. This sets the stage for the next steps in Internet activity — making purchases, establishing a Web presence, and actually selling online.



Spending Money to Make Money: Small Business eCommerce Investment

Web spending takes into account the total invested to implement ecommerce and Web-related solutions — hardware, software, and services, as well as internal expenses for salaries, benefits, and overhead associated with the staff that manages the Web sites and develops Web content. Web spending includes capital and operating annual expenditures incurred to build and support new Web-based systems.

Web-related expenditures by U.S. small businesses and home-based businesses reached nearly \$20 billion in 1999 and, according to IDC forecasts, are expected to total more than \$85 billion by 2003, representing a strong compound annual growth rate (CAGR) of 45%. There are four assumptions behind these forecasts that will drive spending forward:

- **Interest in ecommerce will be independent of customer type.** Small businesses selling to consumers and firms selling to businesses will both be interested in using the Internet to sell more efficiently.
- **Internet adoption in small business continues to increase.** Not only are more companies using the Internet, but more people in user companies will have access to the Internet, with more time being spent online by typical users.
- **Increasing broadband availability.** While it will not be necessary for small businesses to have access to high-speed Internet access to implement ecommerce, the use of digital subscriber line (DSL), cable modems, and even ISDN (to say nothing of the T-1, fractional T-1, frame relay, and the variety of other major league broadband technologies) will pave the way for small businesses looking for the most advanced ecommerce capabilities.
- **Availability of more effective ecommerce solutions.** This is the most important factor. Providers of ecommerce solutions — hardware, software, and services — will offer a growing array of innovative solutions to support products and services that support ecommerce.

Service-based businesses are disproportionately active when it comes to Web spending. While about 29% of all small businesses are service firms, they account for 36% of small business Web-related spending. IDC expects that these firms will continue to lead the way when it comes to investing in ecommerce capabilities.

Average spending per company by small businesses to support ecommerce activity actually declined from 1999 to 2000 as a number of new ecommerce users implemented basic solutions supported by low-priced ecommerce servers, hosted economically by service providers, and maintained on a part-time basis by in-house staff. IDC expects that average annual spending per small business will begin to increase,

starting in 2001. The growing sophistication of ecommerce efforts and the increasing use of dedicated staff to support these activities will account for this increase.

The Move Down the eCommerce Path: One Step at a Time, but the Pace Is Picking Up

Defining eCommerce

In the classic purchase process model, the first steps are awareness and interest. In an online environment, these stages are facilitated by a Web site. However, true ecommerce does not take place until there is a purchase. (The next steps in the model are decision and action.) In IDC's view, small business ecommerce happens when the online decision happens, even though the execution may take place by phone, fax, or even mail. From the perspective of the small business seller, ecommerce can be implemented in a variety of ways, as long as the customer has become aware of a product or service online.

Growth of Web Sites and eCommerce Activity

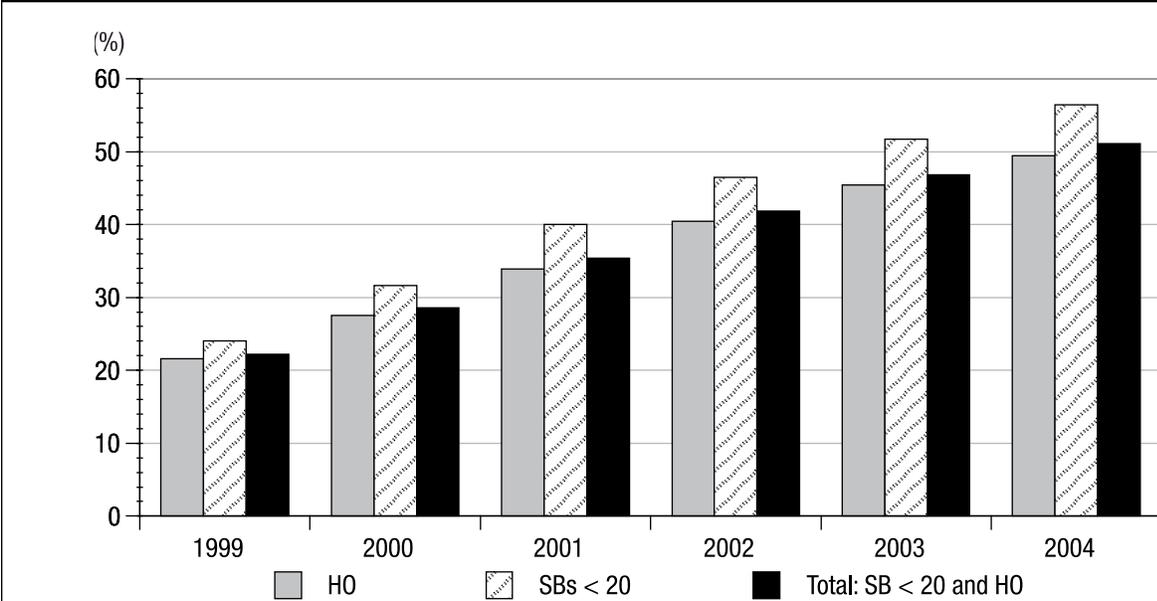
Many small businesses are moving to the first stage down the ecommerce track — establishing a Web site. However, there are currently more than 20 million home-based businesses and small businesses with fewer than 20 employees who do not yet have a Web site. There is an increasing awareness of the Internet as a means of reaching new customers and better servicing existing customers, and more software and ISP support will make Web-site creation and implementation easier. As shown in Figure 2, by 2004, roughly 50% of home-based businesses and small businesses with fewer than 20 employees will have a Web presence. (The corresponding figure for online firms is roughly 80%.)

IDC believes that the ecommerce opportunity associated with small businesses is significant. As can be seen in Figures 3 and 4, the number of companies selling online will be increasing at a similar rate to the number of companies with Web sites.

Small Business eCommerce Expectations

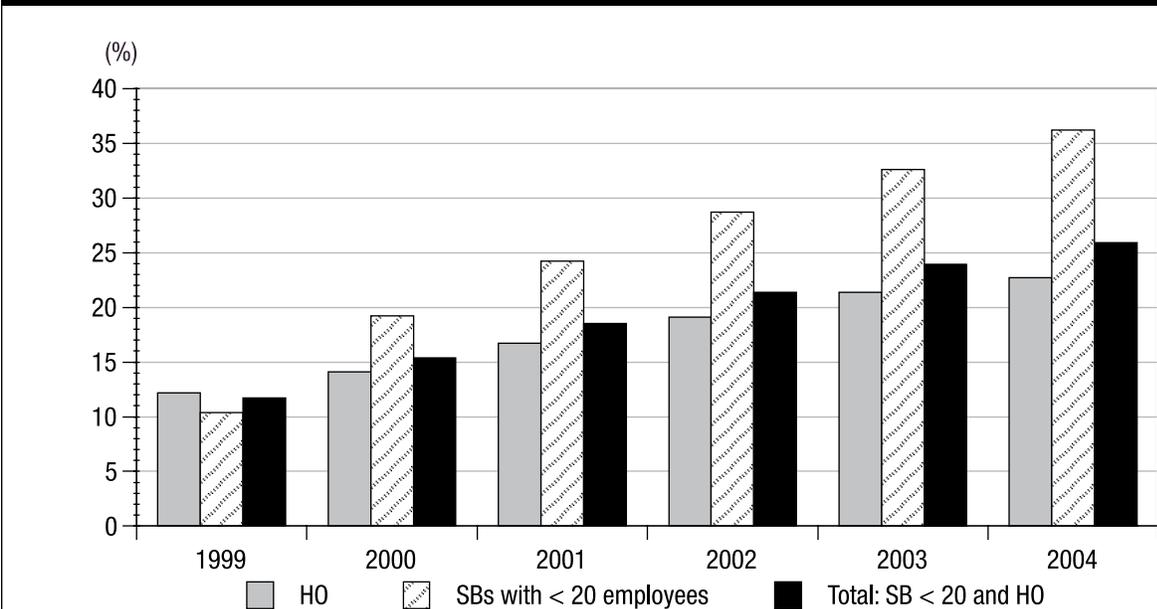
At the beginning of 2000, roughly 7% of small businesses with fewer than 20 employees were selling online. (This translates to approximately one in eight with Internet access and one-third of those with Web sites.) As Figure 5 shows, of those small firms with fewer than 20 employees that sell over the Internet, more than four out of five accepted orders via phone, fax, or mail. Small businesses are interested in adding ecommerce capabilities, and IDC is anticipating that the number of small firms selling online will have roughly doubled by the end of 2000. Even with this exceptional growth, many small firms are still sitting on the sidelines.

Figure 2
U.S. Home-Based and Small Businesses (Less than 20 Employees) with Web Sites, 1999–2004



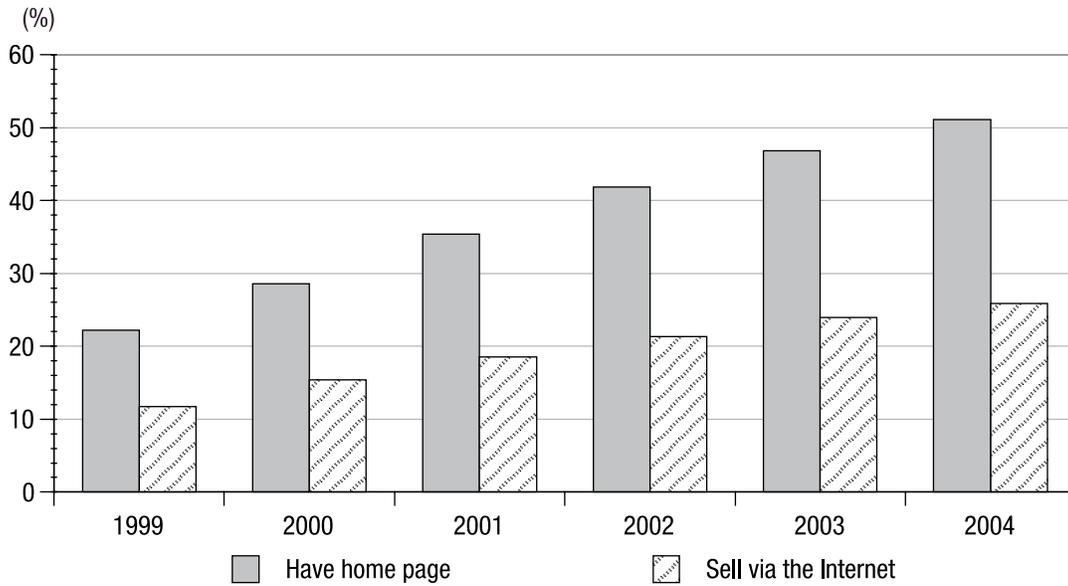
Source: IDC, 2000

Figure 3
U.S. Home-Based and Small Businesses (Less than 20 Employees) Selling Products and Services on the Internet, 1999–2004



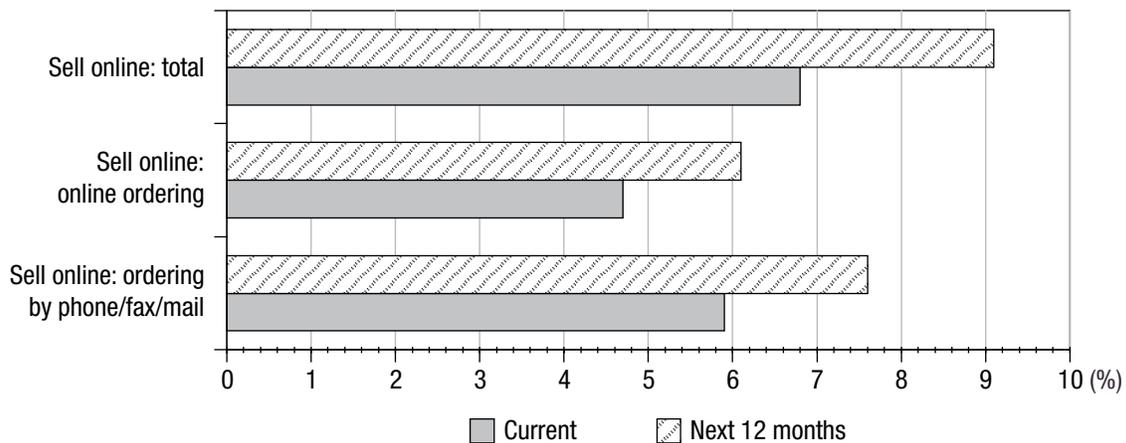
Source: IDC, 2000

Figure 4
U.S. Home-Based and Small Businesses (Less than 20 Employees) with Web Sites and eCommerce Activity, 1999–2004



Source: IDC, 2000

Figure 5
U.S. Small Business (Less than 20 Employees) eCommerce Activity and Intentions



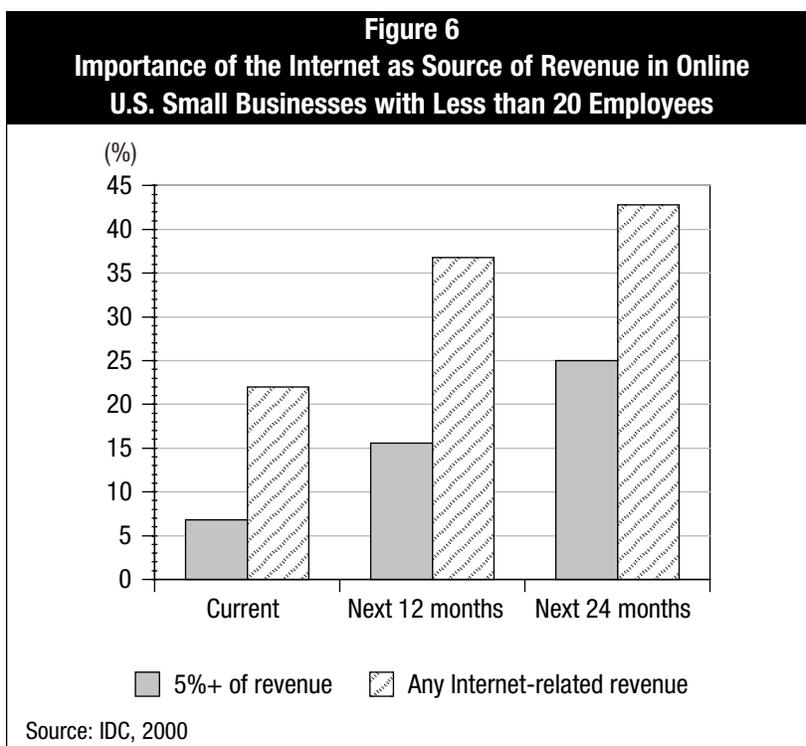
Source: IDC, 2000

Making Money Off the Internet: Let's Get Down to Business!

Revenue associated with the Internet can be indirect as well as direct — small businesses might not be engaged in true e-commerce but can still be acquiring customers via a Web site or Internet promotion. A Web site that provides information on a small firm's operating hours doesn't fit the definition of e-commerce, but it can prompt a customer visit that results in a sale. This broad perspective of Internet-related revenue shows the growing impact of the Internet on small businesses.

Revenue Expectations

More than 20% of online small businesses with fewer than 20 employees are generating revenue from the Web (see Figure 6). At present, the Internet is responsible for more than 5% of revenue in approximately 7% of these businesses. This percentage is expected to more than double in 12 months, and then almost double again 12 months after that. One-quarter of online firms expect the Internet to be associated with meaningful revenue in the future.



IDC expects ecommerce-related revenue generated by small and home-based businesses, which stood at \$12 billion in 1999, to top \$110 billion by 2003. For these expectations to come to pass, firms will need to invest in appropriate ecommerce solutions.

Who Are Small Businesses Selling To? Who Do They Want to Sell To?

Small businesses sell to both businesses and consumers, although a larger share sell to more consumers than businesses, with the smallest firms most often selling to consumers (see Table 1). Companies that regard the Internet as an important source of future revenue are more likely to have a B2B focus, although consumers are still most often cited as key customers by these firms.

How Will Small Firms Implement eCommerce Solutions?

As attractive as new revenue sources are for small businesses in theory, they can be challenging to actually implement. The most effective approaches are the most comprehensive, and therefore, the most

Table 1
Who Will eCommerce-Active Small Businesses
(Less than 20 Employees) Sell To?

	Total	Current	Next 12 months	Next 24 months
Primarily consumers	45.3	42.0	40.6	39.3
Primarily businesses (including government)	22.2	27.8	31.7	30.5
Divided evenly between consumers and businesses	21.5	25.2	25.5	24.9
Other/no answer	11	4.9	2.1	5.3

Source: IDC, 2000

expensive and generally scary. The incremental approach has traditionally been the best way to implement dramatic change. Lyndon Johnson reportedly referred to the same phenomenon in legislation as “slicing the bologna very thin.” While legislators might balk at approving major revolutionary change, small steps that accomplish the same result could be passed more easily. For small businesses, a series of natural, effortless steps toward ecommerce can be more effective than a “great leap forward” that traumatizes staff and costs a bundle.

The Services That Bring Small Businesses Online

The Internet can provide access to a variety of services that small businesses are interested in that will help to level the competitive playing field (see Table 2). These Internet services include tools that small firms can use to manage, enhance, and promote their sites and, ultimately, profit from them. Reaching new customers and maximizing existing customer relationships are key.

In many ways, Internet applications have progressed along a hierarchy — from basic communication and information gathering, to various internal applications, to true ecommerce.

As use of different Internet applications continues to grow, small firms are increasingly interested in solutions that are easy to implement and manage and that easily integrate, customize, and scale to meet their needs. For many, this will mean a “supermarket” versus “specialty store” approach, where a single supplier will provide access to a portfolio of different services. The alternative is to shop for individual services, choosing the ones that best meet company needs. While the customized approach can provide the best mix of services, the tradeoff, of course, is the time required to conduct an effective service audition. IDC believes that time, rather than higher cost, is the key drawback to the “a la carte” approach to services.

Table 2
**Internet Services/Applications Used by U.S. Small Businesses
with Less than 20 Employees**

The Basics: Must Have!

- Email
- Specialized industry/professional information
- Product information

Reaching Customers: The Final Frontier

- Building the Web site
- Advertising on other Web sites/Banner exchange
- Web-site management tools
- Counting Web-site visitors
- eCommerce solutions

Source: IDC, 2000

The next generation of Web-site tools is leveling the playing field in a different way. Major Web advertisers have sophisticated analytical tools to measure traffic and evaluate the effectiveness of different promotional programs. Smaller firms have a more focused question they need answered: “How am I doing?”

New measurement services allow firms to track the nature of their Web traffic — counting the number of visitors, keeping an eye on what they do, and even asking them questions with a quick turn-around of results. Like any good retailer, the small firm with a Web presence can now get a good feel for how many customers are visiting and how many are sticking around to buy.

Conclusion: Tapping the Opportunity

The late Senator Everett Dirksen of Illinois had a classic comment on the federal budget: “You know, a billion dollars here, a billion dollars there, pretty soon you’re talking real money!” The same is true of online revenue generated by smaller firms and home-based businesses. IDC estimates that the revenue of these smaller firms will top \$110 billion by 2003, up from less than \$12 billion in 1999 — an annual increase of roughly 75%.

In order for small firms to capitalize on the Internet, though, they need what the *Whole Earth Catalog* once described as “access to tools.” The dollar resources that big companies can devote to Web-site creation and ecommerce implementation cannot be matched by small businesses — but they don’t have to be. New, low-cost solutions are making it possible for small firms to establish, manage, and revise their sites. As a result, more small firms will be willing to invest in an Internet presence. This “Web spending,” as IDC calls it, will be growing at

exceptional levels — 45% annually, from \$19.6 billion in 1999 to \$85.4 billion in 2003.

Related to both the investment growth and the resulting revenue growth is growing small business comfort with the latest Internet technology and willingness to advance up the hierarchy of online activities. The ability to move from “show and tell” to “show and sell” will be critical for small firms. The next generation of capabilities to support smaller companies in their ecommerce efforts is at hand, and the natural result will be major increases in both the number of small firms selling online and the revenue these firms will be generating from the Internet.

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