

The Entrepreneur's Guide to the Strategic Use of the Internet

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Abstract

Internet use is growing exponentially and the value of a Web site for small businesses is becoming increasingly clear. Many small businesses can use the Internet to develop their customer base, to enhance public relations campaigns, to add value for customers, and to meet firm objectives. There can be little doubt that almost every small business should consider having a Web presence, but what kind of presence and for what purpose(s) need to be articulated. This paper is of potential use to Small Business Institute (SBI) student consultants, Students in Free Enterprise (SIFE) participants, entrepreneurship and small business instructors, SBI clients, entrepreneurs, and small business owners in general. It identifies potential uses of Web sites for small businesses, some Internet strategies that have been especially effective for small businesses.

Introduction

Why should a small business consider an Internet presence, especially after the "dot.bomb" episode of 2000? The short answer is because the Internet is growing rapidly, even in the United States. A longer answer includes the fact that global growth is even faster. A recent report by the Department of Commerce indicates that the rate of growth of the Internet in the U.S. is about 2 million new users per month (National Telecommunications and Information Administration [NTIA], 2002). More than half the U.S. population is now online (143 million in September 2001). The

groups of people who had not previously used the Internet. For example, people with household incomes of less than \$15,000 per year are going online at a rate increasing at 25% per year. The use of the Internet is also rapidly increasing among Black, Hispanics, other minorities, and rural users.

Internet use for e-commerce is also growing at an exponential rate. This became particularly evident with holiday spending in 2001. Even with the 9/11 terrorist attacks and the downturn in the overall economy, e-commerce has grown. In fact, perhaps because of these issues, retail Internet sales have increased faster than even anticipated to reach 1.2% of all retail sales ("E-commerce Hits a Record," 2002). While still a relatively small part of total retail sales, this represents more than \$10 billion in retail sales. Clearly, e-commerce has increased in importance over the past few years. But e-commerce is not just a phenomenon of large firms. Increasingly, small e-tailers are becoming important cogs in the Internet marketplace. Small companies are expected to grow their online sales 336% from 2000 to \$120 billion by the end of 2002, far outpacing overall e-commerce growth

International Data Corporation forecasted that Internet-related spending would rise from \$124 billion in 1998 to break \$500 billion by 2002 ("Break Out the Wallets," 1998, p. 74). E-commerce between businesses is five times as much as consumer e-commerce-about \$43 billion in 1998 and expected to reach \$1.3 trillion by 2003 (Forrester Research Inc.) Independent research firm Forrester Research estimates global Internet sales will reach

\$3.2 trillion in 2003 if businesses and government agencies continue to collaborate (Shultz, 1999, p. 52). Ovum Inc., an independent analyst group, says research indicates that the Internet will support 500 million users worldwide by 2005 ("Ovum Posts," 1998, p. 1144). The management consulting firm Booz, Allen, and Hamilton estimate that by 2007 as much as 20 percent of all household expenditure will occur in cyberspace (Stipp, 1996). What do all those numbers mean to a small business and whether it should have a presence on the Internet?

The Case for an Online Presence

There are many reasons why a small business would benefit from having a presence on the Internet. This presence may be a very simple static home page to an elaborate interactive e-commerce model where products are sold online typically by using credit cards. A business will probably be able to capitalize on several benefits, but a site might be desirable if even only one benefit were possible. The more potential benefits, or matches, the greater the potential for building a powerplay Internet business or a mine of bricks and mortar and Internet. Every organization today needs to examine its Internet strategy to maximize its profitability and long-run sustainability. Most businesses realize many benefits in their strategic use of the Internet. The following is a listing of benefits with a URL that demonstrates that benefit. We have picked examples which seem to demonstrate each attribute. Some sites are chosen

1. To establish/build an image. Rampart Realty, Inc. (<http://www.rampartrealty-com/>) - "Personal Service in a Digital World" uses photos of staff to show the personalized approach on its technologically current site.

2. To add value for current customers. For example, in the traditionally bricks and mortar funeral industry an Internet business, FuneralNet (<http://www.funeralnet.com/>), was started to enable funeral homes to offer online registration and memorials for its families. Further, online access is a real boon for home banking consumers who can enjoy more timely access to Rinds, more conveniently and cheaper (Wright & Ralston, 2002).

3. Participate in affiliate programs to add another income stream. For example, Proflowers.com affiliates with noncompetitive companies who offer Proflowers.com's service to their own customers and thereby get a percentage of the sale.

4. To cut costs. A business could save printing and/or shipping costs, and fixed asset expenditure for a storefront. Pyro Media Inc, (<http://www.pyromedia.com/>) produces an online color catalogue, which can be updated and accessed momentarily at much less cost than a four"-color hard binder catalogue. Hundreds of thousands of businesses can operate as a virtual business without a costly bricks and mortar storefront or employees such as Hunger Fighters.com. or Fridgedoor.com.

5. To develop new customers. Customers are referred from other sites through listing or trading advertising (banners). From hyperlinks from other sites, potential customers are directed to your site. Unlike the affiliate program, normally there is no compensation for this VAX of hyperlink. Banner exchanges can be targeted to increase the effectiveness. For example, a business which made garden decoration art might join the Home Banner Exchange (<http://www.home-banner-exchange.com/join.asp>), which specializes in sites that have a relationship with construction and home improvement, home decorating, landscape and garden.

6. To participate in business-to-business commerce. This enhances a business's ability to buy from or sell to other businesses. Funeralnet.com has Funeral Directors register to enable them to "get access to industry news, our listing of on-line classifieds, and much more."

7. Use social responsibility and the triple bottom line as a strategic advantage positioning. Starbucks has a triple bottom line strategic thrust emphasizing measuring people, profit, and planet (<http://www.starbucks.com/aboutus/csr.asp>). Starbucks' mission statement is clear on the direction (<http://www.starbucks.com/aboutus/emiroment.asp>). A medium sized hundred-employee group, the White Dog Cafe in Philadelphia, promotes "actions you can take toward building a more socially just and environmentally sustainable world" (<http://www.whitedog.com/action.html>).

8. To capitalize on product/service made for the Internet. Currently, some products seem to sell very well on the Internet. Products that used to do well include catalogs and mail order houses, computer products, financial services especially online brokerages (before March 2000), smaller companies with unique product/service offerings, information services and travel services. Comparison shopping sites, like my Simon (<http://www.mysimon.com/>), allow online shoppers to compare prices on a variety of consumer electronics products, thus enabling consumers to make better decisions (Vaidyanathan & Aggarwal, 2002).

9. To market specialty items. Fringedoor-com, "The Web's Biggest Magnet Store" (it might even be the only one), only uses the Internet as its storefront.

10. To overcome a location which limits the market. Location would limit TheGarlicStore.com on Weld County Road 13 in Fort Collins, Colorado, and Fringedoor of Quincy, Massachusetts. The Garlic Store is able

to operate internationally to meet needs of gourmet enthusiasts.

11. To capitalize on the auction model. Starting back in 1998-1999 ... "Online haggling is the hottest thing happening in E-commerce" according to *Business Week*, April 12, 1999, News: Analysis & Commentary (Hof, Green, & Judge). EBay.com (<http://www.ebay.com/>) in 2002 has proven to be a successful model,

12. To market a new product in mature industry with established players funeralnet.com is an example of using the Internet to market a new product in a mature industry with established players. It also offers Web design services to those players who may not be online yet.

13. To aid in recruiting employees. The Internet could supplement classified ads and other more traditional methods of recruiting. For career opportunities at the large Coldwell Banker (<http://www.coldwellbanker.com/>), request CB Document, or at the two shops of Studio 904 (<http://www.studio904.com/home.html>), career opportunities are promoted.

14. To research competitors and new products. Keeping track of what competitors are doing is easier on the Internet. You can see pyromedia's new ceramic items as soon as they are designed and posted on the company's Web site.

Internet Models Implementation

Before developing an Internet presence, small businesses should consider how the Internet fits with their short- and long-term strategies. While most small businesses can probably benefit from an Internet presence, it may not be for every one. Assuming an Internet strategy is appropriate, can you successfully implement it? Ask yourself the following questions before developing your Web site:

Do you have the available resources? A Web site can be inexpensive to develop, especially if it is done in-house, but is that the image you want to portray? A professionally developed transactive site can be very expensive. This might be a good time to develop a Web presence, though, since many Web developers are looking for work.

Do you and your officers have a long-term commitment to your Web presence? If not, think again.

Examine the benefits and costs. What will it cost to accomplish your Web objectives? Is it worth it?

Be realistic in the time it takes to develop an adequate site. Think in terms of months, rather than years.

After assuring yourself that an Internet presence is within your means and is strategically important, then the level of involvement must be determined. Many small businesses start off with a low level of activity on the Web, such as contact information, product descriptions, etc. what is often called "brochureware" (Strauss and Frost, 2001). Here, cost reductions and efficiencies may be the goal. At the next level of involvement, the business process level, the goal might be improving effectiveness. Increasing sales and customer relationship management (CRM) are examples of this level of involvement. At the enterprise transformation level, brick and mortar stores expand into the online world. Finally, the highest level of involvement is the pure play, in which a firm only has an online presence. Transactions occur online primarily at the higher levels of involvement. Each of these levels requires different skills and different strategies. While 22% of small businesses had Web sites in 2000, only about 8% actually

The power of the Internet lies in its networking abilities, which gives small businesses the

ability to reach global markets and develop new customers never before possible. As rapid as growth of the Internet is in the U.S., it is even more rapid in Europe and parts of Asia. Jupiter's Globalization Report in 2001 estimates that the U.S. share of the global Internet population will drop from 36% today to 24% in 2005 (Dunlap 2002). Half of all online revenues will be generated outside of the U.S. by 2004. In European countries now using euros, e-business

Conclusion

Certain products may be more challenging to sell over the Internet. These might be related to factors such as high shipping costs, high product liability issues, or the need for personal selling (Geller, 1999).

In any event, an Internet presence is going to make sense for the majority of businesses today regardless of size. The case for an online presence is too compelling.

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