Chapter XVII
How Can Internet Service Providers Tap into the Potentially –Lucrative Small Business Market?

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ABSTRACT

Small businesses need Internet service to be competitive, and their spending on IT activities continues to grow. How can Internet Service Providers tap into this potentially lucrative market? This study attempts to identify Internet service features that are important to small businesses. Specifically, it used a survey method to explore the relationships between the importance of various features and organizational characteristics of small businesses, for example, size and type of business. The results show that the size of business affects the perceived importance placed on certain features, while the type of business does not. Implication of this finding for packaging Internet service is discussed.

INTRODUCTION

There is little doubt that the Internet is changing the way that many businesses are operating. According to Cottrill (1997), and Power and Sohal (2002), the Internet is the enabler that ultimately revolutionizes the way business is conducted in some industries. Research shows that the use of the Internet by businesses has led to improvement in lead times (Hauguel & Jackson, 2001; Power & Sohal, 2002), better communication and collaboration within and across organizations (Garcia-Dastugue & Lambert, 2003), and significant gain in achieving greater cost efficiencies (Barnes, Hinton, & Mieczkowska, 2003). Given these findings, it appears that the Internet may be assuming a pivotal role in achieving business objectives (Levenburg, 2005).

The Internet was also envisioned as a powerful tool enabling small businesses to "level the playing field" when competing with larger firms (Levenburg 2005). There is growing evidence that the Internet has indeed changed the way that many small businesses are conducting their operations (Barnes et al., 2003). Perhaps the use of the Internet has penetrated much deeper into the small business market. To gain competitiveness in producing and selling products or delivering services effectively and efficiently, small businesses must rely on the use of the Internet. This in turn shows a critical connection between small businesses and their Internet service providers. As we searched the literature, to our surprise, we found almost no academic study that examines any aspects of the relationship between small businesses and their Internet service providers. Yet the potential market of small businesses is quite promising, as more small businesses are spending more on information technology activities today than at any other times. According to the research firm AMI Partners, businesses with fewer than 100 employees spent more than $12 billion on network and telecom equipment in 2004. Furthermore, small businesses are expected to account for 24% of all IT hardware and software spending in 2006 (Hochmuth, 2005). The CEO of Vendio, Mr. Rodrigo Sales said, "We are entering a new era in e-commerce—one increasingly driven by smaller businesses and merchants" (Kooser, 2003). Therefore, a study of small businesses is important because these firms comprise a significant proportion, not only in the U.S., but also in most other countries' economic activity (McMillan & Woodruff, 2002).

How can Internet service providers (ISP) tap into the potentially-lucrative small business market? One of the keys to successfully exploiting this market, we believe, rests upon the Internet service providers' ability to understand the market needs and to fulfill these needs effectively. To achieve that, an ISP needs to provide features that are needed by small businesses to conduct their operations. This is essential because how effectively small businesses use the Internet would depend on "features of the Internet service". In this context, this study focuses on exploring what features of Internet service are important to small businesses and to ascertain whether these preferences are related to certain organizational characteristics such as "type of small business" and "size of small business". Specifically, this article looks for some insights into two aspects of the issue: (1) Is "size of small business" related to the perceived importance for various features of the Internet service? and (2) Do different "types of small businesses" have different levels of perceived importance for various features provided in the Internet service by ISPs? If so, what are the differences?

CONCEPTUAL BACKGROUND

Figure 1 shows a research diagram used to seek answers to the questions in this study. It consists of three major variables: "size of business", "type of business", and the "perceived importance of various Internet service features". In this section, we will discuss some of the justifications for these variables, including their descriptions and significance.

One of the challenges in our study is how to define the term "small businesses". According to the Small Business Administration (SBA) in the United States, businesses with less than 500 employees are considered small businesses. Taking the context beyond the U.S., the definition of small businesses becomes a little more complicated. Instead of using the term "small businesses", various descriptive terms such as micro-, small-, and medium-sized enterprises are used in Europe, and their interpretations may vary widely. For instance, the term MSE includes "micro-enterprises" and "small enterprises", and these enterprises are considered the smallest. However, most numerous businesses within

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