



Net Impact III: Overcoming the Barriers

**A qualitative research study conducted by the
Canadian e-Business Initiative**

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Executive Summary

This report summarizes the results of focus group research conducted in September 2003 by the Canadian eBusiness Initiative (CeBI). The purpose of the research was to examine the adoption and implementation of Internet Business Solutions (IBS) by Canadian small and medium-sized enterprises (SMEs). The research explored and extended the Net Impact series of studies (see Net Impact Canada: the SME experience and Net Impact Canada II: the International Experience). The research found that SMEs achieve substantial benefits from the adoption of IBS, but that the adoption process is largely fragmented, disorganized and ad hoc. SMEs called for a comprehensive content development and distribution strategy built around an Internet portal to assist them in adopting and implementing IBS.

Summary of Key Findings and Calls to Action

Adoption of IBS by Canadian SMEs

- Not all Internet Business Solutions (IBS) are alike. In fact, the adoption of IBS by small and medium-sized enterprises (SMEs) appears to follow a stable and predictable path. SMEs first adopt simple, customer facing solutions such as Websites and email. SMEs then adopt more complex internal or supplier-facing technologies such as e-procurement, accounting or finance solutions. While each stage involves distinct challenges, the second stage is substantially more difficult to achieve than the first. SMEs that successfully adopted complex IBS realized sustained and tangible organizational benefits.
- The adoption and implementation of IBS can involve a high level of risk as SMEs typically lack internal resources and are thus dependant on third parties for key skills and knowledge. There is no standardization or competency requirements in the industry to ensure technology partners are qualified and trustworthy. SMEs often struggle to find reliable partners to assist in IBS adoption, particularly the adoption of complex solutions.
- There is very little planning done prior to the adoption of an IBS, particularly in the retail and manufacturing sectors. In addition, post-implementation evaluation of IBS is seldom conducted. Nevertheless, SMEs are generally satisfied with their investments in IBS.
- The implementation process varies greatly by SME. Smaller SMEs are likely to draw on the assistance of friends or family members who work for little or no compensation to implement a simple IBS (like a Website). Larger SMEs typically engage the services of consultants, technical service providers or an internal technical resource. However, the technology services provider community is extremely fragmented and quality of service is uneven.
- The most common justification for the adoption of IBS is to respond to factors in the external business environment. These factors include actions by competitors, demand from suppliers and pressure from industry associations. Others prominent justifications for IBS adoption include financial benefits such as increased sales and reduced costs.

Call to Action: Most SMEs that are likely to adopt simple IBS, like a Website or email, have already done so. The next challenge for SMEs is to adopt more complex solutions. Complex IBS are high-risk, high-reward propositions for SMEs. An opportunity exists for policy makers to develop a strategy to assist SMEs to adopt, implement and use complex IBS.

Content Development and Content Delivery: What SMEs Need to Know

- SMEs want IBS information that is specific to their industry and relevant to their size and type of business. Each SME feels that their situation is unique and they want information that demonstrates proof of concept in their industry and with businesses of a similar size. Generic information and benefit statements do not convince the SME that the IBS will work for them. IBS information must be industry specific and proven to work in order to have an impact on the adoption decision process.
- There is no shortage of information on IBS, but there is a lack of a centralized, organized and unbiased source. The SME often has difficulty finding relevant information about IBS – what’s available and what might work for them. They would like to have access to a single source of information that has a comprehensive listing of applications and a method of identifying what is most appropriate for their requirements.
- An Internet-based source of unbiased IBS information and adoption advice was preferred by SMEs over alternative approaches. The Internet resource should be free and easily accessible. It should provide a wide range of information that is segmented by industry and firm size. The resource should include evaluation and diagnostic tools to help SMEs get information tailored to their individual needs. Case studies, testimonials and user feedback should be found on the site. The resource should include a forum for SMEs to exchange information directly between one another. A database of service providers in various sectors with specific specializations should be included. The resources should be comprehensive and up to date.
- IBS information provided by an alliance of government and industry would provide the credible yet unbiased knowledge the SME is looking for. The

government is seen as neutral and unbiased but lacks industry knowledge. Industry sources are knowledgeable but may have biased, self-serving agendas. Creating an alliance between the two parties would provide an information source that is knowledgeable but unbiased, trustworthy and credible. This alliance could be the sponsoring organization behind the IBS information website and could also provide the SME with the selection, implementation and training tools to encourage the adoption of more complex IBS. In addition, this alliance could establish the guidelines, training and certification of technology service providers.

- Communication with the SME sector is challenging, as there is no common medium or channel that reaches the whole population. Any new IBS adoption initiative would need an integrated communications strategy that utilizes a mix of media. If the government participates as an alliance partner then current government direct mail activities (GST notices, tax remittance forms) could be used to reach most, if not all SMEs.

Call to Action: Policy makers need to develop a comprehensive content development and delivery strategy to meet the needs of the SME community. Current approaches are not sufficient to meet these goals. Central to any strategy is the development of an Internet resource sponsored jointly by industry and government.

Background

The Canadian eBusiness Initiative (CeBI) is a private sector-led initiative that, through support from Industry Canada, seeks to drive the adoption of IBS among SMEs in order to strengthen the economy and to positively affect Canada's international innovation image. It is to this end that the group recently released a two-part research study entitled Net Impact. Part I was published in November 2002 and focused on proving the financial benefits of e-business adoption. Part II was released in May 2003 and focused on the international e-business experience.

Research Objectives

The goal of the current study was to build upon the quantitative insights of Parts I and II by conducting qualitative analysis to better understand how SMEs engage in e-business practices and realize favourable impacts for their businesses.

There were three specific objectives for the study:

1. To speak with successful adopters of IBS to understand how they were able to overcome the barriers to adoption, as identified in Parts I and II of Net Impact, and to understand how they accessed enablers.
2. To speak with SMEs who have not yet adopted IBS or who have not yet been successful in doing so in order to understand what enablers they require to ensure their success.
3. To understand the most effective delivery mechanisms for the enablers identified in objectives 1 and 2. In order to facilitate this objective, three specific concepts were developed for evaluation: a portal website, an education model, and a resource centre.

Research Methodology

Focus Group research was conducted in Toronto on September 8, 9 and 10, 2003. A total of seven focus groups were conducted. The sessions were two hours in length with each group having six to nine respondents. The respondents were SME owners or senior managers who were responsible for the IBS adoption decision.

The respondents were segmented into distinct cells based on their success or non-success in adopting IBS, and their specific type of industry. The three industry types selected were Manufacturing, Retail and "Other" (Financial Services, Communications and Public Sector). During recruiting, an attempt was made to have an equal representation of small (20-49), medium (50-69) and large (70-99) SMEs. In addition, a single focus group was conducted with a representative group (mixed industry type and employee size) who professed no plans whatsoever to adopt IBS.

Main Findings

IBS Adoption Planning

There is little or no business planning associated with the selection and implementation of IBS. As one respondent admitted:

"I feel my way through...we don't seem to have a horizon we're shooting for."

Most IBS selection and implementation is done as a result of an immediate need, threat or opportunity. It is not part of a larger game plan or business strategy. Further, the adoption of an IBS does not follow a tight time line. Each IBS project is considered unique with a timeline that is driven by the scope and complexity of the project. The projects may take weeks or years to complete depending on available resources, level of commitment and investment. If a project falls behind schedule, it is usually attributed to key project members completing assignments late or incorrectly.

Knowledge Gathering

With the exception of a few respondents who were in the technology or finance industries, SMEs had a very low level of IBS technical competency. There was also a widespread feeling that each business is special and unique so that only those with whom the SME had a close personal relationship or those who understand their industry and company can be trusted to provide unbiased information about an IBS. As a result, many of the respondents sought IBS information from friends, relatives, business associates, trusted suppliers and even competitors. This is especially true of the smaller companies where the owner was the person seeking the information.

While there is a host of information available to the SME, there is a general feeling that it is very difficult to find a source that can be trusted. The SME finds it challenging to judge the value and credibility of a knowledge source, as prices do not always reflect quality.

Testimonials can be a source of IBS awareness as the SME often values the experience of other small business operators. The Internet is frequently used for information gathering on an IBS. Nearly every respondent had investigated an IBS using the Internet. They often check a competitor's website to find out what applications are being used.

Service providers who have a strong relationship with an SME can be trusted to provide information, however, most service suppliers, including the telecom companies, are seen as self-serving and cannot be trusted to offer unbiased information. Large institutions (banks, telecoms and accounting firms) and government agencies are viewed with caution when it comes to IBS information. The feeling is that they do not really understand the respondents' industries and businesses and cannot be relied upon as a trusted source of information.

The respondents also mentioned trade publications, trade shows, conferences, industry white papers, seminars and associations as alternative sources of information on IBS adoption.

The Decision to Adopt IBS

The respondents were all part of the decision making process, either individually or in a team. In smaller organizations, the owner/president often makes the final decision based on consultation with trusted advisors, consultants or staff members. The final decision maker may not have a strong technology background or much experience, so that the actual selection of an IBS may be based on intuition, sound business judgment and some good luck.

In larger organizations, the decision may be made by a consultant, dedicated IT staff or from a team assigned to evaluate and select the IBS. The team may make the final decision or recommend a decision to the owner/President.

Key Decision Factors

The respondents were given a list of key decision factors and were asked to rank them based on their relative importance in the decision making process. The factors were as follows:

- Responses to elements in the external business environment, i.e. competitor actions, supplier pressure or changes in industry norms
- Sales to new markets and attraction of new customers
- Reduced costs and enhanced operating efficiencies
- Other factors: compatibility with existing IT technology, ease of the technology to master, etc.

IBS Implementation Risks and Regrets

In general, the SMEs who implemented an IBS had few if any regrets. With the exception of a couple of website and purchasing issues, most SMEs were satisfied with the overall functionality of the IBS. As long as the IBS worked as expected, SMEs were happy and ready to focus on the next business challenge.

Once the IBS had been successfully adopted it often becomes a critical part of the ongoing business. The respondents agreed that they would find it difficult to live without the IBS they have adopted. Some respondents could exist without their websites but the process driven IBS (such as payroll and banking) were generally thoroughly entrenched in the day-to-day operations of the company. As one respondent says,

"It would be like living without a telephone."

Return on Investment

Just like planning, return on investment (ROI) calculations are seldom done at any point in the selection or implementation of an IBS. The implementation of the IBS is not driven by an ROI target or performance metric. The IBS is chosen for its functionality and expected benefit to the company, but few, if any, metrics are assigned to judge the performance of the IBS. The only respondents who indicated they attempt an ROI review were the ones in the finance or consulting industries.

Post-Implementation Evaluation

Follow-up evaluations of an implementation or IBS benefit are seldom conducted by SMEs, regardless of size or industry. Some of the respondents have anecdotal information regarding sales increases or reduced costs. One respondent indicated that the IBS must have worked because the company grew in revenue, but did not hire more staff to achieve this sales growth. Another respondents felt that the amount of paperwork had decreased because of a payroll IBS. In general, the success of the IBS is based on whether or not it is working as expected. If it works, the assumption is that it must be making an impact on the business. One respondent says that if the staff is happy the IBS is functioning as expected.

“As long as the phone’s not ringing, then it must be working.”

Improving the IBS Adoption Process

There is some frustration with the process of selecting and implementing an IBS. The concern most often expressed is the lack of reliable, honest and trustworthy expertise that the SME can turn to without spending large sums of money. Much of the available information is too technical and not specific to the SMEs industry.

IBS Enabler Concepts

The respondents were shown the following three concepts that were developed as examples of alternative methods of assisting with the adoption of IBS.

1. Education Model: SMEs would learn about adopting IBS at a local college or university
2. e-Business Centre: IBS information and resources would be provided at a local business centre
3. Internet Portal: Information and collaboration tools would be provided on a website

Enabler Concept Evaluations

The respondents were asked to rate the enabler concepts based on how positive they felt towards the concepts, whether the concept would have helped in their adoption process and if they would likely use the concept.

Concept #1 – Education Model, average ratings (Rated on a scale of 1 to 10, where 10 is very positive)			
	Total	Successful	Unsuccessful
Initial reaction to concept?	6.4	6.6	6.2
Will this be helpful with your IBS process?	5.9	6.0	5.4
Are you likely to use this?	5.4	5.5	5.0
Concept #2 – eBusiness Centre, average ratings			
	Total	Successful	Unsuccessful
Initial reaction to concept?	6.9	7.4	6.5
Will this be helpful with your IBS process?	6.8	7.1	6.4
Are you likely to use this?	6.3	6.4	6.1
Concept #3 – Internet Portal, average ratings			
	Total	Successful	Unsuccessful
Initial reaction to concept?	7.7	7.9	7.6
Will this be helpful with your IBS process?	7.5	7.8	7.2
Are you likely to use this?	7.5	7.5	7.5

The college/university course concept rated the lowest of the three proposed concepts. While the initial reaction to the idea was positive, respondents didn't see this as a solution they themselves would be likely to use.

The eBusiness Centre concept was better received than the university course idea, scoring higher overall ratings for all three questions. It is readily accessible, free and provides unbiased information. The offer of interns and graduate students to assist with projects has value, although respondents thought that these resources might not have the real-life work experience needed to be credible. There is also the view that eBusiness Centres may not be accessible, and may not be able to provide the specific knowledge of the SME industry.

Of the three proposed concepts, the website received the greatest positive reaction for all three questions. This was true across the board, with all groups stating that they were most likely to use to use this resource to get information as they attempted to implement an IBS. The site would be free and accessible at any time. It would have a broad range of information and topics and it would be non-technical and easy to use. The industry specific information and success stories also add value to the concept.

The involvement of a government agency in any concept generated some concern. Many of the respondents are skeptical of the government's involvement and expressed doubt about the competency and industry knowledge of the agencies. However, this skepticism is reduced when the government partners with industry leaders who would provide more credibility and industry insight.

Communicating with the SME

The respondents were asked about the best ways to reach them in order to tell them about any new IBS information, implementation and support. This is a very diverse and complex collection of industries and businesses and there does not appear to be any single, commonly used channels of communications that can efficiently reach all SMEs.

Although it was a challenging idea for them, the respondents did offer some suggestions:

- Include information with current government mailing like the GST/PST forms
- Direct mail/letters/email
- Trade publications and trade shows
- Billboard advertising
- Word of mouth referrals

For more information regarding this research report, or for information about the Canadian e-Business Initiative, please visit www.cebi.ca.