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Small Business E-commerce up by \$750 Million in 2002

by Julie King

Think the Internet could be a passing fad, and that e-commerce may not be relevant to your business? Think again.

According to the latest SES Web Entrepreneurship Survey of 1000 Canadian small businesses, Canadian small businesses are buying more online, selling more online, and the majority have some form of high-speed, broadband connection.

These and other findings paint a picture of a small business e-commerce market that is alive and growing. Here's a closer look at some of the key findings.

Online number continue to rise in 2002

In spite of a rocky economy through much of 2002, both the number of small businesses online and the value of both purchases and sales continued to rise.

Eighty-eight percent of Canadian small businesses are now using the Internet, a 12% increase from last year. And while the number of small businesses engaged in e-commerce has leveled off, the dollar value of both purchase and sales transactions has risen considerably.

In the past twelve months Canadian small businesses have bought \$1.45 billion and sold \$1.3 billion via the Internet, representing a \$750 million increase in the total value of online trade since 2001. Breaking the numbers down, that's an average of \$4,200 in purchases per small business and \$15,100 in sales per small business.

"So growth is a result not of the number of people engaged in e-commerce," says Nik Nanos, marketing director of SES. "It's

basically been fueled almost exclusively by an intensity of use. - More people are buying and more people are selling."

More businesses marketing online

Another good sign is that Canada's virtual trade deficit, the difference between what we buy and sell, has declined significantly from \$300 million in 2001 to \$150 million in 2002.

What's particularly encouraging for Canada, says Nanos, is our growth as e-commerce marketers (approx. 63%) is much higher than our growth as buyers (26%). A sign, he says, that the e-commerce market in Canada is starting to mature.

"What we find is that there's usually a hierarchy in regards to what I'll call getting on the e-commerce bandwagon," says Nanos.

- I. Experimentation is the first step for many small business owners, who are typically interested in the Internet but aren't sure how it's relevant to their business. The first thing they do is try to buy something online for themselves, their spouse, or their kids.
- II. When a comfort level is achieved they then start buying things for their business, again experimenting except this time they are focused on buying for the business.
- III. In the third step the person moves from beyond purchasing and starts to market and sell products and/or services online.
- IV. The final and most mature step in the hierarchy, explained Nanos, comes when the person starts to do things like financing, online banking, loan applications, and remitting taxes online.

Speeding to a digital divide

For small businesses who use the Internet, high speed access is increasingly common. Forty per cent have a high speed digital subscriber line (DSL), 16% use a cable modem, and 8% have another type of dedicated connection. While almost two-thirds have some form of high speed access, just 32% are dial-up users.

"One other thing that's fascinating - and we've only seen this in the last couple of years of our longitudinal study - is that we're really getting into almost like a multi-tiered or multi-classed system in regards to Canadian electronic commerce", says Nanos. "Dial-up access is going to be what determines the intensity and how e-comm savvy businesses are, and I think that could be a really huge challenge to businesses that are located in rural areas that don't necessarily have high speed access. That's another trend that we're going to keep an eye on."

Foreign counterparty

Three years ago 82% of Canadian small businesses said they did most of their foreign Internet transactions with the United States; now it's up to 95%. "Factoring the margin of error that's basically almost everyone," says Nanos.

These numbers also belie the concept of a borderless global economy. "You'd think the e-commerce economy would be borderless - but what this may be pointing to is that e-commerce activities are basically working in parallel with our natural trading partners," says Nanos.

Online but unlikely to buy

The survey found that of the 88% of small business owners who use the Internet in their businesses, 50% had not bought or sold anything online in the past twelve months, whether for business or personal use.

"What we find based on our research is that there is a certain segment of the business sector where they're still trying to wrap their heads around whether electronic commerce is relevant," says Nanos.

"I think that's really a challenge to what I'll call the e-commerce gurus and visionaries. How do they make electronic commerce relevant to what I'll call 'the butcher, the baker, the candlestick maker'. The reality is that those mom and pop skeptics make up a good part of our economy and they always will. I think it's going to be up to the industry to find creative ways to get those people to join in on the e-commerce bandwagon."

Healthy outlook ahead

Canadian small businesses bought and sold \$2.75 billion via the Internet in the past twelve months, and are projecting similar numbers projected for the coming year. The dot.com "bubble" may have burst, but in the small business sector it looks e-commerce is not about to go away.

More information on the SES Web Entrepreneurship Survey can be found at www.sesresearch.com.

About the author

Julie King is the co-founder and publisher of CanadaOne.com®