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## **Business Indicators ♦ October 2001**

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### **Small Business On-Line: Internet Use Among SMEs**

*The Internet has come a long way from its origins as a mainly research-oriented system to its current configuration incorporating the World Wide Web (WWW). Global use of the Internet has exploded over the last several years and Canadians are one of the largest groups of users.*

#### **Who is using the Internet, and for what?**

In 2000, 52.8% of Canadians aged 15 and over claimed to have used the Internet within the last year.<sup>1</sup> In British Columbia, the percentage was even greater, with 61.2% claiming to have been on-line. That was the highest rate in the country. The only other province with over 60% of its population connected to the Internet was Alberta (60.3%).

Within British Columbia, there was a far better chance of finding someone who had used the Internet in an urban location (62.7%) compared to a rural area (53.3%). This was the case for Canada as a whole as well (55.0% urban, 44.9% rural). One reason for this is likely that many rural areas simply do not have the same access to the Internet compared to urban centres.

Users of the Internet in British Columbia were more likely to be young, educated males. In 2000, 65.7% of males in BC used the Internet compared to only 56.8% of BC females. Almost 92% of those aged 15 to 24 had used the Internet, with use declining with age and only 27.5% of people aged 55 and over having been on-line. Those with a university degree (81.9%) were far more likely to have used the Internet than those who had only a high school diploma (47.3%).

Electronic mail is the most popular use of the Internet, with 87.8% of users in British Columbia having used e-mail. Obtaining information about goods and services (76.2%) is the next most popular use. Only about a quarter of users in BC had ever used the Internet to purchase goods and services. Although this figure has been rising over the last few years, there still appears to be resistance to buying goods on-line. Some of the hesitance is likely related to security concerns, particularly regarding credit card transactions. Another factor may be the desire of many consumers to see the goods first hand before they buy them.

According to Statistics Canada's *Household Internet Use Survey*, 1.8 million Canadians shopped on the Internet from home in 1999, but a million of those people were only window shopping. This is consistent with the fact that over three-quarters of Internet users in BC used the Internet to obtain information about goods and services. Many people find the Internet to be a useful tool to comparison shop, but do not trust it enough to actually make a purchase on-line.

Of those that did make purchases, the most popular acquisitions were books (48%), software (36%), music (30%) and travel services (29%). For the most part, these items do not vary from seller to seller, so there is little risk of getting something the buyer did not expect. Buying clothing or big-ticket items such as electronic equipment or automobiles carries more of this type of risk and consequently these items are not purchased in substantial numbers over the Internet. One other possibility is that other consumer items that might be bought on-line are simply not available.

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<sup>1</sup> *Statistics Canada, Overview: Access to and Use of Information Communication Technology, March 2001, catalogue 56-505-XIE.*

## Small business is embracing the Internet

As more Canadians are going on-line, so too are many small and medium-sized enterprises (SMEs). Various studies of Internet use among SMEs in Canada have consistently shown strong growth in the last few years in the number of businesses going on-line. To be considered an e-business, a firm must have a web site, buy on-line, or sell on-line.

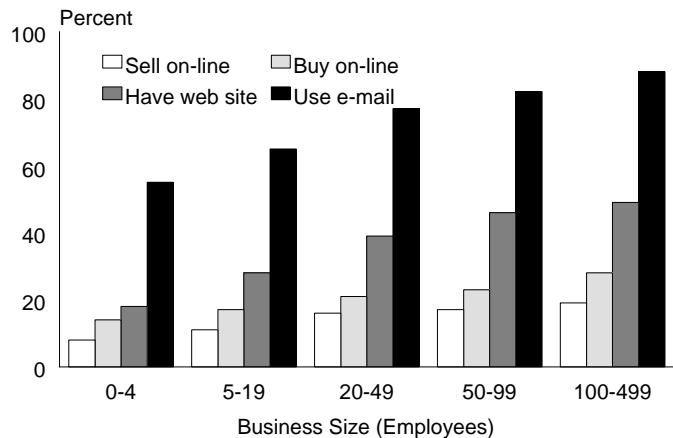
According to SES Research's *SES Web Entrepreneurship Survey*, 76% of SMEs in Canada were using the Internet by late 2000. The proportion that had bought or sold goods on-line was 40%. The value of sales was \$590 million and the value of purchases was \$720 million. The sales figure was more than double the amount from a year earlier (\$240 million in fall of 1999). Purchases were also substantially higher than the 1999 figure (\$430 million).

The Canadian Federation of Independent Businesses (CFIB) also reports strong growth in Internet use by SMEs.<sup>2</sup> The CFIB survey showed that 69% of business owners surveyed said they are actively using the Internet. Internet use increases with size as almost all business with more than 100 employees are on-line. More than 80% of businesses employing between 20 and 100 people, 71% of those with between 5 and 19 employees and almost 60% with less than 5 employees are connected to the Internet.

However, of the 69% of SMEs using the Internet, only about half can be considered e-businesses (i.e., they have a web site, or are buying or selling on-line). The other half are using the Internet only to browse or use e-mail.

E-mail use among SMEs is reasonably commonplace, ranging from 55% for businesses with fewer than 5 employees to 88% for businesses with between 100 and 499 employees. More SMEs are developing their own web sites, although even for those businesses with 100-499 employees, less than half have done so. The least common Internet application among SMEs is selling on-line, with less than 20% of small businesses in any size category participating.

## Internet use increases with business size



Source: Canadian Federation of Independent Business

Part of the reason for slow movement toward on-line sales is likely hesitance on the part of consumers. About 50% of small businesses identified low consumer demand as a constraint to doing business on-line. Some businesses also had security concerns similar to that of consumers. This is clearly one hurdle that e-business must still overcome and although the development of new encryption software has erased the concern for some, there is still work to do to convince others that the Internet is a safe place to do business.

## Internet use varies by business type

Not only is the size of the business a determinant of whether or not a firm will choose to sell on-line, but so too is the type of business. The business services industry is the leader in e-business, followed by the finance, insurance and real estate sector. In these sectors the product is mainly information and the Internet provides a fast, inexpensive method of distributing this information. Those businesses selling goods, rather than services, are slower to adopt the Internet as a marketing tool.

## British Columbia the leader in e-business

British Columbia leads all other provinces in both Internet use among SMEs as well as e-businesses according to CFIB. Almost three-quarters of SMEs in BC are using the Internet, and 44% have a web site, or are buying or selling on-line. This may be a reflection of the fact that BC also leads the country in personal Internet use.

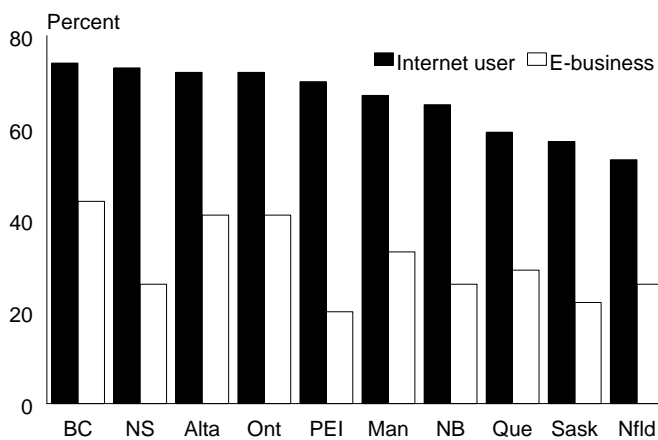
<sup>2</sup> CFIB, E-business Update: Internet Use Among Small and Medium-sized Firms – CFIB Mid-year Survey Results, August 2000.

## The future of e-business

According to Statistics Canada, Canadians are forsaking other activities in order to use the Internet. Approximately 15% of Canadian Internet users were spending less time reading books, newspapers and magazines, and 25% were watching less television. This has some important implications for advertisers and indicates that if businesses want to prosper, the Internet may be the place to do it.

A worldwide survey done by the Angus Reid Group in March 2000 suggests that Canada has embraced the Internet to almost the same extent as the United States. This means that Canadians have access to a growing consumer marketplace and Canadian firms must compete with their American counterparts. If Canadian businesses want to compete in the expanding global market, they will have to adapt to the new Internet technology.

BC leads the country in Internet use among SMEs



Source: Canadian Federation of Independent Business