THE EUROPEAN SMALL AND MEDIUM-SIZED ENTERPRISE
INTERNET AND BUSINESS-TO-BUSINESS FINANCIAL
SERVICES STUDY

by

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Executive Summary

This report investigates the impact of the Internet on European small and medium-sized enterprises (SME’s) and evaluates the opportunities in terms of online B2B financial services. The key points covered by this report are:

- External challenges for SME's;
- Need for SME’s to innovate and adapt their organization;
- Technological capabilities and the attitude of SME’s towards information technology; and
- Strategic partnerships of SME’s in the financial services area.

SME’s in four different European countries are included in this study: France, Germany, Sweden and the UK. Telephone-based interviews were conducted in early 2000 with 37 respondents from these countries with the help of a structured questionnaire. The contacts came from GE-Capital customer lists and the INSEAD database.

SME’s provide a major portion of employment in most European countries, with Italy and Spain having the highest rates at around 80%. More than 90% of the total number of European Union businesses are comprised of SME’s, accounting for 55% of EU turnover. Thus the importance of the contribution currently made by SME’s, to all European economies, cannot be ignored with a general reduction in the weight of the contribution made to employment and to GDP by larger enterprises.

Overall, we unveiled a very diverse picture of how SME’s across Europe approach the Internet. These differences are mainly due to Internet penetration in each country in addition to the overall use of IT in the business. For example, we have found businesses in Sweden currently leveraging some of the opportunities made available via the Internet, while French companies are mostly behind in this respect due to established practices or the high switching costs (mainly functional) associated with the Minitel.

However, an overall majority does feel a great level of excitement about the range of possibilities afforded by the Internet. The main reason for not having adopted new practices seems to be the lack of knowledge about how to formulate an effective strategy to conduct business on the Internet. SME’s in general would derive a great deal of benefit from having external providers offering them coaching and exposure to the range of opportunities offered by the Internet.

Effectively managing financial information and resources is one of the most important aspects of ensuring the success of a small business. Small businesses demand easy to use services that help them manage their business better. Specifically, they need to quickly and efficiently manage activities, such as cash management, payroll, credit, and applications for working capital or lease loans. This would help them to increase productivity and to focus on their core business.

In the case of France, based on the telephone interviews of 8 French SME’s, we conclude that there is a big variance inside the sample. On the one hand, we found companies with very little IT knowledge that
are not at all Internet savvy and therefore cannot evaluate the Internet as either a threat or an opportunity. On the other hand, we found companies that are skilled IT users who already use the Internet in their business and see the Internet as a great opportunity as well as a threat, in a certain sense.

Most French SME’s have an exclusive partnership with one bank for all their financing needs. They have used the online services provided by their bank since the mid-eighties through Minitel. Now they are migrating slowly to using the online services through the Internet. Banks provide most of the financial services used by SME’s and French SME’s are highly loyal to their bank.

In the case of Germany, based on the telephone interviews of 11 German SME’s, we conclude that the Internet is already used in most of the companies as a communication platform (e-mail and news gathering), but only marginally as a platform on which business is conducted online. German SME’s expect to use the Internet in the near future primarily to sell online (leveraging the increased customer reach) and to facilitate the supplier-customer communication, but only marginally for purchasing.

In terms of B2B financial services, most German SME’s already use the online services provided by their bank. In Germany, banks provide most of the financial services used by corporations. SME’s seem very loyal to their local bank (“Hausbank”), and would only switch financial service providers if their bank was not offering services online. SME’s consider trust and relationship with a local player as the most important criteria in the selection of a financial services provider.

Even if the Internet will grow very significantly in Germany in the near future and have a lasting impact on SME’s, development opportunities for online financial services companies other than banks seem limited, primarily because SME’s have a very tight relationship with their local bank.

In the case of Sweden, in general, the Internet and online activities are widely available. The majority of the 9 contacted companies not only have used the Internet, but also have their own Internet homepage. The surveyed SME's have no clear Internet strategy and are vague about their future use of the Internet. Nevertheless, almost all of the interviewed persons believe that the Internet will bring major changes to business and private life in the future.

The Internet penetration in our Swedish sample was almost 100%. This is much higher than the European population average of 36%. The respondents were virtually all very interested in technology. Also unanimous was the opinion that technology and the Internet were significantly boosting their productivity. Somewhat inconsistent was the finding that most people viewed the Internet not as a threat but rather as an opportunity.

Most companies were keen on doing more of their business online. However, there was also a feeling that by so doing they would be losing some of the personal aspects of their business interactions. However, the companies were willing to take the risk in order to increase productivity and thereby increase profitability. In the short term, companies seem much more optimistic about offering their own services online as opposed to purchasing online. The SME’s expressed some frustration regarding the difficulty of finding the products online that they themselves need to buy.

The majority of these Swedish companies have a strong relationship with only one financial services provider. At the same time, they expressed a strong interest in getting all their financial services from the Internet, provided the Interest rates etc. were more competitive than their traditional Brick and Mortar banks. However, some of the respondents believed that by transacting over the Internet a considerable amount of potential for negotiation is lost. Surprisingly few people raised strong objections to Internet transactions on the basis of security.
The UK is relatively advanced in terms of its Internet penetration and acceptance with 15% (see figure 3) of the population having access to the Internet. The competition for providing financial services to SME’s is intense and dominated by the major clearing banks (they currently provide 84% of the market for financial services\(^1\)). However, these banks are increasingly losing market share to smaller banks, building societies and other providers of financial services.

Companies interviewed believed that the Internet would change their industries and companies significantly and they tended to see the Internet as more of an opportunity than a threat. Currently only 20% of the sample used the Internet to conduct any transactional aspect of business, and within this 20%, the proportion of business conducted was small. Internet access was available to top management within the companies. There was a belief that companies would use the Internet more in the future and that more business would be conducted online.

Most major financing decisions for companies in the sample related to the financing of equipment. The typical supplier selection process was to deal with 3-4 regular suppliers and negotiate to get the cheapest deal available. Responses to the suggestion of online financial services provision were on the whole very positive. Potential customers were interested in the following characteristics from a financial services provider: reputation, security and reliability. Interviewees believed that both, new pure Internet providers and clicks and bricks operations that offer services as well through the traditional channels as through the Internet, would be successful. In an effort to persuade companies to use the Internet for their financing needs, companies would typically look for providers offering 0.25-0.5% off the financing rate, or the equivalent of a 5-10% reduction in overall cost.

\(^1\) Fifth Report, Bank of England, 2000
The Importance of Small and Medium-sized Enterprises in Europe

Small and medium-sized enterprises (SME’s), defined as enterprises with less than 500 employees and turnover up to 100 million US$, make important contributions to economic growth, employment and the quality and diversity of products and services. SME’s are necessary for the smooth functioning of a modern economy, are present in every sector of industry and services, and adapt more easily to changing economic and social conditions. They operate mainly at national level, but are affected by Community legislation on taxation, competition, company law, regional and social policy, and customs formalities.

Small and medium-sized enterprises (SME’s) play a dominant role in the European Union. There are 18 million small and medium-sized enterprises in the European Union. An analysis of their structure by employment class shows that almost all the units (more than 99%) are SME’s enterprises with fewer than 500 employees. These firms employ 66% percent of the workforce and are responsible for 55% of turnover. In comparison, SME’s in the USA account for just over half the total employment.

<table>
<thead>
<tr>
<th>Country</th>
<th>% Share of SME’s of total employment</th>
</tr>
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<tbody>
<tr>
<td>Italy</td>
<td>79.9</td>
</tr>
<tr>
<td>Spain</td>
<td>79.4</td>
</tr>
<tr>
<td>Luxemburg</td>
<td>71.6</td>
</tr>
<tr>
<td>France</td>
<td>65.9</td>
</tr>
<tr>
<td>Belgium</td>
<td>65.7</td>
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<tr>
<td>Sweden</td>
<td>61.0</td>
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<tr>
<td>Netherlands</td>
<td>60.6</td>
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<tr>
<td>Germany</td>
<td>57.7</td>
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<tr>
<td>UK</td>
<td>56.9</td>
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From this table, it is easy to see why SME’s should be so highly regarded by Member States and European authorities as being of prime importance to the well being of their respective economies.

Characteristics of European Small and Medium-Sized Enterprises

SME’s are dominant in sectors where economies of scale and capital intensiveness are not of crucial importance. The first typical area of activity is the construction industry, which employs more than 10 million people and represents more than 9% of total employment in the EU. Another strong sector is the wholesale and retail trade and the Hotel/Restaurant/Catering sector with almost 7 million enterprises and just under 30 million jobs. On a more detailed level, SME’s have a very strong presence in the sale and repair of motor vehicles sector, where they account for 90% of total employment. Finally, there is a strong SME presence in business and other services, mostly for personal services (laundry, beauty, personal hygiene).

Figure 2 shows in which sectors SME’s employ most of the workforce. In total SME’s employ 66% of the workforce (see last column ‘all sectors’. In the other sectors mentioned in the figure, SME’s employ up to

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2 European Parliament fact sheets, 05/1999
4 Eurostat. Enterprises in Europe, 1994-95
92% of the workforce. Recycling, personal activities and sale and repair of motor vehicles are the sectors with the highest score.

Figure 2


There are national differences

Within European SME’s we find differences in terms of the average size of enterprises and average turnover compared to the Community average. We can define three different groups:

The first group is Southern Europe. It shows a smaller average size of enterprises. Similarly, turnover per unit is below the European average. In these countries, a multiplicity of small enterprises, many of them family-run, provide many jobs, especially in the trade and Hotel/Restaurant/Catering sectors and the construction industry.

The second group comprises Belgium, Denmark, France, Finland and the UK. They have a higher average turnover, which can be explained by industry being a major employer in these countries.

The third group includes countries where the average size and turnover of enterprises is higher than the Community average, i.e. Germany, Ireland and Sweden. However, the situation can vary enormously from one country to another. The industrial and energy sectors are often the heavyweights of these economies.

The Importance of Information Technology to SME’s

The PC revolution has reached SME’s with almost all using personal computers. Of the European SME’s in the G4\(^5\), 95% own at least one PC. There is a trend towards increasing the equipment. The average

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\(^5\) G4: the four biggest industrialized European countries, which include Germany, France, UK and Italy.
number of PCs per enterprise was 5 in 1998 and rose to 9 in 1999. Germany has 11 PCs per enterprise, which represents the highest number in the European average.

Of the enterprises equipped with a PC, 72% are connected to the Internet. This number has increased by 53% from 1998 to 1999.

Of the company managers, 76% have direct Internet access from their PC and 55% connect every day. Their mentality has evolved at the same time. In 1998, 30% of the company managers believed that the Internet was not useful for their business compared to 15% in 1999.

The top activities of SME’s on the Internet are: e-mail (83%), information research (61%), and relations with customers and suppliers (56%).

Of the SME’s, 32% have their own website. Most of the websites are passive advertising sites. Their objective is mainly to develop awareness but also to offer better service to customers and suppliers. Only 22% think about e-commerce.6

**National Differences**

SME’s across Europe approach the Internet very differently due to different levels of Internet penetration and information technology use. Nevertheless, companies in all countries expressed a great level of excitement about the possibilities that the Internet offers.

**Figure 3**

**Internet Penetration and Broadband Infrastructure**

Note: SME - Small/Medium Enterprise is defined as having 0-249 employees
Source: European Telework Online, NUA

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6 Study by UFB Locabail, 1999.
France

The overall Internet penetration in France is still relatively low. France has a history of online business with its Minitel. France Telecom introduced Minitel in 1984. It is essentially a small computer that allows customers to do online reservations, search for telephone numbers, etc. Minitel, on one hand, has slowed down Internet penetration but, on the other hand, has accustomed French people to online services. If Minitel and the Internet were combined, France would be the most advanced European country in terms of online use. Among SME’s, Internet penetration is quite high. PC penetration in French SME’s is estimated at 94% and Internet penetration is estimated at 61%. There was an exponential growth over the last two years. Nevertheless, France is below the European average of 72%. Of French SME managers 68% have Internet access from their PC and 45% connect every day.7

Germany

Germany had 19.5m Internet users at the end of 1999. By the end of 2003, the figure is set to reach 47.8m, leaving the UK well behind in second place. More than a quarter of Germany’s 80m-strong population own personal computers and one in ten have access to the Internet. With 1.7m additional users in Switzerland and Austria, the region is the largest single-language market in Europe. Whereas Germany’s tight legal framework has been a mixed blessing for e-commerce, the rulebook has been kinder to B2B operations that match buyers and sellers in virtual marketplaces. While 80% of online transactions originate from companies, however, the B2B online market remains in its infancy, with few big players using the handful of virtual exchanges now in place.8

Of German SME’s, 74% are connected to the Internet. Of German SME managers, 77% have Internet access from their PC and 55% connect every day.9

Sweden

Of the population between the ages of 16-65, 49% use the Internet several times a week – a figure that rises to 71% if less regular users are included.10 Several factors lie behind the region’s rapid embrace of the Internet. In Sweden, there was government investment in computing facilities at schools and universities at an early stage while widespread fluency in English meant users were quickly able to navigate the web. The penetration of home computers has also been an important factor.

High Internet use has placed the region at the top of the European league table of Internet retailing. In some areas, the region is even in advance of the US, especially in financial services. With its 1.1m Internet accounts, Finish-Swedish MeritaNordbanken claims to be Europe’s biggest Internet bank and third largest in the world.

With Nordic mobile phone penetration still the highest in the world, and the already extensive use of mobile text messaging services, customers appear primed to migrate to the new Internet services via mobile phone.

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7 Study by UFB Locabail, 1999
8 Ft.com Financial Times, March 2000
9 Study by UFB Locabail, 1999
10 Ft.com Financial Times, March 2000
UK

75% of UK-based SME’s now have an online presence, showing a dramatic shift towards the Net economy in just six months. Over half of these websites are already selling online. Less than one year ago, a Department of Trade and Industry report showed SME’s lagging behind in the uptake of the electronic economy, with only 15% of businesses employing under 10 employees using the Net.

Apparently, there has been a tremendous leap in the number of businesses not just accessing the Internet, but also using the Internet and trading online. This indicates an increasing confidence in conducting business online. But the major barriers to IT adoption are security worries and a lack of employee skills.11

Comparison with the US

Research indicates that Internet penetration in the US is steadily increasing among small businesses and will reach 70% by 2002. Home pages are expected to double to 1.5m by that time. Consequently, small businesses should become an important driver of B2B economics. Small businesses accounted for more than half of the US economy in 1996 (the latest available data), or 51% of the country’s GDP. The Internet is transforming the way in which small businesses conduct their operations. It enables them to communicate with their suppliers and customers as well as to purchase and sell products/services. The growth of the use of the Internet for small businesses will likely fuel B2B Internet commerce. A survey conducted by IDC reveals that more than 31% of small businesses in the US use the Internet to buy products while 11% use it to sell their company’s products. Estimations are that small businesses will generate 30% of worldwide Internet commerce revenue by 2003. Estimations for B2B financial services are that 10.9% of the industry’s sales will be conducted online by the year 2004.12

According to Goldman Sachs Investment Research, B2B e-commerce in Europe currently lags the US by two years. However, European e-commerce will catch up due to high Internet penetration in businesses and a growing recognition among companies that e-markets have a lot to offer to the highly fragmented European marketplace. Forrester Research expects that there will be wide-scale usage of e-markets by 2002.

Apart from general lower penetration of the Internet among small businesses in Europe relative to the US, the main point of differentiation between the two markets is the much higher penetration of mobile phones in Europe. While this will certainly impact the way B2C develops in Europe, its impact on B2B is less clear. Certainly, mobile networks will become an important element in the growth of B2B and e-markets throughout Europe. Regulatory and taxation issues slow down the growth of e-markets and B2B e-commerce overall while Europe is working towards a simpler, more unified regulatory and taxation structure.

In terms of e-commerce infrastructure, the typical European mid-sized company is almost wholly unprepared for e-commerce. Companies need to invest in up-to-date infrastructure systems in order to cut costs and prepare for electronic contact with clients and suppliers. The next step is to establish enterprise-wide applications, extending the model of the ERP (enterprise resource planning), which is so far mainly sold to large-scale enterprises.

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11 Bladerunner, April 2000
The European Small and Medium-sized Enterprise Internet and B-to-B Financial Services Study

A questionnaire was designed to investigate different dimensions of SME’s. Appendix A outlines the precise contents of the questionnaire.

Four countries were included in the study: France, Germany, Sweden and the UK. Companies were selected from the GE-Capital database and the INSEAD database.

A telephone survey was adopted, with a sample, from each of the countries in the study, being taken across a range of sectors. A total of 37 firms from the four chosen countries were surveyed during the period, February – April 2000. The distribution of the breakdown of responses from the various countries is shown below.

![Pie chart showing distribution by country: France 9, Germany 8, Sweden 11, UK 9.]

A distribution of the respondents, by sector, is indicated in the graph below. Manufacturing was dominant due to the chosen sample since financing is key for this sector. In the “other” category, there were a diverse number of activities, which could not be divided into further subgroups due to the small sample size.

![Bar chart showing distribution by sector: Manufacturing, Distribution, Transport, Services, Other.]

Number of companies

0 2 4 6 8 10 12 14 16 18
The number of persons employed was defined as the total number of persons who work in the firm including part time workers who are regarded as such under the laws of the country concerned and who are on the payroll. The distribution of the size of the responding organizations is indicated in the following figure.

The survey was directed solely at those in positions of management/company control as they were deemed to have the most knowledgeable strategic view of the firm. The distribution of the position of the respondents within their firms is depicted below.

Turnover data was collected in the respective national currencies and converted into Euro. The distribution of respondents by turnover (in Euro) is as follows.
External Challenges and Opportunities

The study surveyed a number of challenges faced by European SME’s as they strive to succeed in the digital age. Questions included within this section aimed to:

- Determine the importance of different business challenges today as perceived by the surveyed respondents; and
- Sought to determine the nature of changes in the business fundamentals of SME’s caused by the Internet.

The following graph summarises the business challenges faced by SME’s today.

Legend: 1 – low importance, 7 – high importance

When asked about external challenges facing the companies interviewed, the interviewees regarded as most important “finding new opportunities for growth and expansion”, followed by “improving operational efficiency”. These challenges received average scores of 6.5 and 6.2 respectively, on a scale of 1 to 7, with 7 indicating an extremely important challenge. “Responding to increased competition” was also highly important to the respondents with an average score of 6.0.

The authors believe that the Internet will have a substantial impact on all three factors. It will increase competition by increasing the transparency over the supplier base and also by allowing price comparison. The Internet will help companies grow by extending the potential customer base and increasing operational efficiency through investments in information technology and software that can facilitate internal efficiency and communication with customers and suppliers.

Conversely, SME’s also exist that have no interest in growing\(^1\). These companies are quite happy merely to maintain a stable level of income for their proprietors, and many enjoy the advantages and freedom of being small. Some companies mentioned that e-mail increases productivity versus telephone and fax although some respondents saw abuse for personal purposes as a problem i.e. widespread personal Internet surfing. Some other companies were concerned that the Internet in itself does not improve productivity.

\(^{13}\) Journal of the Market Research Society, vol. 41, April 1999
The Internet is a global medium – whether or not the SME defines its trading area as national or international in scope. Because of the global village phenomenon, no business is immune from international competition. SME’s can and should take advantage of the wealth of accessible information to benchmark their operations against the competition\(^\text{14}\).

Improving operational efficiency is high on the strategic agenda for SME’s. Productivity gains are generally associated with reduced production costs and increased price competitiveness. The traditional SME competitiveness, based upon competitive cost, can be obtained by using high-tech equipment, and differentiation through quality or through specific products and niches.

Several dimensions of the possible impact of the Internet were investigated in the questionnaire. The results are summarised in the following figure.

Legend: 1 – disagree, 7 – strongly agree

Most companies see the Internet rather as an opportunity than a threat. They believe that the Internet will change their industry in terms of increased transparency on prices, increased interactivity, increased competition, and new business models (marketplaces). The interviewed SME’s believe that they could more easily compare supplier prices but would also feel an increased pressure on their own prices from their customers. Therefore, it is important for SME’s to exploit the more competitive prices for their supplies to improve their margin and to be prepared for price pressure from their customers.

Most respondents believe that the Internet will have a strong impact on their company and that it will lead to conducting more business online, to streamline supply chain activities and to manage remote parts of the organization. Companies operating in industries with heavy paper work involved mentioned that the Internet could streamline the process because a lot of tasks could be moved to the Internet and be managed more efficiently.

Companies were more varied in their response to the suggestion that a significant part of their business would be conducted online in the next two years. Depending on the industries they operate in, the companies judged that conducting business online was more or less adapted for them. For example, the construction industry saw a huge potential to streamline the paperwork involved in contract management,

\(^{14}\) Long Range Planning Vol. 31, 1998
whereas some service companies such as hiring services thought it could only be useful for advertising but not for their actual business where they still needed personal contact.

The Internet will empower SME’s because it is a natural partner to help them solve their most critical problems, such as time management. The Internet is able to expand the SME managers’ productive hours by assisting in lining up suppliers, emailing customers, or checking the status of their bank account after the offline world has closed. E-marketplaces simplify the process of locating alternative supplier sources. The Internet is also able to help with administrative issues for which SME’s lack the in-house specialists, such as attorney services for which they could download forms etc. from the Internet. Another domain where they could benefit from the Internet is increasing the marketing impact of SME’s. Since they have limited marketing dollars to build awareness and to reach prospects beyond their local community, their website can be registered with popular search engines to attract customers from across the country or internationally.15

Organizational Innovation

The questionnaire aimed to determine the importance of a number of organizational factors, which are relevant for the success of European SME’s in the digital age. The responses of the surveyed firms are shown below.

The authors believe that the Internet will not have any dramatic impact on the organizational structure of SME’s as people are typically multifunctional. The study respondents assigned the highest importance to “outsourcing the new competencies,” related to the Internet if they reach an extent that could not be managed internally, followed by “acquiring new competencies through training”. These challenges received average scores of 6.0 and 5.8 respectively. In the short term, the Internet will be integrated in the classical functioning of SME’s where the e-sourcing is or will be handled by the purchasing manager and the e-commerce side by the sales manager as an additional sales channel. The concerned employees would need to acquire the new internet-related competencies through training. In reality, SME’s require that employees learn by doing. Due to their small sizes, entrepreneurial cultures and lack of formally defined functional boundaries, SME’s tend to put enormous pressures on their employees to keep up a frenetic pace of activity, often in multiple functional areas.

Training and skills development are vital for maintaining the competitiveness of SME’s. They cannot rely so much on internal sources because of their limited size and hence depend much more on external expertise. The lack of time and specialist staff means that the younger and smaller SME’s are vulnerable, since they are not able to control information and are not yet familiar with the best approaches of effective networks. The interviewed SME sample typically outsources a number of non-core activities, such as health and safety provision and information technology delivery, simply because they do not have the know-how in-house.

**Technological Innovation**

The study investigated a number of technology issues to evaluate the general attitude towards information technology and the current infrastructure and capability of SME’s. The findings are summarized as follows:

Some SME’s undoubtedly struggle with new technology. But others embrace change and will be the true early adopters of new methods, while even the most aggressive larger organizations may struggle to change quickly with the baggage that comes with huge cumbersome systems. SME’s adapt fast.

Most of the interviewed companies agreed that information technology (“IT”) improved their companies’ productivity and they were reasonably happy with their use of IT. However, the average entrepreneur has insufficient strategic insight into the possibilities of information technology in product and process innovation and the way in which certain aspects need to be implemented.

Spending on IT is increasing, spurred on by the Internet. IT is becoming a major strategic element of business practice and the Internet is driving companies to invest more in IT, to enable them to take advantage of the business benefits available through this new medium. There is a huge amount of interest but also a huge amount of confusion.

**Infrastructure and Capability**

Of European SME’s, 95% are equipped with a PC and 72% have Internet access. Within these companies, Internet access was not widespread among all employees. Internet access often was reserved for management or supervisor roles. Many companies already had their own web pages, but mostly as passive advertising sites.

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16 Technological Forecasting and Social Change 60, 1999
Current Internet Usage

The top activities conducted on the Internet are: e-mail, information searches, and business transactions, to a much lesser degree. When business transactions were mentioned, respondents cited on-line banking as the most frequent use. The more technology-oriented companies also used the Internet for communicating with their suppliers and customers. The main barrier to the use of the Internet for business transactions was security concerns. In their search for information, companies mentioned that the Internet was a useful source of competitor information. Checking competitor websites was a good means to monitor their actions.

The respondents spent approximately 4 hours on the Internet at work. There is a trend towards an increasing use as well at work as at home. Most companies believed the Internet to be a useful source of business information, even if this was not a current use. SME managers keep up to date with the developments in e-business through trade journals, advertisements, the Internet itself or outside consultants.

E-commerce in SME’s has been steadily rising. However, there are still some significant barriers that have hindered explosive growth in the SME market. Such barriers include budget constraints for information technology investments, the capability to attract people to their websites and limited technical expertise in information technology. SME’s have limited financial resources to invest into hosting and maintaining a website. To overcome this, they could acquire Web applications either as an ASP service or as a low-cost packaged software solution. SME’s usually do not have a recognizable brand name and therefore it is difficult to attract users to their site. Brand awareness is local in most cases, but minimal at a national and regional level. SME’s also lack comprehensive internal technical resources. They typically do not have an information technology expert or department and therefore depend on outside resources. One possible avenue for them is to acquire Web hosting services through a low-cost outsourcing arrangement.\(^\text{18}\)

**Future Internet Usage**

Most companies believe that they would use the Internet more in the future. They mentioned the following activities:

- Searching for new products and suppliers;
- Purchasing for core and non-core goods;
- Sales;
- Enhanced customer relationships;
- Collaborative working;
- Credit control;
- Electronic banking; and
- Tendering on contracts, etc.

The major concern the respondents expressed remains the lack of face-to-face contact. From this we can assume that bricks & clicks organizations, which can serve the customers through the existent channels such as salesperson or call centers and the new online channel will be the most successful in establishing customer relationships with SME’s. They can serve the customer through the channel that is the most convenient for the customer and the most cost efficient for the SME. SME’s will be able to best manage customer relationships by using all the different channels (Internet, call center and sales force), selecting the channel most suited to a specific customer or problem.

**Strategic Alliances with Financial Service Providers**

The study contained a number of questions on what kind of financial services partner SME’s use for which financing needs. The responses of the surveyed firms are summarized below.

Banks are clearly the privileged partners for SME’s. Most of them use banks for all their financing needs. When asked about how they chose their financial services partner most respondents said that the most important criterion was a long-term relationship. So far, nobody used the Internet to look for a financial services partner (see figure below).
From the discussions with SME’s the authors conclude that effectively managing financial information and resources is one of the most important aspects of ensuring the success of a small business. Small businesses demand easy to use services that help them manage their business better. Specifically, they need to quickly and efficiently manage activities, such as cash management, payroll, credit, and applications for working capital or lease loans. This would help them to increase productivity and to focus on their core business. Complementary services could consist of weekly or monthly-consolidated activity reports and real-time account alerts to increase control and convenience. These services can be simplified and facilitated by the Internet.

The impact of the Internet on the way SME’s satisfy their financing needs has been minimal to date. The bank remains the dominant supplier of financial services. So far, banks seem to successfully move their customers online without reducing customer loyalty. Physical presence and a long-standing relationship with the financial service provider are still important criteria for SME’s.

Currently no interviewees used the Internet to look for quotes from financial service providers. However, responses to the suggestion of an online financial services provider were on the whole positive, especially for the e-commerce savvy interviewees. They believe it could simplify the process and be cheaper. The less Internet savvy interviewees responded negatively to the idea. They do not believe that a tailored financing solution could be offered through the Internet and were concerned whether it was possible to provide the product online.

Very few companies lately switched their financial service provider. Most of the interviewed SME’s had a strong relationship with only one financial services provider, which usually was a bank. German SME’s have the tightest relationship with their bank. The bank is much more than a supplier but a strategic partner. French SME’s are also highly loyal towards their bank whereas this is less true for Sweden and the UK. Some companies in the sample do not compare quotes at all but use their long-term financial services provider. Others, especially in the UK, compare 3-4 quotes and choose the cheapest provider. In the UK market exists an intense competition for providing financial services to SME’s, dominated by the major clearing banks. SME’s in the UK seem to be less loyal and are quite open to switch banks and to use other financial service providers. Most companies deal with three to four regular providers and negotiate to get the cheapest offer. They would be motivated to move to the Internet for choosing and providing their financial services if they were assured a better rate.
SME’s in all surveyed countries clearly showed an interest in getting financial services from the Internet if the rates were more competitive. One concern they expressed was regarding the loss of negotiation potential by transacting over the Internet.

Few companies from our sample have an advisor regarding financial issues. Companies actually consider their banker a trusted adviser. This stems from the fact that SME’s with a limited number of employees tend to operate within a sort of extended family of help and advice. This network of influence mainly includes other small firms in their local community. Many SME managers use the same bank for their business and personal accounts19. Banks have been investing in building personal relationships with small-business owners. Their approach to the SME segment is a strategy that is driven by relationships – not transactions. These banks want to offer overall financial solutions and play an advising role to the owners. This represents a challenge for other financial service providers. But once SME’s have realized the potential of an electronic advisor, which could help them to increase control and convenience, they will choose the partner that offers the best service through the Internet.20

It seems that the European financial services sector is entering a period of increasing competition and substantial change due to the advent of Euro. Other factors include:

- Rapid development in technology;
- Competition from alternative providers of financial services;
- The changing role of the state, both in bank ownership and regulations; and
- Increasing globalization of banking.

The financial services sector in Europe has been heavily regulated in the past, leading to high prices for financial services in some countries and limited competition due to entry restrictions. Attempts to relax regulations to provide adequate supervision without excessive restrictions have accelerated and should favour the consumer through yet further competition. Unlike the UK, state owned banks have been common throughout most of Europe, especially in Italy, Germany and France. There has also been considerable state support for other banks and national banking systems.

A combination of the euro impact which provided a single European currency and improved delivery of banking products through technology will lead to increased competition as customers have the ability to compare the pricing of banks. Certain banking products could be treated as commodity with likely reductions in cost21.

Conclusions

European SME’s seem to be ready to embrace financial services through the Internet. Therefore, financial service providers need to act rapidly. The majority of companies interviewed showed an interest in using the Internet for basic services today or were currently using the Internet for these basic services. Companies also believe that the Internet is going to become an increasingly important part of their business during the next 2-5 years. Building a recognized brand early will be key to becoming the online financial services partner of choice.

19 Journal of the Market Research Society, vol. 41, April 1999
21 European Business Handbook; Trends in European Banking by Martin Morgan, 1999
The population of SME’s appears to be developing its use of the Internet at different rates. Some of the companies interviewed were more proactive in searching out sources for financing solutions for themselves via use of the Internet. Other companies are currently using the Internet for basic online financial services and would be unlikely to migrate to using the Internet to purchase more complex financial services. The majority of customers expressed a preference for operating with online providers that have a real customer service and relationship management infrastructure behind it. There is a need for educating customers and the companies that best provide a combination of efficient e-commerce and human interaction will be the winners.

Furthermore, we believe that the Internet should be used as a platform to facilitate customer interaction as opposed to a raw selling channel, since SME’s fairly seldom buy online and need to build trust/relationships with financial suppliers before actually buying online. A critical success factor in establishing a relationship with a European SME will be brand name recognition as these companies seem at the moment not willing to switch to a financial services provider that has no strong brand name in their country.

What model in selling financial services online is the most adapted for SME’s?

The authors conclude that the one-stop financial services supermarket (destination site), where a single entity provides a full range of financial products from its own subsidiaries or a few selected partners seems the best adapted model for SME’s. The advantage for the customer is to have a consistent look and feel. There is a single entity accountability for quality and service: the convenience of one place to go to for everything, and one statement (whether electronic or paper or both) for all financial products and services for a customer. The drawback is that no one company will have “best-of-breed” products and services in all cases. This model will appeal to SME’s since they are less Internet savvy. They like the comfort of dealing with known brands with strong real world presences but do not have enough assets to get too sophisticated in their financial decisions. 

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Appendix

Questionnaire

Company profile

Company Name:
Country:
Interviewee's name and position:
Date Evaluated:

1. How many employees does your organisation have?
   - < 10
   - 10 - 49
   - 50 – 250
   - > 250
   - How many IT specialists?

2. What is your company’s approximate sales volume per year?
   - Less than 0.8 million €
   - 0.8 – 1.5 million €
   - 1.5 – 7.6 million €
   - 7.6 – 15 million €
   - > 10 million €

3. What is the business sector in which your company operates?
   - Manufacturing
   - Transportation
   - Wholesale/Distribution
   - Services
   - Other

External Challenges

Below are a number of statements about the external challenges that may be critical for your company to succeed in business. Please rate the importance of these challenges for your business (1 not important – 7 very important).

Current issues for your company?

1. Responding to increased competition
   1 2 3 4 5 6 7

2. Finding new opportunities for growth and expansion
   1 2 3 4 5 6 7

3. Finding and retaining employees
   1 2 3 4 5 6 7

4. Changing the organisation/ structure of your company
   1 2 3 4 5 6 7
5. Improving operational efficiency in your company

1 2 3 4 5 6 7

Following are a number of statements about the consequences that the Internet may have on your business. Please rate the likelihood of these statements being true (1 not at all – 7 fully agree).

1. The Internet will change your industry

   Why, why not, how?

2. The Internet will change your company

   Why, why not, how?

4. The Internet is an opportunity for your company

1 2 3 4 5 6 7

5. The Internet is a threat for your company

1 2 3 4 5 6 7

5. A significant part of your business will (in the next two years) be conducted online?

1 2 3 4 5 6 7

6. How does your company currently compare to its competitors in terms of its use of the Internet?

Organizational Innovation

1. Approximate forecasted growth rate in number of employees (p.a., in percent)

Please rate the importance of the following statements for your company for the 2000-2003 period:
Scale 1 (completely disagree) to 7 (fully agree) or quantitative question:

2. If new competences are required, you will acquire them by outsourcing/ sourcing outside of the company? Give examples.

   1 2 3 4 5 6 7

3. If new competences are required, you will obtain them internally (through training, hiring …)

   1 2 3 4 5 6 7

4. Do you believe that the Internet will increase the degree to which you search for, and compare your suppliers?

   o yes
   o no
Technology

1. Current Use
   a) For how many hours per week do typical employees in your company use the Internet during
      o business hours?
      o their leisure time?

   b) What is the internet mainly used for?
      o e-mail
      o search for news & infos
      o business transactions with customers/suppliers
      o other

   c) What are the major activities that you expect your company to use the internet/e-commerce for in the future and why? Why Not?

2. General Attitude
   a) How happy are you with your use of information technology to help your business?
      1 2 3 4 5 6 7
      Very unhappy Very happy

   b) Does IT improve your company’s productivity?  o yes o no

   c) Who has access to the Internet?

3. Current Internet Capability
   a).Does your company have an Internet WebPage?  o yes o no

   b)How does your company keep up with developments in electronic commerce?

4. Trust & Relevance
   a)Do you think the Internet is a useful source of Business Information?
      o yes
      o no
      Give examples.
b) Would you buy or sell online? Why? What?
   - yes
   - no

5. Infrastructure

   a) How many PCs do you have?
   b) What is the approximate proportion of your procurement that is electronic?
   c) What is the approximate proportion of your sales that are made using electronic commerce channels?
   d) What other major technologies/legacy systems do you use?

Strategic Partnerships/Services

1. Services

   a) What kind of financial services partners do you use? And for what?
      E.g. Financing, Fleet services, Billing, Business lending, Insurance etc.

2. Current Relationships

   a) What was your last major financing decision?

   b) How did you choose your financial service providers?

   c) Have you recently switched financial service providers, or do you plan to do so?

   d) How many sources did you contact before your last financing decision?

   e) Were these completed online?
      - yes
      - no

   f) Do you have an adviser regarding financial issues?
      - yes
      - no
g) Do other comparable companies in your industry have a similar approach to financing?
   - yes
   - no

3. Partner/Services/Relationship Attributes

a) Would you look for a business partner to simplify your financial supplier relationships?
   - yes
   - no

b) What are the key priorities you would require from an online trading partner before doing business?
   (e.g. payment terms, name recognition, reputation in the trade, geographical location, support in your own language)

   

c) Given the case of a new online only financial service provider, how much cheaper would they have to be to encourage you to use their services (in %)?

Conclusion

1. Is there anything else you would like to mention?

   

2. Would like a copy of our report once it is complete?
   - Yes
   - No