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**The Internet in  
Middle Market  
Companies:  
Present & Future**

*Lynn Daniel*

with assistance from Mike Duncan  
The Daniel Group, Ltd

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## ***Executive Summary***

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Ninety-nine companies responded to The Daniel Group's online survey. Key findings from the research are:

- Nearly all of the companies in the survey have a web site or have plans for one in the near future. Managers reported relatively high satisfaction with their use of the Internet, with 68% indicating they satisfied or very satisfied with their company's use of the Internet.
- The primary motivations for using the Internet are marketing related (strengthen customer relationships and find new customers).
- There is limited interest in using the Internet to support buy-side applications (those that integrate vendors and suppliers). This could change as larger companies, with significant purchasing clout, implement Internet-based vendor management systems.
- Respondents who are very satisfied users of the Internet are aggressively using the tool for customer survey work. These companies appear to be using the Internet as part of a strategy for enhancing and improving customer satisfaction. While this feedback is probably helping to create happy customers, it is also helping to create very satisfied Internet users.
- Companies are using Internet technology to distribute internal information. While the motivations for doing this were not explored in this research, the speed with which information can be distributed and the relatively low cost are probably motivating factors.
- There is limited use of the Internet for conducting transactions with customers. The respondents' future plans show this application is not likely to become the dominant way of placing an order. At least for the near term, the place of many industrial sales representatives appears secure.

## ***How Are Middle-Market Companies Using the Internet?***

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We constantly hear of the impact the Internet is having on the way we do business. Old ways of doing business are being overturned. With the Internet, companies such as Dell, for example, are revolutionizing the way computers are ordered, manufactured, and delivered. The Big Three U.S. automakers are creating a highly integrated system that links them with their parts suppliers, with the promise of reduced costs and increased responsiveness. The Internet is also helping to create entirely new types of business models such as portal companies and infomediaries.

The economic projections about the impact of the digital economy are impressive. A study conducted by the University of Texas in June 1999 found the Internet economy generated \$301 billion in U.S. revenue in 1998 and employed a work force of 1.2 million people.<sup>i</sup> In the business-to-business market alone, Forrester Research indicates that commerce is projected to grow from \$43 billion in 1998 to \$1 trillion by 2003<sup>ii</sup>--truly astounding figures!

Our consulting work is mostly with middle-market companies. Our experience tells us that while many, perhaps most, middle-market companies have a web site, are using e-mail, and are using the Internet in other ways, use of the Internet in these companies garners less attention than in larger companies. Through this research project, we wanted to better understand how middle-market companies are using the Internet now and how they plan to use it in the future.

## ***Research Approach***

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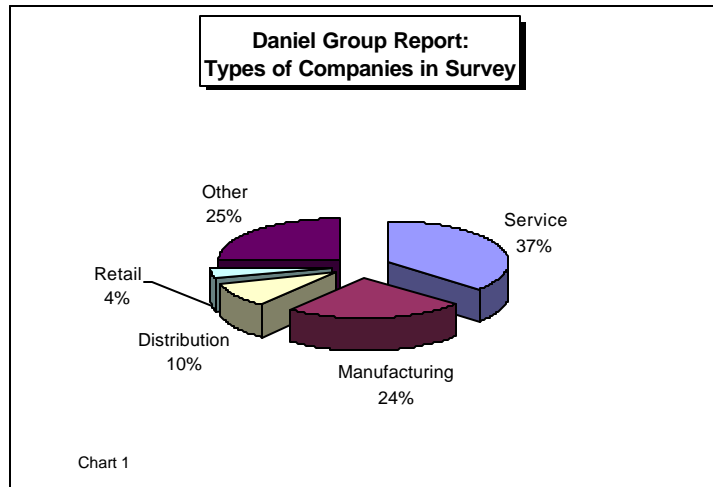
We designed a survey that was placed on The Daniel Group's web site from early April 2000 until May 29, 2000. E-mail promotion and letters were sent to a targeted list of clients and contacts asking for their participation. Additionally, press announcements of the research study were made in *The Business Journal* (Charlotte, NC), *Ventures* (a publication of the Charlotte Chamber of Commerce), and *The Charlotte Observer*.

## ***Types of Companies That Responded***

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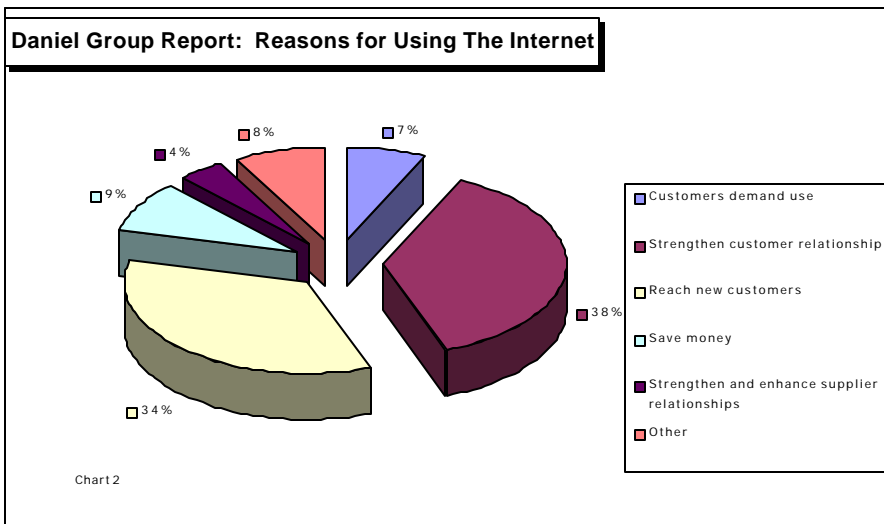
- **Number of Companies:** Ninety-nine companies responded to the online survey.
- **Ownership:** Seventy-nine percent are privately held.
- **Revenue:** Thirty-three percent had sales greater than \$50 million (20% had sales greater than \$200 million). Thirty-one percent of responding companies had less than \$5 million in sales.
- **Sales Method:** Sixty percent are selling to other businesses and an additional 15% sell directly to consumers.

- **Age of Company:** The age of the responding companies suggests these businesses are clearly more the traditional “bricks and mortar” types of companies than “new economy” companies. Seventy-nine percent of the responding companies are older than 11 years. Fifty-three percent are 20 years or older.
- **Sales Coverage:** Sixty-seven percent generate the majority of their sales in national or regional markets. Only six of the 99 responding companies generate the majority of their sales internationally. For approximately 25% of the companies, the majority of sales are generated within the state where the business is located.
- **Types of Companies:** More than 80% of the responding companies are service, manufacturing, or distribution companies.



### ***Current Views and Applications of the Internet***

Eighty-five percent of responding companies have a web site. Of those that do not, two thirds are either working on a site or plan to have one up within the next 12 months. Interestingly, five of the 99 companies have no plans for a web site. Ninety-one percent are using e-mail (internally and externally).



The reasons managers are using the Internet are clear—to find new customers or to enhance existing customer relationships. Strengthening existing customer relationships was selected by 38% of the respondents as the primary reason for using the Internet.

Thirty-four percent indicated that finding new customers was their primary reason for use. Saving

money and strengthening supplier relationships were selected as a motivator for using Internet by a small portion of respondents. The Internet is viewed mostly as a marketing or sell-side tool. Less important are Internet applications that deal with suppliers (buy-side), and with internal uses (in-side).

To gauge their perceived value of the Internet, respondents were asked to rate how satisfied they are with their company's use of this tool. The choices were:

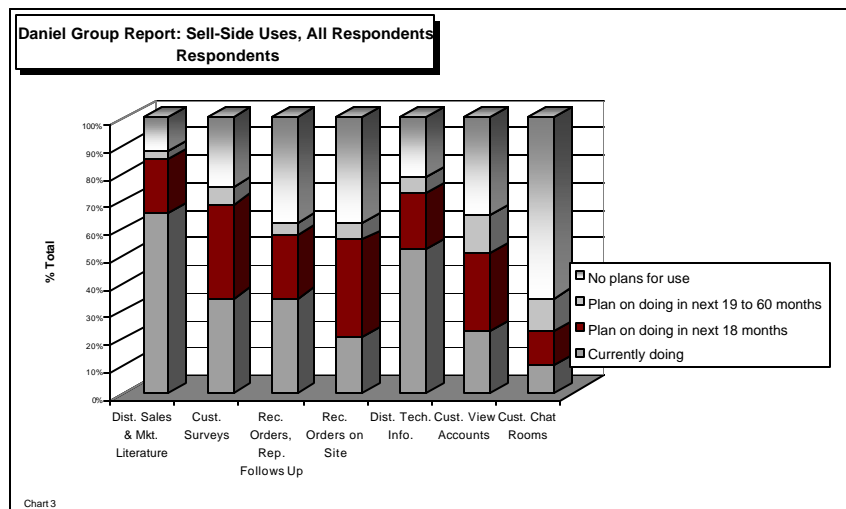
- Very satisfied
- Satisfied
- Somewhat dissatisfied
- Very dissatisfied

Satisfaction with the way the Internet is being used is quite high. Sixty-eight percent of respondents indicate they are satisfied or very satisfied with the way the Internet is used in their companies. Only 32% are dissatisfied or very dissatisfied.

It is instructive to look at those 31 companies whose respondents indicated dissatisfaction with Internet use. These companies are similar in terms of size and type of sales generation to the other 68 companies in the survey with one notable difference--Only 40% rated their relative market position as being in the first or second quartile whereas 58% of the satisfied Internet users rated their market position as either in the first or second quartile. The less satisfied Internet users have a weaker market position than that of more satisfied users. While there are several possible explanations for this finding, one may be that managers in weaker market position companies may have unreasonable expectations about what the Internet can do. They may see the Internet as *the solution* to a weak marketing position as opposed to *a tool* that can be used to strengthen a company's competitive position.

### ***Sell-Side Applications (Customer Related)***

On the sell-side, we wanted to understand which major applications are deployed now, which ones respondents plan to deploy in the future, and which ones they have no plans to deploy.



The three most widely deployed or anticipated applications are: Distributing sales literature; distributing technical information; and conducting customer surveys.

Though few responding companies are currently accepting online orders, with or without a sales representative, a significant percentage of respondents do plan to begin taking orders online over the next 18 months. It is noteworthy that more than one-third of the respondents have no plans to take orders over the Internet, with or without a sales representative. This finding may be a result of the types of products and services marketed by responding companies.

Many industrial companies have complex offerings still requiring a person to effectively educate and sell customers. Another possible explanation is that customers still rely on the salesperson for ideas, recommendations, and suggestions. This finding may also highlight the social aspect to the relationship between the customer and the sales representative. It will take more than just greater bandwidth for the Internet to overcome this factor, especially in those markets where the products are complicated and are not commodities.

*Using the Internet to conduct customer surveys is a growing application. Offering customer chat rooms and allowing customers access to their account information are not.*

Using the Internet to conduct customer surveys is an application that is growing. More than one-third of the respondents indicate they plan to start doing this over the next 18 months. Providing customer chat rooms and allowing customers access to account information are used to only a limited degree now and have limited appeal for the future.

### ***Buy-Side Applications (Vendor or Supplier Applications)***

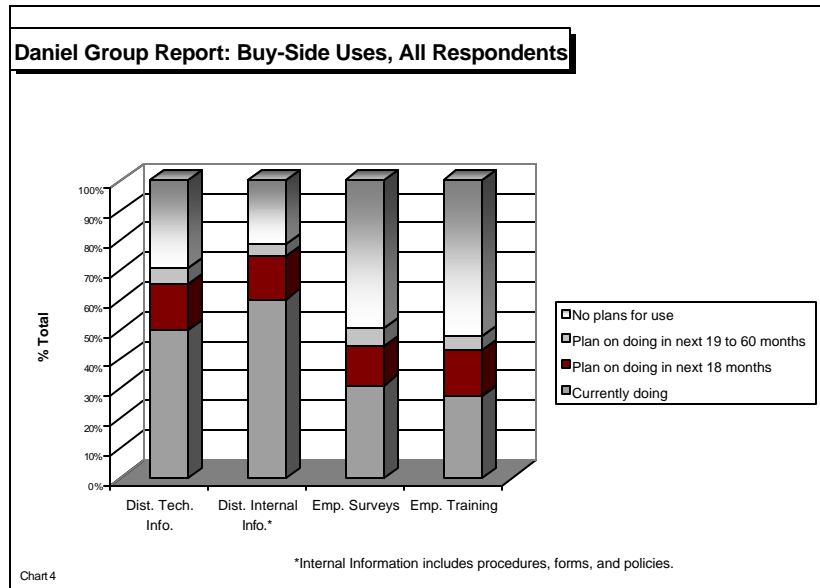
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Respondents were asked about two buy-side applications: Providing technical, project, or order-related information to subcontractors, vendors, or suppliers; and providing orders directly to subcontractors, vendors, or suppliers. Approximately 60% of respondents (for both applications) are either doing this or have plans to start these applications. There are a substantial number of companies with no plans for either use (40% of respondents).

Some of the reasons that prevent the Internet from being more broadly used on the sell-side may also apply to the buy-side. Supplier relationships are often based on more than just price. Suppliers are relied upon to provide services and do things that may extend beyond their stated role. Suppliers may stock inventory. They may provide technical assistance as part of a sale. They may also provide training to a sales force. Through the social interactions, networks are developed over time as a vendor and customer work together. It is our view that the Internet will not supplant these networks in the future.

## ***In-side Applications (Employee Applications)***

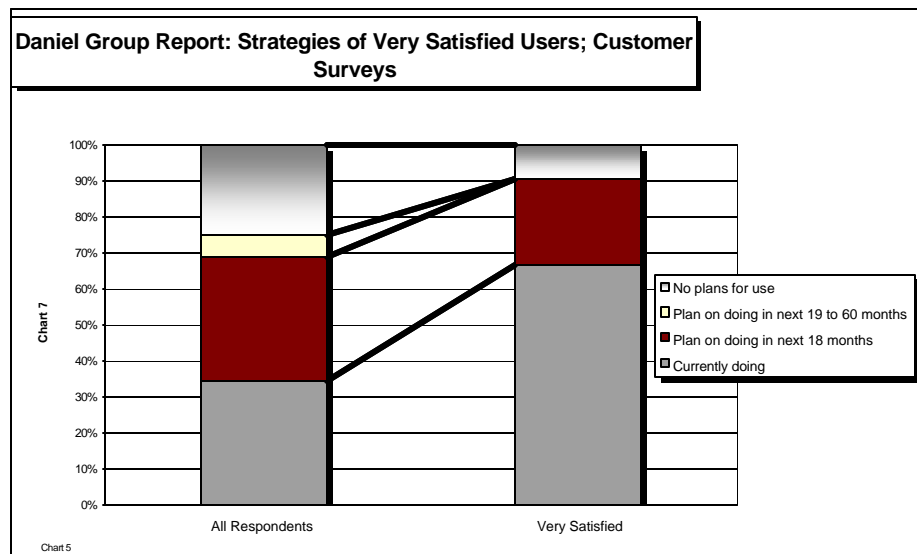
The two in-side applications most widely employed over the Internet now are distributing information (policies, procedures, forms) and distributing technical information. About 50% of the responding companies are conducting employee or other internal surveys and the rest have no plans to do so. The same is true for using the Internet for training applications.



## ***How Very Satisfied Users View the Internet***

As noted earlier, a group of respondents are very satisfied with their company's use of the Internet. These 21 companies are quite similar to the overall respondent base (company size, type of company, and where sales are generated), with one exception.

Respondents from sixty-six percent of these companies rated their company's market position as being in the first or second quartile (56% of all respondents rated their companies



relative market position as first or second). Even more striking is that among those respondents who are very dissatisfied with their company's use of the Internet, only 40% rated their company's relative market position as being in the first or second quartile. Since the Internet is a relatively new tool and leading market positions are established over many years, these very satisfied Internet users apparently begin

their Internet journey with an advantage--a strong relative market position. This finding also suggests that managers in these companies may have established reasonable expectations for how they are using the Internet and these expectations are being exceeded.

How are very satisfied Internet users deploying the Internet? Most notably, they are conducting customer surveys on the Internet at twice the rate of other respondents. Very satisfied users appear to be using the Internet as a tool to create more two-way communication with customers and thus strengthen their customer relationships.

Very satisfied users have limited interest in providing customers with online account information. More than 50% of these users have no plans to let customers view their accounts online. Some of this reluctance may reflect the technical difficulty involved and the financial investment associated with implementing online systems. It may also be a response to customer desires. For example, in a recent customer survey by the industrial distribution company W.W. Grainger, 54% of respondents preferred using the telephone to place orders and get account information.<sup>iii</sup>

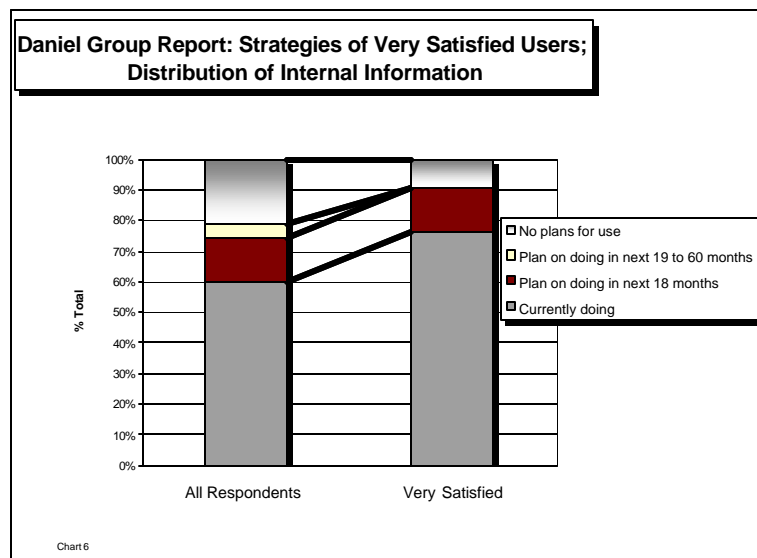
Through the use of surveys and the lower use of online ordering, very satisfied Internet users appear to be using the Internet to create a “higher touch” environment where the customer can be more effectively engaged. If information is provided online and customers interact primarily with a computer, there are few good ways to engage the customer in two-way communication and/or generate additional sales opportunities.

On the in-side Internet applications, very satisfied Internet users are also applying the tool in different ways as well. Ninety percent of these users are already distributing information internally (e.g.,

policies, procedures, forms) or have plans to do so within 18 months versus 76% of all respondents.

There is a similar pattern among very satisfied users when it comes to distributing technical information.

On the buy-side, very satisfied Internet users are providing technical, project and order-related information to suppliers over the Internet at a similar rate to the total group. Respondents who are very



satisfied with their Internet use are not as aggressive in using the Internet to provide orders to subcontractors, vendors, or suppliers. Forty-eight percent of these respondents are already employing this Internet application or have plans to do so within the next 60 months. Interestingly, 53% of respondents have no plans to implement this Internet application.

Very satisfied Internet users are using the tool in very different ways than the overall respondent group. These users are using Internet technology to support and/or increase the “touch” they have with customers, employees, and suppliers or vendors. In the case of customers, surveys are more frequently used to create a two-way communication channel. With employees, the Internet is used to distribute a wide variety of information quickly and economically.

Adopting these strategies seems to be paying off for these companies. Eighty-one percent of these respondents rated their company's financial performance above average versus 51% of all responding companies.

### ***Messages for Managers***

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There are several surprising findings from this research and some messages for leaders of middle-market companies.

- When starting to use the Internet, establish reasonable expectations. If your company's market position is already weak, using the Internet is not the answer to making it stronger. The Internet is just one strategic arrow in the quiver that management possesses to strengthen and improve a company's market position.
- The primary motivations for using the Internet are marketing related (strengthen customer relationships and find new customers). Though there is interest in using the Internet for online ordering, there is less interest in this application than expected. This reluctance may reflect (1) a desire to have a more personal relationship with customers and thus create additional sales opportunities, and (2) the technical difficulty and cost associated with having an online order entry system. If you are considering providing customers with the ability to order online, consider these two factors. Also, ask your customers if it is something they really want!
- There is less interest in using the Internet as a buy-side tool. This may seem a bit contradictory since, by definition, companies are both buyers and sellers of goods and services. Some of the reluctance to use the Internet on the buy-side may again relate to the cost and complexity of providing online information to vendors and suppliers. The reluctance may also relate to the

informal connections that often exist between a vendor and a customer. These factors need to be considered when thinking about using the Internet with vendors and suppliers.

Even though there is limited interest in using the Internet to link vendors, this is an application that should not be dismissed. Many larger companies are implementing Internet-based systems for communicating with vendors. New Internet communication protocols such as XML could make it easier and less costly to connect disparate information systems. If you sell to a large company now, or have plans to do so in the future, such a system is likely to be part of doing business.

- One especially important finding of this study is the degree to which very satisfied users of the Internet are aggressively using customer surveys. There is a message in this finding. Very satisfied user companies, which have strong market positions and perform well financially, are using online surveys to create a formal feedback loop from their customers. These companies appear to be using the Internet as part of a strategy for enhancing and improving customer satisfaction. While this feedback is probably helping to create happy customers, it is also helping to create very satisfied Internet users.

Middle-market company leaders are using the Internet firstly as a tool to find new customers. These companies are also applying this powerful tool to strengthen relationships with existing customers. While they are using the Internet, they are not embracing it as the answer to broader strategy questions. In the words of Vanguard's Jack Brennan, middle-market company leaders seem to see the Internet "as a tool, not a strategy."<sup>iv</sup>

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<sup>i</sup> *Let's Get Vertical*, Business2.0, September 1999 (<http://www.business2.com/articles/1999/09/text/models.html>)

<sup>ii</sup> *Ibid*

<sup>iii</sup> *Grainger Survey: MRO Buyers Not Ready to Abandon Channel*, Purchasing, Boston, May 18, 2000, p. 160.

<sup>iv</sup> *E-Loyalty: Your Secret Weapon on the Web*, Harvard Business Review, July-August 2000, p. 105.