

Small and Mid-Sized Business Web Sites

Early Signals and Emerging Trends

October 2004 marks the tenth anniversary of the first e-commerce transaction, and small and mid-sized businesses (SMBs) are continuing to rapidly evolve the ways in which they make use of their Websites.

Over the previous decade, SMBs have accepted a striking amount of expense and pain in order to “wire” their businesses. This has included repeated equipment upgrades, major “sweat equity” investments, and significant changes in their basic business processes. And now, an important new generation of Web-delivered and Web-based service and business solutions is getting ready to be delivered by building on top of the hosting layer and Internet infrastructure.

Drawing on information from Hostway’s 300,000 hosting customers and from our operations on four continents, we have identified and examined key developments and emerging trends involving SMB Websites, including:

1. *Implications stemming from the sharp increase in the number of Web domain registrations in 2004;*
2. *Changing characteristics of SMB Websites;*
3. *Surprising impact that U.S. broadband penetration is having on overseas Web sites, and other international developments;*
4. *Significant barriers that are keeping SMBs from taking full advantage of their Websites;*
5. *New Web services that are poised to leverage the expansion of the Internet, the enhancements in hosting infrastructure, and the major IT investments by SMBs*

1. Surge in Domain Registrations

New domain registrations reached their highest-ever quarterly level during 1Q2004, beating previous peak in 2Q2000, according to figures from VeriSign.

- *4.7 million new domain names were added in 1Q2004.*
- *Domain names now total 63 million, the most ever. This is up 21% from 1Q2003 and up 5% from 3Q2003.*

One factor that is driving this surge is the dramatic drop in the cost of domain registration.

- *Two years ago, registration cost \$35 and required a 2-year sign-up.*
- *Registration now can cost less than \$8 and requires only a one-year commitment, making it feasible for SMBs to be very aggressive in registering domain names.*

The jump in domain registrations also has gotten a boost from the continuing growth in U.S. broadband penetration.

- *For the first time, broadband connections accounted for more than half (51%) of the American online population at-home during July 2004, as compared to 38 percent a year earlier, according to figures from Nielsen//NetRatings. This translated into 63 million Web users connecting to the Internet via broadband during July 2004, a year-over-year increase of 47 percent.*
- *In turn, this growth in the population that is using always-on, broadband Internet connections is prompting a growing number of SMBs to begin to view Websites as*

...serving similar function to that of Yellow Pages advertising. The speed with which this "Yellow Pages" role of Websites develops is likely to vary from locale to locale depending on the level of broadband penetration in the specific community.

The surge in domain registrations also is getting a boost from another trend that is worth tracking: growth in micro-scale Web-based businesses. The entrepreneurs who are exploring these new opportunities have been attracted by the plunge in the costs of registering a domain name and of maintaining a modest Web site: under \$10 for registration and less than \$20-a-month for hosting. At these price levels, it becomes feasible for entrepreneurs to experiment with sideline micro-enterprises that offer a handful of selected highly specialized products. These businesses are looking to use the global reach of the Web – combined with the availability of improved and inexpensive shipping options – to generate enough revenue to be viable. Hostway will continue to monitor how this evolves and what kinds of new enterprises emerge.

2. Shifts in Website Characteristics

The SMBs that are establishing "Yellow Pages" Websites signal a pair of important expansions of the online world.

On the one hand are locally-oriented businesses whose Websites put an emphasis on serving customers and prospects who

- *Are likely to already know about the businesses and/or*
- *Are likely to be visiting the businesses' physical location.*

For these SMBs, the Website primarily serves as a reference tool that enables customers to easily get instant, detailed information (e.g., about hours, items on a menu, exact location, product offerings,...) without needing to make a phone call.

In contrast, at the other end of the spectrum are SMBs for whom their Web sites are their primary business "location." For these SMBs,

- *Customers and prospects are NOT likely to know much about the SMB business prior to visiting the Web site.*
- *Their interactions -- and transactions -- with customers and prospects probably occur entirely online.*
- *For many of these SMBs, there may not even be a brick-and-mortar location.*

The flood of new SMB Websites also has produced other changes.

For example, even though the overall volume of e-commerce activity has exploded over the last 10 years, the proportion of transaction-enabled SMB Websites has actually decreased.

- *The early SMBs that established Websites were likely to be computer-literate and tech-savvy. They also were likely to be very interested in selling on the Net, and they often included an e-commerce capability when they initially set up their sites.*
- *Today, in contrast, the SMBs that are fueling the new wave of Websites and domain registrations are much more likely to be focused on establishing an online presence that can deliver "brochureware" whose mission is to provide information.*

In fact, SMBs that are setting up these online presences don't even need to own a computer to sign up for a Web site.

Even among those SMBs who do have online transaction capabilities, there has been a noticeable movement toward simpler, more maintainable Websites.

- *Many of the early-adopter SMBs were part of the first wave of Web enthusiasts who initially sought to put their entire product catalogs online. However, with the passage of time, maintainability has become a more significant concern. In response, these SMBs have put more effort into streamlining and simplifying their Websites -- often trimming the number of products that they offer for online sale.*
- *Among the SMBs who have more recently launched their Websites, the newcomers seem more comfortable with experimenting with the sale of a just few of their products online, rather than trying to post their entire inventory.*

3. Overseas Impact of U.S. Broadband

The continuing expansion of U.S. broadband penetration provides yet another illustration of the global interconnectedness of the Web.

More specifically, difficulties have arisen for foreign SMBs whose primary market has been in their homelands and whose Websites have been hosted there, but who also have served visitors from locations in the United States.

As more and more U.S. users have become accustomed to broadband-quality connections, those who visit overseas sites have become less tolerant of the slowdowns that can occur in transoceanic transmissions. When a visitor from the U.S. was accessing an overseas site via a slow dial-up line, it is likely that these intercontinental delays were not very noticeable. In response, overseas SMBs have begun to add U.S.-hosted "mirror sites" in order to improve the levels of their Website performance.

On other fronts, the U.S. may continue to dictate many Internet developments, but different locales are exhibiting their own distinctive tastes. In Asia, for example, flash effects and other bells-and-whistles features are much more popular than in the U.S., possibly because of locales (such as Korea) where broadband connections are almost universal.

4. Barriers to the Effectiveness of SMB Websites

A growing body of evidence points toward significant barriers that keep many SMBs from making more effective use of their Websites.

One indication of these barriers is the significant change that has occurred in the kinds of issues that are brought to Web-host customer-support specialists. For instance, instead of predominantly consisting of requests for help with technical issues as was the case in the past, the bulk of calls to customer support today involve questions that are largely business problems:

- *"Now that I have built my Web site, how do I get visitors to come to it?"*
- *"What are the best ways to integrate my Web site into the rest of my business?"*

- *“How can I get more business value from my Website?”*

So far, the tools that have been developed to help SMBs address these types of issues have met with limited success. Consider the typical Website traffic-reporting tools. Even when SMBs understand the Web-traffic data that these tools deliver, they can find it difficult to successfully translate the information into effective responses.

Or take the disappointing results that SMBs often experience when they try to use Web-based sales-support, marketing-support, and customer-support applications. The problem is that, even though SMBs indicate a strong desire and need for these types of applications, small enterprises are likely to not have the skill sets -- or the ability to commit adequate time and resources -- needed to effectively implement these applications.

An even more fundamental major barrier is that a SMB's commitment to making more effective use of its Web site gets undercut by the often-overwhelming day-to-day demands of running the small business.

The fact is that SMBs find it difficult to add ANY new business processes -- or even to just modify existing business operations. For those providers who are seeking to help SMBs make more effective use of their Web sites, this means that it is especially important to develop Website solutions or configurations of services that (invisibly) integrate and painlessly weave the new technological capabilities into the SMBs current business processes.

5. New Web Services Getting Ready to Roll

Despite many barriers, the stage nonetheless is set for the roll-out of a new wave of Web services for SMBs that will leverage:

- *The on-going expansion of Internet,*
- *The upgrading of hosting infrastructure, and*
- *The major IT investments by SMBs.*

These new services -- which include hosted PBXs, VoIP, new ASP offerings, Personal Information Management services, and others -- are the harbingers of a fundamental transformation of the IT infrastructure and capabilities that will be available to SMBs. These changes are SMB counterparts of the major transformations that have been re-shaping large-enterprise IT.

Among the possibilities that are beginning to be discussed:

- *Will hosting firms be able to effectively apply Web-search technology to manage SMB and personal information on the desktop and in the LAN?*
- *Can hosted e-mail effectively serve as a platform to integrate messages and information (from enhanced e-mail, voice mail, Websites, Web storage) and to build personal-information management services?*
- *What if an SMB never had to erase its voice mail and could do searches of its complete voice-mail archives? Or how about a ubiquitously accessible, central repository that contained all the information from its LAN, Web site, phone, documents, e-mail, IMs, -- and all of it searchable from a single console?*

There also are signs suggesting that the ASP model may be gaining viability. In part, this stems from improvements in the usability and reliability of third-party ASP applications.

In addition, customers have become more accustomed to and more comfortable with relying on hosting firms for a growing variety of services. For example:

- *The success of salesforce.com points toward opportunities for sales-force automation tools aimed at SMBs.*
- *Another set of promising opportunities is emerging in connection with Q&A knowledge-bases for Web-based customer-service operations.*

These and other opportunities are supported by the convergence of important developments that have set the stage for the new Web services. These include:

- *Huge investments by SMBs in IT. Over the previous decade, SMBs have accepted a striking amount of expense and pain in order to “wire” their businesses. This includes significant SMB spending on a succession of equipment upgrades; major “sweat equity” investments of time and energy to learn new skills; and important changes in basic SMB business processes in order to incorporate the new technologies.*
- *Enhancements in external infrastructure. During last 10 years, there has been an acceleration of on-going development of the Internet and the hosting infrastructure. It now is possible to place more content on top of this much-enhanced hosting framework and to deliver it over the ever-expanding Internet infrastructure.*

The bottom line is that an important new generation of Web-delivered and Web-based service and business solutions is getting ready to be delivered by building on top of the hosting layer and Internet infrastructure.

In fact, look for signs of acceleration in the application layers that are added to regular hosting.

About Hostway

Hostway Corporation provides Web hosting and managed services to more than 300,000 customers worldwide. Hostway helps individuals, small businesses and large enterprises achieve more value from state-of-the-art Web-based technologies by reducing their complexity and cost. Founded in 1998, Hostway is one of the five largest Web hosting companies in the world with offices in North America (Chicago, Tampa and Vancouver), Europe (London and Amsterdam), Seoul, Asia and Sydney, Australia. For more information about Hostway Corporation, please visit www.hostway.com or call 1-888-290-5170.