

City of Seattle Information Technology Indicators Project

Small Business and Information Technology Report



City of Seattle
Department of Information Technology
Community Technology Program
www.seattle.gov/tech

Small Business & Information Technology Report

City of Seattle

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SMALL BUSINESSES AND INFORMATION TECHNOLOGY REPORT

Small businesses drive our economy and our communities. Nationally, they employ more than half of the private workforce and create 62 percent of all new jobs. Small businesses are especially important in low- and moderate-income areas, where they provide key employment opportunities and services to their communities.¹

Do computers and the Internet help Seattle's small businesses community survive and thrive? More than 60% of Seattle residents are looking for local businesses online according to a survey conducted in 2000.² Information technology can be costly or cost-effective. If used appropriately, companies can streamline processing, save on purchasing, reach new markets or solidify old ones, and build their profits.

This Small Businesses and Information Technology Report presents the results of a survey intended to help understand needs and how critical a role information technology plays for small businesses in Seattle, especially those in distressed communities. To create and administer the survey the City of Seattle's Department of Information Technology partnered with Community Capital Development (CCD), a not-for-profit consortium providing small business assistance and loans in Seattle.³ Community Capital Development has already started using the results to determine the best topics and approaches for expanding its small business training program.

This report is part of a larger project of the City of Seattle called the Information Technology Indicators Project.⁴ Through an extensive public process and work with a citizen group of advisors, the City of Seattle Department of Information Technology developed a broad set of indicators with the goal of tracking the positive and negative impacts of technology on the region over time. These results will add to the comprehensive assessment of an information technology healthy community provided by the indicators project.

The City of Seattle plans to use the information from this survey to guide decisions about how best to assist small businesses, so that they remain a vibrant part of the economy. We believe this data also serves as an excellent resource for small businesses and those working with small businesses, such as local chambers of commerce, small business assistance organizations, neighborhood planners, and community development corporations to help influence program design, set new priorities, and spark discussion about the role that information technology plays in our community.

¹ Seattle's 2001 - 2004 Consolidated Plan, Economic Development - Small Business Assistance.

² City of Seattle Department of Information Technology, *2000 Seattle Information Technology Residential Survey*, 2001 p 41

³ <http://www.seattleccd.com/>

⁴ See www.seattle.gov/tech/indicators

METHODOLOGY

The methodology and survey instrument used for this project were developed by the City of Seattle Department of Information Technology and Community Capital Development, with feedback and suggestions from the City's Office of Economic Development.⁵ The data collection and sample is biased and provides a snapshot of Seattle's small business community rather than a statistically valid sample representative of the entire small business sector. Nonetheless this snapshot provides valuable information, and we believe its findings are relevant to pivotal issues facing small businesses today.

The following decisions were made about methodology and targets:

- * Limit small business size to 20 employees and less.
- * Seek a sample size of 500 (This was later reduced).
- * Target two thirds of surveys collected to come from distressed communities.
- * Seek a sample which represents a range of business types.
- * Sample should reflect the city's race and gender demographics.
- * To increase value to the respondents, distribute a small business and technology resource list with the surveys.⁶
- * Utilize a combination of phone, in-person and distribution through neighborhood community development and business organizations. This was done in part to engage the organizations in the topic and reduce costs.
- * A decision was made that it was unrealistic to be able to reach home-based businesses for this survey, though we recognize that they are a growing and important segment of the small business community.



Both written and phone surveys were created and pre-tested with a group of 10 small businesses.

The survey was completed using three different methods: 1) conducting interviews by phone, 2) delivering written surveys through community partners (local business district associations and other business assistance agencies), and 3) distributing surveys directly by walking through business districts and conducting interviews on-site.

Each method had its strengths and weaknesses, but the third approach was the most effective and yielded the best survey results.

1. Phone interviews with business owners and managers: Overall this method was difficult and did not result in higher quality surveys. About 80 percent of businesses were not available

⁵ Copies of the survey and data collection plan are available at www.seattle.gov/tech/indicators/smallbusiness.

⁶ See www.seattle.gov/tech/indicators/smallbusiness

when called. Of those available, the response rate was between 25 and 40 percent. Additional limitations included the accuracy of the list and the effectiveness of the person doing the calling.

2. Delivering surveys through community partners: The success of this method was mixed. The effectiveness varied greatly depending on which community group delivered the surveys. A list of participating organizations is available in Appendix 2: Community Partners.
3. Distributing surveys directly by walking through business districts: In the end, this was the most successful method to collect information. Surveys distributed during slow business hours and completed one-on-one with the business owners yielded the best results. The drawback to this method is that it skewed the results towards retail stores, which are the most prevalent in the neighborhood business districts.

A total of 350 small businesses completed the survey from January 2002 through May 2002. The survey respondents were located within the City of Seattle, including many situated in HUD designated Enterprise Community, low-income communities that have a renewed focus on economic growth and development.⁷

RESULTS

Technology Capacity



Lack of knowledge is a key factor keeping businesses from using technology more effectively. Just over half (54%) of those surveyed felt informed about computers and the Internet. One-third felt somewhat informed, and the remaining 12 percent did not feel at all informed about computers and the Internet.



Although most of the businesses surveyed use computers, there is still a group not taking advantage of computer technology. One in ten companies surveyed do not use any computers to conduct business. An additional three and a half percent of businesses use one cash register, but no other computers. As was expected based on the size of the businesses responding to the survey, the majority of them (53%) use one or two computers for their business. Of those who are not using computers, 43 percent are in the Enterprise Community and 68 percent reported 2001 gross revenues of less than \$100,000. One-quarter of Asian American-owned businesses do not use computers, compared with 17 percent of African American-owned businesses and six percent of Caucasian-owned businesses.



Two-thirds of the small businesses surveyed with two or more computers have a local area network in place. The survey asked those businesses with more than one computer if their computers were networked together through a local area network (LAN). Almost half (46%) of these small businesses responded that they do not currently have a network in place. However, further analysis shows just over one-quarter (26%) of those that are not networked have only one computer (desktop or laptop) and a register. After removing these businesses, just one-third of businesses (34%) do not have a network.

⁷ See <http://www5.hud.gov/urban/tour/showMap.asp?community=Seattle&state=wa>



Most of the small businesses responding to this survey have Internet at their business, but only a smaller percentage are using the Internet to advertise their business through a web site. The majority (82%) of the businesses responding to the survey have Internet access at their place of business. About two-thirds (76%) have an email address for their business. However, only half (51%) have a web site. Of those who have a web site, 85 percent have basic information about their business and 59 percent have online forms or other ways for customers to submit information online. However, only one-third (34%) of those with web sites currently sell goods or services online.

Importance of Information Technology (IT)



Computers are seen as more essential to business than the Internet. The majority of small businesses (61%) see computers as essential to their business, while only about one-third (35%) see the Internet as essential. Almost one in ten (9%) businesses felt that the Internet is "not at all useful."

The businesses were given a list of tasks for which they might use information technology and asked to rate from one to five how important IT was for each of those tasks. According to the respondents, bookkeeping is the task for which IT is the most important with 70 percent of business rating it either "important" or "very important" (4 or 5) on the scale. Storing customer information (66%), advertising (58%), research (53%), and a web page to promote business (53%) were also rated very highly by the businesses surveyed. Connecting with government, contacting elected officials, and recruiting staff were rated the lowest (see attached table for details).

Technology Spending & Planning

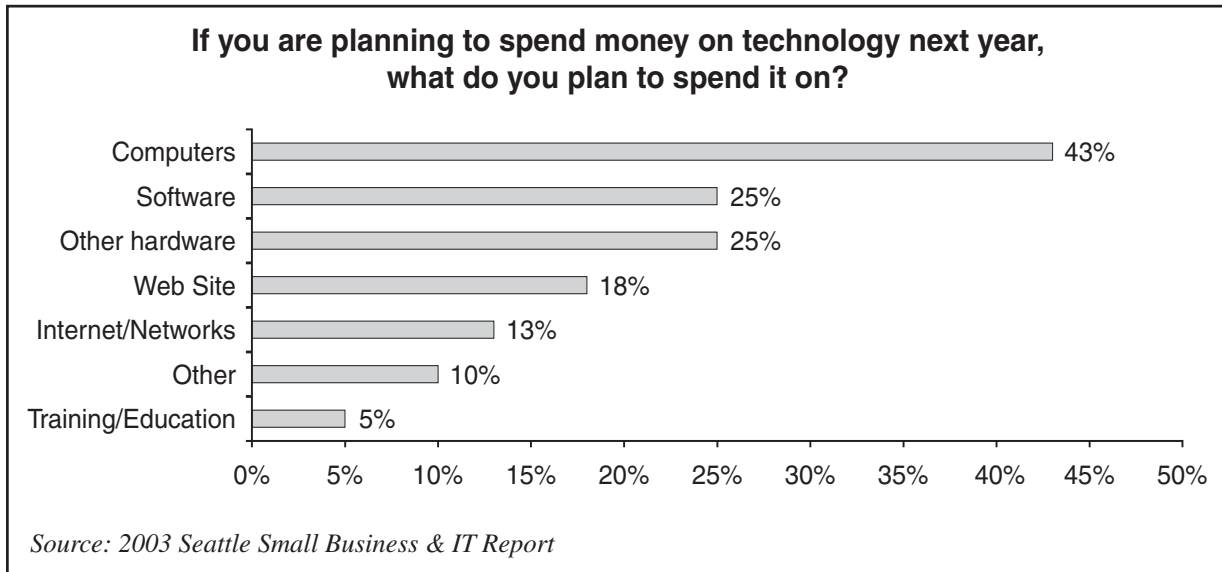


Many businesses see themselves spending money on technology next year, and the majority of those see the money going towards purchasing or upgrading computers. Half of the small businesses surveyed predicted that they were going to spend money on technology next year. Of those planning to spend on technology, 43 percent said that they would be purchasing or upgrading a computer. About 10 percent of those who report that they will spend money to purchase or upgrade computers in the next year are small businesses who currently do not use any computers. One-quarter said that they were going to spend money on software, and another quarter predicted spending money on other hardware (servers, PDAs, printers, scanners).⁸



Technology planning is an essential first step to using technology appropriately and cost effectively, yet only a very small percentage of small businesses surveyed have a written technology plan. Only 10 percent of the small businesses responding to the survey currently have a written technology plan. Just under one-quarter (23%) do have a designated IT budget or budget line item for technology within their business budget.

⁸ This 25% probably includes some businesses planning to spend money on computers as well. Because this was an open-ended question, some people just responded "hardware," without giving any indication of type of hardware.

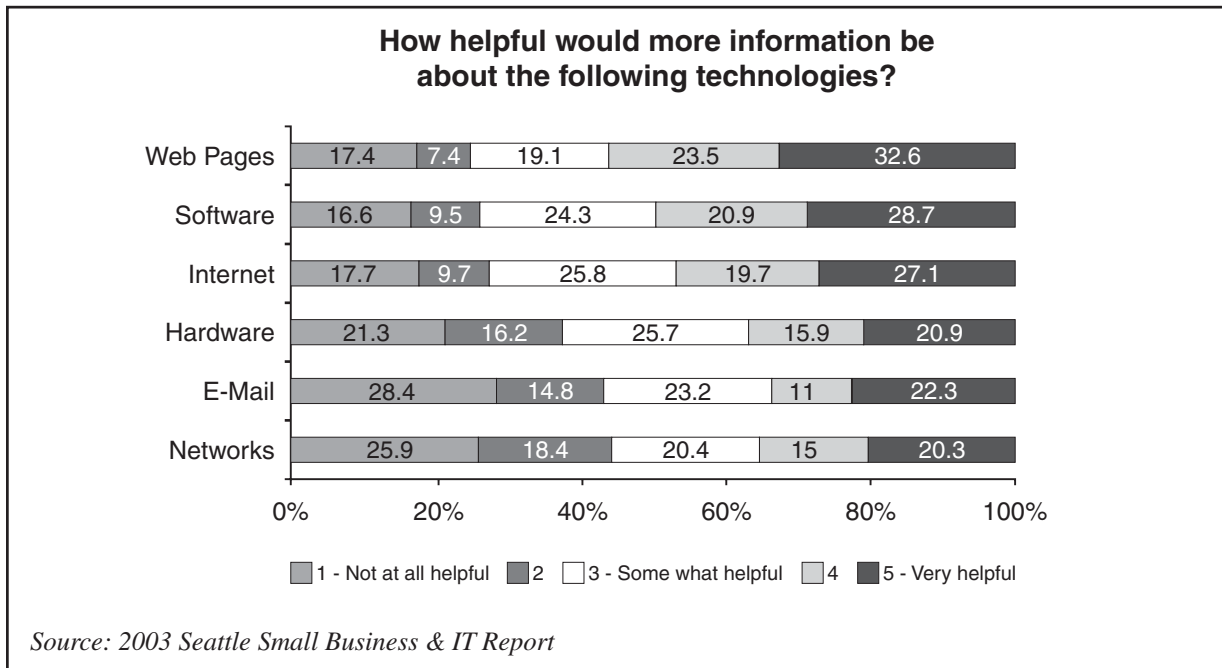


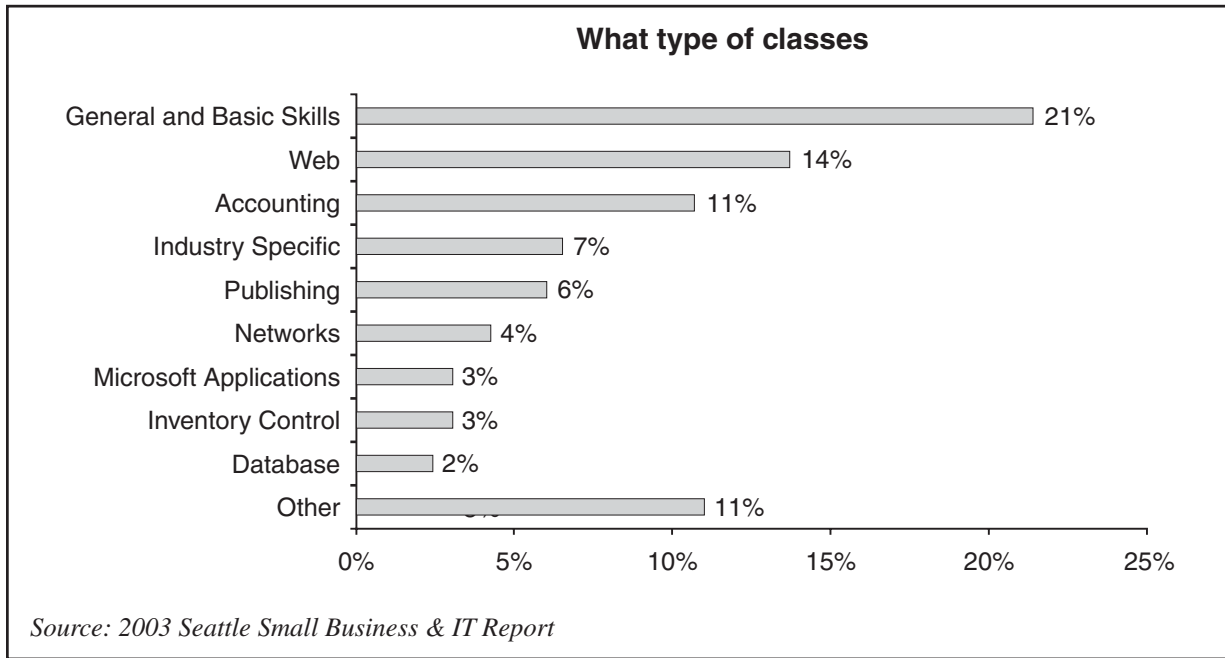
When asked about the approximate amount of last year's technology budget, only 60 businesses answered. Of those 60 businesses, just over one-third (36%) said that their technology budget was \$500 or less. An additional three out of ten (31%) responded between \$1,000 and \$3,000. Eighty-five percent of responding businesses had technology budgets of less than \$6,000. The mean of the reported technology budgets was \$4,300 and the median was \$1,600.

Learning about Technology



The small businesses surveyed are most likely to learn about technology through word of mouth. The largest number of respondents said that they learn about technology from their colleagues (57%), followed by books (55%), and the Internet (54%). About a third also indicated learning about technology from trade associa-





tions. Only about one-quarter (27%) of respondents said that they learn about technology from classes.

Respondents felt that more information about web pages, software, and the Internet would be helpful. A smaller percentage of businesses also wanted more information on email, hardware, and networks.

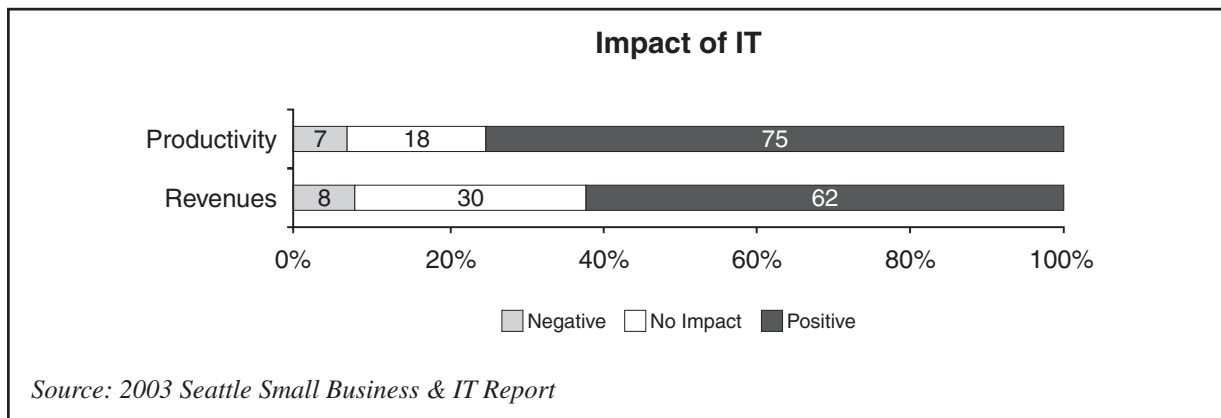
There was not a clear preference by businesses when asked what would help them use technology more effectively. About half of the businesses felt that better technology support (50%), classes (48%) and staff training (45%) would help them. On-site trainers were the least popular response, with only about one-third of businesses indicating that this would be a helpful way to learn about technology.

Businesses in the Enterprise Community, those who have been in business less than a year, those with less than 10 employees, and those who feel somewhat informed about technology were the most interested in classes to help them learn to use technology more effectively. A wide variety of types of classes was mentioned by respondents. General and basic training in technology, computers and Internet skills was most frequently mentioned, followed by web design/development, and accounting software classes. Since this was an open-ended question, many businesses named specific software or advanced applications that they were interested in learning more about (categorized as "other"). Some of these "other" responses included troubleshooting, business start-up, learning about competition, latest innovations, programming, and customer relations management.

Impacts and Barriers



If used effectively, technology is important for small businesses and has a positive impact on their businesses. In general, the small businesses responding to this survey feel that information technology has had a positive impact on their business.



Three out of five businesses (62%) responded that IT has had a positive impact on their revenues, and three-quarters said it has had a positive impact on their productivity.

The number of computers that a business uses makes a significant difference in how the business feels about the impact of technology. Seventy-one percent of businesses with one or two computers responded that IT has had a positive impact on their productivity compared to 92 percent of those businesses with three or more computers. Similar trends are seen in the relationship between the number of computers and revenues; 59 percent of businesses with one or two computers responded that IT has had a positive impact on their revenues compared to 75 percent of those with more than three computers.



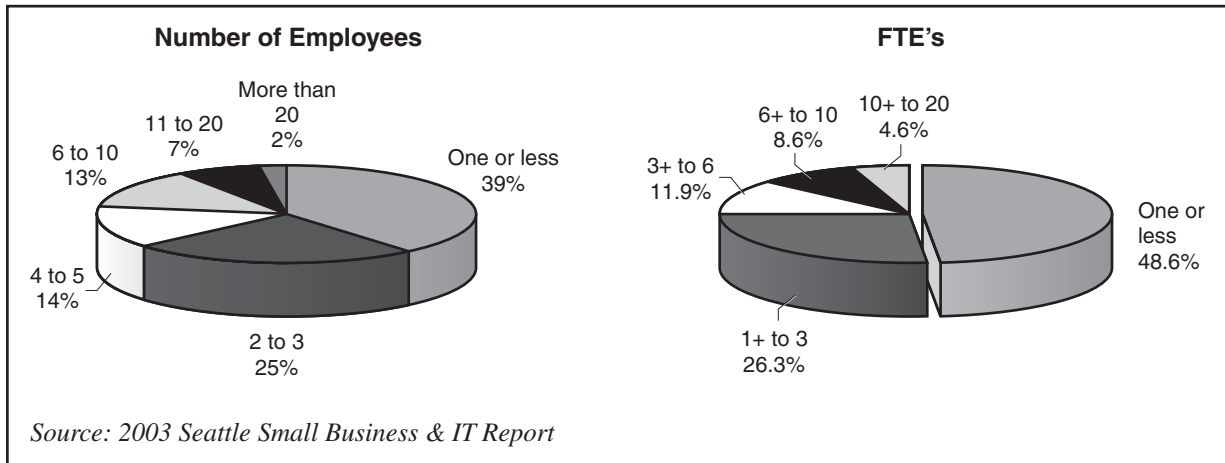
The cost benefit of information technology is still unclear for these small businesses. Two out of five businesses indicate that information technology has lowered their overall expenses. However, just over two out of five (43%) businesses also feel that the cost of information technology is keeping them from using technology effectively. African American-owned businesses were the most likely to say that cost was a barrier, at 57 percent. This is compared to 44 percent of Asian American-owned businesses and 39 percent of Caucasian-owned businesses. Those with gross revenues of less than \$100,000 were much more likely to see cost as a barrier compared to all other businesses (56 percent to 33 percent respectively). New businesses and women-owned businesses were also likely to see cost as a barrier. Seventy-one percent of those who have been in businesses one year or less and almost half (49%) of businesses that are 100 percent women-owned saw cost as a barrier to effective IT use.

When businesses were asked to name other barriers, lack of knowledge and time were most frequently mentioned (nine percent and eight percent respectively).

APPENDIX 1: SURVEY DEMOGRAPHICS



Three hundred and fifty businesses completed the survey. Only a small percent (17%) was completed over the phone. The remaining surveys were filled out by the businesses either at an orientation session, through drop-in visits to the business, or through a neighborhood business association. The majority of the surveys (67%) were filled out by the owner of the business, with an additional 17 percent being filled out by a manager.



Only 21 percent of the businesses that responded to the survey were in the Enterprise Community, according to the Empowerment Zone/Enterprise Community locator on HUD's web site. However, 53 percent were located within a half-mile of the Seattle Enterprise Community.

Size of Business & Revenues

In general, the businesses that responded to our survey were very small. Just under two out of five (39%) reported having only one employee, with an additional quarter reporting two to three employees. The mean number of employees was just over four, with a median of two. Almost one-half (49%) had one or less full-time equivalent employees (FTEs).

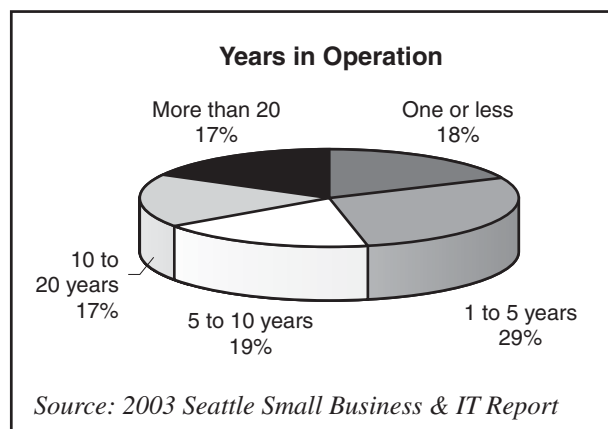
More than three-quarters (77%) of the businesses had a gross revenue of under \$500,000. Just under half (42%) of the businesses responding to the survey had 2001 gross revenues of less than \$100,000.

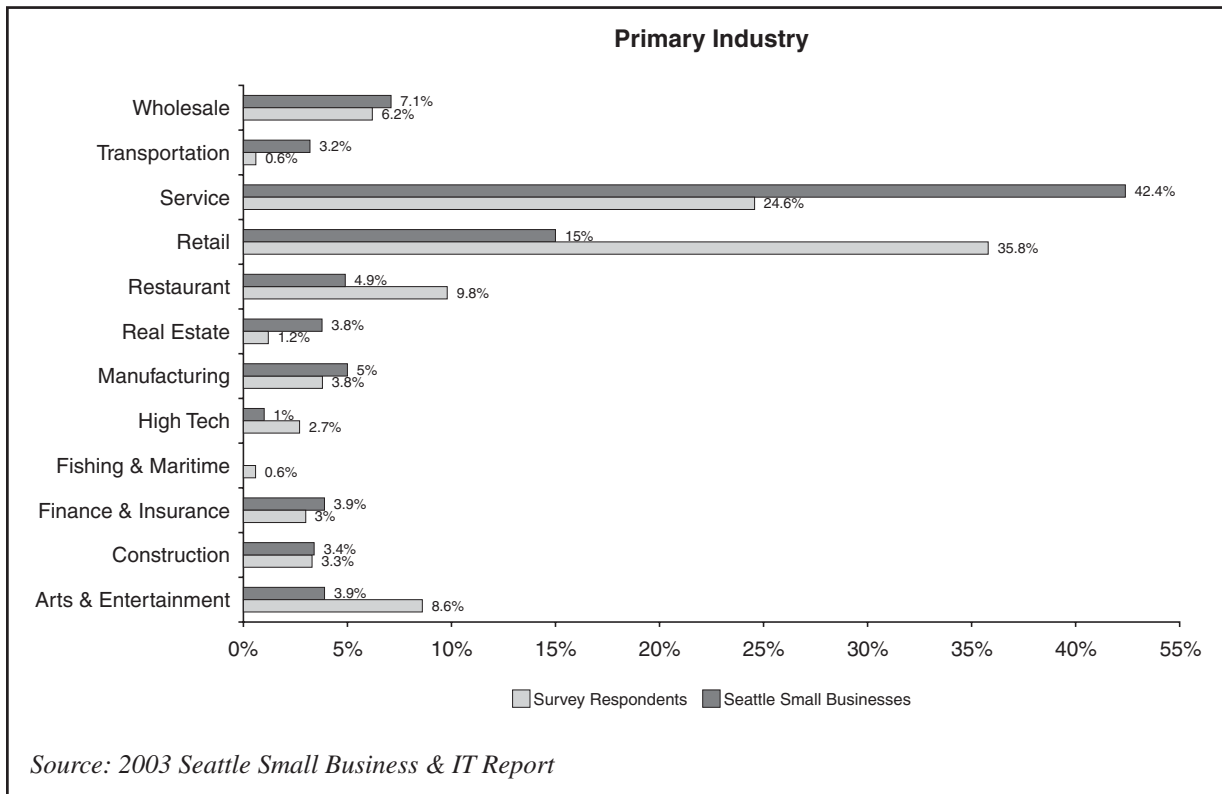
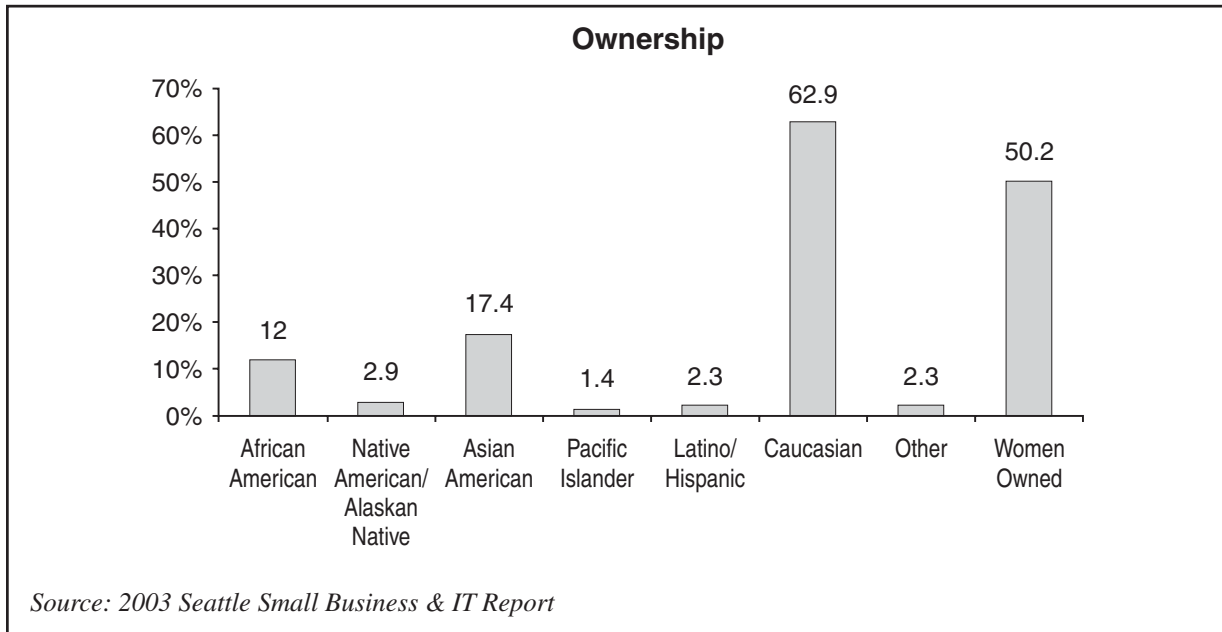


Ownership

Half of the businesses were partially or fully women-owned. The demographics of ownership of the businesses responding to the survey closely resembled the demographics of the Seattle population as a whole. Twelve percent were African American-owned, 3 three percent Native American/Alaska Native, 17 percent Asian American, and 1.5 percent Pacific Islander.

Just under half (47%) of the business surveyed in this research had been in business for less than five years. Of those who had been in business more than five years, they were almost evenly split between less than 10 years, between 10 and 20 years, and more than 20 years. The average for all businesses was just under 12 years, while the median was 6 years.





Primary Industry

Businesses were asked to state their primary industry. The largest percentage of businesses surveyed fell into the retail industry (36%), followed by the service industry (25%), restaurant industry (10%), and the arts and entertainment industry (8.6%). The high percentage of businesses in the retail industry is in part due to the data collection method.

APPENDIX 2: COMMUNITY PARTNERS



23rd and Union Business Association	Holly Park Merchants Association
Central Area Chamber of Commerce	North Seattle Industrial Association
Chinatown International District Business Improvement Association	Pioneer Square Community Association
Community Capital Development	Rainier Chamber of Commerce
Community Outreach Partnership Center (COPC)	Seattle Maritime Business Coalition
Delridge Neighborhood Development Association	SODO Business Association
Fremont Chamber of Commerce	The National Center for American Indian Enterprise Development
Greater Seattle Chamber of Commerce	Washington CASH
	West Seattle Junction Association

From the street: Comments from small businesses

I work internationally and worry a lot about viruses and balancing technology concerns with time constraints of running the business.

A barrier is having technology but not the knowledge of how to use it.

Food [Software] helped us cost and manage new inventory

Our website has been a great success as a marketing tool.

The barrier is that it creates a lot more work not a lot less so what's the point? Time is money.

We did 65% of our business on line last year (astounding for a handcrafter).

With our size of staff, we can't fill orders placed over the internet and updating our website doesn't get done as often as we would like.

I'm always frustrated after an upgrade to a new computer to find out it should have had more capabilities - changes are so fast and expensive it's frustrating for a small business

Our e-commerce website is up and running but we are having a hard time marketing it.

I search for obscure or scarce books for customer who don't have internet access

I'm always amazed when someone buys a painting after having seen it on our website. It is rare but we have sold paintings between \$1,000 and \$3,500.

Technology has lowered our overall expenses a little. We can now produce our own CD's for teaching.

I decided to go back to school to learn how to use the internet to its fullest and while I don't yet have a website, I'm planning a fully functional site.

Time is a major barrier to using available technology to its full capability.

*Our business would be **TOTALLY IMPOSSIBLE** with out IT.*

Technology lowered my expenses through bookkeeping costs.

I do not learn well from manuals. The one family member able to help me is impatient and annoyed with my ignorance.