DISTANCE CONSULTING: Potentials and Pitfalls in Using the Internet to Deliver Business Development Services to SMEs

A Report to the Donor Committee on Small Enterprise Development
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I. INTRODUCTION

The Internet makes real the promise of improvement in all areas of human endeavor where knowledge makes a difference - in the opinion of some, nowhere more so than in business, especially the creation and growth of small business. Right now, at the infancy of the Internet revolution, organizations committed to developing SMEs seek strategic insights useful to determining how best to utilize and integrate the Internet in their ongoing efforts. On behalf of The Open Society Institute, the following white paper explores the promise and pitfalls of utilizing the Internet to provide direct consulting services to existing and potential Small- and Medium-Enterprises (SMEs).

What is this promise? It is the provision of distance consulting services, an idea analogous to distance education. Consider this ideal scenario.

EXAMPLE 1: An entrepreneur in a small town far away from the capital closes his shop. Returning to the back of the shop, he turns on his computer, dials into the Internet, and contacts his advisor, a business consultant in the capital (or given the late hour, a back-up consultant in New York, or Paris), for a quick online chat about negotiating a purchase with a local government agency. The computer screen comes alive with the face of the consultant, and in the corner a thumbnail picture of the entrepreneur, taken from his camera atop the computer. Downloading his spreadsheet-based cost projections to the consultant, the entrepreneur uses the whiteboard feature to identify those elements of the projection on which he feels he could use expert advice. An hour later, the consultant suggests involving a specialist. The entrepreneur agrees, and the screen splits to include the specialist, who is introduced to the entrepreneur. Via downloaded spreadsheet data and whiteboard, the three work into the night, calling up data from the website and catalog of the goods manufacturer, as well as the government's contracting manual. Dinner is forgotten. The three work until after bedtime for the entrepreneur, but the team effort is successful. The revised cost projection shows not only savings for the government, but also gives a slightly better return for the entrepreneur. With the changed spreadsheets saved, and the proposal adjusted, the consultant in New York offers some final coaching points on the marketing aspect of the proposal. With these final changes, the entrepreneur wraps up the project, emails it to the government agency with copies for the consultant and the specialist, and bids them each a good night.

What is interesting is that the technology for everything described in Example 1 exists today. The computer, software and video systems could be bought in most US computer stores for $1500 or less.

What is the pitfall? It is that we might spend enormous energy and capital creating services utilized and applicable to a limited number of those who need them. There are in fact at least three major pitfalls generic to any such effort. First, the telecommunications and consulting infrastructures needed to realize the "ideal scenario" do not exist yet in much of the world. Second, based on the work outlined below, it is likely that even if the infrastructures did exist, only a handful of entrepreneurs would make use of such help. Third, even among that smaller group, there exist real difficulties because of cultural differences and a lack of shared knowledge or experience that can severely limit the cross-national assistance in amount or quality.

Still, the promise of distance consulting is great enough that many organizations see the pitfalls as problems to be tackled, and the first generation of distance consulting services are operating now. Pursuing this positivist approach, this white paper will undertake to accomplish two key tasks identified as important by OSI and the Donor Committee on Small Enterprise Development:
1) Identify ‘good practice’ examples of direct consulting-based business development services delivered via internet and provide a short description of the service providers as well as the users of these services, the resources used, outcomes achieved and sustainability issues raised to date.

2) Provide information on the future possibilities and trends in the use of the Internet for business development services for small businesses and the changes in the traditional delivery channels of business development services to small businesses.

Each of these issues is dealt with in the above order, after the definitions used in the paper are introduced.

II. DEFINITIONS

Direct consulting services: Direct consulting services involve a one-to-one relationship between a client and a consultant. This can occur in face-to-face meetings, via telephone discussions, faxed or mailed messages, through Internet based contacts, or a combination of these. Using the language of a prior Donor Committee report (Business Development Service for SMEs, 1997) these services would be categorized as Micro level services, of the types generally called:

Counseling and advice, characterized as extension where advice or non-material assistance is provided to clients, usually at their place of business; consultancy provided by experts to clients based on specific situations, and counseling or coaching where the counselor guides and assists the client to discover solutions to their situations.

Direct consulting services are contrasted with indirect consulting services, which are those one-to-one relationships between consultants undertaken to help the client of one of the consultants.

Interestingly, there is one example of indirect consulting services that parallels the processes and hints at the Internet use described in the original sidebar. This effort is being undertaken by PEOPlink (http://www.peoplink.org/), an USA-based organization focused on developing indigenous economies. One of their most famous examples involves the support of weavers from the Central American tribe of the Kuna Indians. PEOPlink has a consultant working on-site with the community, and the consultant stays in touch with the headquarters in Maryland using the Internet. Digital images of the cloth and patterns are posted to PEOPlink’s electronic catalog (http://www.peoplink.org/scripts/web_store/web_store.cgi) using the Internet, and the on-site consultant gets support from headquarters via the Internet. For example, when the on-site consultant reported that the weavers had high levels of illness, the USA based team sought experts to assist. The culprit suggested by the experts via the Internet were toxic elements in the vivid dyes used by the weavers. Two generations of new dyes (the first generation dyes weren’t vivid enough to replace the original colors) were developed and the formularies sent via the Internet. In all of this, the Internet based direct consulting link was primarily PEOPlink on-site consultant to PEOPlink US-consultant. The weavers received assistance indirectly.

Internet: Another key definition is the Internet. What distinguishes the examples in this paper is that each one uses the Internet as a major means of delivering direct consulting services over a distance. The Internet itself is a worldwide network designed to carry digital information. It is similar to, parallels, and in many cases piggybacks upon telephone networks. The Internet can be accessed using several methods, including electronic mail (sending text over the Internet using a one-to-one or one-to-many approach), file transfer (sending documents, pictures or programs to others), telephony, or the World Wide Web (WWW). Despite the name, the WWW is not separate from the Internet, but rather one way of bringing together text, pictures, sound, files, and connections (links or hyperlinks) to other locations in a single program. These programs, called browsers (such as Netscape Navigator or Microsoft Internet Explorer) provide access to WWW locations. The two major forms of Internet communication today are electronic mail (called email for short) and the World Wide Web (or WWW or Web for short). It will be these two Internet technologies that will be the major focus of this paper.
SME: The Donor Committee has developed a broad definition of Small to Medium Enterprises (SMEs), which guides the work in this report. It will be considered to include *formal and informal non-agricultural enterprises ranging from micro- to medium-size* (Business Development Service for SMEs, 1997, page 5).

In this report, there will be a focus not only on SMEs and their owners, but occasionally also on the group of *potential SME owners*, as a target for business development services, particularly those aimed at promoting the creation of SMEs.

### III. GOOD PRACTICE EXAMPLES OF DIRECT CONSULTING SERVICE TO SMEs DELIVERED VIA THE INTERNET

From the standpoint of the BDS consulting organization and its sponsors, there are conventional performance measures, which can be used to assess the organizational achievements. These are typically measures such as (1) number of clients, (2) client representativeness of the target population, (3) number and types of services provided, (4) client satisfaction, (5) new firm starts, (6) job creation impacts, and (7) sales or sales differentials coincident with consulting episodes (Chrisman and Katrishen, 1994). In the models below, the first four of these criteria were found to be readily applicable, and are reported for the cases where data was available. The remaining three were available sporadically, and that information was included in the following narratives also.

The remaining issues of concern to the Donor Committee were the quality of the services and the financial sustainability of services. The examples below institutionally deal with the quality issue by occurring in major organizations backed up by acknowledged experts in the fields of economic development and SME consulting. The sustainability issue is dealt with specifically for each case below.

Four examples were culled from those available on the Internet. Two are from the United States (Cases 1 and 2), one from Finland (Case 3), and one from Canada (Case 4). All four use the Internet, in two cases exclusively (Cases 2 and 4), in two cases in conjunction with other delivery methods (Cases 1 and 3). While all four deliver expertise via the Internet, Cases 1 through 3 do so through interaction with an individual consultant, while Case 4 has the client interacting with an automated expert assistance system.

**Good Practice Example 1:** **Multimodal Consulting Services - Ernst & Young's ERNIE**

**DESCRIPTION:** Started in 1996, ERNIE (ernie.ey.com) represents an effort to use Internet technologies as the basis for an ongoing consulting relationship with high-growth SMEs. The best practice evident here is the use of a *multimodal approach*. ERNIE melds a world wide web based database, a customized email response on-demand research and question-and-answer service, and a newsletter in electronic and print form to apprise participants of the latest developments, to the traditional face-to-face and telephone based services common to public accounting practices worldwide. ERNIE participants have 24-hour access to a group of dedicated SME consultants, and internal referral access to literally thousands of specialists inside of Ernst & Young. For SMEs, it means they can ask virtually any question in any area of business, anytime of the night or day, and have a custom-made, research-based answer within 1-4 days.

**PROGRAM STRATEGY:** Originally conceived as a free-standing electronic question-and-answer service, ERNIE quickly proved of greater value to the parent firm (a major international accounting services partnership) in two ways. First, as a source of information about the concerns of existing clients, which has turned out to be useful in tuning existing services to client needs and in selling new or expanded services to clients. Second, as a source of information in general about the concerns of SME owners in general. For example, from analyzing the pattern of questions asked, ERNIE’s staff uncovered a previously undiscovered need for assistance on Human Resource Management issues in high-growth SMEs.

**TARGET MARKET:** Although intended as a means of expanding into new markets, ERNIE has drawn over 80% of its clients from the 14,000 existing SME customers of Ernst & Young. Regardless of source, the firms are generally mid-sized firms between US$20,000,000 and US$200,000,000. They are heavily concentrated in technology and manufacturing sectors. As of September 1998, ERNIE had 1400 companies
subscribing, with 3 to 5 users per company. There is a small cadre of subscribers (around 5%) who generate the majority of billing for additional services.

RESOURCES & TECHNOLOGY USED: E&Y already had a comprehensive network for email and data transfer when ERNIE was conceived. All that was needed was a dedicated server, database management software to serve as the knowledge base for ERNIE clients, and an extranet permitting access for accredited users of ERNIE to access the resources. ERNIE itself only has 40 people on staff (15 handling technology and operations, 20 in sales, and the remainder serving as consultants and “focal point knowledge providers” – who are empowered to refer subscriber questions to staff elsewhere in Ernst & Young for answers). The basic referral network within Ernst & Young involves over 400 people. ERNIE makes internal payments for work done within the network, but outside of ERNIE’s own staff.

OUTCOMES: ERNIE’s web-based knowledge base has over 1000 previous questions and reports, and these are searched or accessed roughly 1000 times a month total. Over 400 new questions are asked of ERNIE each month. ERNIE was one of the recipients of the Smithsonian Institution’s Award for Technological Innovation.

SUSTAINABILITY ISSUES: Started in May 1996, ERNIE’s projected breakeven is by the middle of 2000. While longer than originally anticipated, it reflected several revisions in billing to find a form that had wide market acceptance. Pilot test users were given unlimited access, though few used the service to its limit. In the initial commercial form, the unlimited service fee was US$6,000. However, use was below expectations. It turned out that users were relatively new to the Internet and to the idea of electronic support, and tended to hold off using ERNIE. In the second form, users paid US$2,000 for 10 questions, which had no expiration date. While this approach produced a subscriber base of over 1000 firms, it also produced “hoarding” of questions by the user, and limited use of the service. The current form offers two choices: (1) A “project” package of 10 questions used within 1 year at a cost of US$2,500 and (2) A “business” package of one year’s unlimited questions for US$15,000. Although ERNIE use permits E&Y accounting services to increase services sold to clients, ERNIE gets no share of the increased revenue (which would speed breakeven). However the net gain to the organization as a whole has played an important role in continuing ERNIE despite the units’ own lengthy breakeven. ERNIE is seen as a fundamentally sound longer-term investment in its own right, with an expected positive cashflow, and several synergistic benefits to the parent organization, notably increased opportunities for services sold to existing clients, and an important new source of SME clients (the 20% of ERNIE subscribers who are not E&Y clients).

Good Practice Example 2: Email Consulting For Everyone– SCORE’s Email Service

DESCRIPTION: This is an example of a best practice with a simple goal – to provide consultation to current and prospective small business owners, for free, on any topic, via email. The Service Corps Of Retired Executives (SCORE) is a government agency in the United States which provides consulting services to SMEs and individuals interested in starting SMEs, traditionally through face-to-face consulting. One local SCORE group began offering services via the Internet using email in 1996. The program was so successful that the national SCORE organization began to offer the service throughout the system in October 1997. Within six months of its introduction, for those consultants within the email network, online work now accounts for over 10% of consultants’ contact hours with clients. It is arguably the most used SME-focused email consulting service on the Internet.

PROGRAM STRATEGY: Within SCORE there is a volunteer network of consultants willing to take cases via email. The network involves over 800 of SCORE’s 12,400 consultants.

TARGET MARKET: The service was originally intended as a means of making assistance available more widely and with fewer time constraints. Seen this way, it was hoped that the working poor would have greater access via the Internet than through normal office visits. It was found that the type of client who uses the Internet is more likely to be an established SME owner, and probably one with substantial experience in business, as well as in the Internet. Consultants report that email clients are usually better prepared to
discuss their problem and needs than clients seeking face-to-face assistance. The questions are usually specific enough that only one round of exchange is needed. Approximately 64% of all cases are handled with a single exchange (client to consultant, consultant to client).

RESOURCES & TECHNOLOGY USED: The system relies on existing email using conventional networks. Email cases are made available from a central site for selection by consultants. Not all of SCORE’s consultants have wanted to work with online clients. In fact, currently only one in sixteen SCORE volunteer consultants is willing to take clients via email.

OUTCOMES: As of February 1998, SCORE was reporting 2500 email contacts a month, but given the growth of the service was estimating nearly 40,000 contacts for 1998. For consultants in the email network, approximately 10% of their 80-cases-a-month were handled via email after only six months of operation.

SUSTAINABILITY ISSUES: In many ways, the use of email speeds the consulting process. Consultants can handle a case more quickly online than in telephone or face-to-face interviews, so the number of cases a consultant could handle in a day would increase, although this has not happened in SCORE so far. The cost of serving a client via the internet is also believed to be less than using telephone or face-to-face modes, given lower long-distance costs, and minimal overhead expenses for email-based consulting. As a government agency, SCORE’s program as a whole continues to be funded. Given the low incremental cost of the program, its impressive utilization statistics, and its ability to enhance meeting mandated requirements to provide service all over the country, the program has a priority for continuation within SCORE.

Good Practice Example 3: Multimodal Training for SMEs in Finland – University of Oulu’s LearnNet

DESCRIPTION: This is a university outreach program focusing on developing high-technology firms in Finland. Done in three phases, phases one and three are done in face-to-face sessions on the campus. During phase two, the Intranet based service is used as a message board and as a means of delivering direct consulting services to participants in the program. The EU under the TELSI Program funded the program.

PROGRAM STRATEGY: The goal was to create a flexible environment to support diverse efforts by high technology SMEs to develop new capabilities, competencies or markets in partnership with the University and through strengthened peer supports. The idea was to lay the foundation for these supports in face-to-face encounters at the University, and then use the Internet to continue the relationships with the University and among the SME participants themselves. In phase one participants engaged in technical training. This preparatory phase is actually one of the most important parts in ensuring the quality of the LearnNet process. During this phase participants define goals for their firms after presentations by the lecturer-consultants and discussion among the SME owners. They prepare detailed plans during the two-day phase one meeting. The SME owners take these plans back with them for implementation during a one-month period. During this time the University links them to the University and the other SME participants through an Intranet maintained. The Intranet consists of email, a bulletin board system, and a website with materials for upload and download by participants and potentially useful hypertext links. During this phase, the university staff provide consulting assistance via email and program downloads. In addition, peer discussion has shown to be a major source of support during this period. At the end of one month, the participants return to the campus to discuss their development efforts, evaluate these, and lay a foundation for ongoing work.

TARGET MARKET: While ostensibly aimed at high-technology firms in Finland, the consultants see the process as applicable to any firm with the access to and requisite experience in utilizing Internet technology (although this itself might be taught in an extended first phase program or by on-site visit by the consultants or subcontractors). The University is currently seeking overseas partners to diffuse the program elsewhere.
RESOURCES & TECHNOLOGY USED: The program builds on the University’s existing computing infrastructure, using existing web servers and using the email functions built-in to the TELSI-software. Participants need a personal computer and a modem to access the University’s system. The only software required is a browser. The program uses two lecturer-consultants per group of 15-20 people, with one visiting SME owner who serves as an example firm for the new participants.

OUTCOMES: The program included measures of participation, participant learning, feedback and costs of cycles. The program operates with a grant of FIM1,200,000 from the EU, and covers other costs using various forms of administrative overhead and contributed services, which are only now being fully documented to determine the true cost of replicating the program without donor support. The Internet learning environment TELSI, was developed at the University and made available for the LearnNet program at a cost of 30,000 FIM per year.

SUSTAINABILITY ISSUES: The model for the program has worked out enough that its leaders see the approach as the University’s basic model for future distance education and training for executives. Such programs would be implemented if they can project being self-supporting within a reasonable time. The Oulu team notes that many of the firms applying for such training in the future might themselves be supported in part by direct EU grants, complicating the sustainability assessment somewhat.

Good Practice Example 4: Expert Assistance via the Internet – University of Victoria’s ICVE

DESCRIPTION: Begun as a series hard-copy exercises in 1992, the ICVE compendium was converted to a computer-administered expert system in 1995, and was completing beta testing of its World-Wide-Web based delivery system in October 1998. Building from three modules - on startup expertise, new venture viability assessment, and venture environmental assessment - the tool system is a best practice of the application of expert assistance systems to the delivery of specific expert-based assistance to SME owners and potential owners tailored to their needs and level of knowledge. When presented with a client’s question or problem, the system assesses the knowledge base of the user, provides missing training via the web, and when the user is “qualified” in terms of background knowledge, provides the user the “answer” to the question or problem. It is positioned between the person-to-person direct consulting via the Internet, and the unspecific data access services such as Strategis and SBA Online. The ICVE suite of programs leverage the knowledge of experts, provide advice to the user’s knowledge base and problem, and do so directly to the individual, but without consultant involvement in each individual case.

PROGRAM STRATEGY: The ICVE tools compendium is designed not as an expert system per se, but as a set of expert assistance tools, providing supportive services and training to SME owners through an automated process linking the individual to the expert assistance tools directly. The tools are all designed to be entered only after online assessment of the individual’s knowledge level by the program. The programs also tailor outcomes and activities to the specific issues and knowledge gaps of the individual client, so different clients will receive different advice, depending upon their situation and capabilities to utilize the tools.

TARGET MARKET: The ICVE component programs are themselves targeted to people at different stages of the SME creation cycle. Individuals, without prior preparation or learning can immediately use the start-up expertise evaluation module. The venture assessment module looks at 15 SME-level attributes, and requires the assessing individual to have conceptualized, if not actually created or pilot tested the business itself. The venture environment modules require the individual to have conceptualized or operationalized the business to the extent of knowing about specific external aspects of it (e.g. the market, the stakeholders, etc.). The venture assessment and venture environment modules are targeted at existing SME owners or potential SME owners who are advanced in their development of the business idea, and have the major elements specified (e.g. the three key factors within an environment that affect a key SME outcome). It is also useful for venture assistance intermediaries such as counselors or accountants. The knowledge bases and expert algorithms are derived from work done primarily in North America, although most elements of the underlying theories have also been found to operate in various Pacific Rim countries (Australia, Chile, China, Mexico, Japan, Russia), with tests in the remaining G7 countries underway.
RESOURCES & TECHNOLOGY USED: The tools compendium is a Visual Basic program converted to HTML code for the web, and runs on a conventional server. The program provides its own database and knowledge management capabilities. Supporting the program development phase are six people (a coordinator, 3 research academics, a programmer, a network administrator, and a secretary). Maintenance level support requires at a minimum a programmer (10% time), network administrator (10% time) and secretary (50% time). Development using existing technologies and knowledge base (e.g. for new modules) would cost approximately CAN$300,000 over one year, while maintenance would cost approximately CAN$50,000 a year. It should be noted that the total project, started almost 10 years ago, completed a detailed assessment of costs to date, and found the total development cost has been in excess of US$1,000,000 (CAN $1,500,000).

OUTCOMES: Three outcomes are expected from the project: (1) Better prepared entrepreneurs; (2) Better built ventures, and through these two outcomes (3) Better conservation of venturing resources (i.e. fewer business failures). The paper and pencil and computer-based versions have been evaluated for two of the assessment and training components. The start-up profile has been tested with over 2,000 individuals in the seven countries mentioned above, and has been shown to increase levels of venture expertise, as measured by the assessment instruments and self-reports of a sample of respondents (80% respond affirmatively to the statements “The profile accurately describes me” and “The profile gave me useful information”). The venture assessment module has been tested in large, medium sized and small companies. The most exhaustive study, using three Fortune 500 firms’ new venture units, showed use of the template saved at least US$10,000,000 for the participants. Similar trends were evident in smaller firms, but the lack of similarly rigorous accounting systems limited similar types of assessment. The environmental module has received the least testing to date, but again the most exhaustive test resulted in reports of improved assessment by 80 chief executives from Fortune 500 companies, with tests in SMEs currently underway. Since the World Wide Web based system is not yet available, outcomes of this service are not yet known.

SUSTAINABILITY ISSUES: The University of Victoria has found that the tools compendium could be supported using sales of customized, contracted or licensed versions of the software to for-profit companies concerned with SME development, business finance, or a customer based of SMEs. They are also exploring the per-use charging of SME owners or potential owners for extensive use of the full system, although elements will remain free for general use. Along these lines, versions of the software could similarly be supported through grants from government or NGO BDS agencies.

IV. THE LESSONS FROM GOOD PRACTICE

Lesson 1: Internet-based Consulting Will Be Used By Only Some Eligible SME Owners or Potential Owners

For Cases 1 through 3, it was evident that the group of SME owners willing to use the Internet based services is a small portion of the total population served by any of the services. ERNIE’s clients represent only a fraction of their sophisticated audience. SCORE’s observation is that email users are more prepared, more experienced than the client pool seen face-to-face. LearnNet’s target audience are technology driven firms, and while there are people eager to use the service, demand is strong only in a fraction of the target audience. None has studied yet the differences in their Internet service users and other clients, but there are some answers suggested by work in related domains. The key issues are prior experience with technology, particularly computer technology and Internet technology, and access to the Internet itself.

The kinds of SME owners or potential owners most likely to use the Internet to receive help with computer related hardware or software problems, according to studies such as the ASP (1997) report, are people in high-technology firms, or technology-driven firms. These are businesses, primarily in manufacturing and supporting services, which already require the utilization of computer-based technologies or advanced manufacturing or service delivery processes to accomplish their aims. Specifically, these include,

- Businesses in the computer industry
• Manufacturing subcontractor firms linked to main contractors by EDI systems - usually technology-driven companies. (EDI stands for electronic data interchange and describes an electronic communication standard for moving commercial information – such as financial information or order or designs - over a dedicated network.)

• Media and advertising related industries

• Financial and insurance firms

A second segment of firms likely to use the Internet at higher than average rates will be called technology-forced firms. These firms come to Internet use through demands of major customers, suppliers or financial institutions. Specifically, they include:

• Companies engaging in electronic commerce - the vast majority of which are themselves selling computing, web and marketing related goods and services.
• Companies required to use EDI for transfers to customers, financial firms, or government agencies.

A third segment important for SME consideration are populations likely to use the Internet, and be (or be likely to become) SME owners. These groups include:

• Students, especially college and postgraduate level, in schools with Internet access
• Current SME owners in countries where assistance is not equally available, e.g.:
  • Women
  • Cultural/Ethnic/Religious Minorities
  • Foreign nationals ineligible for local services
  • People in rural areas where services are substantially less available

The actual levels of use in these three segments can vary dramatically. Among technology-driven firms, Internet use is reported to be very high (virtually 100%), and is generally widespread throughout the organization. Many individuals have equipment for connecting, and have expertise in its use. In Technology-forced firms, Internet or EDI use is mandated by an important outside agency - a major customer or lead contractor, the bank with whom a firm deals, or a government agency. Often in these cases, Internet use may be very intense, but it is focused in a few (or even one) areas rather than being diffused through the entire firm. For example, the accounting department or the purchasing department may be using the Internet, while the rest of firm does not.

Among individuals, college and postgraduate students represent a major source of Internet use, and one that will likely continue once they enter the workplace. Their use of the Internet tends to be very widespread and fairly intense overall. The remaining group is one in which the Internet is seen as a source of last resort. For many such people, help is not readily or equitably available, and the Internet offers access to information and helpful resources otherwise unavailable. In such groups, the incidence of Internet use can be quite intense, but is a relatively rare occurrence in the populations being observed.

In every one of these segments is also important to recognize that SME owners and potential owners will also vary in their willingness to seek assistance and the types of assistance they are willing to pursue. For example, SME owners surveyed in Kazakhstan (Zhuplev et al., 1996) indicated that their preferred source of help was other business owners, with nearly 90% of surveyed owners using such a source. Other highly rated sources were impersonal, such as lectures by experts and books; each with nearly 80% reported use. Computer programs and videos were used by only about 50% of owners, among the least popular categories, despite being impersonal. These results were also seen in the general business market in the ASP study of North American software assistance.

It has long been known that SME owners and managers (Mintzberg and Quinn, 1996) favor dealing with people to dealing with technologies. Zhupelev's work suggests that if technology is the only way, they prefer books to electronic technologies. Jones et al. (1990) using an American sample suggests that the kinds of help SME owners will seek might differ depending on the consultant type. For example, in their study, SME
owners came to free government sponsored consultants more with problems related to marketing and operations, while going to private (for-fee) consultants more often with issues regarding raising credit or capital. Along these lines, Jones also noted that those seeking free help had smaller firms than those seeking commercial, for-fee, help. SME owners with experience using free consulting services rated them much more positively than those who had not used the services.

It will remain critical to understanding the role of Internet-based business development services to recognize that at least in the short-term (1998-2001), the users of services will concentrate in certain predictable segments of the population of SMEs, rather than its totality. However, as Internet use grows, a broader population of SMEs will come to use the Internet, but it will never likely be universal.

**Lesson 2: The Target Market is Extremely Price Sensitive**

This lesson is critical to financial sustainability of Internet-based services. SCORE’s experience has been that there is a large demand for free email based consulting services. But the ERNIE project found that pricing structures and pricing levels had a profound impact on the number of participating companies, but more importantly, on the manner in which the Internet-based services were used. Per-question fees produce low response rates. Multi-question “package” fees produce hoarding of services against some imagined future problem. Unlimited questions work, but seemingly only when put within a defined timespan. Oulu has reported that participant cost is an issue, even at levels far below the actual market cost of the project. Once SME owners participate, they are less sensitive to the cost issues, but at the entry stage, price sensitivity is high. The Canadian experience has been that it is easier to obtain third party financing of services, via government or commercial sponsors, than try to bill SME owners for services. However, they plan a program of active experimentation to attempt to find a vehicle for individual owner billing.

It is important to note that price sensitivity cross-nationally is exacerbated by economic fluctuations. With Western (particularly US) currencies at near historic exchange rate highs, pricing direct consulting services at rates capable of providing cost-recovery in the USA or Western Europe could price Internet based services prohibitively for SMEs in much of the rest of the world.

Lesson 3: Placing Internet Based Services Amid A Collection of BDS Delivery Modes

LearnNet and ERNIE both purposefully design their Internet consulting efforts to fit within a framework of other SME consulting supports, delivered in more traditional ways. While SCORE does not link its email service clients to other services, SCORE does have them available also. Both Oulu and Ernst & Young have
indicated that the blending of Internet services and conventional consulting services provide a mutual strengthening of the consulting process, and lead to strengthened implementation efforts.

Right now it appears that Internet-based consulting services are being used as an extension of ongoing consulting processes to a new modality. The advantages of this effort is that the 24 hour a day, 7 days a week availability of the Internet, the ability to time shift – storing messages for convenient review, and to include a variety of media forms (text, pictures, programs, audio, etc.) in one delivery mechanism makes Internet services a powerful support for conventional services. Indirect consulting services, such as PEOPlink’s, reinforce this finding.

This leaves open the extent to which direct consulting services delivered via the Internet will be able to make an impact without the context of a larger and perhaps more in-depth consulting process to support it. Where direct consulting services are being delivered to individuals who have Internet access via telecenters or similar organizations, there is the local telecenter-based expert to provide interpretation and implementation assistance. But for individuals with their own Internet access independent of BDS organizations, the question of effectively utilizing the information provided will remain a major question.

Lesson 4: Managing the Fit of Online Clients and Consultants

This issue is one of cross-cultural fit of clients and consultants. For all cases but ICVE, the consultants and clients have similar national backgrounds. (ICVE is designed for worldwide access, and has been tested in a variety of settings and countries, but not truly worldwide as yet.) Advice is given for people in similar cultural and economic and political settings. With the possibility of truly worldwide consulting via the Internet, the potential for misunderstanding increases.

At issue is whether the consultant truly understands the situation of the client. If a Botswanan mushroom farmer is online to a Parisian mushroom marketing expert, can the two reach a useful conclusion? The Parisian may be unaware of the situation of the Botswana farmer, and may not even know the questions to ask to provide the most effective help. The reverse is true also. The two individuals may lack a common frame of reference, a shared knowledge about business activities, even a shared language.

Issues such as these suggest that direct consulting services are likely to remain tightly focused on targeted subgroups, in an effort to provide services in settings where the client and consultant truly understand each other. Several other strategies for dealing with this concern are also evident. ICVE is using its own training modules to educate the client in the methods and language of the service providers at Victoria. SCORE limits its consulting services to clients in the USA, and routes clients to consultants with content and situational knowledge, where information on both is available. Indirect consulting services, such as BDS expert-staffed telecenters, or programs such as PEOPlink, provide a means of melding distance consulting and local expertise to translate and adapt the ideas of experts from far away. It is likely that more approaches to the problem are likely in the future, as the potential of “one world” of business is still far from being realized.

V. FUTURE POSSIBILITIES AND CHANGES IN THE TRADITIONAL DELIVERY CHANNELS.

Challenge 1: The Potential Access to Business Development Services Via the Internet

For the foreseeable future, the Internet is likely to provide only a fraction of service delivery in distance business development services. While the growth rate of the Internet in terms of users and sites is positive and exceptionally strong, growth appears to be narrowly focused to specific industries or SMEs in particular relationships (e.g. linked by EDI) or in particular locations (e.g. where high technology is highly concentrated). Perhaps more than half of SME owners in developed countries has electronic mail. However, the number who are willing to use the Internet to obtain consulting assistance - through individual email exchanges or peer discussion or chats – is likely to remain low, on the order of perhaps 10% to 15% of the population of SME owners on the Internet today. Generalized to the total population of SME owners, the
percentage would drop, perhaps dramatically. This is because the current SME owners on the Internet tend to be from the pioneer and early adopter categories, using the Internet because they are technologically oriented or because they are required to by external factors.

The strategy to keep in mind is to use the Internet, especially its information and electronic mail features and an extension of pre-existing consulting and assistance relationships. Treated as an "additional service" offered clients already using other BDS delivery modalities (e.g. in-person visits, telephone, etc.), the Internet will make the BDS organization appear more strongly client focused and service oriented. With prior relationships and back-up service modalities, the SME will be more likely to focus on the added advantages of Internet based service.

There are several promising directions for Internet technology exploitation. Most of these types of services have been underutilized in SME BDS delivery, but are in wide use in other business settings. Therefore, there are first mover advantages to those organizations that develop and deploy such Internet business development services. The two most obvious ones are:

- FAQ’s (Frequently Asked Question) sites - which are simply sites where topical answers are arranged to permit rapid searching. Such sites are very easy technologically and not costly in terms of development time or upkeep.
- WWW Broadcasts or Push Technologies - which provide web based subscribers to receive information, such as newscasts or online newsletters that are sent or pushed to the browser as soon as they are released to the Internet. This is a leading edge technology, and to be done well requires a more substantial investment in specialized servers, and more sophisticated pushed material (e.g. visually attractive documents, video, etc.).

Over the next 18 to 24 months there is little likelihood of financial sustainability of any BDS service delivered via the Internet. There are several reasons for this. First, fee-based services are competing with a SME owner mind-set of expecting free services. Adding to this, many free services (e.g. American Small Business Development Centers) will be moving to Internet soon, providing even more free service choices. Second, it will be hard to make clear amid so many free services what is the value added by any fee-based service.

Recommended: Over the next 18 to 24 months, the goals of a SME oriented Internet-based BDS should be:

1. To develop and deploy a variety of services to move the organization down its learning curve at a time when performance expectations are low, especially in light of what competitors expect from their Internet investments.

2. While expanding service offerings, decrease the cost of basic support services delivery, through such techniques as using the Internet as a means of automating response (such as through ICVE’s expert assistance system or simply via email autoresponders), or offloading communication costs to inquirer (owner downloads and prints pamphlet so BDS saves printing and mailing), or using the Internet as a way of leveraging existing materials in multiple locations. For example, a set of technical reports can be made into a website and made inexpensively accessible (and immediately updateable) for all BDS sites accessing it.

3. Developing BDS organizations’ Internet awareness and capabilities via exploratory development of one or more virtual support centers also called telecenters (http://www.telecenter.org/ for the USA, http://www.telecentres.com/ for UK). These centers would be sites with servers and fast connections or with connection to a server, perhaps located elsewhere (where telecommunications costs and service are optimal). The Internet site may operate with material culled from other resources, as well as material specific to the Donor Committee’s site. To gain awareness and high usage rates by SMEs in the region, the center should focus on offering SMEs and potential SMEs three types of assistance: (1) Internet services, (2) Training to take advantage of Internet services, and (3) General business training (e.g. start-up issues,
sales, etc.). Such a model has been pioneered with the Merseyworld Project at the University of Liverpool (http://www.merseyworld.com/home.html) as well as the UK- Powys sites (http://www.telecentres.com/tpcont.htm), and seem ready for a broader application.

Challenge 2: Identifying and Targeting Specific SME Audiences

As noted throughout this report, the Internet is not drawing SMEs or their owners universally. People and firms in certain types of industries or SME settings are using the Internet more than the typical SME firm or owner. Any BDS using the Internet, at least in the short-term, will need to recognize that their service market will be systematically different from the typical SME firm or owner.

The fundamental SME client markets will be (1) computer related industries, (2) high-technology industries, (3) EDI-networked firms, (4) education related industries, (5) financial services industries, (6) media related industries, and (7) electronic commerce based retailers / wholesalers. Among those markets, SME Internet user preferences are likely to include:

- Searching for specific existing information, more than browsing
- Browsing discussion or FAQ or Ask the Expert Archives, more than becoming interactively involved
- Become interactively involved with other business owners, more than with experts
- Posting a question, more than becoming involved in a long service engagement incident.

Based on the pioneering Internet based consultancies mentioned earlier, it is likely that client acceptance will be generally higher where the client is open to being helped. Such individuals tend to come from larger, more successful firms or personal careers, tend to have positive prior experiences in collaborative ventures, and tend to make use of other kinds of services (legal, accounting, etc.). Internet clients reporting satisfaction are individuals who can articulate their problem accurately (or have a problem that is simple), are located in an area marked by intensive high-technology activity, and are Internet experienced and connected to the Internet.

There will remain during this period targets of opportunity. These are pockets of individuals or firms who will use Internet-based BDSs where chances are otherwise ordinarily not high. These include individuals who have no alternative (e.g. someone who lives too far from face-to-face help), or who see the Internet as providing unique help (the exact expert needed is online), or where the individual seeks information with anonymity.

In all of the above situations - optimal as well as opportunistic - feasibility can be improved by adding other technologies to the mix (e.g. face to face, phone, etc.), using the Internet to supplement traditionally delivered types of services, and providing a site, which introduces potential clients to the Internet (ala Merseyworld).

Challenge 3: Providing Internet Based Consulting To SMEs In Developing Countries

On balance, the ideas presented in this report suggest that it makes sense to use the Internet to deliver at least some BDSs to Developing Countries. Other parts of this report identified the most obvious delivery technologies (email and the World Wide Web), as well as underutilized technologies with potential for disproportionate impact (FAQ’s and Push or Broadcast Technologies). It was suggested that any delivery method would be better received if it were integrated into a package of BDS services including traditional methods of development such as training, and in-person consultation.

Technological issues will be the source of much of the problems SMEs in Developing Countries may face using the Internet. Telecommunications remain problematic and potentially costly, especially for intensive Internet technologies such as servers and the World Wide Web.
The report has sought to identify the human elements complicating the Internet-based delivery of BDSs. These issues include resistance to using email for sensitive material, such as business problems, and a seeming reluctance for many on the Internet to use email instead of telephone and in-person visits to discuss and solve business problems. It is also critical to note that the population of SME Internet users is not representative of the population of SMEs and their owners in general. Internet-using SMEs tend to come from specific industries or from specific, predictable, situations. For the next two years or more, the Internet will be a delivery mechanism available to only a portion of the population of SMEs.

Considering these limitations and their severity, the positives outweigh the negatives. Many of the existing Internet-based informational BDSs have exceptionally high usage rates. SME owners applaud the convenience and low cost of the Internet itself (putting aside the cost of connecting to the Internet). When combined with other BDSs, Internet technologies greatly enhance the value of the total BDS service package provided SMEs, as reported by the clients. The Internet also provides faster response than traditional mail, and usually at lower cost. Taken together, there are few SME owners who stop using the Internet once they become used to its peculiar culture and opportunities. Recognizing that the Internet, especially the World Wide Web, is seen as a "hot" or desirable medium in general, and a popular venue for big and small business, most SME owners report they will be increasing their, and their firms', involvement in the Internet.

For Business Development Services, the opportunity exists to expand services and to expand awareness of services through the use of the Internet. There exists at this time a window of opportunity, with relatively low entry costs, relatively flexible and ambiguous expectations from users, competitors, and sponsors about the optimal purposes or outcomes of Internet use, and a marked atmosphere of collaboration by those who use and develop the Internet. It makes a near-perfect time for BDS organization to enter this arena, learn the technologies, forge alliance for the future, and lay a foundation of Internet-based services for the future.

V. SUMMARY

This work began in an effort to answer three simple questions. First, should the BDS use the Internet to deliver services to SMEs, particularly consulting services? Second, if they should, what are the arguments in favor of Internet use? Third, are there any special opportunities or particular pitfalls to be faced using Internet based BDS services, especially those which entail consulting to SMEs via the Internet, what has been called direct consulting in this paper.

The answers at this point are unambiguous. In response to question one, yes, BDS organizations should use the Internet to deliver services to SMEs. Growth of Internet use by SMEs in the developed countries is growing at unprecedented rates. It is also growing in terms of the degree of sophistication, as users quickly move from using electronic mail and browsing World Wide Web sites to having WWW sites of their own, and implementing electronic commerce enabled website with only one or two years. And because of the worldwide nature of the Internet, electronic commerce lowers the cost of international sales to unprecedented levels. These factors facilitating growth will promote and eventually sustain SMEs (and eventually BDSs delivered to SMEs) in developed nations. For SMEs in developing countries to remain competitive in the world market, they will need to use the Internet for commerce, and to be successful in this effort, they will similarly need BDSs delivered using the same medium.

To answer the second question, there are three factors favoring Internet use for BDS delivery:

Used as a complement to existing Business Development Services, using the Internet to provide consulting assistance reinforces existing relationships, and shows to clients a high level of client service on the part of the BDS organization. It has the potential to support services delivered using other modalities, by providing a means for SME clients to ask questions between visits or calls by consultants.

The second factor is convenience. When used as a stand-alone service, direct consulting services offer SMEs a way to time shift, seeking help and receiving help at times convenient to their schedules and business activities. These services also make possible consulting using varying degrees of anonymity. When
using email, clients can tightly control how much information about themselves or their businesses that they
give to the consultant. This permits SME owners or potential owners who are leery of being seen receiving
consulting help to get help in a manner comfortable to themselves. For potential SME owners, concerned
about employer reaction to the prospect of losing an employee, such a service may be the best way to
receive needed help.

The third factor is that Internet based consulting permits richly supported interchanges. This richness has
human and data forms. As a low-cost worldwide network, the Internet makes possible direct contact
between consulting experts and clients to a previously unheard-of degree. These contacts are inexpensive,
relatively quick, and not necessarily intermediated by organizational gatekeepers. Moreover, it becomes
easy to gain assistance from multiple experts with only minor additional work on the part of the SME
owner, permitting potentially a more in-depth or more extensive list of services. Similarly in dealing with
data, the transparency or simplicity of including electronic connections to data from the WWW, through
hypertext or attachments, makes possible the support of person-to-person consulting with volumes of
electronically stored data, again potentially enriching the depth of help offered SME clients.

The opportunities and pitfalls identified in the third question are each impressive. As an opportunity,
Internet based BDSs offer the potential for significant leveraging of existing resources. Expertise in one
location (or in one BDS organization) can be made available to SMEs worldwide. Existing support
documents can be leveraged through their electronic dissemination. Consulting assistance can consist of
person-to-person electronic contacts, document sharing, remote computing, telephony, video and database
access, all using the same computer. The cost of doing this can be low if the BDS organization makes the
right technology and strategic choices. The pitfalls are also impressive. While electronic payment systems
are available, getting SMEs to pay for Internet-based assistance is problematic. There is also no clear model
for handling interorganizational, or even intraorganizational costing of consultant services delivered via the
Internet. For SMEs, there is a steep up-front cost to have Internet access (i.e. a computer, modem and
Internet account), although community-based approaches such as telecenters can mitigate this. Online
assistance may not be helpful if the cultural differences between the consultant and client are too great, or
the client has inadequate background or support to implement the consultant’s suggestions.

What underlies all of this is the simple fact that SME consulting via the Internet is in its infancy. It appears
promising from the standpoint of leveraging intellectual capital, organizational resources, convenience,
cost, and speed. Right now it seems easier to implement as part of a package of consulting services
delivered in person as well as via the Internet. It also currently seems easier to implement when limited to
consultant-to-consultant assistance. However, government organizations, NGOs and for-profit firms all see
potential for consulting services delivered directly to SME owners and prospective owners, and initial
response in developed countries support this. The next challenge is to continue watching the modality as it
develops, awaiting a form of direct consulting that achieves legitimacy among clients, consultants, and
sponsoring organizations. This legitimacy will be reflected in widespread acceptance of the approach,
strong institutional support, high customer satisfaction and BDS financial sustainability. It is likely to
happen, and probably in the next two years, but at this time despite some promising Good Practice
examples, it is not clear where the breakthrough will occur. But it is possible to see the potential and the
general forms of the solution to come from these examples from the infancy of Internet-based consulting.

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