MICROCOMPUTERS AND SMALL BUSINESS - A MARKET SURVEY

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The findings of a large-scale mail survey appear to indicate the existence of a rapidly growing near-term market for microcomputers. Almost one-third of the firms currently without a computer are planning to computerize some aspect of their business. Roughly three-fourths of the respondents indicate that there is probably a need for a computer in their business. A much larger percentage of respondents in the group where employees range from 11-99 plan to install computers than in those businesses under 11 employees. There appears to be no difference between the urban and rural firms regarding plans for computer installation. On the supply side, small businesses are generally unhappy with the EDP support services available to them. A substantial proportion of the small firms using computers are critical of services provided by their vendors. Clearly the issues may not be size of the market but whether the industry is willing to provide the appropriate services to this market.

Introduction

Since the introduction of the first commercially successful microcomputer in 1977, the personal computer industry has experienced exponential growth rates. In recent years, increased competition and changing technologies have advanced the microcomputer industry into competitive turmoil. Narrow profit margins and lower growth rates have fueled price wars and increased consumers' sensitivity to product quality and service ability. One niche that appears to have been neglected is the segment occupied by small businesses -- concerns with under 100 employees. Recent research has examined the opportunities available in the small business environment for both microcomputer sales and third party services.

The overall computer industry was expected to grow at a modest rate of 6 to 9% during 1988 (Lyons, 1988). However, revenues for the personal computer (PC) market should out-pace the rest of the industry, increasing by 12 to 18%. By 1991, PCs will increase their share of the total computer market from 24 to 28% (Lyons, 1988), while only 40% of small businesses are using computers (Teresko, 1986). This data indicates a large market for future sales in view of the potential need for computerization in small firms.

In another recent survey (Nickell & Seado, 1986), managers of small businesses not
currently using computers were asked if their business would begin to use computers within the next five years. Sixty-five percent said yes, seventeen percent said no, and seventeen percent indicated that they did not know. The same survey asked individual owners of small businesses that currently used computers if they forecast an increase in computer purchases within the next five years. Sixty-six percent indicated that their businesses would buy more computers, fourteen percent said they would not, and ten percent said they did not know. These results pointed to a strong future demand for microcomputers in small businesses.

In the manufacturing sector, many small companies are at a critical point in their overall corporate strategy. According to Mitchell (1986, p.98H), "automation has been more of a ripple than a wave among small manufactures..., not only do small companies create the bulk of new jobs, but they also account for a hefty share of total output." In many instances, manufacturers have shown increases in revenues, quality, and efficiency through the use of personal computers. Frost, Incorporated, experienced a 66% increase in sales per employer, a rejection rate of 1 part in 200 as compared to 1 part in 4, and an increase in revenues of 30% after their plant implemented computerized manufacturing (Mitchell, 1986). Another study (Cooley, Walz, & Walz, 1987) shows that the primary applications for microcomputers in small organizations include accounting, budgeting, inventory control, and word processing. A recent survey ("Small business use", 1986) found an increase in ownership and use of personal computers by top management in small businesses. That same study also showed an 84% use of personal computers for word processing, 51% for financial modeling, and 49% for accounting.

Some small companies are stepping down from smaller minicomputers to the personal computer. For example, Echlin, Inc., an automotive parts manufacturer, is converting from an IBM 4381 environment to one based on microcomputers of the IBM AT type. The company expects to achieve $300,000 per year in reduced hardware and software maintenance costs (Sullivan-Trainer, 1987). We can anticipate other small companies to follow suit when they realize that microcomputer technology has caught up to and in some cases surpassed the older mini-computer technology of a few years ago. This strategy allows the smaller company to save on both the cost of the system hardware as well as the maintenance and future service costs.

Vendor service and support is another market area that offers opportunities for third party maintenance organizations. Margins in microcomputer service range from 2 to 6% (Field, 1986) and are significantly lower than in other sectors of the computer industry. Nevertheless, the third party services segment is growing and is expected to continue this growth at 20% per year through 1990.

One major obstacle to penetrating the small business service market is the presence of competition, mainly from IBM. In the past, IBM has not provided direct support to the end user who owns a personal computer (Stoll, 1988), but instead provided support through its retail outlets. This left personal computer customers with the impression that IBM did not value the small buyers, and to some extent they were right. With IBM's new focus on systems integration which is directed at linking mainframe, mini, and microcomputers, the personal computers are now part of the entire system service package.

Even with IBM's new commitment to service, there still remains a large segment of small users that own IBM compatible computers or have specialized support problems that require more assistance than a larger vendor has time to offer. IBM announced that "the dealer is ultimately responsible for support" (Seigman, 1988), and with three standard operating systems and four major operating systems, dealers are finding it increasingly difficult to stay informed on all the new applications.

Frederick Polakoff, a New Jersey accountant, is a small business user who had specialized problems that his vendor was reluctant to