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Small Businesses –  
Using Broadband to Spur Iowa's Economy



October 2012

Small businesses are the backbone of Iowa's economy. Across the state, small businesses represent nearly 9 out of 10 private sector employers, employing more than one-half of Iowa's private sector workforce.<sup>1,2</sup> A key driver for these small businesses is broadband service.

The Internet has become a quintessential element for many businesses. The Federal Communications Commission's National Broadband Plan noted that more than one-half of small businesses increased the speed at which they accessed information, cut down on communication costs, and increased their efficiency by using web-based technology.<sup>3</sup> Broadband has become so integral to today's business environment that many small businesses say broadband ranks as important as essential services like water, sewer, or electricity.<sup>4</sup>

To explore the impact of broadband on small businesses in Iowa, Connect Iowa surveyed 804 businesses, including 407 small businesses with fewer than twenty employees. The findings show that many small businesses across the state are using broadband to increase their revenues, attract new customers, and stay in touch with their current customer base.

### Small Businesses in Iowa

Small businesses and entrepreneurs are the engine of Iowa's economy – statewide, nearly 87% of the business establishments in Iowa are small businesses employing fewer than twenty employees.<sup>5</sup> As of 2010, there were nearly 70,000 small business establishments in Iowa, employing over 334,000 Iowans.<sup>6</sup> For many of these small businesses, broadband represents a means to stay connected with their customers and compete in the global market.

### Among the findings from this survey:

- **Nearly three-fourths** (72%) of small businesses in Iowa employing fewer than twenty employees subscribe to broadband service for their business operations.
- **More than 90%** of businesses in Iowa that are operating without broadband service are small businesses.
- Healthcare sector businesses in Iowa with fewer than twenty employees subscribe to broadband and use computers for their businesses **more often** than other businesses in the state.
- Approximately **18,000** small businesses in the state of Iowa allow their employees to telework from home.
- The annual median revenue among small businesses with broadband is **\$200,000 higher** than businesses without broadband. Furthermore, online sales among small businesses in Iowa account for approximately \$1.9 billion in annual sales.
- More than **two out of five (41%)** small businesses without broadband service reported they don't need the service or are getting by without the service.

1 2010 United States Census County Business Patterns Report, <http://www.census.gov/econ/cbp/>

2 Iowa Economic Development, [https://www.legis.iowa.gov/DOCS/LSA/Docs\\_Filed/2012/DFJYD018.PDF](https://www.legis.iowa.gov/DOCS/LSA/Docs_Filed/2012/DFJYD018.PDF)

3 National Broadband Plan, <http://www.broadband.gov/plan/>

4 US Small Business Administration, [http://www.sba.gov/sites/default/files/rs373tot\\_0.pdf](http://www.sba.gov/sites/default/files/rs373tot_0.pdf)

5 US Census, County of Business Patterns, <http://www.census.gov/econ/cbp/>

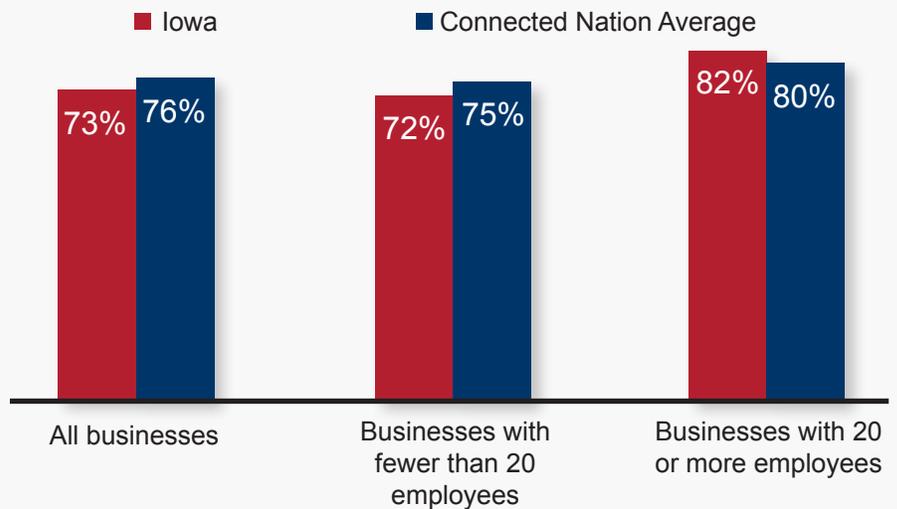
6 <http://factfinder2.census.gov/faces/nav/jsf/pages/searchresults.xhtml?refresh=t>

Connect Iowa's 2011 Business Technology Assessment finds that more than seven out of ten Iowa small businesses with fewer than twenty employees (72%) subscribe to broadband service (Figure 1). This figure is slightly below average for small businesses in states surveyed by Connected Nation.

This figure is also significantly lower than the 82% of larger Iowa businesses (those that employ twenty or more workers) that use broadband. This means an estimated 20,000 small businesses are still operating without broadband service, compared to

approximately 2,000 larger Iowa businesses. Altogether, more than 90% of Iowa businesses that do not use broadband are small businesses with fewer than twenty employees.

**Figure 1.**  
Broadband Adoption Rates among Iowa Businesses



### Small Businesses by Type, Sector & Location

Broadband adoption and computer usage rates differ between different types of small businesses, including home-based businesses and businesses that are owned by women. These differences, as well as differences between small businesses in different industry sectors, suggest that the benefits of broadband service are not being experienced equally by all Iowa small businesses.

According to Connect Iowa's Business Technology Assessment, 85% of small business establishments (those with fewer than twenty employees) use computers for their business needs, while 72% of these small businesses use broadband service (Table 1). By comparison, only 63% of small home-based businesses in Iowa use broadband, while 64% of businesses that are owned by women do so.

Small businesses in the retail trade, food, and lodging sector are at the bottom when it comes to broadband utilization, with only 59% of small businesses using broadband. Small businesses in the professional and financial services sector are the most likely to use broadband.

**Table 1.**  
Technology Usage among Small Businesses In Iowa

Iowa	Businesses that Use Computers	Businesses that Use Broadband
All Small Businesses	85%	72%
<b>By Type</b>		
Home-Based Small Businesses	77%	63%
Women-Owned Small Businesses	79%	64%
<b>By Industry Sector</b>		
High Tech	94%	81%
Agriculture/Mining/Utilities/Construction	86%	67%
Manufacturing	82%	76%
Wholesale Trade/Transportation	80%	72%
Retail Trade/Food/Lodging	71%	59%
Professional/Financial Services	93%	87%
Healthcare Services	91%	76%
All Other Services	91%	72%
<b>By Location</b>		
Non-Rural Iowa	89%	71%
Rural Iowa	81%	73%

The retail trade, food, and lodging sector is also the lowest when it comes to small businesses using computers for their daily business functions, while small businesses in the high tech sector are the most likely to use computers across all the business sectors. It is noteworthy that small businesses in the healthcare sector subscribe to broadband and use computers more than the state average.

Small businesses located in rural Iowa counties utilize broadband at rates similar to the state average and slightly higher than non-rural small businesses. On the other hand, computer usage is lower among rural small businesses.

### Benefits of Broadband for Small Businesses

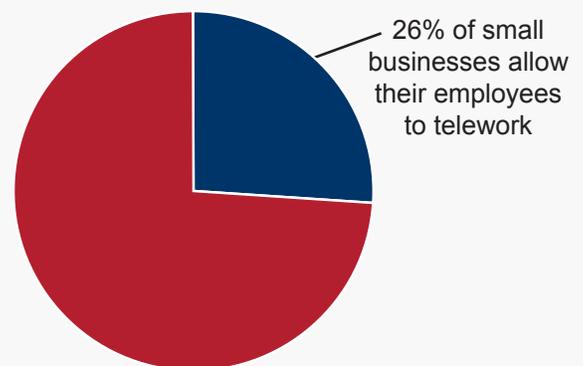
There are numerous advantages that broadband provides to businesses, such as the ability to telework, to have a website, to operate more efficiently, and to earn revenues from online sales.

#### Teleworking

One of the advantages of broadband technology is the ability to work from home, which could significantly reduce or eliminate commute times for employees, while also eliminating the need to acquire physical workspace by the employer. According to a US Census, Iowans with a full- or part-time job spend 36 minutes per day commuting round-trip to and from work.<sup>7</sup>

Connect Iowa's Business Technology Assessment shows that more than one-quarter of businesses with fewer than twenty employees (26%) allow their employees to telework. This translates into approximately 18,000 small Iowa businesses that allow their employees to telework from home.

**Figure 2.**  
Teleworking among  
Small Businesses in Iowa

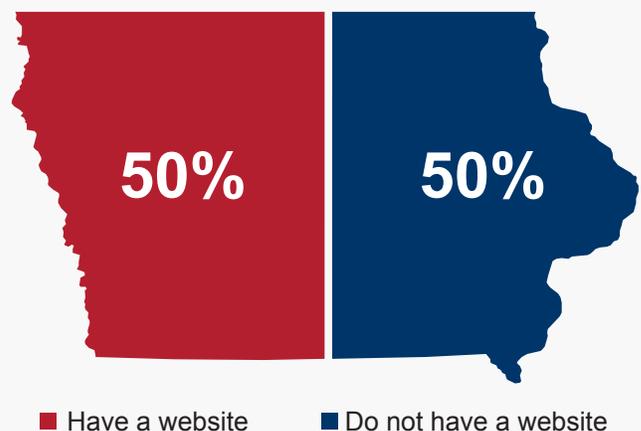


#### Website

It is essential for businesses to have a website in order to advertise and attract new customers in today's competitive marketplace. In Iowa, 53% of all businesses across the state have a company website.

Still, one-half (50%) of small businesses in Iowa are still operating without a website (Figure 3), compared to only 25% of larger businesses. This means that nearly 35,000 small Iowa businesses do not have a website, including approximately 18,000 that already use broadband service for other tasks.

**Figure 3.**  
Small Iowa Businesses with Websites



#### Online Activities

Broadband provides numerous opportunities for businesses to improve their functionality by gathering customer feedback, advertising to a global audience, and posting jobs that can be accessed by millions of potential applicants. These activities save time and money, making broadband service worth the investment price for many small businesses.

<sup>7</sup> US Census, <http://www.census.gov/compendia/statab/2012/tables/12s1100.pdf>

**Table 2.**  
Online Activities among Internet-Connected Small Businesses

	Iowa Small Businesses	Connected Nation Average of All Small Businesses
Purchasing or placing orders for products or services	80%	79%
Communicating with your current customers	73%	78%
Researching ways to make your business more efficient	63%	70%
Marketing and advertising of products and services	57%	63%
Billing or bill payment	46%	55%
Selling or accepting orders for products or services	42%	49%
Providing customer support for your products or services	36%	48%
Advertising current job openings	26%	29%
Bidding on contracts	22%	30%
Accepting job applications	20%	30%
Accepting real-time payments such as credit/debit payments	19%	34%

Many small Iowa businesses are going online to buy and sell products. Four out of five Internet-connected Iowa businesses with fewer than twenty employees use the Internet to buy or order goods and services, while 46% use the Internet to bill customers. In addition, more than two out of five small Internet-connected Iowa businesses (42%) sell their goods or services online, while 19% accept real-time payments over the Internet.

The Internet provides an outlet for many small Iowa businesses to connect with customers. Nearly three out of four small Internet-connected Iowa businesses (73%) communicate with their current customers online, while 57% advertise their products and services to find new customers, and more than one in three (36%) provide customer service online.

Small Iowa businesses are also using the Internet to make themselves more efficient and competitive in today's global marketplace. Nearly two out of three Internet-connected small businesses in Iowa (63%) go online to research ways to make their businesses more efficient. More than one in four Internet-connected Iowa small businesses (26%) advertise jobs online, while one in five (20%) accept job applications online. This includes approximately 1,000 small Iowa businesses that only accept job applications online. In addition, many small Iowa businesses are competing for work, as 22% of small Iowa businesses that use the Internet do so to bid on contracts.

Despite these opportunities, small Internet-connected Iowa businesses are less likely than similar businesses in other states to use many online applications. Small Internet-connected businesses in Iowa are significantly less likely than similar businesses in other states to research ways to make their businesses more efficient, bill customers, sell or accept orders, provide customer support, bid on contracts, accept job applications, and accept real-time payments.

### Online Sales and Revenue

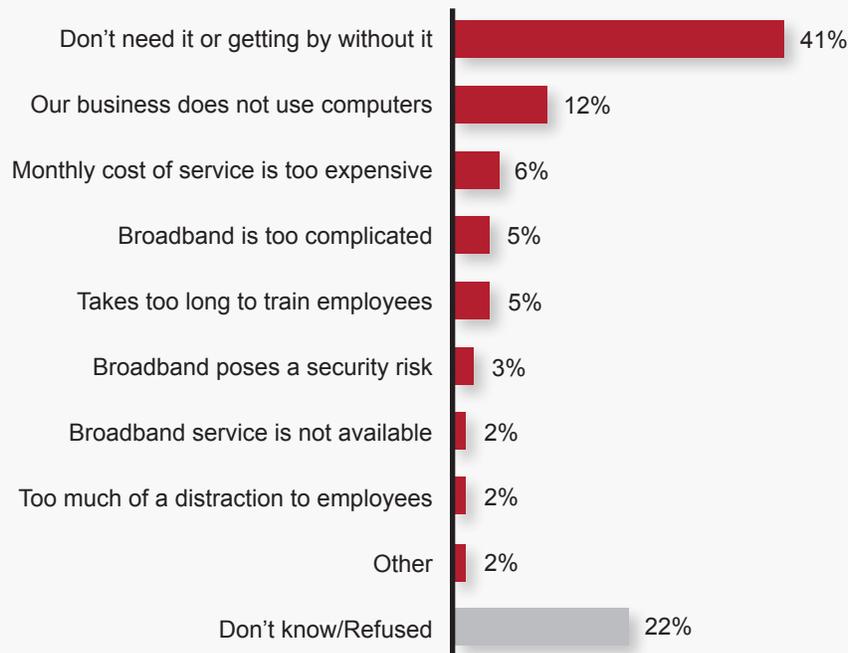
The Global online e-Commerce revenue market is forecast to reach approximately \$820.5 billion by the end of 2012, according to JP Morgan's estimates.<sup>8</sup> This is a 70% overall growth from 2009, when the actual online sales were reported at \$481.6 billion, and approximately 26% of the global e-Commerce sales are from the US alone.<sup>9</sup> According to the report, estimated global e-Commerce sales in US are forecast at \$212.2 billion, representing a growth rate of more than 47% since 2009.<sup>10</sup>

Online sales are also helping small Iowa businesses increase their revenues. According to Connect Iowa's Business Technology Assessment, online sales account for approximately \$1.9 billion in annual revenues for small Iowa businesses. Statewide, approximately 18,000 small Iowa businesses earn revenues from online sales, and on average, these businesses earn nearly one-quarter of their revenues (22%) from online sales. Altogether, the median annual revenue among small businesses with broadband is \$200,000 higher than small businesses without broadband.

### Barriers to Broadband Adoption Among Small Businesses

There are approximately 22,000 businesses in Iowa that do not use broadband, with 20,000 (90%) of those businesses employing fewer than twenty employees. Among these small businesses, the main reason for not using broadband is the belief that they do not need it or get by without it, which is cited by 41% of small businesses that do not subscribe to broadband (Figure 4). More than one in nine small businesses that do not use broadband do not even use a computer for their work, suggesting that for some, getting connected to a computer is a necessary first step.

**Figure 4.**  
Main reason why Small Businesses in Iowa do not Subscribe to Broadband Service



8 JPMorgan, [http://www.arbaholdings.com/insights/doc/Nothing\\_But\\_Net.pdf](http://www.arbaholdings.com/insights/doc/Nothing_But_Net.pdf)

9 Ibid.

10 Ibid.

## Conclusion

Broadband empowers small businesses to generate more for their money. Iowa small businesses already account for more than \$1.9 billion in online sales and earn \$200,000 more annually than small businesses that do not use broadband.

Despite the potential benefits for small businesses, more than one in four still do not use broadband. In addition, even the small Iowa businesses that do use the Internet are not doing so at the same rate as their larger competitors' in-state, or even their smaller peers in other states. Broadband can help small businesses run more efficiently while saving time and money, all of which is vital to small businesses as they contend with a tight economy and tight budgets. This suggests that many small business owners would benefit not only from courses to help them get connected to broadband, but ones where they can learn how to best use different online applications.

Broadband has already empowered small businesses in Iowa, yet there are still plenty of opportunities to grow even further to spur Iowa's economy. To learn more about how broadband can help your small business grow, contact [Connect Iowa](#).



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## Business Methodology

Between October 4 and November 2, 2011, Connect Iowa conducted a telephone survey of 804 Iowa business establishments. Data were collected by Thoroughbred Research Group, located in Louisville, KY. The purpose of this survey was to measure trends in technology adoption; measure barriers to technology adoption; determine how Iowa businesses are using broadband as an engine of economic growth; and measure the average price and speed of broadband service among business establishments across the state. On average, these surveys took approximately eight minutes to complete. The results of this survey have been compared to similar surveys that Connected Nation conducted across nine states in 2011 (Alaska, Florida, Iowa, Michigan, Minnesota, Nevada, South Carolina, Tennessee, and Texas).

Sample quotas were established by company size (5 brackets) and industry sector (8 sectors). Within these 40 cells, a randomly-drawn sample of businesses listed with Dun & Bradstreet was contacted for the survey. Altogether, this sample included 163 businesses with 50+ employees, 234 businesses with 20-49 employees, 207 businesses with 5-19 employees, and 200 businesses with 1-4 employees. In cases where the respondent's information regarding the number of employees at the establishment differed from the information provided by Dun & Bradstreet, the respondent's answer was used in determining business size quotas. Connect Iowa intentionally over-sampled large businesses to ensure a sample that was large enough to analyze and compare to smaller businesses.

In addition to the size and sector quotas, the data was subsequently weighted to ensure that the sample was representative of all employer business establishments statewide, with targets determined according to the 2009 United States Census Bureau's County Business Pattern report, the most recent data that was available at the time the survey was conducted. Weighting of the survey data and research consultation were provided by Lucidity Research LLC, located in Westminster, MD, and the survey results were reviewed by Dr. Mingjie Sun of The Institute of Design Research and Outreach at Iowa State University.

This sample provides a margin of error of  $\pm 4.94\%$  at the 95% confidence level for the total sample of 804 businesses in Iowa. Among the 7,004 businesses surveyed across ten states, the margin of error is  $\pm 2.45\%$  at the 95% confidence level. This sample error accounts for sample weighting, using the effective sample size. As with any survey, question wording and the practical challenges of data collection may introduce an element of error or bias that is not reflected in this margin of error.

These surveys were conducted as part of the State Broadband Initiative (SBI) grant program, funded by the National Telecommunications and Information Administration (NTIA). The SBI grant program was created by the Broadband Data Improvement Act (BDIA), unanimously passed by Congress in 2008 and funded by the American Recovery and Reinvestment Act (ARRA) in 2009. To learn more about Connect Iowa and its programs please visit <http://www.connectiowa.org> or e-mail us at [info@connectiowa.org](mailto:info@connectiowa.org).

## APPENDIX A: Select sample sizes

### 2011 Business Technology Assessments

	Connect Nation Average (n)	2011 Iowa (n)
<b>Total</b>	<b>7,004</b>	<b>804</b>
Businesses use Internet	5,972	689
Businesses use broadband	5,524	634

### Businesses by Size

	Connect Nation Average (n)	2011 Iowa (n)
1-19 employees	3,909	407
20 or more employees	3,095	397

### Businesses without Broadband

	Connect Nation Average (n)	2011 Iowa (n)
Total businesses without broadband	1,480	170
1-19 employees without broadband	976	101
20 or more employees without broadband	504	69

### Small Businesses by Type, Sector, & Location

	2011 Iowa (n)
Home-Based Small Businesses	67
Women-Owned Small Businesses	157
High Tech	46
Agriculture/Mining/Utilities/Construction	55
Manufacturing	47
Wholesale Trade/Transportation	48
Retail Trade/Food/Lodging	51
Professional/Financial Services	59
Healthcare Services	50
All Other Services	51
Non-Rural Iowa	188
Rural Iowa	219