



The Internet Business Services Initiative

Member Survey

Benchmark Study Fall 2000

Use & Distribution of this Material

This report was prepared for the internal use of IBSi member companies. Therefore, it would be inappropriate to distribute this document to anyone outside of an IBSi member company. The executive summary and highlights of findings are posted on the public portion of the web site for non-members with an interest in this report.

Please direct questions about this material to Linda Marcus, PR Counsel for the IBSi (949-362-0356), or Michael LoBue, Executive Director (415-750-8354 x301).

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Executive Summary

In the late summer and early fall of 2000, the Internet Business Services Initiative (IBSi) undertook its first member survey to determine the state of the industry. Its purpose was to define the special qualities and marketing characteristics of an Internet Business Service. As the first of its kind, the IBSi survey will serve as a benchmark to track the growth of the industry.

The snapshot that resulted from this exercise is of a young yet stable market. The 15 IBSi member companies that participated in the study are backed by almost half a billion dollars in venture capital funding. The average customer user base is over 27,675. While the services today are accessed primarily by small and medium size businesses, there also is a strong presence among enterprise firms and a large portion of the membership expects to move up market.

The picture drawn is one of an extremely interactive industry. Partnering is seen as a particularly important channel for building the customer base. More than half of the members are involved in vertical channel or portal programs and almost half work with either service aggregators or third-party resellers such as VARs. Likewise, all IBSi members currently integrate their services with other companies and are aggressively pursuing interoperability among services.

Technical issues and challenges also abound. Consistent with the high-levels of data and operational security generally built into Web-native software schemes, members provide three to six, or more, security levels. None of the services resell customer or data information. All IBSi members involved in accumulating stored customer information allow users to retrieve or export their data if they decide to leave the service.

According to the members of the IBSi, the most important issues facing Internet Business Services today involve educating the market. There needs to be a fundamental shift in the way customers work and services need to prove themselves with potential customers to build market acceptance. The major concerns facing the market today involve interoperability; educating users on the high-level of security and maintaining that security; and access to reliable broadband capacity. These are all issues that can be resolved with the accumulated experience and successful implementation of Internet Business Services over time.

Summary of Findings

- IBSi members account for \$452 million in venture capital, with an average of over \$32.25 million in VC funding per company.
- The number of individual user customers at each service ranges from 2,000 to over 96,000 users, with an average of 27,677 users per site.
- The number of companies as registered customers at members' sites ranges from 30 to 8,000, with an average of 1,785 companies per service.
- Small and medium size businesses account for almost two-thirds of today's business. At the same time, an average of 131 users from each customer company access the services. This indicates that the small and mid-size businesses that make up the bulk of the IBS market are at the high-end of the scale and that larger firms are starting to adopt Internet Business Services.
- There also is a strong presence in the high-end of the market for a young industry. Companies with 250 or more employees currently represent over 20% of the market and companies with revenues of \$250 million dollars or more constitute 28% of the market.
- Companies with over 500 employees are expected to account for almost a quarter of the market by 2002, growing from today's benchmark of 15%.
- Internet Business Services split their marketing efforts equally between traditional channels such as public relations and advertising, and in building partnerships through vertical channels.
- Almost half of IBSi members work with VARs, system integrators and third-party resellers and this is expected to increase significantly over the next two years.
- Almost half of IBSi members currently work with service aggregators and this is expected to increase over the next two years.
- All members integrate with at least one online business partner today and all plan to increase their integration with other Internet Business Services in the near future.
- The Internet Business Services surveyed upgrade their software or add new functionality an average of 10 times a year.
- IBSi members have been online and open for business an average of three years.
- The average site development time is becoming longer, not shorter.
- No IBSi member resells customer data or preferences. All members that maintain customer data allow users to export this data if they decide to leave the service.
- Most IBSi members have multiple security levels, ranging from three to six layers or more.
- Over two-thirds of the members said they would implement digital signatures in the future, although a significant portion of these said there were technology and marketing issues to be resolved.

Survey Methods

Scope of the Study

At the time of this benchmark survey, there were 15 IBSi members, all of which participated in the study. (The association has since grown.) The questionnaire was provided in advance to company representatives so they could research the necessary data. The survey was then completed through a phone interview and the results compiled and analyzed in November 2000.

Members were guaranteed anonymity as a condition of completing the survey since much of this information is proprietary. To preserve this condition, the data has not been analyzed by industry or application type and the information provided here is based on the accumulated totals of the group's answers.

Terms and Definitions in this Report

For the sake of clarity, the following terms are used consistently throughout this report:

Average: Always indicates the numeric average of a series unless otherwise stipulated.

Customer company: A company that uses an Internet Business Service, often as a replacement for packaged software and client/server applications or to enhance its IT infrastructure. For example, the ABC Company is a customer company that uses Internet Business Services to automate its human resources and accounting functions.

Median: Always used to indicate the midpoint in a series unless otherwise stipulated.

Member company: In general, a member of the Internet Business Services Initiative and in this report used to indicate a company participating in the survey.

End-Users: The individual employees at a customer company that access an application through an Internet Business Service. Refers to individual end-users; for example, Joe Smith and Mary Jones are employees at ABC Company and both are IBS end-users.

Survey Results and Analysis

Part I: How Internet Business Services Play in the Industry

Have you received venture capital or other private funding?

All but one IBSi member have received venture capital funding, accounting for a total of almost half a billion dollars infused into the market by the investment community. The accumulated total capital investment is \$452 million with an average of over \$32.25 million per company. The median funding is \$29 million. These figures include all rounds of funding since the companies were founded.

What customer metrics do you use to measure your site?

The purpose of this question was to establish common ground for discussing the size of the market and the members' customer base. The results indicate that most members define their size in a number of ways and compile multiple statistics about their services. The most common metric was the number of individual users. Most of the services that track individual users also count the number of companies they serve separately.

Overall, care should be taken to talk either in terms of the numbers of individual end-users or the number of companies served, as these numbers are very different. In some services, there is almost a one-to-one relationship, with one user at each customer company, while other members have a large number of individual users from fewer companies. The accumulated total of the metrics used are shown below in Table 1.

Table 1: Metrics Used to Measure Service

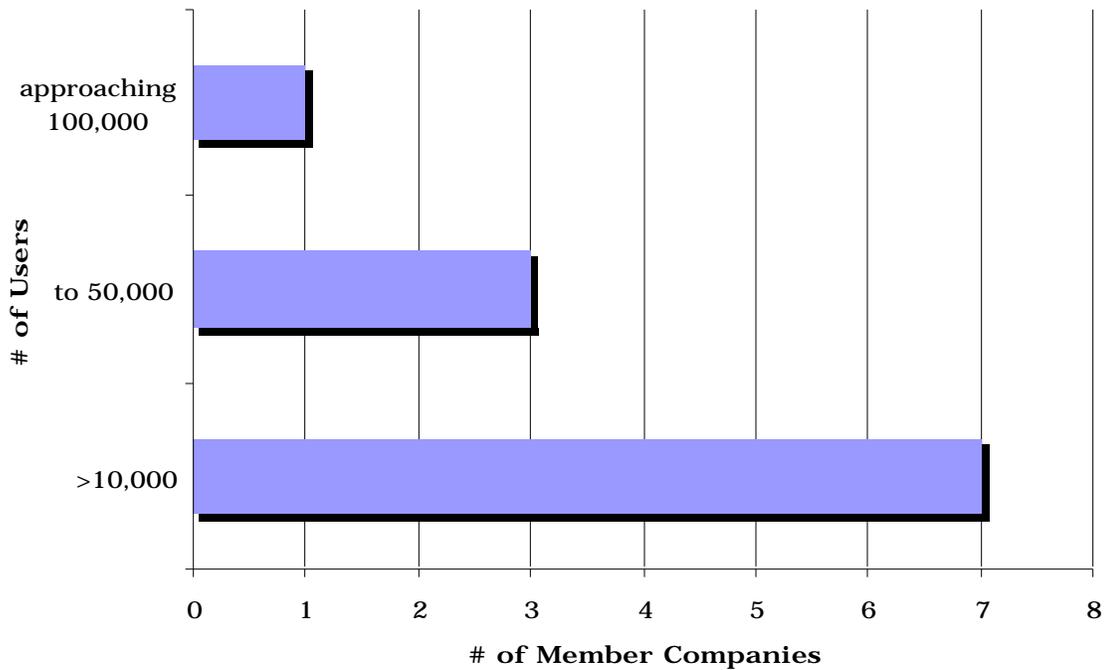
Measures # of Users	Total: 17
# of Users (Seats)	11
# of Unique Visitors	2
# of Return Visitors/Users	2
# of Users per Month	1
# of Users Ordering a Job	1
Measures # of Companies Served	Total: 10
Other Measurements	Total: 5
# of Transactions	2
Revenues	2
# of Page Views/Ad Impressions	1

In a member's words: "We track a variety of metrics. We know which customers come to our service directly and which come through partners. We track where they come from, what they do and how many registered. We track how many times they come back and use our service, including the number of transactions and the number of actual users."

Based on these metrics, how many customers do you have?

Number of Individual End-Users: The number of individual end-users ranged greatly among IBSi members, from 2,000 to over 96,000 users. At the present time, most of the members' customer base is clustered between 2,000 to 10,000 users. Four services have broken through this first milestone, although only one is approaching the 100,000 mark, as shown Figure 1. The median mid-point is 8,750; the numeric average based on the sum of all reported individual users is 27,677 customers.

Figure #1 — Number of Individual Users

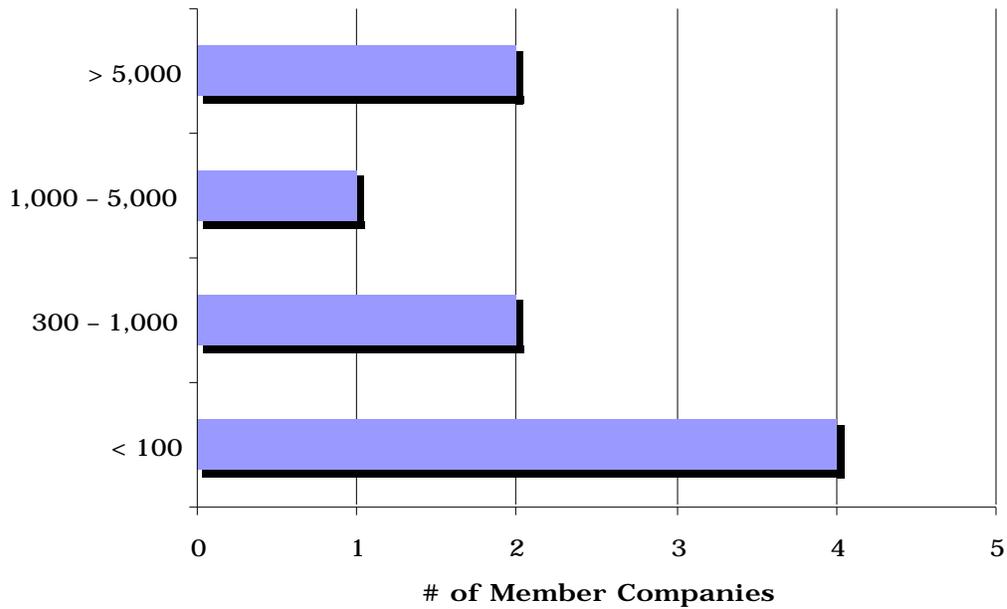


Number of Companies Served: There also is a wide span among members who track the number of organizations that use their services, ranging from 30 to 8,000 customer companies. The results can be classified into several segments:

- Services with a customer base of 100 companies or less, representing 45% of the reporting members
- Services with 300 to 1,000 customer companies, representing 22%
- Services with a company base of 1,000 to 5,000, or 11% of the reporting members
- Those services with over 5,000 company customers, also 22% of the reporting members

The median is 340 customer companies and the numeric average based on the total of all members is 1,785 customer companies for each service. The total range is show in Figure 2 below.

Figure #2 — IBS User Base by Companies

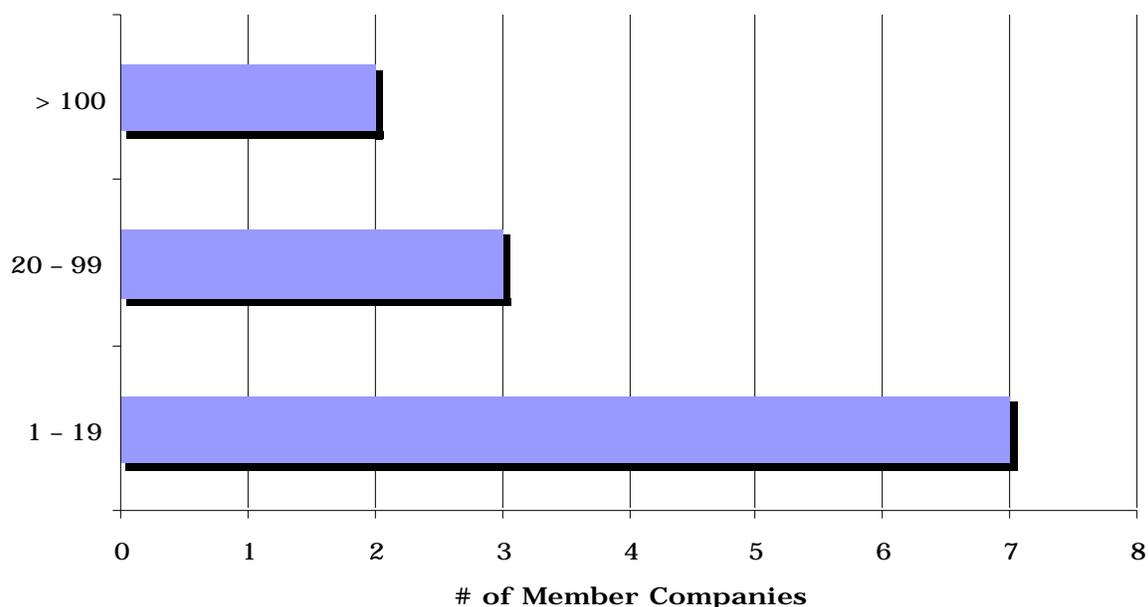


On average, how many employees from a single company access your site?

Reflecting the differences in the types of services provided by IBSi members, there is a broad spread among the number of end-users at each customer company that access the Internet Business Services surveyed. The responses range from one to a thousand users at a single customer company. The median average is 24 users per company and the average based on the total responses is 131. This would indicate that Internet Business Services are most used at mid-size or larger organizations. The accumulated results fall into three areas, as shown in Figure 3:

- From 1 to 19 end-users per company, accounting for almost 60% of reporting members
- From 20 to 100 end-users per company, accounting for 25% of the total
- 100 or more end-users per company, reported by over 15% of the members

Figure #3 — # of Individual Users per Company



In members' words: "Around 9 to 10 people is the numeric average from each company. We also have a lot of small companies with 1 to 2 users. Since we have a division of one of the largest companies in the world using our site, this skews the average."

"The average is between 100 and 200 users per company. Some customers have a very small number of users and some extend up to a thousand users."

"Today we're at the high-end of the small business chain. Over the next two years, we expect larger companies to adopt the IBS solution; for example, HP and Pfizer are now using our service."

"Right now, 90% of our customers fall into the 1-100 employee range. The remaining have over 100 employees. But over the next two years as our application becomes more robust, we expect more than half our customers to fall into the over 100 category."

What size companies use your service today?

Small and medium size businesses are the largest users of IBSi members' services today. Companies with less than 50 employees account for 29% of members' customer bases. Companies with 50 to 99 employees account for another 18% of the mix. Independent consultants and professionals add another 15% to the small business category, for a total of 62% or almost two-thirds. Mid-sized businesses with 100 to 249 employees represent 16% of today's users.

While over three-quarters of the market is comprised of small and mid-size companies, larger firms are starting to access Internet Business Services. Companies with over 500 employees account for 15% of IBSi members' market mix with another 7% from organizations with 250 to 500 employees, for a total of 22%. Figure 4 below shows the complete breakout.

Figure #4 — Current Customers by Organization Size

