
The Changing Role of E-Commerce in Regional SMEs

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Abstract

This article examines the penetration of e-commerce within the strategic marketing mix of small to medium enterprises (SMEs) in Napier, New Zealand. A sample group of thirty businesses of various types was selected in Napier with a sixty percent response rate. It seeks to ascertain the level of e-commerce penetration into those businesses using the internet, those with websites of their own or industry supported, those involved with purchasing and selling online. Frequency of update, plans for future involvement and the percentage of e-commerce used for marketing was also examined.

A review of strategic marketing and e-business literature was conducted. This tied in with current NZ governmental proposals and actions to increase high speed broadband internet for business use to twenty-five major regions, including Napier.

It was established that the percentage of SMEs utilising e-marketing had increased since a previous study in 2003. However, despite the increase, the utilisation percentage appeared to remain low compared with other countries and NZ regions. Answers were sought as to why and what the future holds for e-commerce growth.

Keywords

E-Commerce, small and medium sized enterprises (SMEs), website marketing

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Introduction

This article investigates the level of e-commerce penetration in a range of businesses in Napier, New Zealand. Earlier studies have shown that e-commerce has been slow to become a strategic marketing tool of choice among small to medium enterprises (SMEs) in Taradale, a suburb of the Napier region (Skelton & McLay, 2003). This 2003 study showed that only 29% of retail businesses in Taradale indicated they had a website and only 4% allowed purchasing online. Other studies in the United Kingdom and New Zealand have shown relatively low SME uptake of e-business also (Levy, Powell & Worrell, 2005).

The aim of this research was to find out from a range of industries within Napier in 2009 whether e-commerce usage features more strongly in the strategic marketing plans of companies some five years after the earlier studies.

The paper provides a brief academic assessment of e-commerce and how it fits into SME's strategic marketing plans. The relationship between the two is investigated with a view to extract best practice usage. This is backed up through a literature review and the use of a telephone survey questionnaire. The questionnaire is compiled using both quantitative and qualitative research methods. The research methodology has targeted eighteen selected Napier businesses that fit the SME category. These SMEs by definition comprise 19 or fewer employees.

Literature Review

The development of the Internet and e-commerce has introduced radical changes in approaches to strategic marketing. As Wilson & Gilligan (2005) suggest, this

includes changes to the rules of marketing, available market space and competitive advantage. A useful model put forward by Wilson & Gilligan (2005) about e-marketing shows the development of strategic thinking and competitive advantage as companies evolve in their internet marketing promotional experience. A four stage continuum is introduced. Companies move from being stage 1 unfocused dabblers with no strategic rationale, to stage 2 good housekeepers, applying e-marketing to the traditional marketing mix. Stage 3 sees more revolutionary type thinking with online shopping providing a virtual market place for tailored products to suit data based profiles of customers. The ultimate achievement according to Wilson & Gilligan (2005) is the stage 4 integrated e-marketing strategist company. Here, competitive advantage is leveraged by targeting unmet customer needs and new areas such as brand stretching opportunities are worked on.

A recent paradigm has emerged where one way push interruption marketing is giving way to permission marketing with trust based relationships being built around flexible offers, focused on specific needs of the customers, identified through permitted dialogue between buyer and seller (Godin, 1999, 2010). Initial contact of these leads can come about through placing "intelligent advertisements" (based on defined keywords) on search engines such as Google which can help attract customers who are actively searching for the types of products the SME offers (Sullivan, 2009).

The potential customer can be more discerning as he has access to many offers over the internet, while the need to respond in real time if possible becomes the challenge for the business making offers over the internet. So, while the market has opened up and

expanded in reach, it has become more competitive and businesses of all sizes need to utilise the opportunities while avoiding the pitfalls.

The Henley centre (2000) has suggested that not all business to consumer (B2C) and business to business (B2B) customers view the internet and e-marketing in the same way and to this end they have identified six principal consumer segments and ranked these in order of interest in online shopping. From highest to lowest potential are convenience copers, experimenters, value shoppers (also known as mercenaries), ethical shoppers, habit die-hards and, at the lowest end, social shoppers who want physical interaction. If a business has a bricks and mortar component then the internet based presence can serve to make potential customers aware of the SME's physical existence and they can then come in to the shop as social customers.

Jelassi (2008) has commented that businesses need to be aware of potential channel conflicts where offering products horizontally, both online and in-store, can have a cannibalising effect. At times, offering certain lines only online can produce a vertically integrated channel which can help expand sales in the online area and have the effect of the online consumers trying the bricks and mortar offering as well.

Market Opportunities

The OECD Community Survey on ICT Usage in Households and by Individuals (April 2007) indicated households in New Zealand with access to a home computer increased by 25 percentage points to 71.6 percent from 2001 to 2006. In addition, nearly two-thirds of households (64.5 percent or 1 million) had access to the Internet at home. Data from the 2001

Census indicated that 37 percent of households had access to the Internet in 2001. However, the Household Use of Information and Communication Technology (ICT) Survey (2006), also points to the Gisborne and Hawkes Bay region as the area with the lowest proportion of households with Internet access at 54.1. The survey goes on to point out that over one quarter (28.6 percent) of all individuals made at least one online purchase in the previous 12 months, to the December quarter 2006. The 25 to 44 year age group were the most likely to make an online purchase, with 38.9 percent of individuals in this age group doing so. 30.8% of individuals have purchased goods or services and this was listed as their fourth most important activity behind email, banking and interaction with public authorities.

These figures point towards a healthy interest in internet usage and online purchasing which has increased in the last three years, so the opportunities are there both nationwide and in the city of Napier for SMEs to make strategic gains from having a website and online sales opportunities.

The 2006 business survey of the NZ ICT commission clearly shows larger businesses with 100 employees or more have a more active web presence than SMEs. However, the use of the Internet by NZ SMEs is climbing and in general by 2006 had surpassed larger business usage in the 2001 survey. The expansion of internet usage is increasing across the board. For example, using data issued by the UK Office for National Statistics (ONS) Internet sales by UK businesses rose to £163bn in 2007 and are expected to triple from current levels by 2011. This has given rise to recent economic analysis which suggests having an

online presence could be the key to driving consumer spending for small retailers (Howes, 2008).

Fifty-one percent of all sized NZ businesses indicated in 2006 that they had a website compared to 45% of NZ SMEs. The most common website feature was goods and services information (91 percent). Customer information collection was next (32 percent), followed by ordering of goods and services (28 percent).

Business to Business Opportunities

In the 2006 survey, fifty-four percent of NZ businesses indicated they used the Internet for purchases, and for SMEs the figure was 50 percent.

Chris Little, managing director of Premierline Direct, said: "The growth of the internet has really made products and services more accessible to business owners and is an ideal tool for companies looking to make time and cost savings by shopping around for the best deals, whilst also benefiting from the speed and simplicity the online channel offers" (Little, 2007).

The larger businesses were more likely to use an online facility to receive orders. For example, 21 percent of businesses with 6–19 employees indicated they used an online facility, compared with 43 percent of businesses with 100 or more employees. Overall 34 percent of businesses reported they used the Internet to receive orders for goods or services.

Government Policy

The New Zealand Government is promising its' \$3 billion broadband plan will deliver "quantum faster" internet speeds for Kiwis. Communications and Information Technology Minister Steven Joyce said "a

new Crown-owned company will work with private sector partners as a key part of its plan to deliver ultra-fast broadband to 75 per cent of New Zealanders' homes, workplaces and places of study within ten years" (Joyce, 2009). The NZ Government has committed up to \$1.5 billion of taxpayers' money for the roll-out and expected that to be at least matched by the private sector. The National Government with Prime Minister, John Key, has initiated and supported this project and expects the move to bring New Zealand into the 21st century, enabling it to compete with countries such as Korea, Singapore and Hong Kong. "We are a small country, we are a long way away and if we want to connect with the world in the cheapest, most efficient way possible, we have to have world-class broadband capability" (Joyce, 2009). Twenty-five towns and cities are covered by the initiative including Napier.

Research Method

This research involved the use of structured questions with predetermined response options (closed) followed by a qualitative response option inviting respondents to discuss new initiatives planned regarding e-marketing.

A carefully selected cross-section of organizations in Napier was chosen. Thirty Napier businesses across fifteen diverse business sectors were contacted by telephone and eighteen responses were obtained via a telephone survey. The SMEs taking part in the survey were represented by twelve owner/operators and six employees with knowledge of the company's internet involvement.

1	Do you have 19 or fewer employees?
2	Do you have business internet access and e-mail?
3	Do you make purchases for your business on the internet?
4	Does your company have its own website? – Stand- alone or industry related?
5	How often is your website updated?
6	Can people purchase products or services direct from your website?
7	What % of your marketing \$ are spent on e-marketing?
8	What new initiatives regarding e-marketing are planned – Open ended.

Table 1: Survey Questions

Results

From the data collected, the sample population was placed into eleven industry type categories. The number of businesses who have internet access and email showed 89% coverage by Napier businesses sampled. Two thirds of businesses sampled make internet purchases but only 22% make online internet sales. Half of the businesses had their own websites and a further 22% had a web presence on an Industry link. An interesting finding included the average percentage spend on internet marketing to market spend overall was relatively low at 11.69%; however tourism, and accommodation spent 30% of their

budget on e-marketing while computer and accounting firms spent 20%. Specialist retailers only came in at 11%. This was the average of all companies spend.

Discussion

While the literature recommends internet and e-commerce use and emphasises e-tailing as a growth area, this was not shown in the survey. Napier Retailers surveyed are only spending on average 11% of their marketing budget on e-marketing. This is the same average spend as other SME types surveyed.

The availability of e-commerce online payment for e-tail products is very low. Table 2 shows that Napier companies are offering their products in a blended e-commerce environment as discussed in the literature review, are early adopters positioned as good housekeepers but moving towards the revolutionary level of the model discussed. Those who do are currently receiving customer service awards for their efforts. One company surveyed, won the Napier CBD Customer Services award for retailers 2009 as their bricks and clicks combination offering of customised jewellery and accessories provided a winning combination.

The bookstore surveyed aligns itself with the idea mentioned by Jelassi (2005) of a vertically integrated offering where the retail store offers the majority of book lines and the online offering is an exclusive speciality line.

Industry Type	Internet / email	Internet purchases	Web page on Industry link	Own website	Internet Sales	% Internet spend
Tours (2)	2	2	0	2	0	27.5%
Accommodation (1)	1	1	0	1	1	33%
Books(1)	1	1	0	0	0	2.5%
Accounting(2)	2	2	0	2	2	17.5%
Computers(1)	1	1	0	1	0	20%
Automotive(2)	2	1	1	0	0	2.5%
Specialist Retail(5)	5	3	1	3	1	11%
Music(1)	1	1	1	0	0	2.5%
Lawnmowers(1)	0	0	0	0	0	0
Appliances(1)	0	0	0	0	0	0
Curtains(1)	1	0	1	0	0	2.5%
Total(18)	16	12	4	9	4	
Average (weighted)	89%	67%	22%	50%	22%	11.69%

Table 2: E-commerce Penetration

Feedback from the survey showed that although over 65% of firms had some web presence, they were not diligent in updating their websites or responding in real time as the literature recommends. In addition, these firms that put out information about products and services were not carefully appealing to consumer

market segments but offering what they had to all. They were not interrupting with their style of marketing and were moving to permission style marketing as they were responding to customers who sought them out.

Conclusions and Recommendations

E-commerce literature was reviewed regarding the incorporation of e-commerce into the strategic marketing mix. A survey was conducted to gain insight into the use of the internet and e-commerce among a selected cross-section of organizations. Thirty Napier companies with 19 or fewer employees were contacted (SME's) and eighteen respondents provided relevant, up to date information.

Findings showed an increase in the use of the internet by Napier SMEs and consumer households (customers) over the 2006 National Survey results and other earlier research.

The new government initiative for faster internet is targeted to businesses & Napier is included in the first rollout. This means excellent opportunities for further online expansion.

It appears that e-commerce penetration in SMEs in Napier is relatively modest possibly because of a perception by businesses that the internet marketing spend needs to be contained in relation to the overall marketing spend. There is a need for a better understanding of potential e-business benefits, quick response to customer and competitor practices and a development of staff skills and knowledge of internet based technologies.

SMEs may benefit from a customer records database where they can be easily managed for online marketing. This database can be the start of true customer relationship marketing (CRM) material providing regular electronic mail out newsletters. This will help the SME make offers tailored to the individual needs of the customers.

The surveyed SMEs are taking a close look at social networking sites. One book store puts product on the market via a vertical integration channel strategy which sees the books on offer varying from those in the bricks and mortar store.

Some companies have enrolled with Google Advice and are looking at ways to improve their search engine results and this search engine optimization is an ongoing issue for SMEs involved in e-commerce.

The companies surveyed that used e-commerce the most provided an online sales option and communicated to the customers via the traditional marketing mix approach. These four companies have reached the stage 2 'good housekeepers level' as per the Wilson & Gilligan (2005) model. Closest to the revolutionary 'type three level' would be the company who links their site to industry review sites and actively reads these reviews and replies to them. As the SME owner commented, a positive reply to a negative comment can completely turn the situation in the firms' favour.

The surveyed SME's are part of a trend to leverage off industry efforts and get their first internet presence via a listing of their peers. This can be a good start it may be recommended from this study that SMEs take the next step and work with professionals to produce their own website offerings which combined with up to date information systems and updated customer data base relationship management packages will enable them to reach the third level of our model- customer profile offers. One company surveyed has identified that customers have a product buying cycle and this knowledge can be used to target sales. For several companies a goal was the implementation of an online booking system. The idea of online payment options via credit card still had some SMEs concerned about security issues and the hassle of refunding if they paid in this way.

Another area recommended for SMEs is that if they offer products online they do not hold large inventories of stock but have the ability to order stock in a just-in-time fashion. An area that interested some SME's was the idea of a virtual interactive display room which would be a good way for a potential customer to view a backpacker establishment or other products. Other

SMEs felt that they would rather have the customer come in for viewing as with the customer physically across from them, they felt they had an increased chance of completing a sale. Small businesses with no Internet presence cited no room for expansion on their existing customer base. However, it is recommended that all SMEs get a presence as competition can cause customers to move and there is no room for complacency.

The research project has shown that more SMEs are getting involved with stage 1 and 2 e-commerce and planning ways to step into customer profiling and full integration.

Future studies could look at ideas touched on here, to explore and expand the role of e-commerce in SMEs in regional centres including the potential for gaining markets through social networking integration, the introduction of virtual display rooms and overcoming the reticence that still exists to utilize online payment.

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