



Impact Of e-commerce on small Indian firms

¹Kaushal kishor, ²Dinesh Jaiswal, ³Khalid Anwar

¹Student, ²Student, ³Student

¹AKTU, Lucknow,

²AKTU, Lucknow,

³AKTU, Lucknow

Abstract

Electronic Commerce has the potential to transform the way business is conducted throughout the world. It can eliminate traditional constraints such as time, distance and location, enabling companies to launch themselves instantaneously into a global marketplace. This new business medium offers many benefits to both consumers and industry alike, such as cost reduction, convenience, improved services and relationship building. The attitudes of both consumers and businesses towards e-commerce must be altered if the potential benefits are to be realized. Many websites merely act as advertising and marketing mediums. Few organizations and in particular small firms are launching fully interactive sites due to the high degree of risk involved. Trust, security, consumer protection and confidentiality are elements of an e-business transaction that must be guaranteed if e-commerce is to feature significantly in the future business environment.

Introduction

The information age has truly arrived. Developments in new technologies are continuously improving efficiency, accuracy and effectiveness of business practices. Ease of access to new innovative concepts means that benefits are being felt by a broad spectrum of organizations – both large and small – and on a worldwide scale. The composition of the business environment has altered significantly in recent years due to globalization and liberalized markets, thereby resulting in increased competition. Organizations are constantly exploring new innovative business practices in order to gain or maintain

a competitive advantage. Where once, land, labor and capital were categorized as the prime factors of production, the incorporation of information technology is now seen as a critical success factor in all sectors of the economy.

E-commerce has introduced alternative forms of marketing, supply chain integration, and payment mechanisms. Global networks facilitate round the clock operations in linked countries and highly dynamic marketplaces. These facts may indicate that e-commerce has the potential to revolutionize the way in which business is conducted. However, there are still a number of issues to be resolved before smaller firms make the transition to an interactive member of the Information Society.

The initial mystery that characterized the World Wide Web (WWW) is slowly being cleared away as usage and public awareness levels increase. Once the technology becomes more accessible in the form of mobile and digital TV connections, familiarity and comfort with new technologies will be more widespread. Building public confidence in e-commerce will undoubtedly be a critical factor in determining its growth potential. The incorporation of new technologies could potentially alter the structure of the business environment within which commerce is transacted. The use of the internet, intranets and extranets, particularly in small and medium sized enterprises (SMEs), has resulted in much of the traditional theory becoming obsolete. Organizations must be innovative and dynamic. By their very nature, small companies are most suited to the dynamic market structure due to their flexibility and adaptability.

Market conditions and technology are forcing entrepreneurial firms to enter new markets from inception and pursue 'rapid and dedicated' internationalization . These approaches challenge conventional theories, such as incremental models of internationalization. However, it is important to note that non-exporting companies will not become successful global players simply by developing a company website. Effective market research and an understanding of international business practices (such as cultural and legal conditions) are factors that cannot be ignored. The internet will make such practices more convenient and affordable for internationalizing SMEs.

The current economic climate in India has suitable conditions to facilitate the growth of e-commerce models. Government agencies have been focusing on furnishing the country with high-tech industry since 18 August 1951, inaugurated the Indian Institute of Technology at Kharagpur in West Bengal in care of the minister of education Maulana Abul Kalam Azad. This, combined with the youthful and educated population, creates an atmosphere of acceptance towards the Information Age. The Indian

Government has been particularly active in promoting a Indian self-regulatory framework within which e-commerce will flourish.

Traditional market entry strategies

The most common method used by SMEs to enter the foreign market is through Direct Exporting where the firm engages in either direct sales in the foreign market, or it employs an agent or distributor to handle the product in the overseas market. In order to choose the appropriate method, the company must base its decision on the nature of the product, company size and resources, company objectives, market norms and the extent of business opportunities. The process of direct selling gives the company complete control over the marketing mix and accommodates the establishment of a solid customer relationship. However, it is believed that this can prove quite expensive to maintain and often, problems can be incurred when collecting payment for goods.

The employment of agents and distributors enables the product to reach a large number of customers and accommodates the provision of after-sale-service in the overseas market. Problems can arise when identifying, assessing and selecting the most suitable agent/distributor. The product may not receive the undivided attention of the agent/distributor and there is a distinct loss of control as to how the product is presented in the overseas market.

Selecting an agent/distributor is seen as one of the 'critical' success factors for SME exporters. Due to the lack of financial and human resources, it is difficult for SMEs to engage in formal country market screening. The internet provides lists of industry specific agents/distributors in various international markets. This low-cost research helps to improve the companies' knowledge of the target market. This can reduce their dependence on agents and distributors.

The stage model

Traditionally, SMEs test products in small geographically close markets where cultural similarities are evident. One of the main focuses is on building brand recognition in the foreign market. The 'Uppsala Internationalization Model' states that firms may increase their international operations in successive stages.

In the modern business environment, this model has faced much criticism. For instance, the development of homogenous markets has reduced the importance of cultural distance. The advent of the internet and electronic commerce has also served to question the relevance of stage theory. The new reality of internationalization is that firms must enter the global market quicker and this process is made easier through the use of new technologies.

How does the internet help the nationalization/internationalization process?

The web changes the nature of communication between firms and customers. The process of incorporating an internet strategy into an established business operation can be somewhat more difficult than becoming a 'start-up' virtual enterprise. The entire structure of the organization must be able to adapt to new practices. From marketing to finance, new technology must be accepted right across the board. This changeover to a 'wired' organization may involve initial expenditure in training and equipment. Small firms can benefit from the high levels of government funding and support for the development of electronic commerce.

New technology can speed up the business process, making the company more efficient. However, instantaneous success is not guaranteed. The company must work at building a customer base and be constantly innovative. The dynamic nature of the global place must be recognised by management and filtered through to the staff. The New World of customer interaction means that the rules of business are different.

A small company with a well-designed homepage can look every way as professional as a large multinational. The key to success and survival for businesses in the new electronic marketplace can be differentiation. Companies should seek specific market segments and build a successful relationship from there. The use of the internet for marketing intelligence is one of the most important ways in which connectivity can improve SMEs ability to develop international markets.

Factors inhibiting the growth of e-commerce

Although in theory electronic commerce may be set to revolutionize the way in which business is practiced worldwide, there are a number of practical issues that are restricting its potential. Unless these factors are overcome or at least minimized, the information age may not become as widely accepted as is anticipated.

Commercial usage is mostly focused around providing information. A company's decision to make their website fully interactive can have severe implications on the organizational structure. As a commercial medium, the web offers a number of deficiencies and risks. These arise primarily from the structural characteristics of the medium, including changing business environment, technological issues and drawbacks from the current level of technology, privacy and legal questions, public and social policies, larger competition, and of course, cost. A number of these issues have already been touched on. However, a more in-depth analysis of the security problem will be undertaken.

Currently, the biggest barrier to e-business is the lack of consumer confidence in internet security. The area with the greatest growth potential is business-to-consumer. However, this may not materialize if consumer trust is lacking.

Due to the open nature of the internet, data transferred can potentially be intercepted. Therefore, when consumers are releasing sensitive information like credit card details, they need to be reassured that this transmission will remain confidential.

Methodology

The first task was to identify suitable companies that would be willing to release information about their companies' status in relation to electronic commerce.

Step 1: company search

Important criteria when selecting a group included:

- the company must be Indian owned
- the company should be classified as an SME
- the company should already have demonstrated a drive towards innovation
- the company should already be involved in some degree of international trade.

Step 2: formation of business portfolios

Form a list of business portfolios for each company was compiled. The internet acted as the main information source. Details relating to contact addresses, telephone numbers, employee numbers, website and e-mail addresses and a comment on each website were collected.

Step 3: formation of questionnaire

Drawing on the desire to assess the company's level of electronic competency, a web-based survey, circulated via email, appeared to be the most effective survey method. The main benefits were that responses would be received quickly and the cost to both the company and researcher were minimal. At this stage it was decided to target companies who may not as yet have developed a full internet strategy but already possessed e-mail. Therefore, the questionnaire was designed in such a way as to allow companies to answer the questions based on future plans, where appropriate specific time frames for implementation of electronic commerce capabilities was an optional answer.

Step 4: company selection and formulation of a mailing list

The high level of IT firms resulted in a number being disregarded due to their obvious tendency to promote e-commerce.

Step 5: circulating questionnaire

The best method of distribution was via email. A standard letter was constructed containing the URL address and then circulated to all the companies. In addition, the questionnaire was also sent as a document attachment to the standard e-mail.

Conclusions

The aim of this paper was to assess the changes that are occurring in the business environment, brought about by the emergence of electronic commerce. E-commerce has introduced alternative forms of marketing, supply chains, and payment mechanisms. Global networks facilitate round the clock operations in linked countries and highly dynamic market places. These facts may indicate that e-commerce has the potential to revolutionize the way in which business is conducted. However, there are still a number of issues to be resolved before organizations make the transition to an interactive member of the Information Society.

Attention surrounding the internet and subsequently, e-commerce, exploded in the late 1990s. The hype about this new medium for communication, information and commercial transactions, has already been translated into actual results for specific sectors of the economy (intangible goods and services) and selected countries worldwide (economically developed regions).

The incorporation of new technologies could potentially alter the structure of the business environment within which commerce is transacted. The use of the internet, intranets and extranets, particularly in small and medium-sized enterprises, has resulted in much of the traditional theory becoming obsolete. Organizations must be innovative and dynamic. By their nature, small companies are suited to the dynamic market structure due to their flexibility and adaptability.

Market conditions are forcing companies to enter new markets in the early stages of development, thus questioning such theories as the stages model of internationalization. However it is important to note that non-exporting companies will not become successful global players simply by developing a company website. Effective market research and an understanding of international business practices (such as cultural and legal conditions) are factors that cannot be ignored. The internet will make such practices more convenient and affordable for SMEs.

The current economic climate in India has suitable conditions to facilitate the growth of e-commerce models. Government agencies have been focusing on furnishing the country with high-tech industry since 1951. This, combined with the youthful and educated population, creates an atmosphere of acceptance towards the Information Age. The Indian Government has been particularly active in promoting the Indian self-regulatory framework within which e-commerce will flourish.

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