Chapter XII

Web Initiatives and E-Commerce Strategy: How Do Canadian Manufacturing SMEs Compare?

Ron Craig
Wilfrid Laurier University, Canada

INTRODUCTION

Two important forces are at work today in the Canadian and global economies. First is the traditional force of small- and medium-sized enterprises (SMEs). Statistics Canada reports SMEs account for more than 60% of Canada's private sector employment and 40% of gross domestic product. Second, Information Technology (IT) and the Internet continue to change the way businesses and individuals work, shop, and relax. In particular, the Internet and Electronic Commerce (EC) are heralded as a great opportunity for business, consumers, and governments. The impact on SMEs is somewhat uncertain and still emerging. Some argue the Internet levels the playing field, giving smaller firms greater opportunity to compete against larger firms. Others argue that, because SMEs generally have fewer resources available for IT or other initiatives, they could be left behind. In addition, because of their size, SMEs have minimal control or influence over such external forces.

In this chapter, the progress of smaller and medium-sized manufacturers in the use, and potential use, of the Internet and EC is investigated. Do they lead or lag

larger firms? Is an EC strategy important for them, and what reasons do they see for pursuing it? Are firms that pursue an EC strategy more successful than the ones that do not?

Statistics Canada defines small businesses as having annual sales in the $30,000 to $5 million range. In this study, firms with sales less than or equal to $5 million were classified as small. Firms with sales in the $5 million to $30 million range were classified as medium in size, and above $30 million were classified as larger. The Canadian manufacturing sector comprises firms primarily engaged in the physical or chemical transformation of materials or substances into new products (either finished or semifinished). There are 22 major industry groups in Canada, with 238 industries (based on the North American Industry Classification System).

BACKGROUND

EC is used here in the broad sense, dealing with all aspects of business (including communication, information sharing, marketing, purchasing, logistical coordination, and payments). It is driven by improved and new business models facilitated by information technology advances and the Internet.

Obtaining consistent information concerning national and global Internet commerce is difficult, and there is often hype mixed in with reality. It is clear that business-to-business (B2B) dominates business-to-consumer (B2C) activity. Statistics Canada (2001) reports that in 1999 Canada accounted for almost 7% of worldwide Internet commerce (CDN $195 billion globally). The value of sales received over the Internet rose by 73.4% in 2000, with 80% being business to business. By 2004, it is predicted that global Internet commerce will increase to CDN $3.9 trillion, with Canada's share being CDN $151.5 billion.

Canada was recently ranked fourth in "e-readiness," a measure of the extent to which a country's business environment is conducive to Internet-based commercial opportunities (Economist Intelligence Unit, 2001). Leading the rankings was the United States, followed by Australia, and the United Kingdom. At a national level, it is recognized that one of the key issues currently facing Canada is facilitating the transition of existing SMEs into successful e-businesses (Canadian E-Business Opportunities Roundtable, 2001).

SMEs face challenges and opportunities with EC. Challenges include strategy determination and implementation, new and revised forms of business models and competition, successful technology adoption, and the pace and cost of change. Should a particular business use EC, and if so, when and how? At a basic level, the Web allows local firms to vastly extend their reach and send a much richer (content-

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