

Chapter 33

SME Characteristics and the Use of the Internet to Expand the Scale and Geographic Scope of Sales: Evidence from the United Kingdom

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ABSTRACT

The potential of the Internet to both geographically expand customer bases and provide a source of sales growth has led to a rapid embracement of the Internet by a majority of small businesses in the United Kingdom. However, many studies suggest that much of this adoption takes the form of simple Web sites representing little more than an electronic brochure. Although theories and models have been proposed suggesting adoption and development of e-commerce takes a staged process, with firms moving to more complex e-commerce processes after first mastering simpler forms of Web site, studies have found mixed evidence with regard to this. This chapter investigates the level of Small and Medium Enterprise (SME) Web site adoption and functionality and how this relates to growth aspirations, specifically the geographical expansion of customer bases. One potential explanation for this slow uptake of true e-commerce is a lack of employees with basic and advanced IT skills. The possibility that Information Technology (IT) skills shortages could explain the gap between the Internet's potential and the extent of involvement by a vast majority of UK SMEs is explored. Discussion within the chapter is complemented with analysis of data from a large survey of SMEs.

DOI: 10.4018/978-1-4666-3886-0.ch033

INTRODUCTION

The increasing accessibility of the Internet for SMEs has led to a massive surge in the level of UK e-commerce sales in recent years. Sales of goods and services over the Internet for SMEs have risen from £11.6 billion in 2004 to 48.5 billion in 2008 (ONS, 2009). The total contribution to the UK economy was estimated to be £100 billion or 7.2% of GDP in 2009, making it more important to the economy than the construction, transportation or utilities industries (Kalapesi et al., 2010). This is not just a reflection of customers becoming familiar and comfortable with accessing the Web sites of large established businesses within the UK, but also the increasing number of smaller businesses which have taken advantage of the potential of the Internet to cheaply advertise, market and sell their products to a wide range of customers (O'Keefe et al., 1998; Simmons et al., 2008; Kalapesi et al., 2010). As well as more traditional business models being augmented with the addition of a Web site there are new businesses reliant entirely on the Internet for their sales although many of these collapsed when the dot.com bubble burst in the early 2000s (Drew, 2003). Again Web only activity has not just been restricted to the larger, now household names, such as Amazon. Relatively low fixed costs and perceived risk has led to an explosion of entrepreneurial activity by individuals often alongside other economic activity such as salaried employment (O'Keefe, et al., 1998). There is an extensive literature examining the possible determinants for firms choosing to develop Web sites, which includes not only the opportunities created (Stockdale and Standing, 2004), but also the threats that Internet usage brings (Kleindl, 2000). Whatever the driving forces by the beginning of the present century the unavoidability of the Web meant that e-commerce in its broadest sense has become an imperative rather than an alternative (Wen et al., 2001).

Whilst a vast majority of firms have or will develop their own Web presences, there is a

greater variation in the speed, depth and form that involvement will take (Wen et al., 2001). It has also been suggested that Web site development is a staged process often driven by the availability of resources, particularly knowledge (Levy & Powell, 2003; Rao et al., 2003; Lee, 2004). Not all researchers are convinced of the merit of simpler staged models given the existence of early adopters and heterogeneity of small businesses (Martin & Matlay, 2001; Alonso Mendo & Fitzgerald, 2005a).

This study concentrates on the functions included in the Web sites of UK SMEs, and how these different levels of functionality relate to the perceived benefits of the Internet in providing growth potential and in particular access to markets beyond their local core market (Lawson et al., 2003). This would mean that greater adoption of e-commerce would lead to higher sales growth (Raymond et al., 2005; Kalapesi et al., 2010), even providing a relatively cheap method of internationalizing client bases (Kula and Tatoglu, 2003). These opportunities are particularly pertinent to SMEs who often may operate in niche markets, relying on a thinly but widely distributed customer base (Napier et al., 2005; Galloway et al., 2008). Whether, UK SMEs can fully take advantage of the opportunities open to them seems questionable given that their Web sites are often little more than product brochures (Levy and Powell, 2003; Crespi et al., 2004).

Given the potential of the Internet to not only grow the firm, but also to simply allow the firm to compete in a rapidly globalizing marketplace, it seems strange that studies have found little sign of true e-commerce adoption. One explanation comes from those studies examining the choice to adopt, which find a link to the perceived ease of use (Grandon & Pearson, 2004). Potential skills shortages for owners/managers and their staff could clearly hold back greater functionality of Web sites (Mehrtens et al., 2001; Mirchandani & Motwani, 2001; Robertson et al., 2007; Weltevreden & Boschma, 2008).

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