

Best Practices for SMEs to Build International Sales in a Digitized Economy

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The challenge

- Digital markets and Internet technologies have the potential to increase the internationalization of small and medium-sized enterprises (SMEs) in Canada
- Even though Canadians and Canadian businesses are active Internet users, relatively few Canadian SMEs are selling online
- The barrier seems to be a lack of knowledge of how to sell in digital markets effectively rather than a technological barrier

Online sales activity has increased only slightly

Internet access/use	Size of firm	2001	2007
Has Internet access	Small	68%	85%
	Medium	91%	95%
	Large	94%	99%
Has own website	Small	24%	36%
	Medium	57%	74%
	Large	74%	90%
Sells online	Small	6%	7%
	Medium	12%	13%
	Large	15%	22%
Purchases online	Small	20%	45%
	Medium	30%	69%
	Large	52%	74%

Use of online systems for marketing and managing customer relations (2007)

Small 10%

Medium 19%

Large 32%

Source: Ouellet, 2010

Research questions

1. What are key differences between digital markets versus traditional markets that influence the internationalization opportunities facing SMEs?
2. What factors enable SMEs to take advantage of opportunities for making international sales in digital markets?
3. What are the challenges SMEs should anticipate when competing internationally in digital markets and how can these be mitigated?
4. What policy initiatives are important to facilitate the internationalization of Canadian SMEs in digital markets?

Research methods

1. *The theory*: Examined 33 journals from 2000 to 2010 and synthesized the findings of over 500 articles related to doing business in digital markets.
2. *The practice*: Interviewed 8 Canadian entrepreneurs who successfully internationalized their firm's sales through digital markets.

The companies selected represent:

- Tangible and digital offerings
- Products and services
- B2B and B2C customer bases
- A range of sales volume

Digital product or service	Tangible product or service
<p>ClearFit sells an online hiring solution to small and medium-sized businesses.</p> <p>Echoage sells a birthday party service that is charity-driven, eco-friendly and convenient for parents.</p> <p>FreshBooks sells online invoicing and time-tracking services.</p> <p>Polar Mobile sells a technology platform for mobile applications.</p>	<p>Admiral Road sells handmade fleece baby blankets</p> <p>Beyond the Rack sells designer merchandise through shopping events that typically last 48 hours.</p> <p>LPR Global sells international trade services and high tech products.</p> <p>Mabel's Labels sells a wide variety of sticky labels and clothing labels.</p>

1. Key differences between digital markets vs. offline markets effecting internationalization

DIGITAL MARKETS

- Herding behaviour
- “Winner-take-all” markets
- Third party suppliers of add-ons

- Online privacy, security, payments
- Personal customer knowledge key
- Cost pressures for digitization
- Standards gain importance
- Demand-driven change

- Third party infomediaries
- Thin markets become wider
- Lower information search costs
- Lower switching costs
- Buyers want to interact with sellers

IMPLICATIONS FOR COMPETITION

Online reputation is consequential for online sales because online buyers tend to imitate each other.

Online technological capabilities are consequential for online sales because the technology itself is important.

Online brand communities are consequential for online sales because buyers gain power.

2. What factors enable SMEs to take advantage of opportunities for making international sales in digital markets?

- Online reputation
- Online technological capabilities
- Online brand community

Online reputation has 3 dimensions

Online visibility

- Search engine optimization
- Web analytics
- Online channels
- Online influencers

Online trustworthiness

- Disclosure of physical identity
- Familiar payment system
- Experience in foreign markets
- Trust-building tactics vary culturally

Online quality signals

- Awards and certifications
- Online ratings and reviews
- Understand whom customers imitate
- Clear, accurate communication

Online technological capabilities signal reputation and are hard to imitate

- Top management must champion and actively participate
- Integration of back office processing and data bases with web applications
- Analysis of how customers are finding the firm online
- Ability to customize the online experience

Online brand communities increase engagement with the brand

- People want to become engaged with companies and co-create value
- Can help people use products/services and can increase perceptions of the brand
- Can increase the firm's profile in foreign markets and signal that it does business there
- Authenticity and transparency are key
- Monitoring not managing: these are a valuable source of information

3. Challenges SMEs should anticipate when competing internationally in digital markets. How can these be mitigated?

1. Virtuality trap – assuming that online interactions with customers are sufficient
 - Find offline occasions to meet
2. Scattershot, ad hoc foreign market entry
 - Analyze costs and benefits of entering new markets
3. How “Canadian” should a company seem?
 - Make borders as invisible as possible

4. What policy initiatives are important to facilitate the internationalization of Canadian SMEs in digital markets?

1. Current data on sales-related practices, incl. wireless
2. Continue any support for offline interaction
3. A wider geographic scope of sales may not be preferable
4. Access to Internet and wireless networks need to be inexpensive and of high capacity
5. “Canada” needs to be a positive reputational signal
6. Need to understand how to value intangible resources (e.g. reputation, communities)
7. Need to rethink existing classifications of businesses

Thank you!

An emerging field of research feedback welcome