

## **PERCEPTION ON E-COMMERCE DRIVERS AND EXPORT MARKETING STRATEGY: A CASE STUDY ON SMALL AND MEDIUM ENTERPRISES (SMEs) IN LABUAN FEDERAL TERRITORY (F.T.)**

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### **—Abstract —**

The emergence of e-commerce technologies and rapid global expansions are the trends in today's modern business landscape. Studies on the integration of e-commerce and firm's export market strategy and export performance has shown significant results. In relation, further study has been conducted to examine the effects of e-commerce drivers on firm's export marketing strategy in the export venture market. However, little research has been conducted in developing countries like Malaysia. Therefore, this paper aims to explore the perception of Small and Medium Enterprises (SMEs) in Malaysia particularly in Labuan Federal Territory (F.T.), towards the usage of e-commerce drivers in their export marketing strategy.

**Key Words:** SMEs, e-commerce drivers, export marketing strategy

**JEL Classification:** M31, M38, O14

## 1. INTRODUCTION

Small and medium enterprises (SMEs) play an important role in the Malaysian economy and have been considered as the backbone of the industrial development in the country (Saleh & Ndubisi, 2006). According to the Malaysian Statistics Department (2010) about 28,840 SMEs representing 94.2% of the total establishment in the Malaysian manufacturing sector while the remaining were large establishments with a total of 1,767 establishments.

Devins (1994) further emphasized that successful SMEs had certain innovative activities and that includes exports. In fact governments in many developed, newly industrialized and developing country have identified exporting as a priority (Morgan, 1997) as it contributes to the development of foreign exchange reserves and increasing the level of imports a country can afford (Lages & Montgomery, 2004; Diamantopoulos, 1998). Exporting also provides a vehicle for job creation, improves employment opportunities, contributes to improved standards of living and encourages better working conditions and more efficient business (Lages & Montgomery, 2004). At a micro level, exporting helps firms reduce their dependence on their domestic market and enjoy faster sales, employment growth and a higher rate of success and long-term viability (Lages & Lages, 2004).

On the other hand, Gregory, Karavdic and Zou (2007) highlighted the advancement of e-commerce technologies as one of the major trends that characterized the modern business landscape. E-commerce technologies (e.g., the Internet) have led to entirely new possibilities for exporters to access new markets and improve their efficiency in terms of receiving customer orders and handling inquiries (Bennett, 1997; Hamill, 1997; Prasad, Ramamurthy, & Naidu 2001; Samiee, 1998). According to the literature, several conceptual works have described the implications of e-commerce and the Internet on marketing strategy (e.g., Hoffman & Novak, 1996; Javalgi & Ramsey, 2001; Karavdic & Gregory, 2005).

According to Zou and Stan (1998), internal factors such as export experience, management commitment and unique product offering are among the major drivers of a firm's export marketing strategy. In relation to that, these drivers were further emphasized by Gregory, Karavdic and Zou (2007) as they identified four major e-commerce drivers both internal and external according to their relevance

towards export marketing strategy. The internal e-commerce drivers consist of product online transferability and e-commerce assets while external drivers include e-commerce infrastructure and demand for e-commerce.

However, little progress has been made to integrate the two streams of research despite the major trends and the voluminous related research on e-commerce and export performance. Because of the lack of integration of e-commerce with export marketing strategy studies, little is known about how e-commerce influences a firm's export performance, how to incorporate e-commerce into export marketing, and what theoretical framework is appropriate to integrate e-commerce drivers into export marketing (Karavdic & Gregory, 2005).

And even though the Malaysian government has a deep concern over the deployment of e-commerce technologies to enhance the country's business value (Muhammad et. al, 2011), little is known whether the SMEs in Malaysia are aware of the integration of e-commerce drivers in export marketing strategy.

Therefore, the current study aims to explore the perception of e-commerce drivers on export marketing strategy among the SMEs in Labuan Federal Territory by adapting the previous research conducted by Gregory, Karavdic and Zou (2007). It is also hope that this study will give an important insight for the Malaysian exporters particularly the SME's to integrate e-commerce drivers in their export marketing strategy.

## **2. RESEARCH METHODOLOGY**

At a random selection, about 66 SMEs has been used in this study out of the 104 total SMEs in Labuan F.T. The initial measures of export marketing strategies and traditional drivers were developed in accordance with export research and the preliminary new measures of e-commerce drivers with the extant literature on e-commerce adapted from Gregory, Karavdic and Zou (2007). A five point Likert-type scale were also used to collect most responses where some questions involved actual numbers, percentages, or categories. Since the focus of this study is to know the perception of SMEs on e-commerce drivers and export marketing strategy, our target respondents were mainly the company's IT Managers, Marketing Managers, IT Personnel, Marketing Executives as well as the company's staffs who were using e-commerce to assist or conduct their company's day to day business activities as the representative of the SMEs.

### 3. RESULTS AND ANALYSIS

Based on Table 1 below, the main core business consists of those SMEs involved in the retail business activities while 33% and 12% comes from services and manufacturing respectively. About 66% of all the total respondents have never been involved in export activity while the remaining 34% claims that they do have experience in export activities. For those that claimed to have experience in export activities, about 43% of them have been in the export business activities more than 10 years. While 14% of the total respondents did not view exporting as potential business activities, more than half of total respondents which is about 86%, does view exporting as a potential business activity.

**Table 1: Profile of Respondents**

<b>Variable</b>	<b>Frequencies</b>	<b>%</b>
<b>Core Business</b>		
Manufacturing	8	11.5
Services	21	32.8
Retail	37	55.7
<b>Involvement in Export</b>		
Yes	22	34.0
No	44	66.0
<b>Export Activities Involvement Duration</b>		
1-4 years	19	28.6
4-7 years	10	14.3
7-10 year	9	14.2
More than 10 years	28	42.9
<b>Exporting as Potential Business Activities</b>		
Yes	9	13.8
No	57	86.2

Table 2 describes the perception of e-commerce drivers namely the demand for e-commerce, asset of e-commerce and product online transferability towards export marketing strategy among the respondents. The orientation towards technology or e-commerce among the total respondents is moderate, about 56%. However, the respondent's export partner's usage of e-commerce is about 64% and this shows that the demand for e-commerce is quite high. As for the e-commerce asset, about 81% of the total respondents have knowledge as how to place order through email or online system. The second highest is 79%, that is the communication with partners, clients or customers using the email system. As for product online transferability, about 63.2% of the total respondents said that a product should

have unique appeals in terms of quality, design and features in order make to it possible to use e-commerce to distribute their products and services using e-commerce as to enhance export marketing strategy. About 60% of the total respondents also said that by using e-commerce, the number of middlemen or distribution channels can be reduced.

**Table 2: Demand for E-Commerce, E-commerce Asset and Product Online Transferability**

<b>Variable</b>	<b>Percentage %</b>
<b>Orientation Towards Technology</b>	
Very High technology	11.5
High technology	32.8
Moderate	55.7
Very conventional	
<b>Export Partner's E-commerce Usage</b>	
Yes	64.0
No	36.0
<b>E-commerce Activities</b>	
Products/Services Presentation on Company Websites	62.7
Ordering and Other Interactions via Emails/Online System Fulfilling and/or Delivering Online Assistance	81.4
Receiving Automated Invoices	37.3
Paying Online/ Receive Payments	49.2
Communication with Partners/Clients/Customers using Email System	39.0
None of the activities below	79.3
	3.5
<b>Product Characteristics and Distribution</b>	
Products should have unique appeal (quality, design, features)	63.2
Company should be able to reduce number of distribution channels	59.6
Services supported the product can be performed electronically	59.1
Products/services can be adapted subsequent to service	43.9
Services supported the product are actually performed electronically	40.4

Table 3 presents the level of agreement among the respondents concerning their firm's objectives using e-commerce for business according to their core business, particularly the perception of respondents towards the importance of e-commerce infrastructure. For those involved in manufacturing, about 83% of the total respondents said that the usage of e-commerce would allow them to access new international market, followed by retail, 46% and services 32% respectively. About 32% of the total respondents in services, 30% in retail and only 9% in manufacturing said that e-commerce would help them to gain a foothold in the export market. Retail and services, 42% and 33% respectively said that e-

commerce would help them to improve their company's market share position but not so much on manufacturing as the total respondents' only accounts for 4%. As for just to provide responses to enquires from abroad, manufacturing, services and retails contribute 9%, 21% and 12% of the total respondents respectively.

**Table 3: E-Commerce Infrastructure**

	<b>Manufacturing %</b>	<b>Services %</b>	<b>Retail %</b>
<b>Firms Objectives on Using E-commerce</b>			
Access New International Market	82.5	31.6	45.6
Gain a Foothold in the Export Market	8.8	31.6	29.8
Improve Company's Market Share Position	3.5	33.3	42.1
Just to Provide Responses to Enquiries from Abroad	8.8	21.1	12.3

#### **4. DISCUSSION AND IMPLICATIONS**

Finding shows that the demand for e-commerce from the export partners is high while the SMEs orientation towards technology is just moderate and their main e-commerce activities are online ordering and communication by using email. Due to this matter, the SMEs should equip themselves with appropriate IT skills and knowledge because through the deployment of e-commerce assets, SMEs as exporters may become more knowledgeable on customer motivations, local distribution channels and competitors' activities, as these enhanced knowledge that permits them to seek a high degree of promotion adaptation, attain efficiency in communication and distribution, offer proper support to distributors and make smart competitive pricing decisions. These findings are consistent that resources such as IT infrastructure are important factors in successful exporting using the Internet (Samiee, 1998).

Most of the SMEs also agree that products should have unique appeal (e.g. quality, design, and features) in order to be transferred and distributed electronically. Specifically, a firm's ability to transfer products or services electronically is positively linked to its promotion adaptation strategy and support of exporting distribution (Gregory, Karavdic & Zou, 2007). Exporting firms that electronically transfer elements of their product will likely to find that promotional adaptation on the Internet are more cost effective.

The SMEs also agree that e-commerce infrastructure plays a particular role in enhancing the effects of export experience. It is important for the SMEs to know that as export market e-commerce infrastructure becomes more developed, it can further enhance transaction efficiency, reduce distribution costs, simplify transactions and increase scale economies (Amit & Zott, 2001).

Based on these findings, the Malaysia External Trade Development Corporation (MATRADE) with the collaboration of Small and Medium Industries Development Corporation (SMIDEC) should further emphasize the importance of integrating e-commerce drivers into export marketing strategy among the SMEs in Malaysia. Talks and seminars should be conducted to create awareness besides providing appropriate trainings, financial support and advice.

## **5. LIMITATIONS AND RECOMMENDATIONS FOR FUTURE RESEARCH**

Every effort has been made to make this study as comprehensive as possible. However, there are still limitations. The sample population might not represent the whole SMEs in Labuan F.T. because some of the data obtained regarding the target respondents were not updated. Apart from that, the effects of e-commerce drivers on export marketing strategy on the SMEs might not be well measured as the research study was conducted based on the perception of the target respondents. Since the research study was conducted only in Labuan F.T., it is proposed that this research to be conducted in Sabah, Sarawak and West Malaysia as well. It is also proposed that the target respondents will be from the company managing directors, export managers or marketing managers because of their extensive knowledge about company involvement in the export business (Kumar, Stern & Anderson, 1993) and their personal involvement with their export venture counterparts. A moderated regression analysis (MRA) should also be used to test the direct and moderating effects of e-commerce drivers on export marketing strategy (Murray, Kotabe & Wildt, 1995), using the six dimensions of export venture marketing strategy, namely promotion adaptation, communication efficiency, distribution support, and distribution efficiency.

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