

**BOLOGNA 2000 SME CONFERENCE
BUSINESS SYMPOSIUM**

**ROUNDTABLE 3:
Realising the Potential of Electronic Commerce for SMEs in the Global
Economy**

ISSUES PAPER

This paper is intended to provide a basis for discussions by business participants in the Business Symposium Roundtable on Electronic Commerce and SMEs to be held in Bologna on 13 June. **Roundtable presentations and discussions will highlight specific suggestions for concrete initiatives** in the spirit of those included in the final declaration of the conference and will be presented to Ministers during the 14-15 June Bologna Conference.

ROUNDTABLE 3

Realising the Potential of Electronic Commerce for SMEs in the Global Economy

ISSUES PAPER

1. The Internet provides opportunities for companies of all sizes to innovate, increase efficiencies and gain access to new markets at home and abroad. In many ways, SMEs stand to benefit most from the Information Society; unlike large enterprises, many of which already operate in global markets through well-established networks of affiliates, the international potential of SMEs has been constrained because of their small size, lack of resources and limited ability to identify and work with new customers and suppliers across borders. The Internet eliminates these disadvantages by opening up global markets to any company with an effective strategy for conducting business on line. Despite these opportunities, SMEs most often lag behind in the exploitation of electronic commerce, and this raises important questions for policy makers.

What are the benefits of electronic commerce for SMEs?

2. The most obvious opportunity for SMEs arising from new information technologies is the vast potential for marketing products and services to customers throughout the world. All estimates show that Internet access and utilisation is growing rapidly, with over 300 million estimated users in March 2000,¹ and several studies suggest that consumer online purchases may reach USD 400 billion by 2002.² Entrepreneurs can use the Internet to research this vast new market, gain a better understanding of customer tastes and preferences, and reach out to large targeted audiences. But such opportunities are only the beginning.

3. The Information Society has the potential to revolutionise all aspects of business activities, from innovation and product development, procurement and production, to logistics and information co-ordination and dissemination. Today, more than ever before, a small enterprise can use new technologies to respond quickly to changing consumer patterns, customise goods and services to meet local demand, manage supply processes and inventories, and monitor production costs and quality control. There are also considerable benefits for distribution: one study suggests that the average cost of generating a purchase order will drop by as much as 90% as a result of adopting electronic commerce.³ SMEs can use new technologies to dramatically reduce the time between order and delivery, often engaging other SMEs identified over the Internet as local business partners in their production and distribution networks. And, for those companies that can deliver their products

¹ NUA Internet surveys at: http://www.nua.ie/surveys/how_many_online/index.html

² ITAA, International Data Corporation.

³ ITAA.

digitally over the Internet, the production and distribution benefits of electronic commerce are potentially huge.

Why have some SMEs been slow to take advantage of electronic commerce?

4. Given the tremendous potential offered by this new way of conducting business, why have some SMEs been slow to introduce electronic commerce strategies, preferring instead to rely upon traditional practices?

5. The OECD survey carried out among business representatives points to a number of reasons for slow adoption by SMEs (see Table 1). One of the main reasons is that their principal customers and suppliers have not yet adopted electronic commerce as a means of conducting business. For many firms, their interest in electronic business has been affected by the predominance of English on the World Wide Web, which limits the Internet's usefulness for reaching potential customers in non-English-speaking markets. The high cost of Internet access is a further impediment for both consumers and SMEs in some countries. And, in every country, the growth of electronic commerce is constrained by the concerns of many potential consumers about the security of online transactions involving transmission of credit card data.

6. The survey highlighted a further major reason for slow uptake: many SMEs simply lack the basic knowledge and technical skills to implement electronic commerce strategies. They are often too busy employing scarce human and financial resources to make their initial business plans succeed and are reluctant to allocate resources to implementing a new electronic commerce strategy without a clearer understanding of the benefits and risks. Even among those SMEs that recognise the potential offered by electronic commerce, many are held back by uncertainty about the legal, regulatory and tax environment. Concerns about overlapping or conflicting regulatory requirements and possible new taxes affect investment decisions by firms of all sizes, but SMEs are particularly vulnerable to such uncertainty. As the debate continues on such issues as standards, taxation, consumer protection and liability, many firms are waiting until the legal framework governing electronic commerce becomes clearer.

What can governments do to promote the use of electronic commerce by SMEs?

7. A number of common policy remedies to deal with the most pressing obstacles to SMEs' adoption of electronic commerce were suggested by respondents to the survey, although proposals varied according to specific problems in individual countries (see Annex for suggested policy actions). Foremost among these were recommendations for governments to promote greater awareness of the Internet and the opportunities provided by electronic commerce, both for the general public and, more specifically, for SMEs. There were a number of specific proposals, including suggestions that governments move more quickly to put public services on line and integrate new information technologies into publicly supported education and training programmes. A number of governments already provide information clearing houses related to electronic commerce, and private, public and joint initiatives exist for supplying specialised training and support to both SMEs and the general public. Expanded use of such programmes would encourage adoption of electronic commerce by local firms and provide a wider range of international business opportunities for SMEs.

8. The high cost of Internet access and inadequate telecommunications infrastructure were two problems cited by many SME representatives. For some respondents, the answer lies in greater liberalisation of local telecommunications markets: efficient, competitive telecommunications systems will not only make it easier for SMEs to engage in electronic commerce, but will also reduce risk and

potentially open up new markets by enabling greater access to the Internet by prospective customers. Some survey respondents suggested that governments could help reduce the cost of Internet access and investment in the necessary hardware by providing financial support, such as tax incentives.

9. The survey indicated that regulation is a key issue for SMEs. The Internet enables firms to interact easily with customers and other companies across national borders. If individual governments enact different rules pertaining to online transactions in their jurisdictions, the benefits of electronic commerce would effectively be lost, especially for SMEs because many would simply be unable to comply with a plethora of national regulations. To the extent that intervention is warranted, governments should co-operate closely to avoid imposing conflicting or duplicative requirements on firms.

10. Taxation and customs duties are further important issues for SMEs. The WTO's May 1998 Moratorium on Customs Duties on Electronic Transmissions was a significant step forward in promoting the Internet as a medium for international trade. If the moratorium were to end and/or if governments were to decide to impose new forms of taxation on e-commerce transactions, SMEs would be particularly affected by the higher costs and compliance burdens. Governments should thus consider extending indefinitely the policy of not imposing customs duties on electronic transmissions and should ensure that any taxation of electronic commerce is neutral with respect to other business transactions and consistent with internationally accepted principles. For SMEs in the European Union, these comments were supplemented in the survey by pleas for full application of the EU VAT reform and country of origin principle.

11. The above provides just a sample of the many policy issues that can affect electronic commerce. While large companies may be able to cope with some of the challenges, the added burdens and costs to SMEs can be especially difficult to absorb, effectively reducing the benefits of e-commerce as a business strategy. Governments should thus remain particularly attuned to the impact of their policy initiatives on the viability of electronic commerce as a means for SMEs to engage in global markets.

ISSUES FOR DISCUSSION

12. What determines SMEs' ability to successfully utilise new information and communications technologies, and particularly Internet-based technologies, to gain access to international markets? Why have some SMEs moved more quickly to implement new information technologies as a part of their business strategies?
13. Are there examples of successful programmes that have been introduced by governments or the private/non-profit sectors to assist SMEs which have been identified and assessed as contributing to their success?
14. What specific policies or regulations at the local, national, regional or international level could promote greater awareness among SMEs of the benefits of the Information Society and of integrating Internet use and electronic commerce in their business strategies? What specific policies in the areas of technical assistance and training could benefit SMEs in the use of electronic commerce?
15. What policies or regulations at the local, national, regional or international level impede successful use of electronic commerce by SMEs, in areas such as trade, competition, intellectual property rights (IPRs), standards and taxation?
16. What role can international institutions play in contributing to facilitate the development of an attractive business environment for SMEs to engage in electronic commerce, and in promoting electronic commerce opportunities and use for SMEs?
17. How can full account be taken of SME perspectives in the preparation of guidelines, regulations, regulatory and co-regulatory initiatives and instruments related to ICT and electronic commerce?

ANNEX

SURVEY OF BUSINESS REPRESENTATIVES:

Principle impediments to the use of e-commerce by SMEs, and suggestions for policy action

Impediments *	Suggested policy actions
Low use of e-commerce by customers and suppliers	<ul style="list-style-type: none"> • Disseminating information on the advantages of e-commerce. • Creating conditions for its development: fiscal incentives, awareness programmes, technical assistance. • Introducing training and education programmes. • Developing legal frameworks conducive to the development of e-commerce.
Lack of knowledge and technical skills among SME personnel	<ul style="list-style-type: none"> • Promoting training and education. (e.g. tax incentives for training).
Language problems	<ul style="list-style-type: none"> • Promoting language and qualification courses, developing skills for business contacts. • Promoting more international education programmes.
Limited awareness among entrepreneurs about the opportunities and risks of e-commerce	<ul style="list-style-type: none"> • Professional institutions should provide more information about the opportunities and risks of e-commerce. • Financing or co-financing training of entrepreneurs. • Increased information dissemination.
Relatively high cost of access to the Internet	<ul style="list-style-type: none"> • Cheap or free access to the Internet for SMEs (e.g. through telecommunications liberalisation, tax incentives for investment).
Payments with credit cards are not secure	<ul style="list-style-type: none"> • Introducing legislation to regulate credit card payments. • Encouraging further improvement of the banking system. • Providing more information about the safety of credit card payments.

* In the order of the impediments most frequently rated by respondents.