

Accelerating SME e-Business Adoption: Focus on Productivity & Profitability

The use of advanced information and communications (e-business) technologies (ICT) by small firms makes a strong contribution to their productivity and profitability. E-business is more than simply selling products over the Internet. While the Internet does represent an important sales channel, this area is a relatively minor aspect of overall e-business capabilities. 80 to 90 per cent of the benefits attributed to e-business come from business-to-business transactions and from real savings by making internal business processes more productive.

E-business is about making traditional business relationships and processes such as recruitment, procurement, administration, marketing/selling and customer support (taken together these processes can be loosely termed 'overhead'), more efficient through innovative applications and technologies. By adopting and applying information technology and the e-business applications that run over networked technologies, businesses can reduce costs, increase profit and improve customer satisfaction. The government needs to place a greater emphasis on ICT usage to ensure Canada's continued productivity and competitiveness in a global economy.

SMEs represent a significant percentage of economic participation in Canada. Statistics Canada has estimated that of the 1,046,345 employer businesses known to exist in Canada in 2004, less than 3000 (or about 0.3 per cent) have more than 500 employees. The vast majority of businesses (98 per cent) have fewer than 100 employees; nearly 75 per cent have fewer than 10 employees and 58 per cent have one to four employees. SMEs account for approximately 65 per cent of total private sector employment and they are growing by 15 to 25 per cent annually. In addition to the economic importance of SMEs, this community must not be overlooked as a key social institution. With the majority of Canadians employed by SMEs, this is where they are most often introduced to, exposed to and trained with respect to new processes and technology. While promoting innovation and e-business adoption among SMEs is important to enhancing Canada's productivity, it also represents a way to increase social goals, such as technical literacy.

When Canada examines the application of innovation throughout the economy, SMEs represent the critical mass of businesses that must be targeted. More Canadian SMEs claimed financial benefits from e-business adoption; including an increase in revenue and decrease in the cost of goods sold, and in sales, general and administrative expenses than did SMEs in the U.S. and the E.U. SMEs are increasingly aware of this trend, and look for the bottom-line benefits of technology adoption. However, adoption rates are uneven across firm size and sector. While small firms (fewer than 100 employees) led their international counterparts in adoption rates for customer-focused solutions, and financial, accounting and procurement solutions, medium-sized firms (100 to 500 employees) lagged internationally. The government should take steps to develop a national ICT strategy and establish a National Council on the E-economy to advance ICT in Canada, as was recommended in the 2006 Telecommunications Policy Review Panel's final report. This National Council would continue the good work that was done by the Canadian e-Business Initiative (CeBi). CeBi was an important step forward for advancing Canada's ICT awareness and it encouraged increased productivity,

leadership and innovation in SMEs. The implementation of the National Council would lead to a national effort to provide benchmarking, insight and recommendations for Canadian e-business.

In order to get a current picture of business views related to e-commerce and the use of information and communications technologies, the Canadian Chamber conducted a survey of its membership through the local chamber network across the country. The survey, which was conducted March 2-20, 2009, was designed to provide a snapshot to determine what exactly Canadian business was using the internet for, if business to business transactions were taking place on a regular basis, and what online security measures were being used by business.

959 businesses of all sizes responded to the survey, an excellent response. 66 per cent of businesses that replied employed between 1-10 people and 24 per cent of respondents employed between 11-100 people. The vast majority of respondents were small businesses.

Not surprisingly, 96 per cent of businesses that responded to the survey are using the internet for business purposes. When it comes to looking at how these businesses are using their websites, 73 per cent accept online payments and 69 per cent of businesses provided the ability for online ordering and tracking of goods. 87 per cent provided product information on their websites.

When it comes to the adoption of e-business solutions for business to business online transactions, the results were mixed. 42 per cent of businesses surveyed stated that they did use an automated electronic data exchange system to send orders to suppliers, 51 per cent are receiving and sending electronic invoices, 46 per cent are able to receive orders from customers, 65 per cent send or receive product information, 46 per cent send payment instructions to financial institutions and 45 per cent send and receive data to/from governments (such as tax information). This illustrates that more work need to be done to get business to use business-to-business e-commerce solutions to make their businesses more globally competitive. The key is to keep it simple; with the majority of businesses employing fewer than 10 people, they simply don't have the time to dedicate to implementing and monitoring complicated and costly e-business solutions.

SMEs report a number of reasons for variable adoption, reasons that often include qualitative judgments such as perceptions regarding the inapplicability of e-business solutions to their sector. However, the high cost of the solution figures as a significant barrier for firms across sectors. The Canadian Chamber suggests that, given that high effective tax rates on capital for corporate investments affects capital investment decisions, building a competitive taxing regime and accelerating the elimination of capital taxes, could aid firms in deciding to make greater ICT investments.

Recommendations

That the federal government:

1. Implement and establish an ICT adoption strategy and National Council on the E-economy to better advance ICT adoption throughout all sectors of the economy.

2. Continue to work with the private sector, to accelerate e-business adoption among SMEs, emphasizing the productivity and profitability potential of 'e-business transformation' via sector-specific approaches
3. Create a conducive investment climate (including competitive business and personal taxes) that encourages foreign and domestic investment in Canadian e-business opportunities, e-business transformation and the creation of new e-business ventures.