DEVELOPING A COST EFFECTIVE E-BUSINESS STRATEGY FOR MICRO BUSINESSES IN THE UK

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Abstract

This study attempts to advance micro businesses from web presence to transaction online by proposing a consolidation of resources into strategy that will reduce the cost associated with adopting e-business. The aim of formulating this strategy is to offer useful insights for them to better improve their business and challenge their resilience of e-business adoption. This strategy is relevant in today’s business environment as: a) e-commerce and the internet have become a common business mode and a marketplace for many customers; b) the number of micro businesses transacting in e-business is low compared to larger organisation. It is argued that government resources and services from companies can effectively reduce the cost associated with e-business adoption. In particular, this research focuses on those micro businesses thinking of adopting e-business and those that have web presence but not yet selling to customers. The strategy is guided by literature but not tested.

Key words: E-business, E-business Strategies and Micro businesses

1.0 Introduction

Previous studies (OECD, 2004; Simpson and Doherty, 2004, Quayle, 2002) have revealed the risks and costs to micro businesses in association with successfully integrating external and internal business processes in e-business; and the challenge for micro businesses to operate in this e-environment is how to make their overall e-business strategy less risky and less costing. As stated in (OECD, 2004; Fillis et al, 2003), micro businesses have more difficulties, compared to larger firms, in finding e-business case applicable to them because of the lack of time, information and knowledge. From literature, a gap was also identified in the form of lack of awareness of information such as government support and lack of strategic thinking (such as the utilisation of knowledge management) in consolidating the resources with public and private services. There is
little evidence of the possible integration through systematic consolidation of resources and services.

This study intends to look for solutions to enhance integration and understanding of micro businesses to e-business adoption; by adopting an exploratory route, which is based on a triangulation approach (Jankowicz, 2004). Qualitative and quantitative data from existing literature and operational sites (Business Link, Royal Mail, Virgin etc) were discussed, examined to identify the logical approach to e-business adoption. Strategies to e-business adoption; some available technologies and best practice were explored; a cost effective strategy (CES) to support micro businesses to be successful in the e-world was proposed based on findings from these sources. The CES suggests a systematic strategy with fewer risks, lower cost, and less complications; and it also offers clear explanations about e-business adoption. In this study, the definition of micro business is that of any business with less than 9 employees (Levi and Powell, 2005; Fillis et al, 2003). This working definition is in line with that used by the UK Department for Trade and Industry (DTI) in its SME Statistics for the UK (DTI, 1998) cited in Burgess (2002), and its spectrum Business Surveys on the use of Information and Communication Technologies in SMEs (Spectrum, 1999) cited in Burgess (2002)

2.0 Literature review

Fillis et al (2003) suggest that there is little, or no, consideration of the growth of the smaller firm in the e-business marketplace and the particular needs and wants of this sector. E-business is an umbrella term used for describing an all-encompassing concept of enabling the exchange of business information and automation of commercial transactions over the internet (Davydov, 2001). A variety of strategies to e-business adoption have been suggested and developed from previous literature, however, they only explain the approaches or steps that can be taken without indicating where and how. Hackbarth and Kettinger, 2002 cited in (Mohini and Waddeli, 2004) suggested a strategic e-breakout model addressing initiation, diagnosis of the industry environment, break out to establish a strategic target and transition or plotting a migration path. Quelch and Klein
(1996) quoted in Gunasekaran et al, (2003) developed a five stage model referring to the development of sell-side e-commerce. They suggest that using their logic, the sequence can either be ‘information to transaction’ or ‘transaction to information’. Deise et al, 2000 quoted in (Mohini and Waddell, 2004) emphasise that the focus of e-business strategy will vary according to the evolitional stage of e-business, suggesting that the focus will transform from selling channels (sell-side e-commerce) to value chain integration (buy-side e-commerce) and creation of value networks. Venkatraman (2000) also suggested a ‘dot-com strategy’ for existing businesses looking to make use of digital media which include five aspects: strategic vision; governance of dot-com operations; allocation of key resources for the dot-com operations; operating infrastructure for the dot-com operations; and the alignment of the management team for the dot-com agenda. McDonald, 1999 quoted in (Chaffey, 2003) illustrated a ten-step strategic development process divided into four phases from goal setting, situation review, strategy formulation to resource allocation and monitoring.

From the functional point of view, Figure 1 below indicate the current use of ICT and internet amongst SMEs.

Figure 1 Source: Use of ICT and internet amongst SMEs (OECD, 2004)
2.1 E-business Technologies

The Literature reviewed recommends the use of enterprise systems (ES) such as enterprise resource planning (ERP), customer relation management (CRM) and e-Procurement systems to the successful adoption of e-business. Enterprise systems encompass those distributed, scalable, multi-user, and business-critical systems that are intimately related to enhancing the productivity of corporate or organisational enterprise via information technology (Perrone and Chaganti, 2000). Davenport (2000) lists ES benefits such as: Cycle time reduction in key business process (delivery time); Better financial management (common financial and procurement systems, improved management and reporting system); Laying the ground for electronic commerce (rationalization of back office business transactions system); and making tacit process knowledge explicit (key processes, decision rules, and information structures understood and documented in systems). However, the above strategies are complicated and technologies are expensive for micro businesses wishing to adopt or sell online. For this reason, the study proposed the cost effective strategy below.

3.0 Development of Cost Effective Strategy (CES)

3.1 CES Process

As mentioned earlier, previous investigations have shown Strategies as conditional sequences of consistent resource allocations that define an organisation’s relationships with its environment over time (Bocij et al, 1999). In this research, the framework and sequences of different strategies have been examined. The new discipline present various ways of consolidating resources for effectively adopting e-business. Cost factors are the basis for the framework (sequences and stages) decided for CES, namely, direct cost of: ICT equipment and Networks, software and re-organisation, electronic data interchange; and complimentary cost of: hiring qualified (managerial knowledge) personnel, dealing with legal issues, ongoing cost of maintenance and upgrade, as well as the cost of sending products to customers, as shown in figure 2. The diagnostic process has been completed
and evaluated with the respective government, public and private companies by telephone and through their websites.

3.2 Integration Process

Micro businesses could adopt a lower cost and risk approach to e-business, however, information about less expansive strategies seems dispersed. Subsequently, complicated, expensive and risk strategies tend to discourage micro businesses to integrate and adopt e-business. An integration process to e-business has been proposed that includes collaboration of government agencies, public/private services and their current operational costs. Government agencies is a place to acquire free resources (knowledge, training, finance/grants, legal advice, guidance on initiatives, assessment, storage, and software) as outlined in (Business Link, 2010; Scottish Enterprise, 2010) and shown in figure 2, with these resources micro business could reduce complimentary cost to e-business. Experts in the field will support micro businesses with targeted knowledge and practical assistance in various stages of their efforts to adopt concept such as e-business. Micro business will enhance their e-business depending on their current level of adoption. Business Link consultants will follow up to ensure success, identify any problems and use the information to record experiences, negative or positive, originated from the integration which could in turn, improve or better the service offered to other micro businesses. Micro businesses can continually report to Business Link their progress and different findings for improvement of the strategy. Services offered by public and private company such as: ICT equipments, network service, payment methods and delivery method will reduce significantly direct cost to e-business. Below is the evaluation of CEs, which provide evidence of simplicity and cost reduction in comparisons to integrating and ES with its databases.
Figure 2: CES strategy: Agencies, Companies and Cost factors in e-business which contribute to micro’s e-adoption.

4.0 CES Evaluation

This study has evaluated CES in the form of telephone calls and website information provided by these organisations. The literature has contributed to some refinements of CES. The evaluations have been focused on services, mainly, in three aspects: Method, costs, and benefits. CES refinements were based on service evaluation criteria such as: efficiency, functionality, usability, and sustainability. In contrast to the ES, it was recommended that the strategy should be easy, quick and relevant to micro businesses.
4.1 Method

For the above reasons, it was necessary to identify methods that could be used with minimal complexity to micro businesses in advancing to e-commerce. Subsequently, micros could use electronic payment system offered by Paypals and Royal bank (RBS World Pay). Network service providers such as: (Virgin, BT, Sky, O2, or Orange) can overcome issues of access and interoperability that will enable them to interact with online customers. Royal mail has special rates for SMEs which can be used for distribution of products to online customers. Other delivery companies are: DHL; UP. In most cases online customers pay for deliver charges, which give advantage to micro businesses. UK government policies have also been designed to encourage successful e-business. For example, the ‘Opportunity for All in a World of Change’ White Paper (DTI, 2000) cited in Dixon et al (2002) announced a significant thirty million pounds expansion from 2001 for a 3 year period to help business move beyond having a website to trading online, and to transform themselves through the effective use of ICT. The intention is to enable business to move up the e-adoption ladder and produce faster uptake in ICT (Dixon et al, 2002).

4.2 Costs

On the other hand, the reduction of adoption, in the form of current operation cost was relevant in the study. For example, by opening a free standard business account with PayPal and add one of their payments button. Micro businesses can start selling in 15 minutes to 190 countries with 18 currencies with an easy set-up that will not require: advanced technical skills, application costs, set-up costs, cancellation fees or monthly account fees. Customers don’t need a PayPal account and can pay with: Mastercard, Maestro, Visa, Visa debit etc. The PayPal cost range from 1.4 – 3.4%, plus 20p per transaction, depend on sales volume (PayPal, 2010). Hence, RBS range from £75 set-up fee, £15 per month, 3.35% plus and 15p per transaction. Royal mail has free postage for articles for the blind; and (second class 25p – £20 same day delivery). Various rates for delivery service exist ranging between the amounts specified above from Royal mail.
From £20.00 to £50.00 Micro business could obtain a faster broadband (price vary per service provider).

4.3 Benefits

Micro businesses could benefit by using e-commerce, both as a strategic business tool and to facilitate purchasing consortia (Quayle, 2002; Levitt, 1983 cited in Fillis, 2003). Some Benefits include: PayPal - Fast payments that are quicker than accepting postal orders or cheques; It’s global and accepted worldwide; It’s trusted with an industry-leading fraud prevention that can help to reassure customers; It’s cost effective with no hidden charges but low fees that are affordable for business of all sizes; It’s preferred by customers and do not reveal customer’s financial details (PayPal, 2010). Virgin - Optional business phone line, dedicated business support, modem/router, options for email addresses, anti-virus scanning, anti-spam filtering, web hosting, a domain and a fixed IP address (NTL: Telewest business, 2010).

5.0 Research Method

The methodology used in this research from which CES is drawn, is based on the ‘triangulation approach’ outlined by Jankowicz (2004). It offers a multi-dimensional assessment of qualitative data from existing literature on e-business strategies and cost factors; and generates assessed quantitative evidence from operational sites (Business Link, Royal Mail, Virgin etc) on the inference cost to e-business adoption. This approach has thrown some light that although e-business adoption is believed to be expensive and complicated; government resources and public/private services can be consolidated into CES. However, the study recognises that it is insufficient to be conclusive without empirically testing CES to micro businesses.

6.0 Conclusion and Recommendation

This paper has developed CES to facilitate knowledge manipulation, enable context-awareness to micro businesses, of available government resources and services from
public and private companies. Through better understanding of the strategy, micro businesses can continue to grow their business through e-business. It is recommended that a pilot study be undertaken to test that this strategy does offers a systematically cost reduction solution for micro business to adopt e-business, and to make more it practicable.

7.0 References


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