

**E-business Strategy and Application in Supply  
Chain Management by New Zealand SME  
Wholesalers**

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## **Attestation of Authorship**

“I hereby declare that this submission is my own work and that, to the best of my knowledge and belief, it contains no material previously published or written by another person (where other people’s work or ideas are used, they have been appropriately referenced and acknowledged), nor material which to a substantial extent has been submitted for the award of any other degree or diploma of a university or other institution of higher learning.

All views expressed in this paper are solely my own construct and do not necessarily reflect the views of any other individual or organization.”



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Michelle Wun Cheng Yuen

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## **Abstract**

The aim of the research was to investigate the practice of e-business strategic planning and application amongst small to medium sized enterprises (SME) wholesalers for supply chain management (SCM). The extent to which e-business strategic planning and application are practiced and attitudes towards e-business technology use, were investigated.

SMEs, companies with 19 or less employees, are the backbone of New Zealand's economy and, therefore, collectively they are of major significance to the performance of the economy. Advancements in technology and the development of e-business capabilities can help businesses cut costs and increase efficiency. This study examined the context of SME wholesalers and wholesaler SMEs' perspectives and attitudes towards the development of strategies and application of e-business to find useful theoretical and practical insights for SCM in New Zealand SMEs.

A qualitative research approach was chosen for this study. The method of qualitative interviewing through the administration of semi-structured interviews was used to capture rich and in-depth data. The research sample was a total of ten SME wholesalers in the metropolitan Auckland area. A total of ten interviews were conducted with key personnel of each company, being either the owner-operator or manager.

The research showed that nine of the ten SMEs interviewed, already use e-business technologies and have established e-business strategies for their businesses. Strategies and strategic planning are important aspects of a successful business and the majority of SME owners interviewed agreed to this. However, they seem to practice strategic planning in a less than formal approach or only develop strategies tentatively. Due to the nature of SMEs being informal organizations with linear organizational structure and being highly reactive to market situation, strategic and long term plans often need to change to adjust to emerging situations. Owner attitudes, backgrounds, expertise and motivation for business directly reflect the way they apply their management and leadership skills. The other major factor that influences the level of e-business strategic development and application of e-business strategies is the availability of resources. SMEs are known to be resource poor and constantly affected by challenges brought about by the lack of resources. The SMEs studied suggested that it is also a challenge for them to be able to prioritize and strategically use their available resources to sustain the business. Thus, those that are fast in applying e-

business into their business operation, in this case the wholesaler supply chain, have achieved efficiency, productivity and cost savings that enable them to keep ahead of their competitors. Those that are slow or delay the process risk losing out on business and growth.

The contributions of this research lie in the implications for wholesale SMEs in New Zealand from the useful insights of their peers in the industry; to the New Zealand government in development of initiatives and assistance for the important SME sector; and in expanding the theory on strategic development, SMEs, e-business and SCM as well as creating grounds for further research.

**Keywords: New Zealand SMEs, strategic planning, e-business strategies, supply chain management (SCM), New Zealand wholesaler.**

# **Chapter 1 Introduction**

## **1.1 Rationale for the Study**

This research investigates the extent to which small to medium sized enterprise (SME) wholesalers engage in the development of e-business strategies and their subsequent applications for supply chain management (SCM).

SMEs are important business units that make up more than 90% of all businesses in most industries in the New Zealand economy (Statistics New Zealand). Though they are only small business units, with 19 or less employees, collectively they are powerful and significant to the New Zealand economy. This explains why many researchers continue to have an interest in studying the different aspects and characteristics of SMEs (Massey, 2008; Brown & Lockett, 2004).

This study focuses on SMEs from the wholesale industry, which is one of the most important industries in New Zealand. The level of wholesale trade activity provides an important measure of the economy (Statistics New Zealand). In New Zealand, SMEs in the wholesale sector often act as intermediaries in transferring goods and services between the manufacturers/primary suppliers and retailers. Thus, they play a significant role in an industry's supply chain. Therefore, it was considered worthwhile to investigate SMEs in this context.

SMEs are often classified as resource poor, and consequently they experience many challenges in establishing themselves and continuing to grow (MED, 2007). The development of business strategies that enable them to optimize the use of their limited resources is one approach to achieving healthy growth (MED, 2007). Previous research has shown that SMEs were slow to take advantage of advances in information and communication technologies. However, many SMEs have now caught up with the technology wave and have taken advantage of the capabilities of the Internet, e-business and related information and communication technologies (Koenig & Wigand, 2004). In particular, e-business technologies offer the possibility to achieve efficiencies in an SME's supply chain and accommodate changing business needs (Keogh et al., 1998 cited in Fillis, Johansson & Wagner, 2003b). While previous studies have examined SME use of

information technology and the Internet, studies that focus on the application of e-business technologies to SCM are less common.

## **1.2 Research Aim**

The aim of the research is to investigate the practice of e-business strategic planning and application amongst SME wholesalers in their supply chain management (SCM). The extent to which e-business strategic planning and application are practiced and attitudes towards e-business technology use by SME wholesalers will be investigated to find useful theoretical and practical insights for SCM in New Zealand SMEs.

The main areas of concern in this research are (1) the nature and characteristics of SMEs, (2) e-business strategy and planning by SMEs, (3) use of e-business technologies and applications in SMEs, and (4) SCM for SMEs. SME owner attitudes and perceptions, together with motivations for business and e-business, are also investigated to find how they are related or affect each other.

## **1.3 Structure of the Thesis**

After this introduction, the remainder of the thesis continues with a literature review of previous work relevant to the research aim (Chapter 2), and used to establish the research questions and guide the subsequent study. Then the research methodology (Chapter 3) is explained, including what methods of research were used and the approach taken for analysis of the data. The findings are then analyzed and discussed under six different chapters: Chapter 4 considers the nature and challenges of SMEs, Chapter 5 looks at the nature of business strategies and their application in SMEs, and Chapter 6 examines e-business strategies in wholesale SMEs leading on to Chapter 7 that looks at e-business use and application in wholesale SMEs. Chapter 8 looks at SCM in the context of wholesale SMEs. Chapter 9 a discussion chapter on how this study relates to previous studies. Chapter 10 contains the conclusions and implications of study and provisions for further research.

## **Chapter 2 Literature Review**

This literature review is an examination and analysis of e-business strategy and application in SCM by SME wholesalers. The aim is to be able to present a practical and succinct evaluation of reviewed literature that is easy to understand and apply.

### **2.1 Understanding SMEs**

The first part of this chapter will explore the world of SMEs, by defining and characterizing SMEs and their significance in the economy of a country. The need to examine SMEs at the start of the literature review is because this forms the wider context for this research and throughout the subsequent sections of this review SMEs will be referred to and taken into account. The fundamental concept is that SMEs are not miniature versions of large firms, but are unique in their own stand point (Xu, Rohatgi & Duan, 2007). Much business and management research has placed a lot of interest and emphasis on the study and understanding of SMEs and their increasing significance to the economy (Williams, 2007). Examining the enterprise structure and dynamics of SMEs is needed to understand their significance and contribution to the economy.

#### **2.1.1 Defining SMEs**

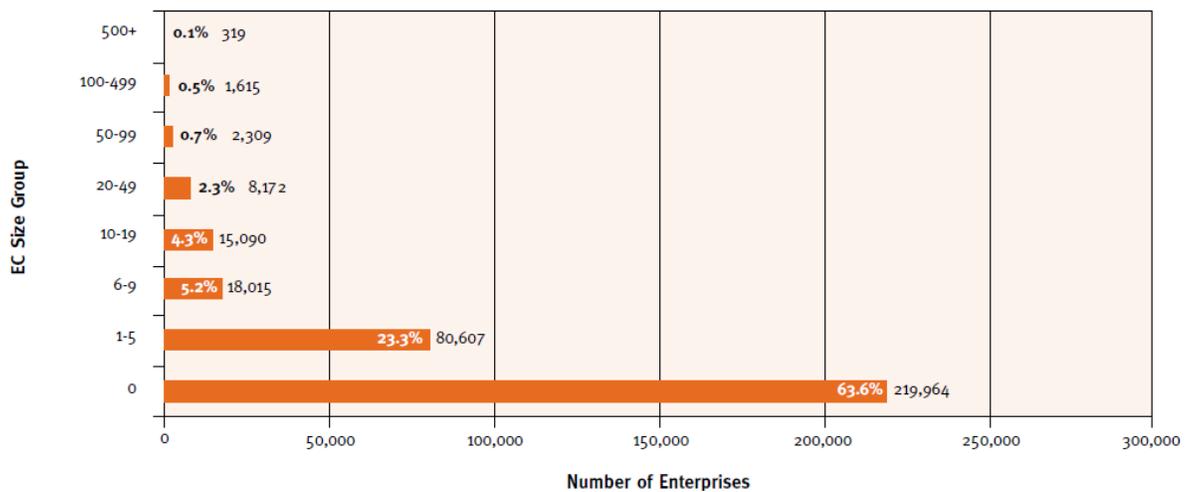
The New Zealand economy is predominantly made up of small businesses (see Figure 1). The New Zealand Ministry of Economic Development (MED) defines an SME in terms of the number of employees it employs. As such, any enterprise that has 19 or less employees falls within the SME classification. Enterprises represent a legal entity, which may be a company, partnership, trust, estate, incorporated society, producer board, local or central government organisation, religious organisation, voluntary organisation or self-employed individual that corresponds to tax reporting units (MED, 2008).

This definition of a SME is low in comparison with the definition of SMEs by number of employees across other countries. For instance in the UK, a SME has 250 or less employees (SBS, 2003, cited in Brown & Lockett, 2004) and there are about 3.7 million SMEs, generating 67% employment and 51% of the economy. The European Union (EU) defines small businesses as having 10-99 employees and medium sized firms between 100-250 employees (Ramsey et al., 2003, cited in Xu et al., 2007; Brown & Lockett, 2004). In

Australia, SMEs are companies with 200 or less employees; the USA defines SMEs as having 100 or less employees; in Turkey SMEs are 100 or less employees; in China SMEs are companies with between 400-3000 employees and are considered vital for the economy as generators of employment, revenue and innovation as they account for 99.7% of the total number of enterprises in the country (Hilgers, 2009); in Canada, small businesses are between 1-49 employees and medium sized businesses have 50-499 employees (Archer, Wang & Kang, 2008). The differences in number of employees considered as defining SMEs in different countries tends to reflect the size of their economy or population.

Given that SMEs are hard to define because of the varying international conventions and that their large numbers involved make it hard to give a homogenous definition (Massey, 2008; Brown & Lockett, 2004), it makes sense to define SMEs according to the country the research is concerned with. Thus, the New Zealand definition of SME (i.e. businesses with 19 or less employees) will be used for the purpose of this report.

**Figure 1. Number of Enterprises by Size, at February 2006**



**Figure 1 Number of enterprises by size, at February 2006 from Statistics New Zealand.**

## 2.2 Characteristics of SMEs

The typical characteristics of SMEs listed below have been adapted from the Ministry of Economic Development report on SMEs (SMEs Structure and Dynamics 2007 Report). Where similar characteristics have been identified in the literature, source references have also been included.

### **2.2.1 Business origins**

- Business begun spontaneously from just one idea or new product and may continue to be an incubator for innovative ideas and products (MED, 2007).
- Business begun because the founder/owner has a particular technical expertise (MED, 2007).
- Owner may have invested in the business using personal assets (e.g. owner's home and savings) committed as security for the business (MED, 2007).

### **2.2.2 Management and staff**

- Owner/manager may possess little formal business experience or few generic business skills to contribute to the business (MED, 2007).
- Business would consist of the founder/owner and up to four employees (often with an unpaid family member providing administrative support (MED, 2007).
- Have the owner(s) as the only person(s) in a managerial position, and no board or formal governance arrangements (MED) with strong owner influences (Xu et al., 2007).
- Have a tight family-like culture where the values of the owner are strongly shared by the staff and workplace practices are flexible and suited to individual employees' needs (MED, 2007).

### **2.2.3 Operation style**

- Operate on trust, rather than on systems and contracts (MED, 2007; Ellegaard, 2008).
- Focus on a small range of products or services sold mainly on the local domestic market (MED, 2007; Ellegaard, 2008).
- Acknowledge the owner's time as one of its scarcest and most valuable assets and lacks control over the business environment (MED, 2007; Xu et al., 2007).
- Operate flexibly, on a "reasonable person" basis, rather than on an informed and strict observance of regulations (MED, 2007).
- Have a vision and outlook that is restricted by the horizon and skills and experience of the founder/owner (MED, 2007; Bland, 2003).

- Faced with the pressures of day-to-day management (tactical rather than a strategic management style) and multifunctional management approach (MED, 2007; Xu et al, 2007).
- Often operating under tight resource constraints (MED, 2007) or limited ability to obtain financing (Xu et al., 2007; Harland et al., 2007; Archer et al., 2008).
- Endeavour to operate independently of other businesses and institutions and to favour self-help over seeking advice (MED, 2007).
- Not always aware of the regulations to which it is expected to adhere (MED, 2007).
- In provincial areas, be a key part of the social fabric of the community (MED, 2007).
- Generally observed to close within three years of its inception, not infrequently in circumstances that could easily have been prevented (in New Zealand) (MED, 2007).

## **2.3 Economic Significance of SMEs**

### **2.3.1 Back bone of economy**

SMEs form the back bone of most major economies. In New Zealand, the Ministry of Economic Development asserts that we are predominately a nation of small businesses. SMEs also make up the majority of firms in the OECD (Organization for Economic Co-operation and Development) countries taking into account the measure of number of employees and percentage of firms in each industry (MED, 2007).

As at 2006, 96.4% of the 346,091 enterprises in New Zealand were SMEs (Figure 1), mostly located in major centers such as Auckland, Waikato, Wellington and Canterbury regions reflecting where major economic activities are taking place contributing to growing economies. SMEs make up over 90% of enterprises in most industries in the New Zealand economy (Statistics New Zealand). More recent statistics (2007), found that 97.1% of enterprises employed 19 or fewer people and these make up SME enterprises in New Zealand.

### 2.3.2 Innovation and growth

SMEs supply entrepreneurship and innovation into the economy in significant numbers. Enterprise entries to economy statistics reflect the entrepreneurial nature of SMEs, showing that they counter for 94.8% of all entries (Figure 2). In regards to the number of new company entries to the New Zealand economy, it can be seen that SMEs help increase the capacity of the economy and at the same time contributing to growth and wealth accumulation. Massey (2008), in her presentation at the Small Business Summit, shared the notion of SMEs being the “savior of the economy” rather than “second class” citizens, due to their huge numbers and the potential to grow.

Figure 14. Enterprise Entries, at February 2006

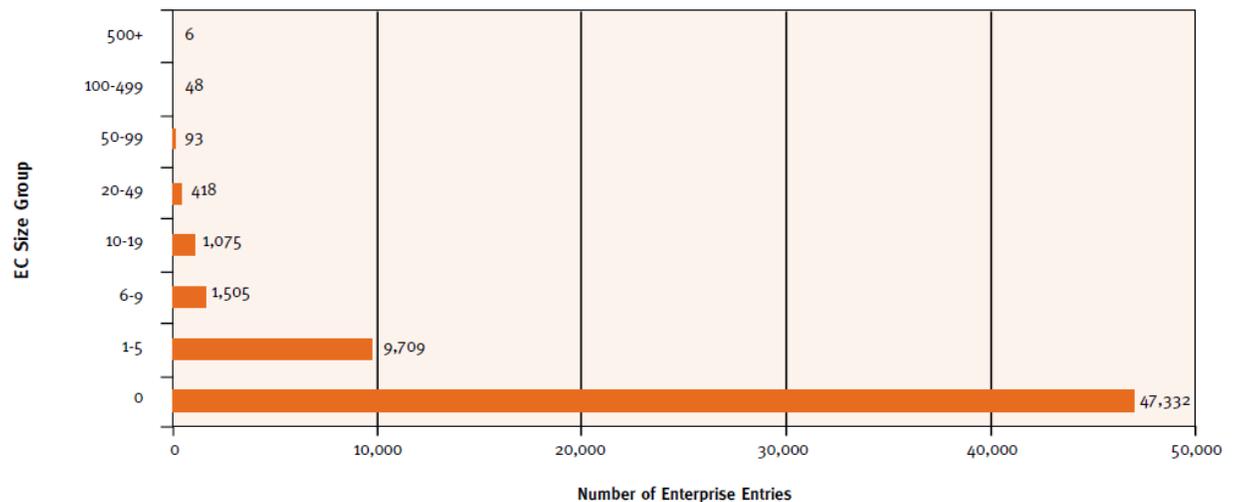


Figure 2 Enterprise entries, at February 2006 from Statistics New Zealand (Figure 14).

According to Levy, Powell and Worrall (2005), SMEs are naturally flexible and agile, often making business decisions in a reactive, opportunistic and ad hoc manner, as most are owner operated and managed. SMEs are often established as a result of innovation, creativity and entrepreneurship and are considered to be very dynamic compared to their larger counterparts. The nature of these small businesses plays a major role in the way investment in and acceptance of new technology is executed (Jeon, Han & Lee, 2006). They can adapt to change and decision making faster in response to market and customer needs (Pais, 2009).

### 2.3.3 Employment profile

Though SMEs are small and have a relatively low net worth and number of employees per firm, they do however collectively contribute 29.6% of total employment in New Zealand (Figure 3). The majority of employment is being supplied by SMEs based in the Auckland region, which is the most economically advanced and prosperous region (MED, 2007). SMEs are opportunistic and are fast in setting up business where there would be most opportunities for profit making as well as wanting to be part of the current economic trend.

Figure 3. Total Employment by Enterprise Size, at February 2006

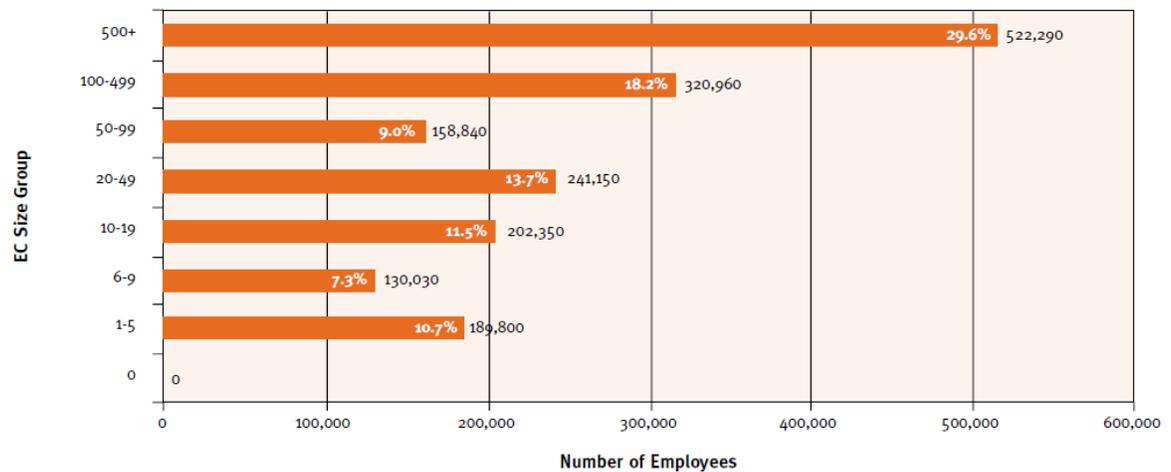


Figure 3 Total employment by enterprise size, at February 2006 from Statistics New Zealand.

### 2.3.4 Trade association representation

An industry or trade association (these terms are used interchangeably) has been distinguished from other forms of collective business grouping through their coordination by a third party that is independent of any association member and that has some degree of power to “aid, abet, guide and cajole” participating businesses (Provan, 1983, & Sayer & Walker, 1992, cited in Perry, 2008, p.9).

SMEs have a large representation in trade associations (Perry, 2008), which exemplifies their desire to be represented as well as demonstrating significant business and economic contribution as well as power play. For example, in a study in New Zealand, it was found that the average membership profile by employment size comprised of around 50 percent of

small enterprises (with less than 20 employees), 30 percent medium-sized enterprises (between 20 to 100 employees) and 20 percent large enterprises (Perry, 2008).

Perry (2008), in his report about what associations thought were the motivating factors for businesses opting to be members of an association, included demonstrating status in the market, loyalty to the industry, opportunity to learn from other members, have representation to government, support an industry strategy, access to association activities /privileges and access to individual advice. The top three motivations are, to have representation to government, access to association privileges/activities and opportunities to learn from other members, suggests that SMEs are resource and expertise constrained and on the lookout for extra resources. The nature of SMEs not having formal business strategic planning and their flexible management style can be reflected in the lower importance of motivation to demonstrate market status and be part of an industry strategy.

#### **2.4 The Challenges Faced by SMEs**

SMEs face challenges and struggles despite their economic and industrial significance and these challenges more or less are connected to the characteristics and nature of SMEs. These challenges are as a result of factors coming from both the internal and the external environment of the SME.

The main issue with SMEs is that they are often resource poor. Many SME owners put their personal assets and wealth into their business and are thus operating under tight financial constraints as well as pressure. SME owner/managers might not have the luxury of extra money to expand or advance the business (MED, 2007; Ellegaard, 2008; Harland et al., 2007; Burnes & Towers, 2008; Pais, 2009). In addition, financial institutions are often more reserved in providing trade loan facilities for less stable SMEs than to larger businesses which are considered to be more stable in business (Hilgers, 2009).

Furthermore, SME owner/managers simply do not have the luxury of extra time to sit down to plan or develop strategies. Their multitasking natured style of operating the business imposes strains both physically and mentally. They have been seen as spending more time working *in* the business rather than working *on* the business. Though they have a close relationship with their business, staff and customers, less time is spend in growing the business in the long run. Larger firm managers have the resources to delegate more daily

and mundane tasks to assistants or subordinates whilst focusing in management of the business in terms of planning, organizing, controlling and networking (MED, 2007).

Adding to the above, another major challenge is SMEs' inability to have long term vision due to uncertainty contributing to a lack of confidence to plan ahead and strategically forecast the future of the business. Their inability to have market focus means that that may have to make changes that are very sudden and dramatic which could result in overwhelming pressure and discomfort (Pais, 2009). SMEs also find it hard to get the support from the banking sector in terms of loans and trade terms. The unfortunate reality is that in New Zealand, the Ministry of Economic Development (MED, 2007) characterized the majority of new SMEs as has having only a life span of three years.

Despite the economic significance of SMEs, they are treated as "second class citizens" in the economy (Massey, 2008), suggesting that there is still not enough New Zealand government contribution to support and assist SMEs to grow efficiently. Government need to be dedicated in terms of providing advisory services and grants to boost SMEs confidence in continuing business because the government has the power to bring about change and influence.

Statistics shows that the ratio of SME exits outweigh those of larger firms (Figure 4). In other words, larger firms remained longer in business than SMEs. This is reflective of SMEs' volatility and instability in the economy as they experience uncertainty associated with the economy coupled with their scarce resources (Statistics New Zealand). SMEs are traditionally considered as not well grounded in business and have inherent elements of risk, unlike the larger firms that are well established and financially stronger.

Figure 15. Enterprise Exits, at February 2006

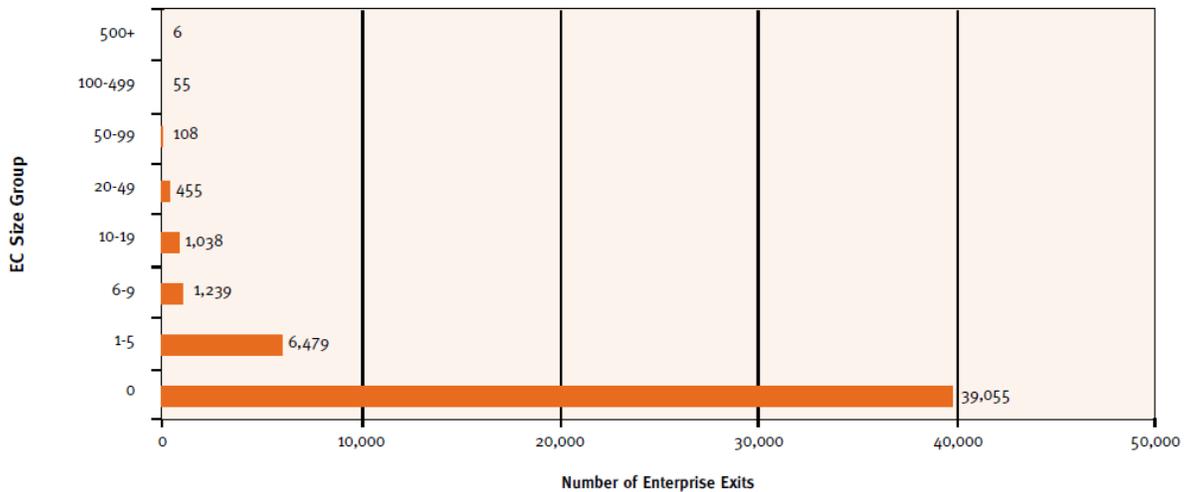


Figure 4 Enterprise exits, at February 2006 from Statistics New Zealand (Figure 15).

Another factor relating to the financial well being of businesses (Statistics New Zealand), shows that average salary tends to increase with firm size. This could be a discouraging sign when people are applying for jobs. An assumption is made here that the most skilled and talented would naturally opt to seek employment from a large and more stable firm. SMEs' tight financial constraints would be a contributing factor to this statistic, together with the unattractiveness of working for a smallish firm where opportunities seem limited. This fact adds to the challenges faced by SMEs in ensuring that employees with appropriate skills are employed and retained.

In terms of technology investment, SMEs are often slow and reluctant to engage or implement information technology (Xu et al., 2007). The reasons also relate to SMEs' nature and their economic situation. Research shows that there is connection between the size of the firm and the level of IT strategy and application (Xu et al., 2007; Burke, 2005). The Business Operations Survey 2008 (Statistics New Zealand, MED), found that larger businesses demonstrate a high percentage of information communication technology (ICT) performance outcomes than smaller businesses. On the other hand, their agility, flexibility and responsiveness to ad hoc situations could lead SMEs to invest quickly but immaturely as they may not have appropriate strategies and planning in place (Archer et al., 2008).

## **2.5 Strategy and Planning by SMEs**

This section will investigate the notion of business strategy and planning, its significance and the rationale as to why it is important for SMEs. It will also examine the findings from literature of what previous research has found in regards to the practices of SMEs.

### **2.5.1 Importance of business strategy and strategic planning**

Earlier work by Mintzberg (1987), suggests that organizations need to have strategies to set directions, focus efforts, define the organization and provide consistency. Strategy is a management concern, the series of plans and actions taken by the firm once in business (Storey, 1994, cited in Levy et al., 2005). It is the mediating force between the business and its environment (Raymond & Bergeron, 2007). Business strategy is driven by market positioning, new product introduction and technological sophistication, and growth is dependent on how effective the relationship is between the entrepreneur and its strategy.

Strategic planning is a disciplined management tool and in simple terms refers to the purpose of helping the organization to do a better job, focus its energy, to make sure that members of the organization are working towards united goals and to evaluate and adjust the organization's actions in response to dynamic changing environments. The focus is the anticipation of the future environment with decisions and actions to be made in present tense (Alliance Online, 2009).

The key words in strategic planning are "strategic" and "planning". Being strategic is being clear about what the organization's objectives are and the resources afforded by it in response to a dynamic environment. In order to achieve these objectives and utilize available resources, there needs to be a plan in developing what approaches are to be taken now to achieve these goals in the future (Alliance Online, 2009). This process of strategic planning can be seen as complex and may not necessary be a gentle ride all the way and could cause stress, thus management must be able to have the skills and experiences to re-assess their strategic planning in case interruptions occur. Mintzberg (1994) suggests that the process of strategy making, being traditionally formalized and rigid, must be loosened. This can be done by establishing visions that are broader in context, because it is hard to precisely develop articulated strategies for them to be adaptable to the changing environment.

According to Angel (2008), the notion of strategy also had its drawback when it lost some credibility in the 1980s, when doubted if strategic planning five to ten years ahead was practical due to rising market unpredictability. Angel (2008) writes that the ability to address deliverance and execution of strategy as well as the elimination of the “disconnect” between strategic objectives and execution value have reignited the need for strategic planning in recent times.

Furthermore, having a strategy in place is similar to having an insurance policy for the business and the peace of mind that the shaping of the future has gone through a planning process. The business environment tends to be volatile and often filled with uncertainty, which makes business planning and strategy formulation even more essential so that the company has clarity and consistency (Mintzberg, 1987; 1994). Despite this importance, often some businesses may not be able to state what their business strategies or objectives are or have any plans for the next step the business will take. This can especially be observed in the case of SMEs with their particular lack of business vision and strategy (Johnston, Gilmore & Carson, 2008).

Porter’s (1980, cited in Raymond & Bergeron, 2008) definition of business strategy focuses on businesses’ initiation of either offensive or defensive actions or tactics as a means for the company to identify its core competences and gain competitive edge so as to achieve increased return on investment (Raymond & Bergeron, 2008). For the business to have either offensive or defensive actions require management leadership and direction as well as the resources to make it happen in the lead of an already established business strategy in place. This further supports Angel’s (2008) claim that a strategy will only have value when it is executed correctly and the strategy has been delivered.

To help us better understand a business’s inclination to strategy development, Asnoff’s (1965) strategic intent framework will be investigated. The level of business growth depends on the businesses’ market position and product/service delivery at a point of time. The strategic intents Asnoff conceptualized i.e. market penetration, market development, diversification and product development, describe the business at different stages and directions of growth (Levy et al., 2005) (Figure 5). Levy et al. (2005) suggest that Asnoff’s framework of determining business strategies for the business is well suited to SMEs as his

approach has a focus on growth and SMEs have a potential and tendency to grow further than a small business unit.

	<b>Current Product</b>	<b>New Product</b>
<b>Present Market</b>	Market Penetration	Product Development
<b>Future Market</b>	Market Development	Diversification

**Figure 5 Ansoff’s strategic intent framework (Ansoff, 1965, cited in Levy et al., 2005).**

It is argued that business could self evaluate their growth direction by positioning themselves on Ansoff’s (1965) framework, by asking themselves questions like , “What is the aim of the business or what is the business trying to achieve?” Are businesses trying to sell existing products into existing markets (market penetration), trying to sell new products into existing markets (product development), trying to sell existing products into new markets (market development) and finally is the business trying to sell new products into new markets (diversification)? When businesses are able to identify their strategic orientation, it may lead to insights as to what strategic directions to take in order to achieve what they have intended (Levy et al., 2005).

Another view on strategy development can be examined in Miles and Snow’s (1978) well recognized strategic typology or strategic orientation typology (Miles, Snow, Meyer, & Coleman, 1978; Levenburg, Schwarz & Motwani, 2005; Raymond & Bergeron, 2008). The framework consists of four avenues of strategy that can exist within a business that could help set the organization’s directions, focus efforts, define the organization and provide consistency to avoid uncertainty (Mintzberg, 1994; Raymond & Bergeron, 2008). Miles and Snow’s (1978) strategic typology could help those organizations that are not clear about their strategies, set business strategies accordingly with more direction and focus. The four avenues of strategy as suggested by Miles and Snow are the prospector /innovator strategy; the analyzer strategy; the defenders strategy and the reactors strategy.

Firstly ,the prospector /innovator strategy – a business could be practicing this strategy if they are innovative in introducing new technologies as well as developing and introducing

new products to capture new markets. The business aims to simultaneously achieve operational effectiveness and react adaptively to changes in the business environment. A growth of the business is achieved through market and product development as well as diversification of business (Miles et al., 1978; Raymond & Bergeron, 2008).

Secondly, the analyzer strategy- is best described as having a combination of both the prospector and defender characteristics. The business aims to achieve a balance in minimizing risk and at the same time maximizing business opportunities. A sign of success is growth through market penetration as well as product and market development. The business places heavy emphasis in capturing and maintaining market position for their products but is open to innovative ways of delivering new products to new markets if the business would gain from the initiatives (Miles et al., 1978; Raymond & Bergeron, 2008).

The third strategy is the defenders strategy – a business is focused in maintaining its position and efficiency in a relatively stable market, securing niches, minimizing risk and stopping competitors entering their market. Defenders are not concerned about new developments or trends outside their domain, thus they are practicing market penetration, by specializing in supplying niche products or a small but “bread and butter” range of products to current markets as a strategy to grow their business (Miles et al., 1978; Raymond & Bergeron, 2008).

Finally, the reactors strategy – Miles and Snow call this a form of “strategic failure” a business that does not exhibit any consistent or stable business strategy and they generally lack responsiveness to the changing environment (Miles et al., 1978; Raymond & Bergeron, 2008). Miles and Snow call this a “residual strategy” which occurs when one of either prospector/analyzer or defender fails to execute their strategies correctly

### **2.5.2 SMEs and business strategy**

Ansoff's (1965) strategic intent framework and Miles and Snow's (1987) strategic typology can be used in conjunction to help a business attain a clearer vision in developing business strategies and or other areas of growth strategy. This could be seen as valuable for SMEs if they are able to utilize these concepts in the management and operation of their businesses. For example, it is thought that SMEs may be generally classified as reactors in the economy, often adopting a “wait and see” attitude. Perhaps, SMEs have ‘silent

strategies'; i.e. SMEs do develop strategies from time to time but these may not be in obvious forms. The nature of SMEs, being entrepreneurial, innovative, agile and opportunistic, gives them competitive edge over larger complex businesses.

Research by Hill and Scudder (2002, cited in Stevenson & Hendry, 2007) shows that larger businesses are further advanced in developing business strategies and subsequently have a much higher level of e-business strategy formulation and application due to their greater resources (i.e. expertise, time and financial). As a result, they are performing better and are more successful in their business endeavors (Xu et al., 2007; Raymond & Bergeron, 2008). Government statistics reveal that larger businesses have a more stable position in the economy as well as survive longer in the changing economic climate. They are also more technologically advanced with a better developed e-business vision (Bland, 2003; MED, 2007; Statistics New Zealand).

Despite success demonstrated by larger businesses, SMEs do not consider it important to have a strategy in place for their business. Nor in their opinion, do they have the time and resources to develop strategies and adhere to them (Archer et al., 2008; Fillis et al., 2003a). Theory and research shows that a strategy is important for any organization (Mintzberg, 1987; Porter 1980; 2001), and it is almost a pre-requisite for success and survival of the business. Therefore, with the advancement of IT and internet technology, businesses that are quick to leverage the benefits of technology will outperform those that do not or are slow to implement (Angel, 2008; Bland, 2003; Stevenson & Hendry, 2007). Similarly, to be successful in engaging and utilizing technology investment, it is vital that businesses have an e-strategy (e-business strategy) in place.

Regardless of the businesses' IT investment strategy, Raymond & Bergeron (2008) concluded that IT investment (called e-capabilities) alone does not lead to improvement in business performance, unless the e-capabilities are consistent or aligned to the strategic objectives or intentions (Chan et al., 2006) as well as taking into consideration the environmental (e.g. economic trend, competitors) and organizational (e.g. human and financial resource) factors of the industry (Stevenson & Hendry, 2007). In this regard, it would imply that businesses that do not have a business strategy or system within their business would not be able to proceed to the stage of e-businesses strategizing or planning. In order to be successful with e-business strategy, there needs to be a business strategy in

place as point of reference and focus to begin with. It is unfortunate that the nature and challenges of SMEs often put them in a difficult situation to proceed further. Levy and Powell (2000) wrote that information systems strategy in SMEs is under-developed and under researched.

## **2.6 E-business Strategy in SMEs**

### **2.6.1 Definition of e-business**

The terms e-commerce and e-business are often used interchangeably in much literature on this topic, but in actual fact, they are applied differently and possess varying levels of complexity in operation both in theory and practice. Businesses should also be made aware that there are differences that exist with the terminologies and should not confuse one with the other. E-business and e-commerce can be defined in the context of a type of business, the strategy and the technology.

The term e-business was first defined by IBM in 1997 as “a secure, flexible, and integrated approach to delivering differentiated business value by combining the systems and processes that run core business operations with the simplicity and reach made possible by Internet technology” (IBM, cited in Singh, 2009, p.1). Robeiro and Love (2002) define e-business as the point where economic value creation and IT meet to enable inter-organizational connectivity and interoperability across enterprise boundaries.

E-business is based on a technological platform and value creation will only eventuate when it is grounded on sound business practices, once again emphasizing the importance of the strategic fit between e-business and business strategies. “E-business is the use of inter-organizational electronic networks to transact process and collaborate in business markets and it incorporates e-commerce” (Brown & Lockett, 2004, p.22).

E-business is used to describe the development of strategies and applications in which businesses can use the Internet and other IT to achieve integration of their business processes. This is how e-business is often used to re-define the traditional business model (Guyer, 2001). E-business strategies and applications can be used in various modes, including intra-organizational (internal), inter-organizational (amongst supply chain partners, business-to-business or B2B), e-commerce (business to consumer or B2C) and business to employee (B2E) to suit the complexity and various needs of the business

(Saucer, 2000, cited in Levy et al., 2005; Bland, 2004). These modes act as enablers to support communication and collaboration amongst stakeholders (i.e. suppliers, customers and employees) in the supply chain.

Another practical definition of e-business is the system re-engineering of business processes to take advantage of the efficiency afforded by information technology and electronic communications (Dalton, 1999). E-business varies in complexity, it may be as simple as establishing a retail website, to the way multi-national corporations handle orders internally with fully integrated e-supply chain. Nonetheless, the common factor between the extremes is the effective communication of information. Most business processes are based on moving data from one point to another before physical goods are moved around (Guyer, 2001).

On the other hand, e-commerce is the function of data exchange or transaction through buying and selling over digital media (Internet) (Kalakota & Robinson, 1999, cited in Singh, 2009), primarily between the company and its customers, providing an alternative route to market goods and services (Levy et al., 2005). E-commerce is defined as the ability to perform transactions electronically and is a subset of e-business with the most common e-commerce being a business to consumer (B2C) model (Simchi-Levi, 2001, cited in Guyer, 2001).

### **2.6.2 The value of e-business strategy**

Levy et al. (2005) apply Ansoff's strategic intent framework and find that strategic intent does drive e-business adoption in SMEs, and those SMEs that are more driven to adopt e-business are in the growth path of product innovation. This trend does not seem to be consistent across sectors and industries as they are bound to have varying business focuses and needs (Stevenson & Hendry, 2007; Angel, 2008).

Raymond & Bergeron (2008) concluded from their research that a number of SMEs already possess e-business capabilities and they in turn have achieved positive results by being more competitive amongst their competitors who have not deployed such capabilities. Nonetheless, the researchers assert that it should not be assumed that these are "best practices" for all SMEs and that the demonstrated process of investing in e-business does not prove that a particular business will also achieve improved business performances.

Rather, it should be measured against whether the business strategic objectives (if they have been established) are consistent with its environment and the e-business investment.

The strategic intent of business is important in the sense that it is assumed that with a known strategic intent, businesses are better equipped in developing e-business strategies to enable the business strategy (Levy et al., 2005). According to Mintzberg (1987), once the business has a strategy, it should know its organizational direction, knows how to focus its efforts and define its organization so that the company can have more consistency in adapting to the changing economy. As many SMEs have a strategic intent to grow the business by increasing efficiency and saving cost, this could be the deciding factor influencing the instigation of e-business strategy formulation and use.

On the other hand, companies should be aware that they must not allow the technology to drive the business but rather what the business and market demand requires of it. SMEs demonstrate a reactive and opportunistic rather than strategic approach, thus there is little evidence that SME business strategy is driving e-business adoption (Quayle, 2002, & Sadowaski et al., 2002, cited in Levy et al., 2005). It has been suggested that a lack of ambition in terms of an e-business strategy and the result of their lack of vision have restricted SMEs to appreciate all the potential benefits of e-business (Harland et al., 2007). Research has indicated that the majority of SMEs do not have a clear understanding of the meanings behind these technologies nor the implications for their businesses. They are aware of the existence of such technology and might well have read about how other businesses have gained from it, but lack the knowledge to achieve the same for their businesses (Bland, 2004; Harland, Caldwell, Powell & Zheng, 2007).

In research carried by Fillis et al. (2003a), results show that in contrast with much literature that speaks strongly of how effective and positive e-business is to business strategy and growth, SMEs in the UK have not taken advantage of the advancement in technology. Tetteh & Burn (2001) suggests that few SMEs realize the need to appreciate the dynamics and capabilities of internet technologies strategically because in their perspective, it's too hard to project strategically. According to Bland (2004), there are significant potential business pay offs for SMEs that engage in e-business but SMEs (in New Zealand) are "sluggish" about adopting e-business technologies and plans. It is found that advocates of e-business believe that the sluggishness is contributed by SMEs' sensitivity to pricing and

the lack of resources. Some SMEs fail to understand what e-business is and what benefits they can get out of it and those that do understand the concept find it a mission to know where to get further assistance for the e-business journey. Promoting positive incentives for SMEs to have an e-business plan seems to be a harder mission as there is no solid evidence that they are losing business as a consequence of ignoring e-business. In this regard, SMEs tend to think that it is bothersome to have to engage in an e-business learning curve of such significance if there are no incentives and relevance to their current state of business (Bland, 2004).

In contrast, research by Koenig and Wigand (2004), on SMEs in Germany found that they are adopting e-commerce just as fast as their large business counterparts because SMEs realize that to reap the benefits of e-commerce they must narrow the digital divide between themselves and large businesses. SMEs (in Germany) have taken advantage of their status being large in number and innovation-friendly to prioritize return on investment from e-commerce (Koenig & Wigand, 2004).

According to Levy et al. (2005), SMEs may not be classified as a homogenous group when evaluating their strategic intentions for e-business adoption, as SMEs often possess volatile business attitudes and are easily affected and influenced by factors surrounding the business. On the same note as Bland (2004), research shows that while SMEs are aware of the benefits and capabilities of e-business, they may not necessary have a developed set of strategies for e-business. The notion of being “aware” versus “knowing” in some respects defines the SME owner/manager’s view of the need for e-business strategy formulation or planning (Levy et al., 2005).

Furthermore, other contributing factors to the lack of e-business strategy include the age of the business, cultural or organizational influences (Mintzberg, 1987) and the perceived barriers/benefits of technology (Mehrtens et al., 2001, cited in Archer et al., 2008). It was found that management styles and resource poverty directly influence the formulation of e-business strategies in SMEs as they may already be established in familiar territory and are reluctant to get out of their comfort zones (Harland et al., 2007). Generally owner/managers demonstrated a lack of vision and planning instead focusing on short term or day to day operations of the business, often just simply waiting for a reaction from customers to pressure them to implement e-business. It is fair to say that SMEs’ actions are driven by

external factors, primarily, customer and competitor demands and reactions. Great leadership and staff involvement are part of a successful e-business strategy but SMEs are leadership and expertise poor, implying a higher degree of challenge in this area compared to larger firms (Mehrtens et al., 2001, cited in Archer et al., 2008; Harland et al., 2007).

Levy et al. (2005) found in their research that product innovation drives e-business adoption and not so much market penetration amongst SMEs. This finding may seem to be a bit contradictory in the sense that e-business technology has the capability to market a product beyond geographical barriers and it can give a business competitive advantage by enabling the introduction of products into new markets more quickly and widely. Another explanation can involve SMEs using e-business to reduce purchasing and operating cost, so that the unit cost of introducing new products to existing markets can be reduced to win market share.

It is emphasized that an e-business strategy is not as simple as using an IT system and having the system connected to Internet; in fact e-business strategy is more strategic than technical. According to Fillis et al. (2003b), to be successful in implementing successful e-business strategy the business needs to be aware that the internet needs to be integrated into the overall business strategy for the initiative to work effectively. There might also be the possibility that businesses could be confused with e-business and e-business strategies; e-business is the technology and e-business strategy is the plan or manner of how to use the e-business capabilities to the business's best advantage (Bland, 2003).

In addition, it is warned that the way larger firms develop their strategies cannot and should not be directly applied to SMEs, as SMEs are not a mini version of large companies (Xu et al., 2007). In fact, they are a totally different genre and unique in their own way. Though SMEs can use large business strategies and techniques as a guideline, it is warned that they must not be "copied" or think that they could directly apply it to their business (Thakkar, Kanda & Deshmukh, 2008). Porter (2001) says that well established and run companies have been thrown off track by the Internet, as they have hastened to implement Internet technologies and copy what others have been doing without first examining their business case.

SMEs often start because they exist to fill a niche in the market and therefore business plans and decisions should be managed in a customized way. Similarly, developing e-

business strategies and managing them requires one to think specifically in the context of SMEs so that it can sustain a profitable niche market as well as creating value for the business (Thakkar et al., 2008; Robeiro & Love, 2002). Those SMEs with a solid e-business strategy in place have performed better than their counterparts that have none in place (Bland, 2004; Fillis et al., 2003b). Unfortunately, the downfall of this type of business is that collectively, there are not many SMEs that have an e-business strategy in place, let alone use it to increase business performance. Thus, there is need to create awareness and convince SMEs that the first step towards investing in e-business is developing a set of e-business strategies and action plans, rather than jumping to the conclusion that e-business is beyond their reach and league. This exercise may turn out to not incur as much time or money as perceived.

Levy et al. (2005), found that those SMEs that have adopted and are using e-business or e-commerce technologies when asked if they have e-business strategy in place before they implemented the system, the answer was “not really”, indicating that SMEs generally lack planning and formulating strategies before action. This could be justified by the attitudes of SMEs, as they are naturally informal, flexible and agile reacting with ad hoc responses (Campbell, 2002; Levy et al., 2005). Xu et al. (2007) found in their research that managers did not have a clear idea of why they had a website set up in the beginning, giving reasons such as that other competitors had one (the influence of peer pressure), customer request/demand (or the lack of when businesses do not have websites) or they thought it was common practice to have one. This demonstrates the effect of external factors which sometimes prevent owner/managers from having a clear vision when reacting under pressure. An earlier study by Benchmark Research found that fewer than 20% of all companies have an e-business strategy and that the majority of these companies are large companies (500 or more employees) indicating that SMEs still have a long way to go (Campbell, 2002).

Archer et al. (2008) wrote that e-business adoption style found amongst SMEs is one of an incremental process that involves small module by module implementation and involving employees “on the job” learning and experience accumulation. Full implementation or integration may never eventuate even in the long run as SMEs require cost effective, flexible and easy to use systems to become available for their type of business situation, which can be an unknown phenomenon. According to Archer et al. (2008), such practices

by SMEs would not be founded on a solid business strategy unless owner/managers can devote the time, expertise and resources needed to develop these strategies for their business.

### **2.6.3 Establishing an e-business strategy**

It is believed that e-business strategy and implementation have the potential to create competitive advantage and value for businesses, but research by Pavic, Koh, Simpson and Padmore (2007) did not find firm evidence that the SMEs they studied gained competitive advantage with e-business. It is suggested that further research is needed to develop frameworks to measure competitive advantage. Another reason could be that a mild sign of competitive advantage might be the result of other SME's inactivity in e-business adoption, and that there are not enough business cases to refer to (Fillis et al., 2003a). On the other hand, research by Xu et al. (2007), found that business benefits were the main drivers to e-business adoption as their businesses gained immediate operational benefits such as cost reduction, efficient information sharing, improved marketing and communications as well as faster responses to customer enquiries. These results are closely related to findings by Archer et al. (2008), Bland (2004), Koenig & Wigand (2004), Koenig, Beck & Wigand (2005), Levy et al. (2005) and Raymond & Bergeron (2008).

Porter (2001) states that when businesses ignore strategy, they tend to undermine the structure of their industries, rush up competition and reduce the likelihood that they or anyone else will gain competitive advantage in the long run. Porter (2001) strongly advocates the importance and businesses' persistence to always have e-business strategies in place despite opponents who argue against e-business strategies saying that it would not be practical as e-business strategies will become out of date by the time it is to be applied fully. He argues that the fundamentals of the internet and competition remain unchanged though new techniques emerge and that planning is for decisions made now with a focus on the future.

Past researchers and theorists have developed theoretical frameworks to educate businesses to attain best practices for formulating strategies and discovering a business's strategic intent or orientation (Asnoff, 1965; Tetteh & Burn, 2001; Earl, 1989; Miles and Snow, 1987; Mehtens et al., 2001; Porter, 2001). This is done so that businesses are better positioned to allow them to stay competitive and grow. The ultimate aim is value creation

through an e-business strategy, and having a strategy in place is a safe move in times of uncertainty as a business's strategy is what would uniquely set the organization apart from competitors in the industry.

Earl (1989), pioneered work on the review of IS through a range of prescriptive methods and framework designed to support the strategic objectives of the organizations which motivated works of other researchers in the area of aligning IS strategy with business strategy (Earl, 1989, cited in Hackney & Little, 1999). Earl developed his framework with larger multi-tiered organizations in mind and stresses the importance of the existence of formal strategy at each level of the organization (i.e. operational, tactical and strategic level).

Earl's (1989) IS strategy development framework (top-down, bottom-up, inside-out, evaluation approach) can be reviewed but would most probably not suit a SME context, because the flatter organization does not justify for it to take this approach. Earl suggests that top down involve senior management identifying businesses needs and how technology can help achieve that strategy. Bottom up approach requires the business to be able to evaluate its current system and what requirements are needed, thirdly identifying innovative uses and what other opportunities become available for the business to achieve competitive advantage (Earl, 1989, cited in Hackney & Little, 1999; Wynn, 2009).

Tetteh & Burn (2001) developed a unified model for analyzing e-business strategies in SMEs. They identified the three main elements of leveraging IT infrastructure: e-business strategy, business value chain analysis and e-business management. According to Tetteh and Burn, they must have a close fit to work and without one, the equation for success would not be complete.

Tetteh & Burn (2001) suggests that an effective "SMe-business" strategy would include the following aspects which can be used as a template format for other SMEs in establishing e-business strategy. The steps are as follows:

- 1) Define online business model developed with the company's vision and strategic goals in mind.
- 2) Develop infrastructure that will add value to the business chain.

- 3) Develop network infrastructures that will encourage collaboration amongst stakeholders.
- 4) Develop interactive and quality web pages that will encourage customer re-visit.
- 5) Promote information skills and virtual culture in customers.
- 6) Re-assessment and re-configuration of infrastructure to reflect market conditions.

#### **2.6.4 The role of government**

Businesses should be encouraged and motivated that by discovering their businesses' strategic focus they are in a better position to be able to develop e-business strategies for the adoption of e-business so as to achieve growth in business. Unfortunately, there is generally a lack of tried and tested models for developing e-business strategies and this creates a high degree of uncertainty for businesses (especially SMEs) considering to incorporate e-business to their existing business model (Fillis et al., 2003a).

The Department of Trade and Industry (DTI) of UK have an on-line initiative that set goals for e-business adoption by SMEs. This is similar to the New Zealand government's initiative on E-commerce and ICT; the aim is to promote and encourage use of e-technology throughout all businesses in the economy. This is the part the government is doing in lending a helping hand to assist SMEs to achieve growth and business success. Unfortunately, as reported by researchers studying e-business adoption in UK SMEs, the rate of engagement in e-commerce or e-business is disappointing, despite government raising awareness and providing education (Fillis et al., 2003a & 2003b).

The excuse is that SMEs often do not have the time, resources and expertise to engage in detailed analysis of their business's external and internal factors to develop strategies for e-business and integration within their overall business strategy (Fillis et al., 2003b; Archer et al., 2008). It is important to educate and motivate SMEs about e-business solutions and their benefits, and they do have an advantage over larger more complex firms in the sense that their small and close knit environment could make circulating the e-business solutions faster with lesser formality. The role of the government is to develop policies and initiatives that SMEs can benefit from.

Government initiatives such as the ones in the UK and New Zealand are important, but empty promises that evolve over time may have indirectly posted a negative image of the

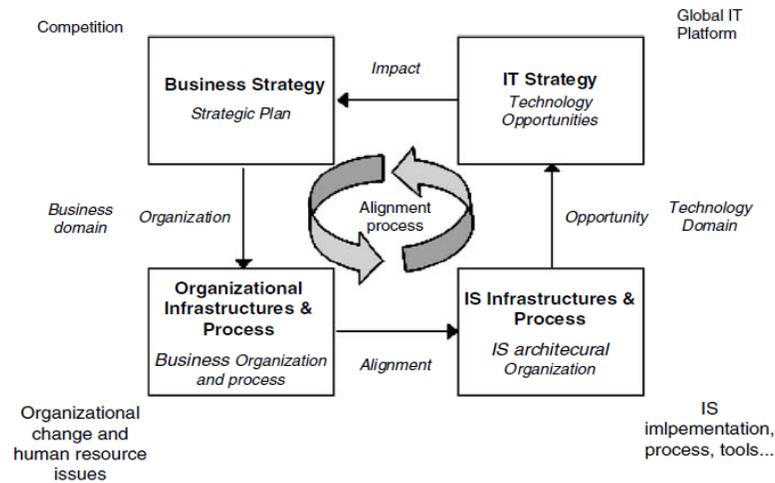
government as a source of assistance for SMEs. The government is a major influencing factor in the sense that they have the power to reflect people's thinking and lead it, and so should be able to assist SMEs in diminishing their challenges so as to be closer to fulfilling their acclaimed potential as the back bone of any economy (Messy, 2008).

Research shows that increase in government assistance can improve the confidence of SMEs in implementation of e-business strategies and applications (Castells, 2000, cited in Harland et al., 2007). Assistance and support both in terms of funding and business mentoring need to be an ongoing relationship (from initiation to maturity). Yet, as Fillis et al. (2003a & 2003b) found, there seems to be a short term commitment by the government on their part as support agents. As a result, SMEs may not yet have achieved e-business implementation maturity and would lose confidence to carry on operating with the e-business strategy.

On the other hand, in recent times, in an attempt to create positive incentives for SMEs to embark on e-business strategies, e-business vendors and advocates have been tailoring their products and services to suit the needs of SMEs, so as to increase e-business activity amongst small businesses. These agencies are proposing increased education and awareness and to be administered to SMEs on a one-on-one basis so that the "SME frustration cycle" can be diminished as more credible e-business applications or solutions become available for their businesses (Bland, 2004).

## **2.7 Significance of Aligning Business Strategy with E-Business Strategy**

The early motivation behind alignment came about in the 1980s which saw businesses focus on business strategic planning and long term IT planning. This planning and forecasting were carried out in the organization in a top-down (business perspective) and bottom up process (IT perspective) (Chan & Reich, 2007). Creating an alignment or "fit" between the business strategies and IT strategies allowed these firms to gain competitive advantage and yield high performances over their counterparts that had not developed an alignment strategy (Figure 6). Thus, alignment between business strategy and IT are the ingredients for successful e-business strategy and use (Chan & Reich, 2007).



**Figure 6 The Baets model of alignment process (Baets, 1992, in Chan & Reich, 2007).**

According to Luftman et al. (2005, cited in Chan & Reich, 2007), the notion of IT alignment has consistently for the past 20 years, been one of the top concerns for IT professionals and business executives. This can be seen as a result of the dynamic, volatile and evolving nature of IT and changing business needs. In relation to SMEs, IT alignment may be a concept that is very hard to comprehend and or even discuss within their business due to its high level of formality and complexity.

In order to better understand this, organizational planning decisions can be viewed from two perspectives. Firstly, the business perspective follows a top-down and bottom-up approach where departmental (operational and tactical objectives) plans exist to support corporate strategies. Secondly, IT plans exist to accommodate the operational, tactical and strategic objectives of the organization. Organizations that are successful in harmonizing business strategies and IT strategies are able to achieve a more focused and strategic use of IT that leads to increased organizational performances, creating competitive advantage over those that have not (Chan & Reich, 2007). These top-down and bottom-up processes were only possible amongst mid-large size companies given their multi-tiered, departmental and complex structure, in comparison, this would not be practical for smaller businesses as their often linear structure does not justify such process. On the other hand, alignment could hold very simple and practical definition such as, alignment is when the business and IT work together to achieve a common goal (Campbell, 2005, cited in Chan & Reich, 2007).

Furthermore, business and IT alignment theory also has its critics stating that alignment is more of text book knowledge, and may not necessary reflect real life cases. Alignment must need a known business strategy to eventuate, yet businesses change over time, so achieving alignment is not possible once and for all; rather, IT is meant to challenge the business and not match it (Chan & Reich, 2007). If we bring in Porter's view of strategy, then it could be argued that the fundamentals remain the same although there are variations to the original plan; as a business, it should stand firm on its strategies if alignment is seen as a strategy of the business. According to the Baets (1992) model, alignment is a process such that IT and business alignment is a continuous cyclic process (Figure 6).

The contingency theory perspective states that there is “no universally superior strategy or way to organize in a given context or environment” (Venkatraman, 1989, cited in Chan & Reich, 2007 p. 307). Rather, contingency factors affect performance outcomes of IT use in business. Moreover, this demonstrates that there really is no “one size fits all” solution in e-business strategy and application because differences are found in industry type, firm size, strategic orientation and type of impact that comes with environmental (economic) changes and uncertainty (Chan & Reich, 2007; Fillis et al., 2003b ; Levy et al., 2005).

A successful e-business strategic plan should have a contingency plan, to anticipate any implications of business or technological developments so as to be able to respond with agility (Phillip, 2007). Some projects are short lived and some implementations, because they are taken on board without clear direction, do not produce what the business hopes to achieve, and some instances cause detrimental effects on the performance of the business and its stakeholders ( i.e. suppliers/customers/employees).

In summary, the topic of alignment seems to be relatively high level and complex, and would probably be difficult for SMEs to assimilate. The important point to carry forward here is that SMEs need to practice business strategy formulation and develop e-business strategies should they wish to engage in e-business. Strategy may be a longer term plan, but foremost it is a tool to help the business move forward in uncertain times.

## **2.8 E-Business Technologies and Applications Use in SMEs**

E-business technologies come in three major areas, namely business to business communications and transactions (B2B), business to consumer communications and transactions (B2C) and business to employee communications (B2E) ( Bland , 2004).

Firstly, B2B enables electronic interactions and collaboration between the internal business systems of external business partners. External access to an internal network using Internet technology (an intranet) is known as an extranet. B2B enables automation of procurement, distribution, communications, sales and marketing and financial processes between partnership companies thus eliminating a lot of the manual tasks involved. B2B systems can be implemented and up and running for SME businesses but it does come with an expensive deal as well as expertise and time needed from the organization to keep the system established and running. Part of the strategy for successful implementation is that the SME must be able to identify B2B partners and that they are also ready to join the B2B network. If this is not planned properly, the project will most probably malfunction. Until SMEs can meet the requirements needed for fully functional B2B systems, it is advised that the project be postponed until the business case is able to support the investment (Bland, 2003, 2004). However, according to Bland (2004), it is considered to be a moderate to high level of importance to SMEs, despite the cost and the significant learning curve involved, because the business benefits would outweigh the cost in the long run.

Secondly, B2C involves online trading between a business and consumers via a website, such as e-commerce and auction websites. This form of e-business will expose the traditional business model to a new business revenue channel via the Internet, gaining increased sales and online customers. The key to a successful website is that it must be user-friendly, properly maintained and have up to date information present at all times, and aim to sell a niche product or service with an exceptional customer service package (Bland, 2004). In terms of level of importance for New Zealand SMEs, it is considered low as there is still a relatively small population of online consumers and if demand to use the service is still relatively low, than the cost of establishing and maintaining an e-commerce website would most probably outweigh the benefits. Therefore, a business's ambition to have an e-commerce site should not be impulsive (unfortunately which most SMEs are). Rather there

needs to be a defined e-business plan and strategy so that the business knows what to expect rather than being overwhelmed (Bland, 2004).

Thirdly, B2E provides functionalities for businesses to collaborate electronically with employees, whether onsite or, most usefully, when working remotely. Employees are able to gain access to internal networks via telecommunication devices and the Internet. Customer service can become more efficient and on time and employee job satisfaction could increase as work can be done productively and flexibly with information needed available instantly (Bland, 2004). The success of B2E really depends on a reliable telecommunications infrastructure and the right hardware devices to support the collaboration. Thus, considering the large numbers of SMEs with owner/manager style of operation, relatively, it is of huge importance that SMEs embark in B2E system. B2E technologies can contribute by helping SME owners/operators manage and run their business with much better efficiency than purely relying on traditional systems. The technology vendors could also take advantage of the large numbers of SMEs to help with diffusion of those technologies.

Technologies used within e-business functionalities incorporate but are not limited to the internet, emailing, broadband technology, intranets or extranets, wireless technology, electronic data interchange (EDI), instant messaging, video conferencing and voice operated internet protocol (VOIP) (Bland, 2004; Xu et al., 2007). Businesses embarking on any of these technologies are seen to be on the road to e-enabling their business operations, if not yet already to a stage of full e-business integration and automation.

Furthermore there are also the widely publicized support function technologies that enterprises can use for finance, marketing, supply chain, people and technology to help increase efficiency and save cost (Angel, 2008). Though initially, technologies such as supply chain management (SCM), enterprise resource planning (ERP) and customer relationship management (CRM), were developed for larger complex businesses, they are also increasingly available for SMEs as vendors are trying to capture the market for solutions tailored for SMEs. Generic capacities found in SCM, ERP, and CRM can be used by smaller businesses as application software vendors upgrade their applications to suit changing business needs and complexities. Since these applications have reached

development maturity, they are more flexible and adaptable to suit different business needs and investment budget (Bland, 2004; Harrigan, Ramsey & Ibbotson, 2008).

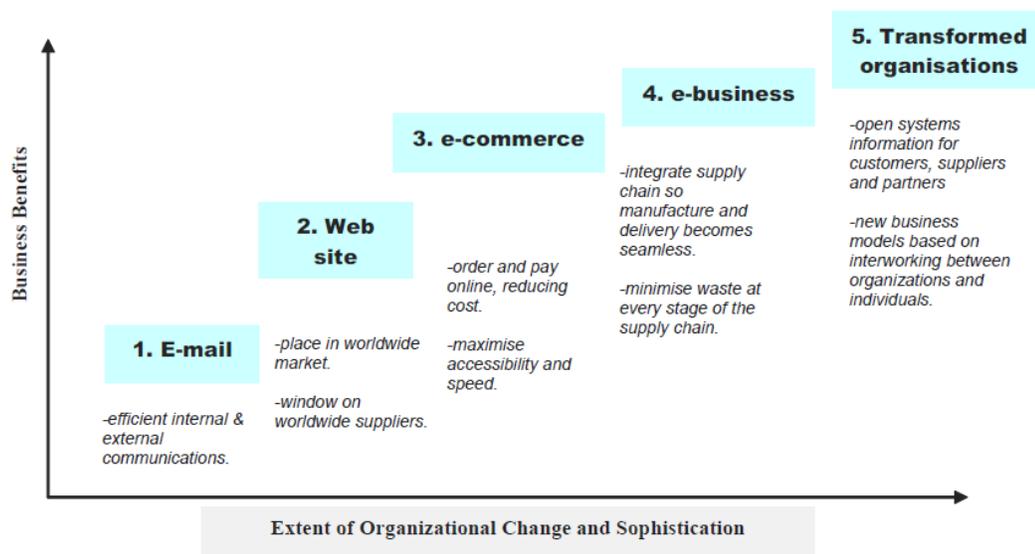
CRM is “the use of internet technologies to facilitate the management of customer relationships” (Chaston & Mangles, 2003, cited in Harrigan et al., 2008, p.386) and can be done across geographical boundaries as well as to gain new international customers. CRM is a business strategy that is executed at an interpersonal level (Dibb & Meadows, 2004, cited in Harrigan et al., 2008), together with a personal contact network and relationship marketing (Carson et al., 1995, cited in Harrigan et al., 2008). CRM can be utilized to SMEs’ competitive advantage against their larger counterparts because CRM is relevant to SMEs’ strong focus on managing personal relationships (Harrigan et al., 2008).

Enterprise Resource Planning (ERP) is a transactional system that captures the day to day activities at the enterprise level by standardizing and systemizing processes to reduce error and data redundancy (Pais, 2009). It provides the core infrastructure through which most other applications share and exchange information enabling system integration and co-ordination while still addressing the functionalities of legacy applications. ERP also enables management of business policies, automation of work flows and common storehouse of information with most of its functionalities are web-enabled to increase access to executives for decisions making (Pais, 2009). The versatility and multi-functionality of ERP systems are suitable to address the issues of systems informality and non-standardization usually experienced by SMEs at a transactional as well as at a strategic level.

SCM is a planning and analysis system that integrates a company’s internal resource to manage and work with the external supply chain, to allow optimal co-ordination of the movement of goods and materials so that accurate and efficient order fulfillment is achieved (Pais, 2009). It is a system that would accurately forecast demand based on customer data to plan production and fulfill orders based on resources and capacity constraints, to support demand driven order and delivery process, ensure that accurate and relevant information is flowing along the supply chain in responding to changing customer demands (Pais, 2009). SCM solutions for SMEs will be further investigated in a later section as it is the focus area of investigation.

### 2.8.1 E-business adoption by SMEs

According to Martin and Matlay (2001, cited in Xu et al., 2007), e-business technology adoptions exist in different levels. This is often called the e-adoption ladder (Figure 7) (DTI, 2001, cited in Xu et al., 2007), which consists of incremental steps or ladder of e-business sophistication. It can be considered to be a road map for SMEs in e-business Internet adoption. The ladder climbs from simple e-mailing, to website, to e-commerce, to e-business and finally e-business transformed organization.

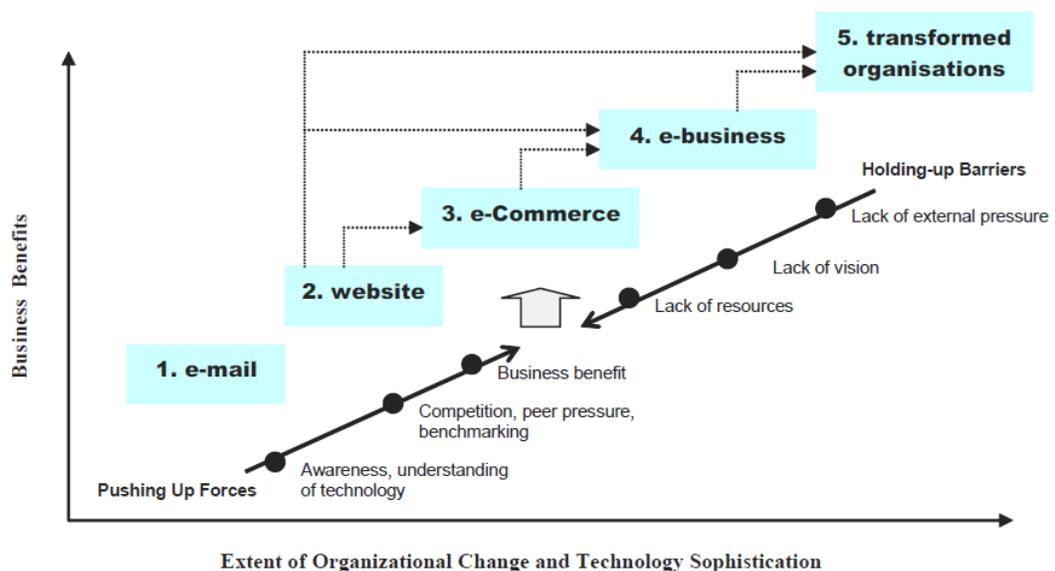


**Figure 7 The e-adoption ladder (adapted from Cisco led Information Age Partnership study on e-commerce in small business (DTI, 2001)).**

In addition, the DTI (2001) e-adoption ladder (Figure 7) provides an indication of the stages of e-business adoption developed with Cisco, in the context of small businesses, assuming that SME growth is linear and level of business complexity is incremental. Gary (2003, cited in Xu et al., 2007) criticized the e-adoption ladder model saying although it is a useful and simple model (especially for SMEs) to track business technological progression, it poses the problem of being too linear and simple and may not take into account processes that may be more complex and undefined. In regards to the application of the model for SMEs, it is identified that technology integration amongst these businesses generally follows a 'zig-zag' or 'trial and error' approach, which does not make it a perfect

straight forward linear pattern of adoption (Poon & Swatman, 1999, cited in Xu et al., 2007).

Further research by Xu et al. (2007) saw them take the DTI (2001) e-adoption ladder and apply it in their research of UK SMEs. They found that similar to previous research, the lack of resources may be common factor that is inhibiting e-business strategies and application, but the emergence of industry champions/or leaders of adoption influence SMEs to follow suit so as to gain strategic benefits already experienced by the leaders. Despite resource constraints and lack of strategic objectives, these SMEs could skip a few stages in between and have their businesses re-engineered or transformed. The modified model (Figure 8), shows that at some stage, SMEs would experience the ramifications of their hasten move due to their lack of vision and planning. As a result of these accumulated constraints, businesses will tend to slip down the ladder until they are able to regain the necessary resources to regain their position in the elevating ladder.



**Figure 8 An e-adoption ladder with influential factors (Xu et al., 2007).**

It is believed that in-depth studies of SME behaviour and their business context need to be carried out for this situation to improve. Fillis et al. (2003a & 2003b) developed a conceptual model for e-business adoption on which they based their research on Scottish SMEs e-business adoption. It takes into consideration all aspects of the business environment and seeks to find factors in each area before drawing conclusions as to the e-

business adoption roadmap. This concept is more like an investigative framework; until each of the tier of factors are defined it would be hard to deliver a verdict or develop strategy on e-business adoption by the SME. The Fillis et al. (2003a & 2003b) model consists of three main tiers of influencing factors, the macro factors (e.g. globalization, competition, government policies), the industrial or sectoral factors (i.e. e-business activities varies by sector), and micro level firm/managerial factors (e.g. skills/expertise level, time and recourses).

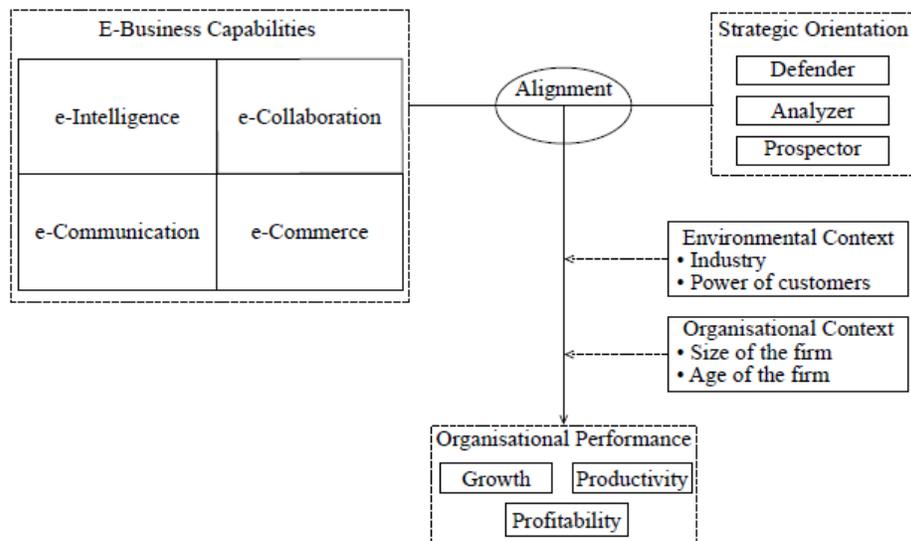
Furthermore, determinants or predictors of e-business technology use have been broadly grouped as a set of four variables by Levenburg et al. (2005), which closely match the Fillis et al. (2003a & 2003b) model. They are the environmental context and industry related factors, organizational factors (including business practices of the firm, characteristics of the organization's leaders (e.g. educational level, and receptivity to change), and characteristics of the technological innovation itself. Mehrten's (2001) model of Internet adoption suggests that a SME's motivation for e-business adoption would be mostly influenced by the perceived benefits (usefulness and ease of use of technology), organisational readiness and external pressures (Mehrtens et al., 2001, cited in Archer et al., 2008).

Another adoption growth model is the Allcock et al. (1999, cited in Xu et al., 2007) staircase of Internet engagement, which is quite a neat and comprehensive model that takes the perspectives of SMEs as it evaluates its e-business strategy at different levels of the implementation phase against their learning ability and sophistication. The model would also take into account the non-technological driving forces such as external pressure, increased ICT skills, and business drivers (Xu et al., 2007).

In addition, e-business capabilities (Figure 9) such as, *e-communication* (e.g. for promotion of products and services, communication with customers and employees using the Internet; operational level); *e-commerce* (e.g. transactional, buying and selling via the Internet; operational level); *e-intelligence* (e.g. gaining access to a vast array of information, to seek new products or market opportunities; strategic level (Hill & Scott, 2004, cited in Raymond & Bergeron, 2008), and *e-collaboration* (e.g. integrating and sharing information amongst stakeholders; at a strategic level) are the most frequent forms of capabilities available for

which businesses can evaluate their business needs and use these e-business capabilities to develop e-business strategies for their businesses (Raymond & Bergeron, 2008).

Therefore, e-business capabilities (Figure 9) can be matched with Miles and Snow's business strategy typology (strategic orientation) to create the ideal e-business profile. As such, a defender business strategy could make use of e-communication and e-commerce capabilities, analyzers can make use of e-communication, e-commerce and e-intelligence while prospectors can make use of all main types of e-business capabilities as prospectors need to be efficient in the operational as well as the strategic level (Levy et al., 2005; Raymond & Bergeron, 2008).



**Figure 9 Research model on the strategic alignment of e-business in SMEs (Raymond & Bergeron, 2008).**

Apart from the capabilities of e-business technologies, another reason SMEs may feel obligated to implement e-business into their supply chain is to be able to meet the demands of doing business with larger enterprises. The larger firms that have already implemented e-business technology often require their SME partners to have capabilities or systems that are compatible with theirs so that the supply chain can function collaboratively and efficiently. Lagging behind in adopting such applications could contribute to losing market share and significance for partners in the supply chain (Bowden, Clark, Corner, Gibb, Kearins, & Pavlovich, 2001).

## **2.9 Supply Chain Management for SMEs**

This research will focus on e-business use in supply chain management within the SME wholesale sector. This section examines the notion of the supply chain, sometimes referred to as the value chain, and its management. It also investigates the significance of supply chain management in relation to e-business strategy in SMEs.

### **2.9.1 Understanding SCM**

A prominent expert in the field of SCM, Professor David Simchi-Levi provides a practical definition of SCM as “the efficient integration of suppliers, factories, warehouses and stores, so that merchandise is produced at the right quantities, distributed to the right location at the right time, minimizing total system cost, while delivering the required service satisfactorily” (Guyer, 2001, p.2). An important objective in SCM is for a business to achieve supply chain visibility; that is, the ability to monitor where goods are at each point in the supply chain. Ideally, this information should be available in real time and accurately relayed to managers and even customers.

Light (1999) wrote that efficient supply chain management has the ability to give a business its competitive advantage over others that do not. She comments that New Zealand businesses are also aware of global trends in SCM. Businesses are reconstructing their transport and warehouse systems to stay competitive by reducing cost, delivery time and inventory. By doing so they are able to achieve an increase in market share as their operations become more efficient.

According to Wisner & Tan (2000, cited in Williams, 2006), the term SCM was originally used in wholesaling and retailing to describe the integration of logistics and physical distribution functions with the goal of reducing delivery lead times. A short term objective of SCM is the operational aim of increasing productivity whilst reducing inventorying cycle times; its long term goal is to increase key deliverables such as customer satisfaction, market share and profits, and in due course improving the total process efficiency and effectiveness for all supply chain members (Wisner & Tan, 2000, cited in Williams, 2006).

SCM is collaborative by nature and according to Burnes and New (1997, cited in Burnes & Towers, 2008), only companies who are able to successfully build a relationship with their customers and/or suppliers through the interdependence of mutual activities, resources and

functions will reap actual operational performance improvements. The goal of beneficial collaboration needs a consistent supply chain strategy that involves information exchange, organizational collaboration with stakeholders (Burnes & Towers, 2008). According to Bill Gates, collaborative commerce is the way for the future (Campbell, 2002).

A practical definition of SCM is all the technology solutions that allow companies to trade goods; typically through the initiation of a purchase order from the buyer to the supplier, and completed with the issue (and payment) of an invoice from the supplier to the buyer and all the steps in between. The supply chain or value chain can be a large and complex system that includes manufacturing, inventory, warehouse management, picking, packing, freight tracking and goods receipt and stock processes through to point of sale (iStart website, 2008).

Like large firms, SMEs need to be clear what is happening to their goods and services and the flow of information. For instance the typical supply chain or value chain of a wholesale business is manufacturer (factory), wholesaler, warehousing, inventory, transport and retailer. The flow of data communication as well as the physical product should be visible and traceable by the business along the supply chain at all times. This is made possible via IT systems and Internet technology. SCM is needed within the business as well as externally when the SME forms part of other businesses' supply chains; a role they often play (Hong & Jeong, 2006).

Implementations of SCM for SMEs have largely been taken place in literature only and still do not have a strong ground for it to be fully used by SMEs (Calipinar, 2007). However, according to research done by Williams (2006), SCM can also be implemented by SMEs. This was also concluded by Calipinar (2007), who suggested that although SMEs have a scattered structure and have an inability to achieve full integration due to constraints leading to problems and bottleneck, this problem can be solved through diminishing the *theoretical scope of SCM*. This is done to achieve applicable and practical techniques, to seek associations that would be able to provide planning and implementation support at each stage of the SMEs transition into SCM.

The main motivation to implement SCM is to reduce cost per unit and promote supply chain visibility (SCV) (Jain, 2007). This factor is especially attractive and suitable for SMEs. SCV can be defined as: "capturing and analyzing supply chain data that informs

decision-making, mitigates risk, and improves processes” (Tohamy, 2003, cited in Francis, 2008, p.182). Bradley (2002, cited in Francis, 2008, p.182) discusses visibility as “direct insight into the status of orders, inventory and shipments across the supply chain”. Cecere (2005, cited in Francis, 2008, p.182) states that SCV is more than simply data and is focused on process: “. . . visibility is a business process, not just a supply chain process”.

Despite the many praised capabilities of SCV, according to Francis (2008), SCM professionals still rank SCV as the most important issue and challenge they face today in regards to SCM. The challenges exist because, though it is widely used (in larger firms), the term is often open to interpretation. The lack of a unified interpretation and definition causes miscommunication and confusion amongst stakeholders (i.e. vendors/customers/suppliers/management) as it could mean different thing to different people (Francis, 2008).

Therefore, Francis (2008, p.182) attempted to produce a more unified definition as such:

“Supply chain visibility is the *identity* ( the unique object identifier e.g. barcode), *location* (the position of object ) and *status* (state of the object e.g. “order packed”) of *entities* (the object moving through the chain e.g. a pallet of goods) transiting the supply chain, captured in timely *messages* (communication containing information about the entity e.g. the identity, location and its status) about *events* (when tasks within a defined process is complete e.g. “order loaded in truck”), along with the *planned and actual dates/times* (e.g. when an even is planned to occur and when it actual occurs”.

SMEs have a competitive advantage over their larger counterparts in the sense that they can use their flexible and agile nature to make strategic changes that can be executed faster. Flatter organization creates greater access to senior management. IT and SCM decisions and planning can be treated by higher management at once, something that would be difficult to happen in larger organizations due to the multi layered structure.

SCM is crucial for SMEs, and with cost of technology going down, SMEs are in a better situation to afford SCM solutions, thus SMEs’ implementation of SCM should no longer be just found in literature. SMEs should be made aware that SCM can help the business estimate future demand for its products, to plan inventory and logistics so that the planned

can be executed in a responsive manner to satisfy customer-supplier relationships (Pais, 2009).

Furthermore, one of the other major responsibilities of SCM is supply risk management along the supply chain (Ellegaard, 2008). Supply risk indicates a chance of loss to the organization caused by events originating in the up-stream supply chain (Harland et al., 2003, cited in Ellegaard, 2008). Loss comes in the form of logistic risk (immediate/operational loss) such as goods, information and money and (longer term/strategic loss) such as information security breach, supplier-customer opportunism and corporate social responsibility (Spekman & Davis, 2004, cited in Ellegaard, 2008).

Firstly, when there are problems that arise from logistical aspects of the supply chain (i.e. the transportation of goods/services from supplier to customer), the business could be hit hard due to delivery disruptions, delays, system mark ups, untimely receivables and inaccurate forecasting (Sohdi, 2004, cited in Ellegaard, 2008). Secondly, longer term risks that maybe harder to rectify are information security breach that is the risk that proprietary knowledge and trading secretes would be leaked or lost as a result of sharing information with external partners. Supplier opportunism is the unfortunate loss of honesty and trust of businesses with supply partners, where suppliers have the tendency to act in their own interests by intentionally withholding or misrepresenting trading information (Williamson, 1985, cited in Ellegaard, 2008). There is also the risk associated with corporate social responsibility when companies fail to live up to minimum social (e.g. resulting in psychological losses and damage to reputation and relationships) and environmental (e.g. resulting in harm to biological and physical environment) responsibilities (Cousins et al., 2004, cited in Ellegaard, 2008). Ellegaard (2008) found in his research that small business owners do practice common supply risk management approaches but to a lesser extent and balance than larger businesses. Supply risk management include initiatives that are aim at increasing knowledge, reducing probability and reducing effect in order to counteract risk in supply chain.

It was also found that small business owners focused less on the knowledge increase initiative as a result of their lack of time and resources in actively seeking information about the supply market, competitors, suppliers and customers. Small companies also demonstrated lack of strategic use of e-business which excluded their ability to use on-line

portals and e-marketplaces. On the other hand, they engaged in more hands-on “play safe” approaches to reduce the probability and effect of risks. They choose to deal with local and like minded business partners, protecting proprietary knowledge by reducing information sharing across supply chain and being more conservative in the way they spend (Ellegaard, 2008).

Efficient information flow and real time collaboration is crucial in supply value chains, unfortunately, SMEs often demonstrate to have multiple stand alone systems that they use to manage the daily operations of their businesses. When multiple systems exist which are not linked, they create manual and double handling of processes and information that is both costly and time consuming (Pais, 2009).

According to Pais (2009) the core of a supply chain management solution consists of:

- 1) Collaborative demand forecasting and planning (Demand Management)
- 2) Advanced Planning and Scheduling (Supply and Production Planning and Scheduling)
- 3) Transportation Planning and warehouse management
- 4) Internal and external collaboration (Supply Chain Visibility)
- 5) RFID (Radio Frequency Identification for identification and production information)

In terms of SMEs’ cost conscious point of view, they may take the approach of implementing SCM applications that are relevant to its current requirements. Generic SCM capabilities that SMEs can take advantage of are order processing, inventory reconciliation, warehouse management and transportation management (Jain, 2007). In closing the gap for SCM adoption by SMEs, SCM vendors can also provide software and technology based on licensing and service fee charges instead of SMEs having to spend a large sum upfront to leverage the capabilities of SCM and e-business integration. With a strategic technology adoption plan in place, SMEs can evaluate and assess their business needs and performance outcomes over time and react accordingly to customer, market and supply chain demands.

### **2.9.2 E-business strategy and SCM**

According to Simchi-Levi, e-business will change the supply chain and transform the traditional “push” or “pull” supply chain strategies to a new “push/pull” supply chain

strategy (Guyer, 2001). With the push supply chain strategy, production and distribution are based on forecasts which in many ways can be wrong and makes it hard to closely match supply with customer demand, often resulting either in over supply (too much inventory) or under supply (not enough inventory). A pure pull strategy in which the customer demand drives production and distribution is the ideal solution as the firm does not need to hold any inventory as supply is produced on order. The challenge here is that pure customer demand makes it hard to produce economically in batch loads and longer lead times in the supply chain would not satisfy the strategy to produce on demand. Push/pull strategy is where inventory in the warehouse is managed based on forecasts and demand is satisfied based on customer demand.

Furthermore, according to Simchi-Levi in Guyer (2001), e-business has the capabilities to eliminate the bullwhip effect so that cost can be reduced, profits, service levels and flexibility can be increased. E-business is also important to allow supply chain visibility (SCV) to occur which will also reduce the bullwhip effect due to non-integration of supply chain links. The bullwhip effect is essentially a phenomenon that occurs in forecast-driven distribution channels, that describes the series events that leads to supplier demand variability up the supply chain (Frahm, 2003). The reasons causing this variability are order frequency, order quantity variance, or the combination of both events by downstream partners in a supply chain. As the orders make their way upstream, the perceived demand is increased and produces what is known as the bullwhip effect (Lee et al., 1997, cited in Frahm, 2003). As a result, orders are being produced are far out of proportion to customer demand, creating back logs.

According to Frahm (2003), the bullwhip effect has been perceived as an inevitable effect of demand variation. The key to avoiding this effect is determining who is indicating the change in demand at each level of the supply chain, i.e. the manufacturer, distributor, the retailer, or the customer. Supply chain visibility and e-business allow the identification of where the demand shifts are originating along the supply chain, thus diminishing the bullwhip effect and promoting more accurate supply demand information. The high probability of occurrence of such an effect to businesses supply chain should hold strong grounds for SMEs to think strategically and plan for solutions to counter act the effects, more so for businesses in the wholesaling sector.

SCM technologies are relatively new to SMEs because their transactional volumes would not justify the need for expensive and state of the art applications. Therefore, there have been some attempts by researchers to understand the differences in adoption of e-business technologies for SCM. The underlying influence is related to the characteristics and attitudes of SMEs. Quayle (2003, cited in Archer et al., 2008), found in a UK survey that SMEs are highly influenced by external forces coming from their suppliers and customers, where the business is product driven. The focus is to achieve immediate efficiency in delivering quality and cost effective products with reliable and supportive service. They did not seem to place a higher concentration on the process issue (such as e-business, research and development, procurement expertise, time to market, value analysis and engineering) which could motivate supply chain innovation (Archer et al., 2008). It is important to bear in mind that SCM is a process and relationship strategy. The downside for SMEs is being resource poor, thus they may lag behind larger companies because they cannot afford to try or experiment with SCM (prototyping) before full integration, unlike what large companies usually do.

The adoption of e-business solutions is also influenced by transactional volumes and business partner relations within the supply chain. When transaction volumes reach a threshold, non-adopters of e-business or automation technology may find it too overwhelming to cope with the business pressure occurring (Archer et al., 2008). According to Professor Simchi-Levi, the only solution is the integration of e-business into a business's supply chain management and aligning this initiative to the business objectives of the firm. Good supply chain performance is demonstrated when businesses can get the right product to the right place at the right time at the lowest cost (Pais, 2009).

Overall, supply chain benefit could only be achieved when all businesses involved in the chain are linked electronically (Smeltzer, 2002, cited in Archer et al., 2008). SMEs can have the option of outsourcing e-business SCM through third party service providers so that they do not have to absorb all the implementation cost involved. For some SMEs this would probably be the best immediate solution until it can afford to fully host the systems in-house because it is crucial that first and foremost, SMEs must be smart in building and maintaining long term business relationships amongst supply chain partners.

In recent literature, Archer et al. (2008) investigated the barriers to e-business adoption for supply chain management in SMEs and found that the barriers as indicated by respondents of the survey were in fact not barriers but perceptions of what e-business can or cannot do in supporting the organization. This once again reflects SMEs' lack of strategic understanding of e-business and of the real benefits these solutions might bring to their small business. SMEs seem to demonstrate low self esteem by believing that their businesses and supply chain maybe too small to benefit from e-business (Archer et al., 2008). On the other hand, in terms of SCM, SMEs may not be in the position nor have the power to fully take charge in making independent supply chain decisions because SMEs are often part of bigger supply chain partners and SMEs need to consider how their decisions would affect the operations of the supply chain.

Furthermore, SMEs characteristics of being flexible, agile and their adaptability to ad hoc situations can have its advantages over large companies in being prompt to react, they seem to also demonstrate similar traits when making technology investments. They are prompt to react in the sense that would skip the formulation of e-business strategies and planning for the IT investment by jumping straight to application. SMEs want immediate cost effective results, often undermining the long term demands and needs of the business such as transactional volumes and order fulfillment (Archer et al., 2008).

In contrast, there are those SMEs that maintain very traditional business concepts and insist on pure "face to face" interactions with business partners and customers as their strategy for a successful supply chain relationship. In turn, SMEs would consider additional technology to be "obsolete" if it would interfere with what their business principle says. In the studies by Archer et al. (2008) and Fillis et al. (2003a), SMEs were found to still operate with minimal interaction with IT and internet technology. The assumption as to why SMEs can still afford to stay at this stage is that they have yet to encounter the pressure to do otherwise.

Different industrial characteristics and their supply chains may also influence the way technology is adopted. As such, this research will look at the context of SME wholesalers. With the nature of SME business operations being relatively informal and ad hoc, this can potentially open up many opportunities for research to be conducted. Also, with the relatively linear organizational and management structure of these SMEs, could make

administering the research less complicated as compared to larger companies. It is assumed that the flexible nature allows them to have higher tendency to open themselves for consideration and the exploration of new solutions and suggestions for which their businesses can benefit from (Statistics New Zealand).

### **2.9.3 SME wholesalers in New Zealand**

Businesses' supply chains vary according to business and industrial type. The wholesale business supply chain is investigated further for this research. The wholesale trade is often referred to the wholesale distribution trade (Statistics New Zealand, Craig, 2008), since the core of businesses in this industry engage in two main functions: wholesale (buying in bulk and re-selling) and distribution (transporting to businesses that buy from them). The supply chain of wholesalers typically would consist of suppliers, manufacturers, logistic companies, warehousing and retailers. Different industrial sectors would have wholesale distributors and they act as intermediaries between manufacturers and customers.

As vital links in the distribution channel, wholesalers are sometimes referred to as industrial distributors or merchant wholesalers (Das & Tyagi, 1994). Wholesalers are often recognized as organizations that specialize in the physical movement of goods from manufacturers to retailers as well as providing support services for the products they wholesale (Das & Tyagi, 1994). They also have the first hand role of being marketing intermediaries of manufacturers and suppliers to retailers and thus they play a very important role in the distribution channel.

Since the advancement and development of technology and the Internet, the wholesale distribution sector has been threaten due to technology having the ability to bypass the middleman, where by manufacturers and retailers have direct interaction. More than ever, wholesale businesses need to keep their operating cost down so that they can offer low cost service and products to their customers to be competitive. They will also have to make sure that they are able to deliver to customers with a very efficient supply chain and exceptional customer service (Accenture, 2008). Competing wholesalers that carry similar product lines often need to build customer loyalty and differentiate themselves through a unique customer care relationship.

The situation is best summed up by the Supply Chain Consulting Group (2009), which states:

“In recent times, the worldwide wholesale distribution industry has experienced a shift in power to the retailer and manufacturer as they merge and consolidate. This concentration of power has led to significant changes in the wholesale distribution industry that can best be summed up as a transfer of costs in the supply chain, from the retailer and manufacturer to the distributor, creating a profit pinch for the wholesaler.”

A literature search on the topic of the wholesaling sector in New Zealand returned almost zero information, apart from government statistics. However there was one very recent scoping report conducted by Craig (2008) who was commissioned by The Retail Institute on the wholesaling and distribution sector in New Zealand. Craig’s (2008) report was very helpful, in understanding the industry in a NZ perspective. Two of the most important activities in wholesaling are marketing (taking orders, sales, advertising, branding and forecasting) and distribution (storing in warehouses, pick and packing and freighting).

In New Zealand, this is a rather important sector given that Statistics New Zealand conducts a quarterly survey on the economic activities, financial performance, total sales and stock and trends of the industry:

“Wholesale trade is an important segment of the New Zealand economy. The industry acts as an intermediary between manufacturers and secondary processors and consumers. The level of wholesale trade activity provides an important measure of the economy. In order to provide this information, Statistics New Zealand conducts a quarterly survey of wholesale trade. This survey produces timely, short term, indicator statistics on the sub industries within the wholesale segment.”  
(Statistics New Zealand)

The outcome of the survey provides data on value of wholesale sales and stockholding. The wholesale industry is made up of businesses that act as intermediaries between manufacturers, secondary processors and consumers, and the level of wholesale trade activity provides an important measure of the economy (MED, 2008). Wholesale businesses are those that are mainly engaged in the resale of new or used goods to businesses or institutional users. Although wholesale SMEs are not being officially surveyed, their variables are being modeled using data from Inland Revenue Department (i.e. GST and EMS figures) so that this can be included as a ratio of the whole sample to reflect the industry (Statistics New Zealand).

Within the New Zealand wholesale industry there are many sub-sectors that represent the products or services they provide (Statistics New Zealand, 2008):

- Unprocessed primary products
- Primary product food
- Food and grocery products
- Textiles, Clothing and Footwear
- Household goods
- Builder's supplies
- Books and paper products
- Petroleum products
- Pharmaceuticals and toiletries
- Metals and minerals
- Motor vehicles
- Farm and construction machinery and professional, business equipment
- Chemical
- Electrical and electronic equipment
- Machinery and equipment (not elsewhere classified).
- Wholesale trade (not elsewhere classified).

Observation of the sales trend from The Quarterly Wholesale Trade Survey from March 2004 to March 2008, saw that there was a steady increase of total sales revenue of between 1.7-16.2% which indicates that this industry is performing relatively well with a healthy flow of wholesale goods. June 2008-Mar 2009 saw a general decrease in sales revenue and this is reflective of the outcome of the economic recession together with the weak New Zealand dollar, which is not acting in favor of wholesale importers (Statistics New Zealand). However, comparatively, the wholesale sector in New Zealand is still not as significant an industry when compared to the United States, which comprises about 300,000 companies with combined annual sales of \$4.8 trillion. Though larger US wholesale firms only make 10% of the total number of wholesalers, they account for 70% of the industry's revenue. The industry in the US is highly automated with businesses implementing IT and the Internet into their operations. This has allowed the industry to be highly efficient and productive especially in their warehouse and distributing operations (Hoover's, 2009).

The wholesale sector (in the UK) seems to show a higher inclination to move out of its comfort zone by engaging in innovative product marketing and delivery strategies using the Internet as a way to move ahead (Levy et al., 2005). Some possible reasons for this could be that the wholesale business is very much merchandise oriented and would require a high turnover of new products to keep the business rolling as well as managing partners and streamlining processes in the supply chain. Research findings such as this have the potential to ignite interest in conducting further research on the use of internet and IT within the business and its supply chain. The strategy for SME wholesalers is to be able to operate cost effectively while staying competitive and maintaining a personalized and unique customer service offering.

Further research is needed to extend these findings in the context of SME wholesale sector in New Zealand as it is an important sector of the economy; over 90% of the 17,700 wholesale businesses are SMEs. This means that much attention needs to be paid to understand the characteristics of these businesses and provide growth and competitive advantage strategies as well as sustainability solutions for the prosperity of SME wholesalers in New Zealand. However, as noted above, SMEs are generally not surveyed nor is the level of use of technology within the industry investigated in New Zealand. Furthermore, not much qualitative research has been conducted to investigate the challenges and business opportunities within this industrial sector.

According to Pais (2009), larger companies are now outsourcing products and services that would not fall under their core competency to SMEs as they have the ability to operate cost effectively, responsively, flexibly and are more reliable. Therefore, SMEs have become important suppliers or business partners to larger companies. Being in the supply chain requires SMEs to develop SCM solutions that would allow integration and collaboration within the supply chain process. SCM applications are becoming more popular and valued-added with developments in IT and e-business technologies; and the wider use of SCM solutions has made the application mature enough to be available at far more reasonable prices and with faster implementation cycles.

## **2.10 Summary**

SMEs are important business units within a country's economy, and contribute substantially to the growth and sustainability of the whole economy. In New Zealand,

SMEs essentially make up over 90% of each industrial sector and significance and large number is similar to other international economies. SMEs are measured by the number of employees they employ and in New Zealand; SMEs are small companies with less than 20 employees. It is thought that the number of employees is a more appropriate measure of firm size because of the differences in organizational structures that occur with size (Storey, 1994, cited in Levy & Powell, 2000).

SMEs usually begin from an innovative idea or motivated by the owner/manager's entrepreneurial instincts and ambition. The general style of management and operation is relatively informal and flexible, often reacting to situations with agility, opportunistic view points and an ad hoc manner. The backgrounds, experiences and attitudes of SME owner/operators have a significant impact on the way the business operates and functions.

SME entries into and exits out of the economy (in New Zealand) outweigh larger firms by a very significant and substantial number. Though this may indicate that SMEs are highly volatile, they also help increase the capacity of the economy in entrepreneurship, innovation, growth, wealth creation and accumulation.

SMEs often face challenges associated with resources needed for their businesses and they are often considered to be "resource poor", which is the biggest cause of their high business exit rate. Critical resources such as finance or cash flow, human resources, time and expertise are often restricted in a SME situation. It is believed that aside from the characteristics and nature of SMEs and their owners, the government and other business mentoring, education and financial institutions are vital for the growth, viability and business longevity of SMEs. The biggest source of support can be derived from financial institutions or banks; yet obtaining this is often a struggle for SME owners. Financial institutions such as banks make decisions to lend based on how profitable or how likely a business is to grow; thus they need reports, strategic plans and forecasts from businesses to provide evidence that the business is sustainable and worth lending money to.

Another major shortcoming experienced by SMEs as indicated in literature findings is their inability to conduct longer term planning or formulate strategies for their businesses. These businesses would mostly opt to operate around short term or ad hoc plans and demonstrating a "wait and see" attitude. SMEs are not as capable of making longer term forecasts and plans as compared to large businesses. It can be generalized that SMEs tend

to spend more time working *in* the business (operational or tactical) rather than working *on* the business (strategic).

Mintzberg (1987) sums up the importance of a business having strategies, so that it can set directions, focus efforts, define the organization and provide consistency. Strategy is also important because it is a management's concern and would lay down a series of objectives, plans and actions to be taken by the firm once it is in business. Porter (1980, cited in Raymond & Bergeron, 2008), suggests that strategy is when a business initiates either offensive or defensive actions so that it can identify its core competency, led by management and leadership. When a business has strategies in place, it is clear about what the organization's objectives are and the resources needed in response to a dynamic environment.

Strategy theorists have developed frameworks that businesses can adopt to help them develop their own set of strategies and initiatives. Ansoff's strategic intent framework suggests that business strategies are mainly determined by the relationship between market and products and the relationship at different stages of growth. Miles and Snow's strategic orientation typology is also a well established strategy development framework which would help businesses realize, identify and develop their business's strategies. Miles and Snow propose that the prospector/innovator, the analyzer, the defenders and the reactors are four avenues of strategy that could exist in any business.

It is believed that the nature and character of SMEs directly contribute to their deficiency of strategic planning and the management and execution of strategies. There may exist some form of strategy developing amongst SME businesses in an informal approach, but they are less successful in bridging the "disconnect" between business and the e-business objectives. The topic of business strategy development and execution amongst SMEs is under developed and under researched. Nonetheless, another perspective is that whilst SMEs do not necessary engage in formal strategy planning and in developing documentations for business strategies, they may have already be practicing 'silent strategies' in the sense that they are characterized as entrepreneurial, innovative, agile and opportunistic. Their nature and organizational dynamics could as well allow SMEs to gain competitive advantage over their larger counterparts.

SME's behavior towards business strategy, directly translates into their behavior towards e-business and e-business strategy. Those SMEs that have advanced into using e-business may have adopted the technology without clear vision and direction because they may have been pressured to do so or are simply following the trend. There is evidence that majority of these projects are short-lived and have incurred the business even more costs on top of their already constrained resources. According to Levy and Powell (2000), information systems strategies (ISS) use is considered to be under developed and under researched in SMEs and subsequently, many do not see that this as an strategic resource for the overall business. There is in fact little evidence found in literature to suggest that SMEs regularly practice strategic planning.

E-business capabilities come in different levels of complexity to suit different businesses needs and strategic direction. It is being able to know what the business needs are, what the business wants to achieve, and ways to achieve those goals that are challenges for SMEs. Theorists such as Allcock, Earl, Mehrten, Tetteh & Burn have developed IS/e-business adoption models and frameworks that would allow businesses to evaluate and analyze their technology implementation initiatives. Of most relevance to the context of SMEs is the UK DTI e-adoption ladder that shows that e-business adoption is directly related to an SME's linear growth dynamic and incremental business complexity. Subsequent research found that technology integration in SMEs would modify the original linear and incremental pattern of e-adoption ladder to one that follows a 'zigzag' pattern to accommodate for changing customer demands, and internal and external business factors. It makes sense that organizational planning decisions can be viewed from two perspectives: the business perspective where operational and tactical objectives exist to support corporate strategies and the IT perspective, where IT plans exist to accommodate the operational, tactical and strategic objectives of the organization.

Research shows that there are mixed attitudes towards the strategic use of e-business amongst SMEs as they are yet to realize the need to appreciate the dynamics and capabilities of information systems and Internet technologies. In New Zealand, the term "sluggish" is often referred to SMEs that are behind in leveraging e-business technologies with main reasons given as the SME owner's sensitivity to pricing and the lack of resources; thus e-business technology is not considered to be a strategic tool or resource for the business. Research also indicates that government involvement and assistance is

preferred and can be a valuable resource to help kick start SMEs venture into e-enabling their businesses.

In-depth industrial specific studies need to be carried out to confirm these findings hold true for different sectors and industry within SMEs. The area of SCM is a major use of e-business in its functionality. The wholesale industry forms a major part of the wider supply chain and within the wholesale business, the success and profitability of businesses in this trade is largely determined by how efficient and productive the business is able to manage their supply chain with those of external business partners. The wholesale industry and businesses within the industry deal primarily with movement of goods from the manufacturers or primary suppliers to retailers or distributors for re-sell to end users. Wholesalers are the main intermediaries, linking primary suppliers or manufacturers with end users of the finished product. Though it may seem that wholesalers do nothing but mediate the movement of goods from A to B, before goods move, information must be communicated the information and the physical goods being of equal importance.

The ultimate goal of SCM is the ability to manage the processes and activities involved in the chain so that the right products are able to be delivered to the right people, at the right price, at the right time efficiently accompanied with the right information. E-business and information systems are considered to be able to enable businesses to achieve this ultimate goal and at the same time streamlining processes, reducing cost per unit, increasing productivity, efficiency and promote supply chain visibility. Large firms have already embraced e-business technologies as a strategic resource and have included it in their long term strategic plans and, consequently, have reaped rewards and gained competitive advantages over those that are slow to embrace the technology.

This research explores the extent of strategic use of e-business technologies by SMEs in the New Zealand wholesale sector. It uses qualitative research to address the following research questions:

(1) What are the significance of the attitudes and perspectives of key personnel towards the use of e-business technologies?

- (2) To what extent do SMEs engage in planning and strategy formulation towards e-business use?
- (3) What are the factors that facilitate or influence the development of e-business strategies and applications in wholesale SMEs?
- (4) To what extent are e-business strategies used in the SCM of wholesale SMEs?
- (5) What are the impacts and implications of the nature and characteristics of SMEs in relation to questions 1 to 4 above?

## Chapter 3 Research Methodology

### 3.1 Qualitative Research

Qualitative research is research that focuses on meaning of words rather than the measurement of numbers in both the collection and analysis of data. To expand this definition would involve noting the following features of qualitative research. Firstly, the relationship between theory and research is inductive, whereby theory is generated from the research. Secondly, the epistemological viewpoint is typically interpretive; whereby the theory of knowledge is understood through an examination of the interpretation of the social world by its participants. Thirdly, the ontological viewpoint is described as constructionist, whereby the social phenomena and their meanings are continually being influenced and achieved by social participants (Bryman & Bell, 2007).

The major attributes that characterize qualitative researchers are that they attempt to see through the eyes of the people being studied; seek description of situation and the emphasis on context; emphasis on process instead of the outcomes; are flexible and have limited structure when conducting research; aim to discover concepts and theory grounded in data (Bryman & Bell, 2007). A comparison and contrast between quantitative and qualitative research is outlined in Table 1.

Qualitative research consists of several methods that are adopted by researchers (Bryman & Bell, 2007). *Ethnography/participation observation* is a method of research where by the researcher engages him/herself in the actual social setting for a period of time, in order to observe and gather information. *Qualitative interviewing* is a method whereby the researcher attempts to collect information from participants of the social settings by administering of interviews. Interviews can be unstructured whereby the researcher interviews with topics and interview guide in mind and is carried out very informally. The other one being semi-structured interviews where the interviewer uses an interview guide with a series of questions that need to be covered while also giving allowance for questions that will emerge during the interview. *Focus groups* involve the researcher carrying out a group interview with several participants. The main objective is to discuss the issues of a fairly defined topic while encouraging interaction and input from the whole group. *Language based* approaches to collection of qualitative data involves the researcher

analyzing and interpreting conversations and language. *The collection and qualitative analysis of text and documents* involves analysis on already existing text and documents.

**Table 1 Contrasts between quantitative and qualitative research (Bryman & Bell, 2007).**

<b>Characteristics of quantitative research</b>	<b>Characteristics of qualitative research</b>
Numbers being used to measure social life	Words used in presentation of analysis of society
Point view of researcher	Point view of participants
Researcher is distant	Researcher is close
Theory and concepts tested in research	Theory and concepts emerge from data
Static image of social reality	Process of change and connection over time of social settings
Structured	Unstructured approach
Generalization to relevant population	Contextual understanding of particular research context
Hard, reliable data	Rich , deep data
Macro	Micro (large scale vs. small scale)
People's Behaviour	Meaning of Action
Artificial Settings	Natural Settings

Furthermore, qualitative research also has its share of critics, in most cases by quantitative researchers that often compare and contrast between the two (Table 1) (Bryman & Bell, 2007). Common criticisms are that qualitative research seems to be too subjective, that it is often difficult to duplicate the same research, it also has problems with generalization such that the scope of the findings are restricted and there is lack of transparency as to how and what was done to reach the research's conclusions.

### **3.2 Criteria for Evaluating the Quality of Qualitative Research**

Reliability and validity are the accepted criteria for evaluating quality of research and often used in measuring quantitative research. The criteria concerned and questions asked are as follows:

External reliability – can the study be replicated? Internal reliability – is there more than one person or member of the team that would agree to what was seen or heard?

External validity – can findings be generalised across social settings? Internal validity – is there a harmonious match between the research observations and the theoretical ideas researchers develop?

Guba (1985) and Lincoln (1994) have advocated that reliability and validity are concerned with quantitative research, as the criteria assume that a single account of social reality is sufficient. Therefore, it would not be applicable in the doctrine of qualitative research which assumes that there can be more than one and possibly several accounts of social reality (cited in Bryman & Bell, 2007, p.411). Thus, Guba (1985) and Lincoln (1994) propose that alternative evaluation criteria for qualitative research should be established that would serve two purposes: one, criteria to be applicable and stay true to qualitative research, and two, that they would serve as an equivalent “measure” as in quantitative research. The two primary criteria for assessing qualitative study are trustworthiness and authenticity.

Firstly, trustworthiness consists of four sub criteria that are parallel to that of validity and reliability in the context of quantitative research. The sub criteria are credibility (internal validity) – was the research carried out in good practice and the findings validated by respondents?; transferability (external validity) – does the depth of the findings provide information for making judgments on the possibility of applying the findings in another context?; dependability (reliability) – can the research process and the outcomes of the findings be accessed for auditing purposes?; and conformability (objectivity) – did the researcher conduct the research with good faith not allowing personal values or theoretical concepts to affect the research and its findings? Secondly, authenticity refers to whether there is fairness in the representation of different viewpoints of members of the social setting, and whether ontological (arriving at a better understanding of their social setting), educative (improved appreciation of members of their social setting), catalytic (a force for members of the social setting to engage in action for change) and tactical (empowering members to take steps needed take on actions) authenticity are fulfilled (Bryman & Bell, 2007).

In evaluating the quality of this research, it is measured against the criteria of trustworthiness and authenticity. The approach is to provide answers to the questions that would validate trustworthiness and authenticity of the research.

Firstly, for trustworthiness, the research was carried out on good practice because ethical approval was obtained and the respondents were well informed of what the research is about and information about the purpose and approach of research is clearly presented to the respondents. The research was conducted in good faith such that personal values and theoretical concepts did not interfere with respondents' feedbacks because respondents were not restricted or pressured in any ways to express their opinions and answers to the questions asked.

Upon completion of the research, summary of findings would be made available for those respondents that are interested in a copy. For purpose of auditing the trustworthiness of the findings, audio taped interviews and transcripts are available to be examined. The interview process was able to obtain in depth findings and information which was able to extend the knowledge and theory on the areas of SME wholesalers, SCM, strategies and e-business. The implications of the research findings can be considered for decision makings and a source for other researchers for further research in a similar area.

Secondly, for authenticity, the research was a fair representation of the social setting, being wholesale SMEs in the particular research context. Although it was considered to be a fair and expected representation, the quality of the research can be further improved if the research sample was bigger (i.e. more than ten SMEs to generate more than ten interviews). Other than that, the research findings and analysis can be considered for making judgments for decision making because findings are considered to be genuine or true accounts of respondents' experiences, attitudes, motivations and opinions shared first hand with the researcher.

### **3.3 The Choice of Qualitative Research for This Thesis**

The topic of concern for this thesis has traditionally being conducted under quantitative research by other researchers in hope of expanding the knowledge pool in the area of e-business and SMEs. The choice of qualitative research was chosen for this study because the researcher hopes to gather in-depth and rich data for analysis. The method of qualitative

interviewing through the administration a semi-structured interview is to capture rich and in-depth data on the phenomenon of wholesaler SMEs' perspectives on the strategies and application of e-business to their management of the supply chain.

Studies in this field have primarily been conducted in quantitative research methods which has provided valuable insights and understanding to readers on the subject of SMEs, e-business and supply chain management. For this research, the researcher wants to explore the phenomenon of strategy development and strategic planning within the context of SMEs in the area of e-business for supply chain management. The researcher is interested in finding out the insights and perspectives of owner/operators or managers of SME wholesalers in New Zealand. These insights and perspectives are not able to be captured in-depth and detail should the alternative method of quantitative research be used.

This research approach explores the inductive relationship between theory and data. The research is conducted in order to generate theoretical insights or modify or enhance existing theory on the subject (Bryman & Bell, 2007). Such a research approach is able to generate a detailed understanding of a phenomenon in a particular contextual setting, although it is often criticized for the high level of time needed to collect and analyze the qualitative data. This is due to that fact that the research is subjective and not bound by a set of closed enquiries, and that it takes into consideration the subjective views of different individuals in the social context.

Therefore, findings are not objective and are not intended to be generalized to a larger population in a statistical sense. Instead, the aim is to derive insights and patterns that may be meaningful and relevant in other research settings should similar research be replicated.

### **3.4 Ethics Approval for the Research**

Ethics deals with the correct and moral conduct in protecting the dignity and safety of research participants (AUTEK, 2008).

An information sheet was provided to each participant, outlining the purpose and method of the research, their rights as participants and associated ethical considerations. Each participant was asked to sign a consent form. The data collected may be sensitive in relation to competitors in the industry, so it was important to assure the participants that the research would be conducted with confidentiality and their privacy would be protected.

Participants would not be identified in the findings, with their actual names and their businesses' description made as discrete as possible. The participants had the right to withdraw at any stage of the interview. Participants were given the option to request a copy of the summary of the final report.

The proposed research was considered to be low risk and thus low risk ethical approval was obtained from the AUT Ethics Committee on June 30<sup>th</sup>, 2009, before data collection commenced.

### **3.5 Data Collection**

The research will explore the context of SME wholesalers. It was anticipated that the nature of SME's in having a relatively informal and ad hoc business operation will open up opportunities to conduct research amongst this type of business. The relatively flat organizational and management structure of SMEs should make administering the research less complicated than in a larger company that has a hierarchical structure of many layers and needing approval from superiors. Another advantage of researching in the context of SMEs is that it is relatively easier to communicate and contact with the owner of the business as compared to if the company is a large one. In addition, it was anticipated that the flexible nature of SMEs will create a tendency to open themselves for consideration and exploration of new solutions and suggestions from which their businesses can benefit (Statistics New Zealand).

The research also drew on quantitative data produced by previous researchers, which helped substantiate and ground the qualitative data. Such quantitative data include statistics on IT/e-business adoption rates and performance measurements and outcomes amongst businesses in New Zealand, and particularly amongst SMEs in the wholesale sector. These statistical data are important because they help aid the qualitative data gathering process and the interviewer was able to use these statistical data when they are relatively significant to the questions asked during the interview.

#### **3.5.1 Research sample definition**

Initially, a list of 30 SME wholesaler companies was selected from the 2007 New Zealand Gift Fair magazine. This is an industrial publication containing a directory of all import/wholesale companies that are exhibiting at the trade event. This provided

information about the most current listing of active and participating companies that can be used as the source of companies for the sample. Selection of these 30 companies was based on their location in the metropolitan Auckland area, and the type of merchandise they wholesale: non-perishable discount, variety and giftware products. Introductory letters and participant information sheets were sent to each of the 30 companies inviting their participation and introducing the researcher and research topic and purpose. It was anticipated that one-third (i.e. 10 out of 30) would reply with a “yes” to participation. Unfortunately, the reality was that the SMEs were not that enthusiastic and from the first batch of 30 companies, only 5 agreed to participate. The next step involved telephoning those companies that had not replied to enquire whether the letter was received and also to get their responses regarding participation in the research. Unfortunately, this exercise proved unfruitful with SMEs responding that they were very busy and unable to participate in the research.

Due to the insufficient numbers of SMEs agreeing to participate, the list of 30 potential companies was progressively enlarged until 10 companies agreed to participate. This was once again a very time consuming task as many SMEs responded that they were too busy to participate. One possible reason for the large number of SMEs unwilling to participate was that they were approached during their peak season (from August-November) and with a major Trade and Gift Fair approaching.

The final 10 SME wholesale companies comprising the research sample were all from the metropolitan Auckland and had a total number of employees ranging from 2 to 15 employees. The aim was to be able to interview between 1-2 persons in each company. These interviewees were identified by the researcher as individuals that were likely to have a decision-making role and overall knowledge of the business, such as the owner/manager or operations manager. Unfortunately, the time pressure and constraints meant that only 1 person from each company was available to be interviewed, making a total of 10 interviews. Characteristics of the 10 SMEs studied are summarized in Table 2.

The participants were all adult, able minded, consent giving individuals that could act on their own behalf and did not have a dependent relationship or conflict of interest with the researcher. Their privacy was protected in the sense that they were not identified nor their company named in this thesis (or will be in any publication in relation to the research).

There was no intention for any private, personal or sensitive business information to be given or supplied and participants had the right and freedom to withdraw from the research at any time. Furthermore, the large number of SME wholesalers in the industry and the similar kinds of wholesale merchandise involved meant that it would be very difficult for other organizations to guess a participant's company.

**Table 2 Brief profiles of the 10 SMEs.**

SME	Age of Company	Main activities of the SME	Number of Employees	Person interviewed	Age group of owner/operator	Do members of the family also work in the company?
SME1	10 years, same owner	Import/wholesale – general goods	7	Owner-operator	50-65 years	No
SME2	10 years (7 previous owner, 3 current owner)	Import/wholesale/design – giftware, artwork	3	Owner-operator	50-65 years	Yes – husband and wife are directors
SME3	21 years, same owner	Import/wholesale – home goods, giftware	10	Owner-operator	50-65 years	Yes – mother owner and daughter shareholder
SME4	9 years, same owner	Import/wholesale/design – giftware, art	7	Owner-operator	40-55 years	No
SME5	3 years, new division of parent company	Import/wholesale – giftware, art, accessories	4	Manager	50-65 years	No
SME6	5 years, same owner	Import /wholesale – general goods, giftware	5	Owner-operator	40-55 years	No
SME7	6 years, same owner	Import/wholesale – general goods	13	Manager	40-55 years	Yes – wife, son, sister-in-law helps out
SME8	10 years (7 previous, 3 current)	Import/wholesale – general goods, giftware	15	Owner-operator	40-55 years	Yes – husband and wife are

	owner)					directors
SME9	16 years, same owner	Import/wholesale – giftware, jewelry	8	Owner-operator	40-55 years	Yes – husband and wife are directors
SME10	18 years (15 previous owner, 3 current owner)	Import /wholesale – gift wrapping and accessories	15	Owner-operator	50-65 years	Yes – wife helps out

### 3.5.2 Qualitative interviewing process

Interviewing in qualitative research has two major approaches, unstructured and semi structured interview (Bryman & Bell, 2007). Unstructured interviewing was not attempted due to the lack of experience and expertise skills of the researcher and the nature of the topic, which required some preparation and guide before actual execution of interview to be able to yield maximum results.

The primary data gathering technique was thus the administering of semi-structured interviews with the person in charge of decision making or management of the company of a sample of New Zealand wholesaler SMEs. The interviewees were made up of either owner/operators or managers of the company. The duration of the interviews ranged from 20 minutes to 1.5 hours with an approximate average of 45 minutes per interview.

The semi-structured interview was executed using a set of indicative questions or topics that the researcher wished to ask or cover in the interview. This interview guide was created prior to commencement of data collection and used to guide the interview process (refer to the Appendix for a copy of interview guide used). The interview guide was flexibly administered, with the researcher not necessarily following a particular order or sequence of questions asked and topics discussed during the interview. The researcher also formulated additional questions during the interview that arose from an interviewee’s responses that the interviewer considered valuable to warrant further elaboration (Bryman & Bell, 2007).

The interviews were all carried out at the place of work of the interviewees, which was the office of the company. Since these are all small companies, their offices are all open plan where the owners/managers and other subordinates would share the room but work on separate work stations. The interviews were carried out at the desk of the interviewee or in a separate room nearby, as decided by the interviewee. With prior consent already obtained to audio tape record the interview, all the interviewees were comfortable and prepared for their conversations to be audio recorded. Generally, all the places of interview were quiet and free from distractions, but due to the nature of SME owners/managers being having to over look the whole function of the company, there were occasional distractions in the form of incoming calls and other staff enquires. When this happened, the interview was paused and taping also paused as a form of respect.

It was difficult and inappropriate to talk and write notes at the same time when the researcher is engaged in a conversation with the interviewee, thus no note taking was done when the conversation was being audio taped. Fortunately, the recording device did not experience any technical failure and all the 10 interviews were successfully audio-taped.

In addition, observation of the supply chain processes or daily activities carried out by the business were allowed by a few of the SMEs and this was valuable to the researcher as it contributed a point of reference during the interviews. In this way, the researcher gained a richer insight into the operations involved, which in turn provided further guidance on other appropriate questions or interview topics that were able to be incorporated within the interview guide as an extension to the interview. Observation notes where appropriate were recorded as an additional data source for future reference on top of the recorded interviews.

The recorded interviews were downloaded to the computer after each interview session and copies made as back up. Then interviews were transcribed by the researcher using transcription assistance software from NCH Software called Express Scribe. This allowed the audio file to be played back and forth using keyboard keys and transcription carried out in the same window as playback. This free software saved the hassle and tediousness required if playback was to be done via the recorder device itself while transcription is typed via keyboard.

The transcription process was a rather tedious and time consuming task of the research project, but in doing so, preliminary coding and theme formulation were also been able to

be done mentally. This was helpful preparation leading on to the next step of the research methodology of data analysis with some general concepts already emerging as a result of the transcription exercise. It was important that the researcher transcribed the data collected because in this way chances of error in transcription can be minimized as the researcher was familiar with what the interviewees had said.

### **3.6 Data Analysis**

In qualitative data analysis the most appropriate method of analysis is inductive analysis. Inductive analysis is used to examine and interpret interview transcripts and observation notes as a way of making sense of the data. As data analysis can literally mean reading through and organizing many pages of interview transcripts, it is indeed a very daunting and time consuming task. Inductive analysis of data is often used by qualitative researchers because the process allows for critical themes to emerge out of the raw data collected from the interviews. The challenge is to take the raw data and create logical and meaningful categories that can be communicated and interpreted by readers.

Due to the data set of only 10 interviews, which is relatively small scale qualitative research, no special data analysis software was used. Instead Microsoft Word and Excel were used to store and manipulate the data collected.

The qualitative data analysis firstly involved a coding process for both categorizing qualitative data and for describing the implications and details of these categories (Social Research Methods, 2009). Coding is an excellent technique for qualitative data analysis as many words and different meanings of words can occur in the raw data.

Initially, through opening coding, the researcher codes with mental openness and without restrictions so that pieces of meaningful data can be discovered. At this stage data is considered in microscopic detail, as each line of the transcript is read and reviewed and subsequently developing initial categories.

Open coding involves "breaking down, examining, comparing, conceptualizing, and categorizing data" (Strauss & Corbin, 1990, p.61, cited in Bryman & Bell, 2007), often, in terms of properties and dimensions. This process involves the examination of the data (initial categories) in order to fracture the data and subsequently generate codes that could proceed "line by line" (the most tedious but most generative, and therefore it is often

recommended in the initial phases of analysis), by sentence or paragraph, or by holistic analysis of an entire transcript. The identified conceptual categories of the phenomena would be given tentative code names that are descriptive and multi-dimensional which would form a preliminary framework for analysis. The opening coding process, while procedurally guided, is fundamentally interpretive in nature and grounded theory researchers "must include the perspectives and voices of the people" whom they study (Strauss & Corbin, 1994, p. 274, cited in Bryman & Bell, 2007; Mponti, 2009).

The data collected in this study were broken down into components and each labeled with code names to identify initial codes or concepts surrounding recurrent topics, significant actions and or participant terms. Words, phrases or events that appear to be similar were grouped into the same category. These categories were gradually modified or replaced during the subsequent stages of analysis that followed. For example, during opening coding the researcher identified that there were many instances of data on the challenges facing wholesale SMEs, thus "*Challenges*" was used as an initial code. Further down the coding and analysis process, it was discovered that there were other dimensions and aspects of challenges, which were assigned more specific codes names such as "*Lack of Technical Expertise*". For example, the following quote was initially coded as "*Challenges*" to summarize the overall content of the comment. Subsequently, when it became obvious (from the number of times it was being used) that "*Challenges*" was too broad a code to use, the comment was re-coded as "*Pricing Strategy*" given the specific focus of the comment:

“...We have to adjust the prices to match [...] our competitors can be really fast in pricing, so if we lose track of it and our competitors sell a similar product at much lower price and we lose out on it then our customers will lose confidence in us so, you know because we are not adjusting prices to suit the market things like that.”  
(SME7)

In the next step of the data analysis process, segments of similar initial codes are collected and sorted by using a “cut and paste” technique, so that comparisons can be carried out to explore the relevance of data to the research question and determine if any variation occurs. These grouped segments are then further grouped to form higher level categories or themes in which some relationship between themes can be drawn (Bryman & Bell, 2007). This re-examination of categories and codes to determine how they are linked is sometimes called

“axial coding” (Strauss & Corbin, 1990, cited in Bryman & Bell, 2007). Discrete categories identified in open coding are compared and combined in themes that would make more sense and understanding of the phenomenon of interest. The themes that are finally constructed are strengthened by making reference to any previous theoretical frameworks identified in the literature review. Either the existing theory is being modified by the results of the data analysis or new theoretical insights may emerge. This process was followed to generate overall themes from the qualitative data analysis in this study. For example, the data excerpts coded as “*Pricing Strategy*”, as described above, were grouped together with related codes to form a category called “*Products and Services Challenges*”. This category and others related to the challenges faced by wholesale SMEs comprise the main theme of “*SME Challenges*”. This process of coding and category formation is illustrated in Appendix 4.

The findings of this study are presented below according to the themes that emerged from the data analysis, and are supported using illustrative quotes from the interviews to represent the “voice” or reality of the social context. Chapter 4 will examine the nature and challenges of SMEs in the wholesale sector. SMEs’ status in the economy and owner-operator/manager attitudes towards the government will be explored. Organizational structure, dynamics and roles as well as motivations and attitudes for business will be discussed; as these factors affect how the business is operated. Chapter 5 will discuss business strategies and their application in wholesale SMEs. Chapter 6 will discuss the e-business strategies and applications that are being used by wholesale SMEs and the impacts of the results towards the business. Chapter 7 will explore e-business use in wholesale SMEs and their benefits and inhibitors of use. The Chapter 8 explores the nature and use of SCM within the context of wholesale SMEs. Chapter 9 is a discussion chapter on how this research relates to previous research. Finally, Chapter 10 draws a conclusion from previous chapters as well as discusses the outcomes of the research questions and their implications.

## **Chapter 4 Nature and Challenges of SMEs**

### **4.1 Status of SMEs in the Economy**

While SMEs have contributed significantly to the economy of New Zealand, and are often referred to as the backbone of the economy, this research found that none of the ten owner-managers interviewed even remotely considered that their small company was of much significance to the economy. Rather, the SME owner/managers tended to modestly state that they existed simply to make a living (SME1), and that they just want to be profitable and have enough resources to survive and achieve growth (SME10). Most of the time SMEs simply react to what the market requires of them or their customers' needs, rather than being able to take the lead and initiate significant change (SME3).

The most prominent recent event that had great effect on New Zealand's economy is the global recession and as a result many businesses especially SMEs were and are still being affected. The wholesale industry is an important industry in the economy because they act as a main intermediary between manufacturers and the consumers within the big supply chain. When the economic climate affects either of the manufacturers or primary suppliers or the consumers, the hardest hit is the wholesaler because they depend on the prosperity of the companies at the beginning and the end of the supply chain for their own survival. The recession has created more uncertainties on top of the already typically unstructured and informal SME nature. This effect has been made worse as a result of the lack of practiced formal planning and strategy development by SMEs, which did not help prepare them for the economic crisis (SME4, SME7). One SME owner mentioned that although they were hard hit by the recession, they have learnt a lot from this experience (SME3).

The economic situation and climate, however, does directly affect the performance and profitability of SME wholesalers in New Zealand. Nine out of ten of the SMEs interviewed confirmed this opinion, with only one suggesting that the recession had little or no effect on the company's situation (SME6). This SME owner mentioned that in the couple of years before the recession started they were fortunate to be very profitable and managed to save up reserves which helped them through the subsequent hard times. Another reason could be that the owner had just changed their usual product genre to a new product range to test the market, whereas the other nine companies maintained their regular lines and similar product genre throughout. Indeed, SME wholesalers play an important and well defined

role within the supply chain and the recession naturally created chain reactions amongst the supply chain network of businesses. One SME owner mentioned that wholesalers “are basically the beginning of the supply chain” (SME08).

SMEs are unlikely to perceive themselves as the backbone of the economy until they see some results and announcements from the government and the financial institutions to confirm that SMEs should be treated in a more special way. SME owners see themselves as being of minor status in the economy and on the agenda of the government: “Well we don't rely too much on government coz [...] we are ‘small fries’ in their eyes you see” (SME10). In addition, SMEs also reported experiencing stricter treatment from banks in terms of loans and payment terms (SME3, SME7), and a requirement to prove themselves through financial forecasts and proposals in order to get a loan injection to the business.

#### **4.2 SME Attitude towards the Government**

As noted above, some of the SME owner/managers mentioned that they do not rely a lot on the government (also SME2). Due to the nature and dynamics of SMEs, waiting for the government for action is just is not practical for the business. It would be better if they just “paddled their way through” and solve the problems themselves (SME5, SME10). SMEs tend to have the impression that the government takes too long to take an initiative and bring it to a reality that is practical and applicable to their businesses (SME9).

The SME owners in this study generally did not have a positive attitude towards the government and their initiatives, all ten expressing that the government has not been helpful in any way to their businesses. They felt that they received no support from government, but get more support from associations that they belong to. The government just introduces more hurdles and compliance costs that can be very disadvantageous for a SME (SME9).

The SME owners interviewed tended to report being unaware of government initiatives and available information, even if there were actually any that they could make use of. Some reported receiving almost no information from government, and even if they did, it often seemed to be of very limited applicability to them (SME9). SME owners also lack the time and effort to take the initiative to seek for information (SME10). Only one out of the ten SMEs received funding from the government. While this was very gratefully appreciated by the SME, the recession meant that the funding had to be removed after only one year

into the program (SME4). This has caused a halt to some original aspirations of the business to become a well known brand. The majority of the SMEs interviewed commented that they have never depended nor relied on the government for any assistance, whether financial or expertise wise. One SME owner expressed that he could only recall one government initiative aimed at improving IT infrastructure and faster broadband, but that was taking a long time and New Zealand was still behind the rest of the world (SME9).

On the other hand, all of the SMEs believed that if the government had a commitment to help them, many of the day to day worries of running their business could be solved. They considered that there is more the government can do to help SMEs grow and survive, but so far there are not many provisions that they can take advantage of:

“There are certainly things the government can help out in but we have not much say nor should we expect too much from them [...].We would love to see some favorable policies for SMEs and even the availability of funding is desirable but at the end of the day, we just can't count on this.” (SME2)

Also SMEs feel that they have not been looked after as well as the bigger players in the economy (SME3). The SMEs interviewed have been surviving on their own so far and they mentioned that they are aware of some of their competitors who had to cease operation due to loss of profit and lack of capital funds (SME2).

Those SMEs that have been in business for a long time tend to have the resources and the experiences that put them at a more advantageous level compared to new business owner-operators. In such cases, the owners tended not to have to worry about the bureaucracy of the government by doing it all by themselves. On the other hand a new owner may expect and desire for more assistance from the government (SME10).

The majority of the ten SMEs believe that the government has the power to create change and influence the economy. This was most notable in the areas of tax, exchange rates and employment policies, with perhaps surprisingly only one SME mentioning that the government can influence IT and e-business adoption (SME9). The most practical resources that the government can provide support and subsidies in are employment, technology, finance, duties and taxes (SME6, SME7).

## **4.3 Organizational Structure, Dynamics and Roles**

### **4.3.1 Organization structure and dynamics**

The SMEs studied have very simple, linear and informal structures within their organizations, with typically the owners and the employees working side by side (SME2, SME7, SME8). SMEs are mostly owner-operated and though the owners see themselves as head of the company, they have a mentality that they will “chip” in and help wherever needed, no matter how trivial the task (SME3, SME10). The owners are so versatile in the sense that they would be the main decision makers and at the same time be involved in the most mundane tasks such as working in the warehouse doing pick and pack jobs. In the research, all ten SMEs believed that the nature of their business requires them to behave in a way which would probably never happen in larger businesses. It was found that SME owners do not resent having to work in this way; rather that they find that they actually enjoy the flexible and versatile nature of their jobs within a close knit working environment (SME8, SME10).

SME owner-operators have an emotional and personal attachment to their businesses. Some SME owners commented on the very personal and intimate relationship they had with the business, and how “you got to still keep going, I mean your life and living depends on it too” (SME4). One particular SME owner was full of praise for his staff, saying that he considers them as their valuable family members working wholeheartedly for the benefit of the business (SME8). Another aspect of this “family like” nature of the SME business is that when needed or during peak seasons, it is very typical that family members and friends are being recruited to help wherever possible, such as in the warehouse and administrative duties (SME3).

Due to the small team and close relationships, discussions relating to the business can almost occur anywhere and anytime, during and after business hours. SMEs with family members in the business usually have informal business discussions in the comfort of their home where they can share thoughts and do planning for the business (SME3).

A dominant feature of SMEs is that everyone can multi-task and performs multiple roles on a daily basis: “You have to juggle all these to survive” (SME4). SME owners need to see immediate results and achieve things with nimbleness (SME3). Their advantage is that they

are more able to execute ideas and projects faster than if they were following the same procedures in bigger corporate companies (SME4).

#### **4.3.2 Nature of roles within the company**

The roles that management and staff play in SMEs can be described as being unconventional, undefined and often overlapping. One SME owner mentioned that it is just the way of life for SMEs as you cannot afford to have dedicated staff doing only one area of work or hire people to do all the work as it will not be sustainable (SME10). In the small business environment, each person's skills and strengths need to complement those of the others (SME5), and as owner of the company you “sort of have to do everything” (SME10) to lead the company. The ten wholesale SMEs in the study are primarily owner-operators, who bring to their business many years of experience working for themselves or others.

The directors of a SME have certain roles that define them as the owners of the company, such as strategic decision making, but are also expected to fill in where ever needed in the operations of the company (SME9). As a small business most of the planning is done by the owner (SME10). When the SME is a partnership, each partner usually brings to the business his or her own set of expertise and skills, which creates the foundation and structure for the business with each looking after the core areas of the business (SME2, SME8).

The SME owners commented that the opportunity cost for expecting their staff to multitask would be their productivity level, but that the cost savings in terms of over head outweigh the worry associated with it (SME1, SME7). One interviewee suggested that as staff get used to working in the SME environment, they will become more able decision makers where they are efficient and productive. Eventually, each individual can manage their own set of work and then collectively work towards one goal or goals of the company (SME4).

Employees may be required to work longer hours to cover due to the overwhelming duties entrusted to them. SME owners commented that their jobs and their staff's jobs can quickly become very routine and intuitive. Therefore, they usually do not need to prepare formal plans and goals since they have it in their minds what their core functions are and what needs to be done:

“You know the routine now, so you don't have to actually sit down and write down on paper, I have to order this today [...] We know what we need to do and when we need to do it now.” (SME8)

The SME owner-operators are the most involved in multi-tasking as they have the worry of running their business and at the same time managing the processes and people of the whole company in which they are accountable for. Owner/operators live and breathe their business which means that work does not necessarily stop at work but in fact they would still be thinking about work at home or during leisure times (SME2, SME6, SME8). Owner-operators can easily spend 80-100 hours per week working, whether on or off site (SME6). SME owners mentioned that those trivial yet necessary tasks they have to do are often demanding and overwhelming. These, together with the burden of strategic decision making associated with resource constraints and competition, often cause business operators a lot stress and anxiety (SME7).

#### **4.3.3 Management Styles of SMEs**

Wholesale SMEs do not usually practice any formal management and clearly there is no hierarchy within the business because owners and warehouse staff can be working hand in hand and side by side (SME2, SME3, SME5, SME7, SME8, SME10). SME owners commented that in the small business environment, it is not possible to enforce strict rules and regulations or allocate strict job duties because when needed “every one chips in” (SME7, SME8, SME10). Owners themselves chose to work in a small business environment because there is a high degree of flexibility allowed which can be embraced by owners and staff.

SME's informal and simple organizational structure directly reflects their management style. Management style of SMEs can be seen as very ad hoc and undefined just like the nature of their business. One SME owner mentioned that the overall management style is very “casual” in her business (SME6). Management style is especially informal and casual if the owner-operators are a husband and wife team or if close family members are involved in the business (SME2, SME3, SME7, SME8, SME9, SME10). It does seem strange to introduce and keep some sort of formality and system in the businesses when people working together in the small team are already so close in relation (SME7).

Another interviewee commented that although she was very informal in management, she believes that at times the niceness of having an informal and flexible working environment can be taken advantage of by some staff. Thus effective and more formal management styles need to be used for business to standardize the atmosphere of the SME so owner-operators can execute their actual authority and have more control of the business (SME7).

Another management style of owner-operators is to demonstrate leadership through being open minded and to “quit being arrogant bosses” to staff (SME8, SME10). Owners believe that through this way they are able to empower staff and assure them that they are open for any suggestions and input on how to improve the operation of the business (SME8). One owner says that this method of setting and focusing objectives are “good and successful” ways of running a business (SME8). Owner intuition and gut feeling are also being used to make decisions, such as in employing people and finding suppliers. One owner commented that though he is not always 100% correct, so far he has been quite accurate in judging people and all his staff have been fitting in well as a team and doing a good job (SME10).

It was also considered important that owner-operators manage their business and show leadership with a positive attitude. Though there can be many challenges and worries associated with running your own business, they are still motivated to keep going (SME1, SME2, SME10). An important factor, according to owners is that their attitudes, backgrounds and experiences can determine how well they can handle management of the overall company (SME6, SME10). One SME owner, who was working in large corporate organization before she started her business commented that one needs to plan and strategize, which is the paper work side, and then one need to be able to practice or action those plans. This is her approach to managing her business (SME6).

According to some interviewees, the key to successfully managing and running the business is to sit down and think about the issue or situation, make a plan or plans or strategies to achieve things that you want to achieve. It must not be by impulsive decisions and actions (SME10, SME6, SME7). No matter if the business is small or big scale, you “can't always make decisions on top of your head because you most probably end up regretting it” (SME10). Otherwise SMEs are taking risks and gambling that it will work, which is actually quite dangerous for a small business because it is too small and financially weak to face the consequences should it really not work out (SME10).

#### **4.3.4 Summary**

SMEs in the wholesale industry do not think that they have such an important status in the economy despite being labeled collectively as the ‘backbone of the economy’. SMEs feel that they are only ‘small fries’ and are not so significant to the economy. They are easily affected by the economic climate and the recession has hit their business hard causing much uncertainty for the future. Their lack of planning and strategic forecasting did not help them prepare for the effects of the recession. Though they believe that they do play an important role within their supply chain, their profitability has been affected by poor performances due to the unfavorable economy. SMEs do not think that the government has provided much assistance during the recession. In fact, SMEs do not think that the government has any provisions that they can take advantage of, but that at the same time they have to face the consequence of the excessive bureaucracy and compliance requirements.

SMEs have very linear and simple organizational structures, often with the owner-operators and staff working side by side. Most SMEs are owner operated and often involved friends and family working in the business thus creating a very informal and casual working environment. Due to resource constraints, owners and staff often have to multitask and take on multiple roles which can be very stressful and overwhelming. Owners tend to spend more time working *on* rather than *in* the business which affects their responsibility for more strategic and longer term planning. Owners exercise very informal management and leadership styles to fit the nature of the business. Though SME owners face a lot of stress and hardship operating their businesses, they are motivated not to give up because they have a strong attachment and personal relationship to their business.

#### **4.4 SME Motivation for Business**

It was found that the motivations for operating their own small business have some influence on the way SME owners run and manage their business. Amongst the 10 SMEs studied, there were a variety of motivations that drew the owners to be involved in running their own business. These motivations also illustrated the purposes of the existence of the business.

The most significant motivation was that owners wanted a change in life style and more control for their own destinies. They wanted to have the satisfaction of being their own bosses and not working under other people. For example, one SME owner said “The nice

side of owning your own business is to have more control over your own destiny, have more choices about your own life and lifestyle” (SME4). Personal reasons dominate the motivations list together with believing that their backgrounds such as their skills, knowledge and experiences can give them competitive advantage to be successful in their own business. The ultimate goal is to be profitable and make a good living operating their businesses. Some SMEs have brilliant business ideas and concepts and have the ambition to develop their brands and to establish the company locally and internationally. Table 3 below gives an overview of the motivations of each SME owner (from most to least common).

**Table 3 Motivations for running their own business.**

<b>Identified motivations for running their own business</b>	<b>SME 1</b>	<b>SME 2</b>	<b>SME 3</b>	<b>SME 4</b>	<b>SME 5</b>	<b>SME 6</b>	<b>SME 7</b>	<b>SME 8</b>	<b>SME 9</b>	<b>SME 10</b>
Satisfaction of being their own boss and to have control of their own destiny in a flexible environment	✓	✓	✓	✓		✓	✓	✓	✓	✓
Had enough of working for someone else and wants to be their own boss	✓	✓		✓	✓	✓	✓	✓		✓
Started or bought into the business because the owner has the experience and expertise acquired from previous employment to run the business with confidence		✓		✓	✓	✓	✓	✓		✓
Ambitious and wants try out new business ventures	✓		✓	✓		✓	✓	✓	✓	
Started or bought into the business simply to make a living and earn money	✓		✓			✓	✓		✓	
Approaching semi-retirement age and want to do something that is more relaxing while still earning a good living	✓	✓						✓		✓

Has a brilliant concept or product that the owner wants to get people to know about		✓	✓	✓	✓					
Has a history and background in business was brought up doing business so the owner just went with what is familiar	✓						✓		✓	
Has been in business for many years in another industry and wanted to change to a the wholesale industry					✓			✓		✓
Has no special motivation; there is nothing else they can do if they don't run their own business	✓					✓				

#### 4.4.1 Relationship between owner background and motivation for business

Understanding SME owners' backgrounds and expertise can help us understand further about their motivation for business and how those factors influence the way their businesses are run. It was observed that the owners' backgrounds, experience and expertise directly affected their management and leadership style because they are very close to their business. They apply their 'know how' directly to their business; e.g. "We have carefully planned the website to be fit for its purpose and we have dealt with websites for many years now especially for retail businesses" (SME2).

SME owners/managers that have chosen to immerse themselves in small businesses did so because they felt that in a small business environment, people generally were more realistic and honest. The chances for workplace politics are greatly reduced due to the close-knit relationship. The ownership of visions, ambitions and achievements are closer to the person and this somehow creates motivation and empowerment to prevail within the SME environment (SME5). Not working for someone else means that you are not under the same regime that is rigid and restricting. The satisfaction of being your own boss gives you a great sense of control and pride and when a decision is made, it stays made; nobody changes it unless the owner does (SME8).

SME owners are able to realize and execute business ambitions, innovations and opportunities at a much faster speed and are able to escape the bureaucracies involved in bigger, more complex companies. Naturally, in terms of their management and leadership style in running the business, they bring in elements of that personal bond into the business that would eventually define their business. The few SME owners that had previous import, wholesale and international experience; felt that they had a better chance to succeed in the business than newcomer business owners in the same industry (SME1, SME7, SME8, SME10).

SMEs that have a corporate background working for larger companies usually have better knowledge of business processes, procedures and formalities when compared with SME owners that just have been running their own small businesses. Original small business owners are “old schooled” and “streetwise” and have gathered management skills and leadership styles as they ran their business and thus have their unique way of running a business (SME7). SME owners see themselves as innovators and opportunist. Although they may not have been equipped with a relevant tertiary qualification, their advantage is their knowledge of the market and being highly adaptable to change (SME7, SME1, SME8, SME9).

One owner-operator identified early on that an advantage she has over other people is her familiarity with the overseas market. Her realization of this was the driving force to start the business: “working in a large shipping and logistics company so I have a lot of business and working experiences” (SME6). Some of the interviewed owner/managers were in marketing and sales profession prior to being in SMEs, and applied their competence in the business. Thus they were very concerned about strategies to create brand awareness and best practices to market and increase sales of their products (SME2, SME3, SME4).

#### **4.4.2 Readiness of SMEs towards growth of business**

It can be observed that SME owner attitudes and motivations directly affect their perception of the nature of growth for their businesses. Since SMEs are small and simple business units with a very close owner to business relationship, their owners’ motivations for business also closely relate to how they approach growth. Some believe that an important element of growth is planning and developing growth strategies and that to be successful,

key people in the company must be heavily involved and dedicated to those growth directions:

“In terms of growth and strategies [...] directions [...] need to really define that coz that defines how you approach many things [...] I have long term strategies and I talk those through with my wife, [...] but they are quite fluid [...] With our industry, opportunities come up, and so when you suddenly take on new directions we know opportunities or something arises.” (SME9)

SMEs are opportunist at heart and have the most potential for growth given the necessary resources. This research found that majority of the ten SMEs have no grand strategies to grow the business quickly. The mentalities of the SME owners are to be profitable and they endeavor to grow the business in a manageable and controllable manner rather than being over ambitious and ending up failing (SME10). From this we can see that the attitudes of wholesale SME owners towards the future and growth are of less priority than being able to achieve immediate goals, which are to be profitable and make a good living (SME9).

The most suitable word to describe the nature of growth of the SMEs is “organic”, as they grow naturally and usually without a set form (SME3, SME5). As the company experiences growth, resources are then sought to meet the needs of the company rather than the company having these resources available to prepare for the growth. As reflected by one SME manager:

“Still building and growing the business organically, so the business at this stage is not fully formed and more growth is anticipated [...] Small business unit in its current structure is still only three years old [...] still at the ‘finding its feet’, start-up stage so the business is constantly growing as it goes.” (SME5)

SME owners also expressed that it was important that they can foresee how their abilities will match up with their growth strategy, which typically is a steep learning curve for SMEs (SME3, SME9). Growth within the SME context can also happen prematurely when the business suddenly gains a growth spurt. This can be due to increased business, such as when bigger companies start to deal with the business and the business has to respond instantly to win and keep the business.

In regards to readiness to growth, one SME owner with a corporate background believed that she needs to diminish incompetent operations of the business such as warehousing and logistics by contracting out to third party service providers who are experts in the area. This would streamline on-site operations and allow the business to dedicate and focus effort on

competent and intellectual areas such as product development, innovation and administration (SME4). This SME owner has identified that this is the approach they are taking and now it depends on how well the business performs before this can be realized. The SME owner goes on to say that their business maybe too small to take advantage of the things, especially in terms of technology, that would actually help growth. The reason is not that they do not want to, but that there is no need to because the business is too small to sustain it.

The research found that among the ten SMEs, there was one SME that was on the verge of ceasing business operations because the owner was not able to get the right people to work for her and because customers were not responding to the products the company wholesales. Her attitude towards the possibility of closure was a positive one because she commented that if this business does not work, she needs to move on to doing something else more profitable (SME6). Decisions like these can promptly be made by the SME owners because their simple and linear structure is easy to set up as well as break up.

On the other hand, there are SMEs that started a business because they have aspirations for the business to grow and be a premium brand and identity. For example one SME has a long term projection to be the premier distributor of quality fairly traded products in developing countries (SME5). The motivation for this business is not only to exist to make a living but to grow the business and make it well known. So SMEs with this type of motive are more ready to anticipate growth.

Some SMEs demonstrated that they are ready for growth by saying that they have the necessary systems and technological capabilities in place (SME1, SME10). Another SME owner mentioned that they are ready to grow the business by being able to sell all their products online, even catering for international customers besides local customers (SME2). Another SME, with many years business experience and being very technology savvy commented that the company is ahead of many of their competitors and is ready to meet the growing needs of the business because they have an established business and the systems in place. This SME owner commented that he “refuses to be behind everyone and prefers to be in the forefront of business” (SME9). All ten SMEs, however, did express that the future of business is e-business and their businesses needed to be ready for any growth through

being able to take advantage of technological capabilities (SME1, SME2, SME3, SME4, SME5, SME6, SME7, SME8, SME9, SME10).

In another perspective, one SME owner, with a background in running businesses for many years, aspires to have state of the art warehousing and automation systems in house. They are already anticipating growth which would need such facilities and they prefer to have control of the whole operation in house and on site rather than contract out (SME8). They also have a vision to grow the business to a state where the company will become profitable enough to have national wide distribution centers so supplying to wider customer bases and large volumes will be more efficient and cost saving (SME8).

#### **4.4.3 Summary**

The biggest motivation for SMEs in running their own business was that the owners wanted the satisfaction of being their own bosses and through this have more control of their own destiny. Most of their motivations were related to personal reasons which demonstrated that traditionally, SMEs have very close and personal relationships with their businesses. SME owner motivations and intentions for their business also translate into the way they operate and manage the business. The most significant aspect is the owner's background, such as their education level, previous experience and level of expertise, which not only influences their motivation for business but also determines the strategies they bring into the business. SME owners' motivations for business can also be developed into their competitive advantages and strength in the economy because every SME owner has a unique set of attributes that they introduce into their business. SME owners are very modest when it comes to their attitudes towards growth of their SME. They do not usually have grand dreams or missions when they started the business, but simply aim to make a profit as a means to an end. Therefore, SMEs have an organic or natural growth trend that usually does not involve any set or fixed strategies in place. Growth for SMEs depends a lot on how much resource they have to realize the growth strategy, as well as owner attitudes and motivations for the business. SME owners' readiness for strategic planning and growth is also influenced by the many challenges they face running their own business as well as the nature of SMEs.

## **4.5 SME Challenges**

The main challenges facing SMEs, as identified by the interviewees, will be discussed in this section. These relate to financial resources, expertise and experience, employees, economy and government, competition, customers, products and services, business vision and strategy, and the international economy and exchange rates.

### **4.5.1 Financial challenges**

The number one challenge faced by SMEs is measured in financial terms. Financial challenges comes in two aspects, firstly in terms of the current cash flow situation and secondly, in terms of future investment funding. There is no surprise that all of the ten SMEs interviewed expressed that the biggest challenge they face is being able to have a desired financial ability.

There are several aspects concerning cash flow. According to the interviewees, cost is always a factor and often cost stands in the way of making rational decisions such as the need to invest in technology to automate manual tasks to save cost in the long run (SME7). Cash flow also affects the company being able to afford things that are deemed necessary for the company. One SME owner mentioned that the uncertainty of the currency market and the lack of capacity in cash flow often hinder SMEs in planning ahead and making strategic plans and actions (SME6).

The majority of cash flow is allocated for the immediate needs of the company, such as paying suppliers and employees and other daily operational expenses of the company. Although SMEs have the advantage of being able to react fast to a situation, they cannot react or function properly when constrained by money issues (SME9).

As the main source of cash flow is accounts receivable, another challenge is how efficient the company is able to be in reducing debtors and receiving money when it is due (SME7). If customers are able to pay on time, there is a sense of financial security because there is money in the bank to move around. This helps make financial forecasting more accurate and the company can see what position they are in earlier on.

Cash flow affects the ability to replenish stocks (SME5), especially in the wholesale business where products are the main offering. Should cash flow be tight and restricted due to varying reasons, such as slow collection, lack of business and unfavorable economic

situation, then the cycle of challenge circulates, unless the cash flow issue is solved. The uncertainty and the lack of cash flow affects SME wholesalers the most in not being able to commit to planning container shipments well in advance, which is important if they want to keep ahead of competitors and to capture the share in market (SME7).

The majority of overseas suppliers require a deposit for the purchase of goods, which means that wholesalers need to have money on hand to get goods. The wholesaler also has the urgency to quickly capture sales and turn those goods into cash for the next cycle of purchasing (SME10). This cycle of activity must be efficiently done for the business to survive. Cash flow constraints also prevent the SME from taking advantage of discounts when buying in advance and in bulk volumes. The challenge is to execute the strategy of making the most of the peak season sales and saving the money for when they are in the slow season or for 'rainy days' (SME10).

SMEs that were behind in investing in updated systems and e-commerce website responded that cost was the main factor for this. The need to allocate ongoing funds for maintenance of the systems, also led to the 'sluggishness' in technology investment (SME7). Due to cost constraints faced by SMEs, the research showed that all the SMEs with websites had opted for off-the-shelf packages which are the most economical and affordable option (SME9). Interviewees commented that if they had the funds available, they would most certainly get customized websites made since off-the-shelf websites are very rigid and have limited functionalities (SME4, SME9).

Lack of money also restricts SMEs from having the ability to employ enough staff to do all the work that is required. Thus existing employees are expected to take on multiple roles and duties, which often cause staff to over-work especially when many of the daily tasks are very manual and the company does not have good systems in place to aid their work (SME7).

Furthermore, there are also several aspects of financial challenges that relate to funding for future investments. Financial institutions such as banks are very strict on SMEs in terms of issuing loans or additional capital when needed. As a result, SMEs may sometimes need to "fight" with the bank to get what they want (SME3). The lack of cash flow leaves the company no choice but consider other options in order to be able to inject funds into the business, such as increasing their loan amounts and putting more personal assets into the

business, further tying the owners to the business. Most SMEs find they face hard times trying to convince the banks to approve loans (SME3). This challenge is harder to overcome when banks are not as supportive to SMEs as they are to bigger companies. They often query the potential of SMEs to make enough profit to pay the loans back in time (SME3). SMEs also find it hard to satisfy the requirements of the bank in producing financial forecasts and profitability proposals as evidence to prove that they are worthy of the loan (SME7). Their nature and the uncertain and volatile market that SMEs exist in make it an almost impossible task to do.

Furthermore, although banks may lend money to SMEs, the financial worry and challenge does not end there. While a loan may relieve the company from immediate and mid-term financial constraints, SMEs face bigger stress ensuring that they are able to make enough money in time to pay off their debts and to keep ahead of loan interest accruing over time (SME7). There is an ongoing battle to prove to banks that the company is making profit in order to get the bank's confidence in the company. Though SMEs aim to be debt free and to loosen the burden of carrying heavy loans tied down by the bank, the reality is that it is so far not achievable (SME10).

The present worries of cash flow and a lack of future funding can also hinder SMEs thinking about and confidence in growth. One interviewee noted that although aware of other companies having successful automated warehousing systems and aspiring to be able to afford this, "there is just no budget for that investment as yet" (SME3).

#### **4.5.2 Expertise and experience challenges**

While money can be viewed as the fuel for the SMEs' business engine, expertise and experience can be viewed as the brains behind the business. These expertise and experience can come in the form of general and technical skills, expertise and experiences. Due to the nature of SMEs, which are considered to be less complicated in structure and dynamics than larger companies, general skills, expertise and experiences were not seen as such a significant challenge (SME9). Having said this, SMEs do face challenges relating to expertise and experience in areas such as management and leadership skills and being able to prioritize tasks and resources.

The lack of experience in the local wholesale industry and knowledge of local market was identified by one SME as a weakness (SME6). They need to dedicate long number of hours in market research in order to gain the expertise needed to manage the business, especially in a foreign country: “I don't think I will be successful in New Zealand than a lot, I don't think so because so many problems coming and always make you just crazy, you know” (SME6).

As found from the research, there were three wholesalers that have yet to launch their websites – either it is in the process of being built or in the process to be launched. The reasons gathered are that priorities have changed, and that they have not got anyone with the technical expertise and the experience to manage and monitor the progress of the project in house (SME3, SME6, SME7). One manager had no choice but took on the role as project manager for the website. Her limited technical skills and expertise, and the lack of time she was able to work on it, meant that the project will take longer to complete (SME3). Thus, the owner/manager's lack of expertise and awareness has slowed the adoption and use of IT and e-business (SME7).

The lack of technical expertise amongst the SME owners and employees is a resource constraint that is expensive to remedy because technical staff are not easily found nor afforded in a SME context: “[We] don't have the level of expertise needed to grow and can't afford to buy that expertise in” (SME4). It is also a challenge to be able to find the right people to develop and administer the e-business side of the company (SME6). It is hard to find technological expertise in existing staff to be able to competently develop and use new systems in the SME context.

Thus, with new technology investment, the company needs to spend extra on training or hiring new people with the expertise to do the work. It is spending on top of spending which can discourage SMEs from seeing the justification and worthiness of new systems. Many SMEs decided that they would just have to make do with whatever system they can afford and which suits the company's level of expertise:

“It doesn't hook in with our accounting system and inventory [...] It's a huge extra cost to do that [...] [We are] really quite manual in the business still, like we not completely like EDI type thing.” (SME3)

“We just gonna exist with what we have got [...] I'd like to think that when we have got a bit more money we can spare just getting one made.” (SME4)

Interestingly, some SME owners also have the perception that the more automation and technology use there is in the company, the less control they have over the business (SME3, SME4). Due to their lack of technical expertise and experience towards technology, it is natural to be threatened by the dominance and reliance on technology.

Furthermore, current systems and applications used by SMEs are not usually used in an integrated format due to the fact that new systems are added at different times in response to particular needs (SME7). Fragmented and separate applications are used in different functional areas (SME3). Some SMEs also felt that though they have taken much effort to build the website in house with their limited expertise, it still does not seem to be completed or finished properly (SME4).

#### **4.5.3 Employee challenges**

Similar to the lack of expertise and experience as a challenge, the challenge of finding, motivating and retaining appropriate and quality employees was expressed as a significant challenge by six of the SME interviewees: “The biggest challenge is in human resources and management of it” (SME2). An interesting point to highlight is that of the six SMEs that found employees were a challenge, four were of Asian descent, which could explain their difficulty in managing and controlling employees in a foreign country with different cultures. One SME owner described her negative experience of employment as being her biggest challenge and her "panic" (SME6). Some SME owner/managers also felt that employment laws favour the employee more than the company, and there is a sense of unfairness to SMEs (SME1, SME2, SME6, SME7).

Some interviewees were of the opinion that generally people are not attracted to work for small businesses (SME6, SME7). It was hard to plan ahead as well because the business was not confident if they can find the right people in time since the trend of employment experienced so far is a “come and go” situation (SME6). One manager commented that, in her experience, it was hard to find the right staffs that were able to work dedicatedly in a small business environment. SMEs are aware that many people aspire to work for large corporate companies, and small business is only considered in a worst case scenario, when they cannot find any jobs in big firms (SME7).

SME owners face the challenge of managing, empowering and motivating staff to put in their best efforts (SME6, SME10). One manager commented that a major challenge is dealing with staff and ensuring that they are contributing productively and efficiently to a point that both the business and the employees benefit from the outcomes (SME7). Employees that are not able to cope with the stress and are over-worked become unmotivated and dissatisfied to continue to work in small businesses (SME7, SME8).

Two SME interviewees expressed that the challenge lies in how to make sure that in an already small team, the company is not too reliant on particular employees (SME3, SME7). Over-reliance on employees can cause over-work and stress as well as business disruptions when employees are not present at work. Since there are often no proper systems available to assist administrative work, much of the work is done manually and most probably recorded by memory. This makes it hard to keep track of work activities and for others to be able to follow up on matters when there are no proper systems (SME3). Unfortunately, some SME owners may not be aware that they need to introduce certain levels of expertise or resources in order for them to effectively manage their staff's productivity and performance (SME8). Though some SMEs are members of the Employer's Association or have access to business mentors, they commented that they have received little practical advice and help to date (SME10).

The tight cash flow also has an impact on staff productivity and satisfaction because it does affect their remuneration and the timeliness with which employees can be paid for their work. Since many SMEs have an informal working environment, the lack of systems in place makes it hard for owners to demonstrate their expectations of staff. In turn, employees have no focus and guidelines to follow, which can cause confusion and uncertainty (SME7). The lack of a proper management system in place to manage and control staff can increase the chance that they can turn rebellious. For instance, one owner experienced theft from an employee and another experienced bad work attitudes (SME2, SME7). Some employees also abuse the flexible and casual management nature causing owners difficulties as staff activities become uncontrollable. SME owners lack the time and energy to continually check on individual employees and monitor their activities and performance (SME7).

Furthermore, SMEs face a constant challenge in finding solutions on how to retain valuable staff. Often the nature of the SME and their lack of resources and expertise put them in a difficult situation to achieve this objective. The reality is that high employee turnover costs the business a lot of money and down-time in re-hiring and re-training, which does not act in favor for small businesses either (SME10).

#### **4.5.4 Economic and government related challenges**

SMEs are easily affected by the situation of the economy as expressed by one SME, who commented that their “growth direction was favorable until the recession hit” (SME3). The situation is made worse because SMEs were less prepared than larger companies when hit by the recession and were less equipped to face the challenges brought by it (SME3, SME7). One SME manager commented that if they had been more vigilant and aware of the signs of the current market and concentrated more on strategies for the business moving forward, they would have been better prepared for what was to come (SME3). Since the economy is yet to fully recover from the recession, SMEs are still facing many uncertain days ahead.

The government effect has also been a challenge for wholesale SMEs mainly due to the overwhelming rules and regulations needed of businesses and the costs associated to them. SMEs are smaller scale businesses, but are subject to the same set of policies and bureaucracies as bigger, more powerful companies, which can be very disadvantageous for SMEs (SME10). Regulatory costs related to employment such as PAYE tax and employee benefits and other government duty and levy are extra cost burdens to SMEs. For example, there was always the restriction not to have too many staff on the payroll (SME3). Were there not that much cost involved in complying with those requirements, more money would have been afforded for resources to grow the business such as IT infrastructure and employee development and retainment schemes (SME3).

The government is in the position to be able to provide a lot more assistance to SMEs than what is existing, but unfortunately, there are not many provisions that the SME can take advantage of (SME2). SMEs expressed that in simple terms they are “not being looked after better than bigger companies” (SME3). There is absolutely no special support or leniency from the government, especially compared to exporters. SMEs feel that importers are not getting as much assistance and they find that very discouraging (SME3, SME8).

Within the wholesale industry, there is also not much support available from industrial associations and financial institutions that SMEs can take advantage of (SME3, SME10), although, as one interviewee commented, at least this is more than that available from the government (SME9). Relying on the government means that the company would have to go through a lot more hurdles and red tapes as well as a lengthy wait before results come out, which is simply not practical and worthwhile for SMEs (SME10).

#### **4.5.5 Challenges associated with competition**

Regardless of the size of the company, competition exists and when not managed properly can bring a company down. SMEs expressed that they are especially sensitive and threatened by competition (SME7, SME9). Since the New Zealand economy is relatively small, with a large number of companies trying to have a piece of the cake, SMEs in the wholesale industry are under constant competitive pressure (SME10). The key to successfully managing competition is through strategic planning, but not every business owner is competent in this area (SME2). In fact, according to one SME owner, most SME owners actually do not approach competition strategically but impulsively (SME6). By taking such a risk, the consequences can have a counter effect (SME10).

Wholesalers are product oriented and what products and prices they offer can determine how much of the market they can gain. Wholesalers are aware and also under pressure to be able to supply the right products with a right price and at the right time and in order to be ahead of their competitors (SME7, SME9, SME10). The challenge is that they must be able to out-perform their direct competitors and approach their customers before others do with product offerings.

SMEs have to be vigilant against competitors that might copy the type of products they bring in, so they monitor the market closely (SME2, SME7, SME9). The owner of SME2 also expressed that copyright of products and competitors copying products can cause the business to lose market share and reputation. Copyright infringement is a big issue in the import and wholesale industry. SMEs are very vigilant about this and thus try to be as protective as possible of their information especially on the websites. Since the nature of the web is so open access, SMEs also need to be careful of how much information they present on their websites and enforce strict security on access to that information (SME9).

Interestingly, the research found that the majority of SME owners/managers believed that technology can narrow the gap between competitors (SME7, SME9, SME10). E-business can help a business, regardless of their size to get ahead of their competitors and those that are slow in implementing e-business and IT systems are perceived as missing out (SME9, SME10). SMEs were also aware that they are under threat and falling very behind when customers start to request if the business has a website or online catalogues. This is because other competitors have already set the precedent and customers are taking advantage of this resource from these competitors (SME3). In one case, an SME's competitors were taking orders from their website, one step ahead of the SME's sales representative visits.

Some SMEs' competitors were already using advanced systems for order taking and identifying products, which greatly increased efficiency and saved operational costs in the long run. Due to resource constraints, there were some SMEs that had not reached that level yet, which meant that they could not compete in terms of efficiency and productivity (SME3, SME4). Another SME manager commented that most direct competitors had a website since 2-3 years ago and that as a consequence they were way ahead of the company (SME7). SMEs that are active in using e-business technologies commented that e-business is the way to go and that their business cannot do without it (SME1, SME6, SME8, SME10). This is especially because the nature of the import and wholesale business requires dealing with overseas partners and involves a lot of exchange of information (SME10). In this day and age, if a SME wholesaler still does not have IT and e-business infrastructure working properly, competitors will be way ahead to a point that market share could be lost (SME8).

#### **4.5.6 Challenges associated with customers**

Since SMEs are small companies, their customers may also expect to be treated in an informal and flexible way (SME2). These perceptions make serving SME customers challenging. SMEs need to develop strategies on how to provide good service and products to satisfy customers in order to achieve a "win-win" situation between the wholesaler and the retail customer (SME3, SME7).

It is a constant challenge for SMEs to find enough customers who would choose their products over other competitors (SME5, SME7). It was expressed that it is extremely difficult to predict and manage customer buying behaviors and trends as SMEs struggle to

gather enough information to make their decisions (SME5, SME6, SME7, SME9). It is actually quite hard to predict what customers will buy and how to convince them to try out new products, as the retail customers usually hold back information to protect themselves against more competition (SME6).

One interviewee suggested that customers are like the climate, in that as much as you try to predict what their buying behaviors are, these can change unexpectedly. Customers want SMEs to respond to them the way they want things done (SME9). SMEs expressed that although they have received requests from customers to establish websites, so that they can have the freedom and convenience of looking at the products and ordering at their spare time, customers still ask for sales representatives to visit them or to have hard copy catalogues sent out (SME3, SME8). It was found that only a small portion, less than 10% (SME5, SME8) of orders are actually generated from the website and only about 5% (SME3) of customers prefer emailed invoices over hard copy mailed out versions.

The challenge for SMEs is to find out what the inconsistencies are and effectively promote and direct more online activities now that they have set up expensive e-commerce websites. Thus far, this process had been slow and unfruitful as the majority of customers have yet to change their buying habits (SME5, SME8).

There is also the challenge to make sure customers pay on time by being strict in management of their accounts, but as customers are very important, caution needs to be applied to avoid creating unsatisfied customers (SME7). SMEs are always put in the situation of having to weigh the pros and cons of presenting themselves as nice and lenient or being harsh and strict in doing business with customers (SME3). One SME owner commented the company is simply reacting to the situation they find themselves in. The bottom line is that during these hard economic times, the priority of the business is to keep ahead of their debtors to avoid draining more of the company's resources (SME3).

For some SMEs, the bigger chain stores are considered to be core customers of the business and there is constant challenge to be able to manage the pressure of fulfilling and looking after these customers properly (SME5). The challenge involved with dealing with the supposedly more profitable and stable revenue source usually is not so much to do with compliance to technology but to do with the amount of information they actually require for a transaction. Each company could require specific documentation formats, paper work and

administrative procedures which can take too much effort for a small business (SME9). According to one SME that had decided to forgo dealing with big companies, the small quantities that they order is not economically justified compared to the amount of work involved (SME9).

#### **4.5.7 Challenges associated with products and services**

The core offerings of wholesalers are products and their services, the level of quality of which, give the SME its competitive advantage. There are several aspects of the challenge related to products and services, namely the type of products, price, quality and quantity.

Some SMEs commented that it is a constant struggle to find the right products with the right prices that are suitable for the local market (SME3, SME6, SME7). Aside from being able to keep a regular line of products well stocked, wholesalers also need to introduce new products to the range as customers will easily feel bored if no new products are brought in to attract more sales:

“Find right suppliers, [...] keep changing all the time, you can't be selling same product every year [...] people get bored [...],so we have to change every year, what we sell this year, [...] not going to see next year.” (SME10)

SME owners commented that they experience pressure in making decisions for products that get into the country because misjudgments can have a huge impact on the business. They must keep themselves knowledgeable and skillful so that they are able to spot the right products and negotiate for the right prices (SME9, SME10). This is where the planning and prioritizing expertise of the owners is required. This can be a steep learning curve for new entrants to the industry because they lack experience (SME10).

Interviewees mentioned that finding the right suppliers has a significant impact on the quality of products and services provided (SME3, SME4, SME8). Quality control and assurance of products are hard to keep up but necessary for the reputation of the business (SME7). This is especially so if products are shipped in from overseas and owners are relying on the trust that their agents or suppliers are going to do a good job for them (SME4, SME10). It costs a lot of money to enforce this as well as needing to have good relationship with suppliers or agents, so that the business dealings are more ethical (SME5). The results of more control and strictness in product quality mean that the prices for the products can go up as more administrative costs are involved (SME5). Thus, SME wholesalers have to

be very strategic and smart in how they apply their pricing strategy, measuring up the pros and cons with the ultimate goal of creating customer confidence in buying the products from them (SME3). SMEs commented that they need to keep prices stable and reasonable otherwise it is very hard for their retailer customers to keep a consistent buying pattern:

“...We have to adjust the prices to match [...] our competitors can be really fast in pricing, so if we lose track of it and our competitors sell a similar product at much lower price and we lose out on it then our customers will lose confidence in us so, you know because we are not adjusting prices to suit the market things like that.” (SME7)

Another aspect to quality of products is the need for proper product packaging and labeling which is increasing becoming very important for the New Zealand market. There are new regulations on strict labeling such as country of origin and other product descriptions so that consumers are well informed of product information (SME7). Once again, especially if importers are importing from China, they face problems of language and validity of information. Some suppliers require a high cost for special requirements on packaging, labeling and bar-coding, which SMEs have to bear if the products are to be accepted in New Zealand market (SME6).

Estimating and forecasting purchase quantities is also a challenge given that the market is relatively unstable and SME owners may not have the time and resources to carefully analyze product movement and buying behavior of customers (SME9). SMEs believe that technology and systems that are automated will be able to produce product analyses and reports to help forecast order quantities. This kind of system is especially important if SMEs are dealing with thousands of product lines in the inventory (SME9). Unfortunately, most of these tasks for SME wholesalers are still done manually with only limited aid from computer systems. It is also hard for SME owners to have the time to sit down and predict by sight and product knowledge of the most suitable quantity to bring in to meet demand and supply (SME9).

SMEs that are selling unique and artistic products that they have exclusive rights to worry about competitors copying the designs and selling replicas at cheaper prices (SME2, SME9). One SME has been in a legal battle with another company that has replicated some products, and due to the cheaper price of the copied version, sales of the original products and design have dropped tremendously (SME2). Incidents like this sort can easily

jeopardize the company's future aspirations to sell the products exclusively and especially in the international market (SME5). It is important that SMEs specializing in these product types develop strategies to minimize the effects of such instances. One SME owner mentioned that the most important strategy is to keep a close and mutual relationship with the suppliers of those products and retail customers so that product exclusivity agreements apply (SME2).

Furthermore, as a new entrant to the industry, one owner is faced with the challenge of establishing itself as a supplier of premium goods (SME6). The problem encountered by the owner is a form of cultural barrier where customers have stereotyped the business as being a wholesaler of budget goods like other similar companies (SME6). As a result, the business still holds an inventory of high quality and luxury products that are not generating money because customers are just not accepting the change in product concept (SME6). The business has yet to understand what customers want and to master the skills in effectively marketing and promoting the new products to potential customers.

#### **4.5.8 Challenges associated with business vision and strategy**

Business visions and strategies can be seen as the building blocks of the business and lay the foundation for the business. These visions, strategies or objectives are the responsibilities of the SME owner/operators but it was found that majority of the owners interviewed, seemed to spend more time working in the business rather than on it, "You don't spend enough time in strategy" (SME2, SME3). This means that a lot of their time is used up on daily and operational tasks, leaving them less time to dedicate on planning ahead and working on strategies and objectives (SME8). While some SME owners, due to their experience, can see that it is vital that they do strategic planning and spend time working on the business, others do not appreciate the importance and relevance of establishing clear visions, goals, objectives, strategies and plans, (SME1, SME7).

When SME owners were asked what their motivations for the business were, no one mentioned what their mission or vision statements were for the business when they first started. One SME owner gave the very frank comment, "can't remember – just to make a living" (SME1). Another SME owner mentioned that vision and mission statements are very text book and theoretical concepts and are not usually found in the context of SMEs (SME9). From this, we assume that it is hard for most SMEs to say what the motivation is

in terms of a business vision or strategy, given their informal and unstructured nature of the business, other than the very honest answer of to make a living (SME1).

Another SME owner mentioned that it was just not necessary for them to do it because the business is a partnership between husband and wife, so no formal or business plans are needed as long as they know what they are doing (SME9). SME owners are all fully aware that things should be done in a proper way but in reality, it just does not seem to be applicable or practical. SME owners, being their own boss, have the perception that they do not need to go through these formal procedures to get something done as they are only answerable to themselves only (SME9, SME5). They don't wish to have the pressure of constraining themselves with a set of objectives that they must achieve. They do not want to make goals too ambitious because they might end up being overwhelmed with something that is difficult to achieve (SME3).

What is typically practiced is the establishment of immediate objectives and plans for the short term (SME1, SME7). Thus, there is challenge for SMEs to change their ways by engaging in more formal, strategic and longer term objectives. One interviewee commented regarding their plan to have a website for their SME: "Even to just get that initially project started and we actually going to do it and doing it, is very time consuming" (SME3). There was just no projection or status as to when the whole project will be completed. They have not drawn up a plan and set out resources to complete the project and it ended up being a few years in making (SME3). This manager considered that in the SME environment, very little time is available spent drawing up strategies and long term plans (SME3). It was also hard for SME owners to project even six months to one year ahead because it just does not apply for their situation (SME4). They would rather focus on achieving their immediate goals and strategies which they can see the results of sooner (SME7).

The constantly changing market and uncertainty associated with it does not encourage SMEs to practice making long term strategic plans. As one interviewee commented, "We have a tentative plan for the day, plan for the week, but we don't tend to plan, ah, plans don't always go to..." (SME9). Some have experienced that even though they may have a comprehensive plan in place, it does not mean that it will turn out the way they planned, as SMEs often end up reacting to a market situation to stay afloat (SME6). For instance, one SME manager mentioned that though they do try having regular meetings as well as

strategic planning sessions; keeping up with these activities is hard, not to mention actually working towards achieving those goals (SME7).

Although most SMEs are family run, they sometimes come across situations where ideas and suggestions clash, leading to making indecisive actions (SME7). This can lead to poor execution of plans and strategies with outcomes worse than anticipated. Thus making strategies and objectives are useless unless they can be executed in the proper way to actually bring benefit to the business:

“The issue here is how effective our strategies are and our execution of it is questionable [...] quite informal [...]. We do lose track but we always try to do things in priority” (SME7).

Since the wholesale industry is very volatile and opportunities often come up unexpectedly, the business needs to be able to change route to take up that opportunity before it gets taken by other people (SME9). Most of the time, SMEs are taking a risk to gamble with luck even though they are aware that wrong decisions can easily affect their already financially weak business (SME10).

#### **4.5.9 Challenges associated with the international economy and exchange rates**

Import wholesalers are also affected by the international economy and foreign currencies because these influence costing and pricing strategies. The exchange rate is one of the biggest factors affecting supply chain sustainability (SME3). Large fluctuations are not favorable for importer-wholesalers since they can cause large variance to the price of products. The majority of the SMEs interviewed mentioned that exchange rate variations have a huge impact on the cost of importing goods (SME3, SME4, SME5, SME6, SME7, SME8, SME9, SME10). The strength of the dollar determines how much the importer has to pay for the cost of the products as well as import related costs such as freight and duties.

On the side of the importer, a strong New Zealand dollar is favorable because you can get more value out of foreign currencies which can reduce the cost of products imported resulting in a better price for customers (SME10). On the other hand, the exporters are hoping that the New Zealand dollar will be weaker against foreign currencies so that overseas people can buy more from New Zealand.

The challenge lies on how well SMEs can manage and forecast their buying so that more strategic actions such as buying forward exchange rates and fixing rates for a period of time when it is favorable (SME10). This is probably the best option for the business to take because there is not much the government can do to regulate the exchange rate. This will help reduce the uncertainty involved with exchange rates dilemma and minimize the effects of the exchange rate variations. It also requires that the company have sufficient funds to be able to lock in an exchange rate.

Furthermore, SMEs expressed that they often lack the time, expertise and resources to better forecast and plan exchange rate fluctuations (SME3, SME6). Thus, not many SMEs are able to take advantage of the forward exchange rate contract and are simply taking a risk in the hope that the rates remain favorable to their advantage (SME7).

#### **4.6 Summary**

One aspect of the nature of SMEs is that they often face many challenges and obstacles due to the fact that they are resource constrained and resource poor. The reality that SMEs face is that their size and capacity limit them from having the freedom and the luxury of resources that they might wish they could have. This characteristic of SMEs contributes to the challenges they face in operating their business, because they have these resource restrictions.

Wholesale SME owners interviewed responded with many aspects of challenges they face operating a small business. The general impression that was gathered from the feedback regarding their challenges was that SME owners seem to keep a low profile of the difficulties they face. They seem to prefer to keep it private and ‘paddle their own canoe’ for survival by opting to solve the problems their own way. Some owners seem to have the attitude that as owners they need to take full control and work things out. They feel that they do not have confidence in anybody else who can do better than them in solving the problems of the company.

SME owners experience a lot of stress regarding resource constraints primarily due to the fact that the owner-operator has a personal stake in the business (SME8). These come in the form of capital investment from savings and using properties as security for their business as a means to get loan facilities from the bank. Since SMEs are small, the risks of being

affected are higher because cycles of activities circulate much faster, quickly causing chain reactions and effects.

The lack of resources experienced by SMEs also contribute to their slow growth rate as resources such as cash flow, employees and expertise are needed to grow the business. Cost and affordability are big issues that affect decision making on IT investment, purchasing and adhering to government regulations. The cost of compliance and the effects of the exchange rate are cost related factors that SMEs have no control over.

It is observed that the lack of strategic and longer term plans available also affect the strategic use of resources or the ability to use resources according to priority. Time is also scarce for SMEs and owner /operators often have to put in a lot more time than the normal worker into their business. SME owners expressed that time is just never enough and it has become increasingly difficult to prioritize tasks.

## **Chapter 5 Business Strategies and their Application in Wholesale SMEs**

Strategies and their application are not widely spoken and formulated in the context of SMEs in the way that larger businesses would have a strategy development exercise as a norm of the business operation. There is no strong evidence to suggest that the SMEs interviewed were steadfast in strategic planning, development and execution.

However, owners are aware that they need more strategic planning and to develop strategies for their business, but experience challenges and difficulties in keeping up with and practicing it. A SME owner's behavior, intention, motivation, skills and background are major influential factors of the level of strategic planning and application in the business. There is a high degree of personal and behavioral engagement rather than strict business policies.

This is not to say that there exists no strategic planning and longer term plans and objectives; it is the definition, promotion and execution of it which is weak and SMEs may need to improve in this area to succeed. It was found that a few of the SMEs regularly engaged in strategic planning and would set aside time to do this on top of their busy working schedule. This is a positive sign and demonstrates that SMEs are also realizing the power and value of longer term strategic planning and the benefits for their businesses.

### **5.1 Strategic Planning in SMEs**

#### **5.1.1 Nature of strategic planning in SMEs**

Even though business strategies are not usually properly formulated and executed, it is important that we are able to understand the reasons behind this in order to improve the situation. Business strategic planning by SMEs, if it exists, is often not clearly defined and is 'fluidly' (SME9) and 'organically' (SME3) developed and promoted as the business grows. When SMEs do engage in mid-long term strategic planning, their nature can be highly tentative which should normally be strategic and in a more fixed form. Instead, SME owner-operators/managers are most efficient in planning daily or task oriented plans and seem to have a more fixed and clear approach tackling them. One SME owner commented that he considered long term plans and objectives as simply business plans, and that he had

“no long term grand plans. I mean, plans are just more business plans and how to grow the business as such and that's really it. I mean we didn't have any great dreams” (SME9).

Another SME owner commented that there is no need to document their planning because, having been in business for few years, everything has become very routine. Planning tends to revolve around routines such as the product buying cycles and the peak season cycles. Then, it is just a matter of allocating money to buy the goods and get them in time to be delivered to customers after it has been pre-sold (SME10). Since SMEs are simply structured companies, they do not have highly technical or complex activities, which means that job routines and processes can become very intuitive and can be easily picked up or developed without formal planning. This is assumed to have some effect on the nature and approach of strategic planning in SMEs (SME1, SME3, SME8).

Some SME owners take an informal approach towards strategic planning. For example, planning may be conducted over dinner and a glass of wine, or decisions can be made over a chat during a tea break. Strategy development can occur during a casual brain storming session between the staff and the boss (SME2, SME8). In fact, SME owners commented that they rarely have formal meetings, let alone formal strategic planning meetings (SME3, SME8, SME7). Thus, strategies and plans are usually verbally set and agreed by the owners and managers, bearing in mind that owners are usually from the same family or are close friends. The nature of the husband and wife or close friends team means that planning and strategizing is readily achievable both during and off the business hours. Due to their business being ‘family like’, SMEs have the advantage of time and teamwork in their control (SME8, SME9).

Simple activities such as writing a list may be used as an effective way to manage the daily job tasks, helping prioritize tasks so that the immediate and short term goals and strategies on a daily basis take their positions in the list (SME5). The development of strategies for the daily running of the business is necessary so that nothing gets missed out due to the overwhelming job duties demanded of the usually small team of staff (SME5). However, one SME owner commented that their approach to strategic planning and development of long term objectives is anticipated to be more like an annual event (SME4).

### **5.1.2 Owner attitudes and influences towards strategy and planning**

In the context of SMEs, the owners/managers have the sole responsibility for strategic planning and decision making. They often have to spend a lot of time and effort in studying the situation and gathering information and this is commonly done after a long day's work (SME6, SME7). This can be seen as a worry and burden for SMEs but they have no choice being the only key people of the business (SME6, SME10). As noted above, most SMEs tend to spend more time working *in* the business rather than *on* it. The reality is that there must be a balance in order for the business to run smoothly and to survive. As one SME owner suggested, the process of balancing tactical and strategic responsibilities requires skills, expertise and determination to be able to achieve this balance (SME8).

In addition, attitudes towards management are directly related to SME owners' attitudes towards strategic short or long term planning. While the research findings show that amongst the ten SMEs there were no obvious signs of any formal planning and strategic plans in place (e.g. mission or vision statements or documentation of strategic plans), the SME owners/managers were aware that strategic planning is necessarily for the business. The findings regarding the influence of owner attitudes will be presented in two extremes: why SMEs think strategic planning is important and why they consider it to be not practical.

### **5.1.3 Why SMEs think that strategic planning is important**

Although the research shows that formal strategic planning and setting long term objectives is very minimal amongst SMEs, they do engage in informal planning and developing strategies using a more casual approach. Some owners expressed that developing strategies and laying down short to long term plans are important for their business and should be constantly practiced (SME2). Owner attitudes seemed to influence how well they set directions and focus objectives. For example:

“And that's good because you know exactly, if you planning for the future, you know what's happening around you and what's needed to make that more efficient [...] It's a good way to run a business.” (SME8)

Others were of the opinion that it is important that businesses are clear in their objectives and goals and in finding ways to achieve them in due course in order to be a successful business (SME6). One SME owner believed that engaging in planning and establishing

strategies provided a better view of the whole business in both its current state as well as projecting to the future, such as in developing growth strategies (SME9).

One SME owner expressed her belief that you must set goals and objectives when you start the business, and that you cannot focus and make strategies if you are not clear about what you want the business to achieve (SME6). This SME owner suggested that it is hard for some businesses owners to practice proper strategic planning for their business because they have not being used to the processes due to lack of experience and a corporate background. She believes that her substantial background working in large corporate organizations had given her direct involvement in strategic formal planning and appreciation of its value for the business.

Another interviewee also commented that while working for a corporate organization they were required to regularly attend strategy and planning meetings and reviews. This was part of the company's ongoing strategic planning process, so that when she switched to managing a smaller business, she already had this mentality and was able to easily enforce it (SME3). It was expressed by this SME manager that setting goals and objectives were effective in her management of the business and produced good results. This was an improvement from previous practice of just talking about goals and objectives and only casually working on it (SME3). However, she did comment that the culture of the small business rarely allows her to do the same level of strategic planning and discussions as when she worked for a large corporate organization (SME3).

Other opinions expressed included that having clear plans and objectives in mind and on paper allows management to do a better job at setting priorities and making strategic use of resources (SME7). Strategic planning helps the company find the best solutions to the problems they may encounter and be better prepared and equipped for the future (SME9). One SME manager mentioned that as a manager, she is accountable and answerable to the director, thus she must engage in setting goals and strategies (SME5). The business knows that they have been successful when they see good results achieved from executing those strategies and objectives are met. Indeed without objectives and strategies, the business might not know how to measure their success or proof their achievement.

Another reason why SME owners believe that they should have strategies and plans is to be clear and aware of what is happening around the business (SME8), and to help the company

to identify who their competitors are and how to compete against them (SME7, SME10). Strategic planning and the necessary resources help promote competitive advantages of SMEs and ensure the correct execution of actions. Having competitive advantage is what sets apart the offerings of one company from others in the industry. The SMEs studied have a good knowledge of what their competitors are offering and are constantly trying to find ways, in the form of products and services, to counter the competition. Planning was considered important for the introduction of new products, getting samples and then ordering to meet the predicted demands: “[You] definitely have to have it. Especially in our business, if you don't plan, well you don't make the right decision in buying a product” (SME10). Without planning, the consequences could be very detrimental, especially given the very competitive wholesale industry where competitive advantage in products, pricing and supply define how successful a business can be (SME10).

#### **5.1.4 Why SMEs think that strategic / long term planning is not practical**

Although SME owners believe and perceive that strategic planning, long term planning and strategies are all very important for their business and in fact any business, they do have mixed feelings about the practicality of it to their business. One owner mentioned that it was near impossible to make long term strategic plans because the nature of the business and industry they are in does not accommodate long term planning: “It is hard to look at a plan two or three months ahead, it just gets lost somehow” (SME4). SME owners are also aware that the idealistic concept of more formal strategic planning, with its high level of rigidity and inflexibility, may not necessarily be practical for the SME business context. Another SME owner suggested that SMEs usually do not have grand dreams when they first start, most probably because of being in the less exciting wholesale industry (SME9).

SMEs that are owner operated have a different mindset towards strategic planning and the practicality of it. Strategy making and planning would be hard if it was an owner-operated small business because as owners, they are only answerable and accountable to themselves and not anyone else in a higher position. As a result there might not be the pressure to engage in proper strategic planning, reporting or monitor the progress of strategic objectives. These processes are almost omitted for owner operator businesses which gives an indication as to why some small business owners do not think that formal strategic planning and long term goals are that important after all (SME4, SME6, SME9, SME10).

Some owner-operator comments were that it is not very easy to set up strategies and longer term plans because the market they are in is changing, and that often plans do not end up as planned because the company may be reacting to market situation, which makes all the planning before go to waste (SME6). One SME owner-operator commented that they do tentative planning for the day and for the week, but do not tend to do long term plans because there is the perception plans do not always go according to plan (SME9). Another SME owner expressed that though she always makes plans and develops strategies, it does not always work according to the outcome she expects, which destroys her faith in strategic planning as an effective way to manage and grow her small business (SME6). The type of industry SMEs are in also affects how well long term strategic plans can be executed. For instance, the New Zealand wholesale industry can be quite fluid and is made worse because the market is so small (SME9). The reality is that the limited time and resources afforded by the company does not put the business in the position to confidently make the claim to those strategic goals. SMEs constantly fear about of the uncertain market, unfavorable business performances and generally everything seems uncertain in their territory (SME5).

One SME manager commented that there is also the worry of the poor execution of plans and strategies which makes the outcomes worse. Thus making strategies and objectives are useless unless the company is confident that those strategies can be executed in a proper way to actually bring benefit to the business (SME7). The nature of SMEs having flexible, undefined and informal strategic planning approaches meant that the original scope of the plans can change or is bound to change according to situation. This can influence SMEs to think that perhaps they would be better off reacting to situations in ad hoc manner, rather than having set their minds on some plans that might not be achievable (SME1, SME7). SMEs feel that; “often in a small business you are dealing with what's come right up here and right now, you know, not really what you should be doing” (SME4). Consequently, they tend to have the mentality that they need to be very reactive in finding solutions to the issues immediately and just deal with the consequences that follow later (SME7).

One manager commented that the company often failed to sit down as a team to set goals, develop strategies and set targets in which everybody contributes and is aware where it is heading. Even if the team did sit down to discuss these things, another challenge is the determination to keep up with their plans and strategies (SME7). Another interviewee owner commented that usually, individual staff has their own set of tasks to achieve and

would make independent tactics and find solutions on a daily basis, which involves a high level of flexibility and nimbleness not characteristics of strategic planning (SME4).

Overall, it is observed from the findings that SME owners-managers perceive that establishing strategic planning and strategic goals are important for their business and should be a regular part of the business. However, in reality, they find that formal and rigid strategic planning is not practical for SMEs, thus they seem to adopt less formal, flexible and casual approaches to strategic planning that would most fit the culture of the SME business.

## **5.2 The Application of Business Strategies in Wholesale SMEs**

### **5.2.1 Strategy in practice in SMEs**

SME business owners-operators have full control and first hand involvement with all aspects of the business. They are able to make decisions and react in a much nimbler way than their rivals, especially the bigger players in the industry. According to one owner-operator, SMEs need to be flexible and adjust to take on opportunities when they arise (SME6). The simple structure of small business means that once an SME has an idea or plan they are able to execute it without having to go through numerous levels of management approvals. In this way things get done faster which gives the SME competitive advantage over their competitors, especially the bigger companies (SME3). Thus, due to their nature, SMEs are able to quickly react to market situations (SME9), which is a powerful strategy over bigger companies that might need more formalized, systematic, bureaucratic and time consuming processes (SME8, SME4, SME10).

SME owners also realize that they really should be spending more time “working on” the business rather than “working in” it, or at least there needs to be a good balance of both (SME2). The point here is that SME owners are capable of managing and running the business from bottom to top and their closeness and detailed knowledge of their business enables them to realize issues in a timely manner and react without relying on second or third hand information (SME4, SME7). The main problem is whether they have the means to achieve the decisions they make; that is, whether they have the resources readily available to complement their fast decision making (SME9). SMEs have the attitude that all

other things will fall into place when they have the capital and resources to realize their plans and strategies (SME5).

Owner-operators usually bring into the business their set of competencies and strengths that they already possess, which when realized can help them have competitive advantage over their competitors (SME7). For instance, as noted above, SME owners with a corporate background or experience working as managers will be familiar with how a business functions and have already acquired skills in management. Those that have worked in international business, marketing, sales and logistics would be very familiar with those areas in their business (SME6).

There were two SME owners who believed that branding and company image is important and that strategies need to be developed to allow this. In at least one case, this is reflective of the owner/manager's previous experience and tertiary qualification (SME2, SME7). Several SME owners mentioned the impact of a positive attitude on the success of their business and that this is a strategy that would keep them ahead of others (SME2, SME10). It was important that the business owners are able to "shut the door" to all negative thoughts and happenings while working hard with a "can do attitude" towards their goals (SME4, SME10).

As owners of the business, realizing the need to take action to manage the heavy workload, engage in strategic planning, setting targets and objectives, and then continue to keep on and monitor performances, might be considered a form of strategic action (SME8). As the work load gets too overwhelming, one owner-operator delegates mundane and operational task to subordinates so that she can focus more on the strategic side of the business, such as studying the market trends and forecasting into the future so that plans and actions are readily in place (SME6). Another SME owner believes that there is more value in focusing on the areas she can specialize in, and thus gain competitive advantage, rather than trying to do all things (SME4). Other owner-operators realized that at some point they are not able to concentrate if they do everything and get themselves involved in all areas of the business, so they need to be strategic in delegating specific tasks to competent staff that will be able to dedicate more time on it. For instance, two SME owners who bought into an existing business have delegated product purchasing to existing staff because of their greater experience and expertise in this area (SME10, SME9).

Another strategy to be a successful SME business owner is that owners need to have a diplomatic management style (SME10). They should not be self centered and be always willing to take on advice from people that know better: “I have been very fair to my employees and I am very diplomatic. I don’t upset people. I always want a diplomatic solution to everything, you know” (SME10). This area can be very subjective, but extra resources such as seeking help by signing up for business mentoring programs and memberships in business associations can help small business owners in managing their business. They can gain advice, information, assistance and representation in areas they are not competent in. This strategy was considered especially helpful for novice business owners due to their lack of business experience (SME5, SME8, SME10).

The research shows that SME owners are most competent in relationship development with stakeholders, especially their customers (SME2). It can be seen that SME owners have a stronger empathy towards people and relationships, and endeavor to promote themselves in this way externally as a form of value creation strategy. They are also characterized as having a very close knit relationship within the business, where owners and staff work side by side, co-existing almost at the same level (SME8, SME10). This can create a harmonious working environment that people actually enjoy working in.

The most important business strategy was for SMEs to be able to strategically manage their often limited resources such as time, money and expertise in order to sustain the business. This aspiration was expressed by all ten of the SMEs, and it was considered that the decision makers and management team have the responsibility to see that this is done and that the business is profitable. When SMEs are able to achieve their objectives and strategies, together with their competitive advantage in being small businesses, they can become very strong players in the industry (SME5, SME10). The SMEs researched shared some of the strategies that they adopt to help with management of their limited resources, as well as maximizing value from main value sources such as customers, products and suppliers. These are discussed in the following sections.

### **5.2.2 Strategies for effective use of time**

It was expressed by SME owners that they are always constrained by time, in that they never seem to have enough time to do all the things they want to do and it is as if they are constantly running against time (SME1, SME9). It was important for SME owners and staff

to be able to prioritize tasks and plan the execution of those tasks so that no tasks were overlooked (SME2, SME5). There was strong feedback from interviewees that time management is really important for the wellbeing of the business (SME3). Thus the realization of this need has pushed SME owners to think about strategies to manage time on a daily basis, as well in the longer term.

From the research, it was found that in order to achieve actions, it was important that the SME owner make initial plans or set goals and then work towards achieving them (SME3, SME8). SME owners would write a list of what needs to be done for the day before work starts and tick those tasks off as they are being done (SME2, SME5, SME7). In this way, the “to do list” functions as a guide and helps the owner keep track of work duties and things to do. Some SME owners were effective without the assistance of a written list, as they were already used to the routines involved and knew in their minds what needed to be done (SME3).

Longer term time management, as in the wholesale business, is centered around peak seasons and buying cycles, so planning needs to be done to make sure that those product cycles or peak seasons fit within the time frames (SME10). With a plan on how to use time, SMEs believe that effectiveness can only be achieved through prioritizing jobs and tasks, whether short or long term (SME3). Since strategic tasks are long term and need more time to achieve, they need to be closely monitored and reviewed (SME2, SME10). When non-listed tasks come along that need immediate attention, due to their flexibility, SMEs can easily fit that into the ‘to do list’ and shift other tasks down the list.

Nonetheless, it was important to SMEs that they can manage the list without ignoring any of the tasks that needed to be done (SME2). In order to be more successful in prioritizing tasks and time and make sure that the business has scope and direction, SME owners must have determination and perseverance to keep up with it (SME3). The reality is that to be able to successfully manage prioritization is a challenge in itself that really needs the constant practice of strategic planning and decision making by the owner-manager (SME9). This could involve regular meetings and planning sessions in which the owner needs to put in a lot of time and keep repeating if necessary until objectives can be achieved (SME6, SME10). However, when initial plans are defined and understood, adjustments to the

situation can easily be made, something SMEs consider themselves very competent at (SME6).

Furthermore, it was found that SMEs realize that computer systems and technology can help with effective time management and can save time by increasing staff productivity and performance (SME8, SME10). Use of technology and computer systems can also help effective communication and reduce double handling of data (SME3, SME7). The strategy of using technology will be discussed in a subsequent section and in Chapter 6.

### **5.2.3 Strategies for effective use of money**

As money is the scarcest resource experienced by SMEs, it can turn out to be the biggest problem affecting the prosperity of SMEs. It is inevitable that SMEs must be able to develop strategies to manage and use money strategically. SME owners commented that the most effective way is to be able to plan ahead so the business knows where and how it is moving towards that direction (SME2, SME8, SME10). The essence in successful money management lies in the abilities of SMEs to strategically plan and prioritize the use of this scarce resource. However, SME owners admit that this is also one of the hardest things to do. The volatile business environment, coupled with the constraints of other resources makes it a constant struggle (SME3, SME7). The dilemma is that they have to be cautious on their spending but at the same time they need to ensure that they are not under stocked (SME7). Since sales from product offerings is the main revenue source for wholesalers, being under stocked or delaying delivery of products will cause inconvenience to the customers and create bad reputations (SME7, SME10).

Therefore, it is important to strategically plan and manage buying cycles to accommodate peak seasons. This planning is needed for budgeting and cash flow forecasts so that money can be strategically allocated for purchasing and operating expenses (SME10). SME owners expressed that strategies for planning in finance and budgeting must be done in writing and presented in more formal documents, rather than verbally (SME8). Calculations for expense break-downs, purchase forecasting, inventory on hand, sales targets and account receivables are done for the year in financial reporting (SME8). With these planning and forecasts, the business is able to see its financial situation and wellbeing and this helps with decision making. Also, these reports are required by banks to make decisions on financial assistance and loan applications.

SMEs also have a hard time keeping up with debtors. Slow payers directly affect cash flow, so SMEs need to closely monitor debtors to avoid financial constraints on the business which might affect future spending (SME2, SME3, SME7). Credit limit control measures and strict payment terms are enforced so that SMEs are able to safeguard themselves, but this does not totally eliminate the chances of slow payers or bad debts occurring (SME3, SME7). One SME manager mentioned that because the company was weak in credit control, a lot of money was tied down with customers owing money and paying slowly. They have been trying to call back cash as fast as possible to reduce the debt level by introducing prompt payment discounts to give an incentive for customers to pay quicker (SME7). Although as customers, bigger chain stores are harder to deal with in terms of meeting their stricter supply requirements, they are a good source of revenue and are considered to be good at paying on time, so that the SMEs often do not need to worry about payment from them (SME3, SME8). The worries and risks lie in small independent retail customers that can be very hard to control. While they are more flexible and easy to deal with, independent retailers are generally not considered to have good payment track records (SME3, SME10).

Another area of strategic use of money is to do with foreign exchange. The wholesale business involves importing products from overseas where foreign currency exchange is used. The variances in exchange rate and the strength of the New Zealand dollar can make a significant impact on forecasts and the final cost of the products when they reach the customer. The most common strategy in financial forecasting is in buying forward contracts for foreign currency. This locks in the foreign exchange rate when it is favorable for future use. With the locked rate, SMEs know exactly how much they are getting in exchange for the New Zealand dollar when they need to pay suppliers overseas. This means they know exactly how much needs to be set aside and are also able to set a price for pre-orders of products. Overall, this makes planning and decision making more certain (SME7, SME9, SME10). In this way the impact of the fluctuation of the exchange rate can be greatly minimized:

“[I] now buy some forward exchange today that will cover me for all the money I borrowed so far, so if the dollar goes down tomorrow, I still pay the price I have booked on [...] The government’s got no control what we do here, nothing they can help us with the consequences.” (SME10).

Being able to keep cost and expenses down without reducing efficiency is the ultimate goal of SMEs (SME2). Perhaps carefully monitoring and reviewing company expenditure and budgeting are the best strategies for management of money. This is because by cutting costs, the company can quickly see the money saved and spending reduced (SME7). SMEs are always looking at ways that they can cut cost without affecting operational efficiency and productivity. For example:

“It [IT/e-business technology] is going to cost you a bit more in advance but the cost savings are much more, not in dollar terms, but in the staff turnovers and people are more relaxed because they have not under pressure by the work.” (SME10).

SMEs are catching up on implementing new systems, applications and procedures to reduce down-time, increase efficiency and save cost in the long run (SME1, SME8, SME9, SME10). Others are choosing to buy from suppliers where the cost from country of origin is cheaper or using their website to reduce printing and promotional costs (SME10).

#### **5.2.4 Strategies for effective employees**

Employees are often considered to be the biggest asset of a company because they make things happen by doing the work required for the business to function. SME owners realize this fact and are aware that they need to develop strategies so that they can recruit and retain productive and satisfied employees (SME10). In addition, some SME owner/managers feel that there is a need to have strategies to employ the right mix of people who can work closely together (SME1, SME6, SME10). Being able to work closely together towards common goals is particularly important given the small size of SMEs (SME7, SME10). In addition, employers must know what they expect from an employee, what job areas are involved, and be able to evaluate how well the employee may adapt to the needs of the company.

It is the responsibility of the employers to manage and exercise their leadership so that employee confidence and satisfaction can be developed (SME10). One SME owner expressed that part of the success as directors was to be open minded and “quit being an arrogant boss” (SME8). In that way staffs were motivated and empowered to do their jobs, which in turn created productivity. Other owners also expressed that it was important that they are able to keep their staffs happy and satisfied at work so that in return they are able to give back to the company their best effort (SME2, SME3, SME4, SME8, SME10).

Finding out staff strengths and encouraging them to work hard towards perfecting the job will also motivate and empower the staff in terms of personal and skills development. For instance, one SME owner delegated sole charge of product purchasing to an experienced staff member (SME10). Other SME owners also try to delegate and give staff authority over daily decision making, in order to give employees the chance to demonstrate their abilities and to build up their confidence to take on higher level decision making roles, thereby reducing the burden on the owners (SME2, SME6, SME7, SME10). One interviewee mentioned that this approach is working well, with staff being very capable of making decisions and providing useful input to the business (SME8).

The small size of SMEs means that employees can become relatively close to the business and capable of making decisions relating to their job areas. Being involved in a small team means that each individual can manage their own set of work and then collectively work towards the goals of the company (SME4). Employees' development of a high level of commitment to the business is what SME owners hope to get from them (SME7, SME10). One SME owner commented that informal encounters and casual discussions with staff, such as during tea or lunch break gatherings, were one of the biggest contributors to new ideas, improvement strategies and best work practices, with employees' ideas and suggestions being "made from the hearts and [that] means a lot to the owner" (SME8).

Employers are also beginning to realize the importance of not over-working or over-stressing their staff (SME8, SME10). Therefore, from time to time, management needs to monitor performance and introduce resources, where possible, to help employees do their jobs productively and with satisfaction. One SME owner had a strategy of reducing staff stress from manual work, thus saving time and increasing overall productivity and efficiency (SME10). SMEs are constantly on the lookout for new technologies and computer systems that they can afford to reduce the manual work required of staff. For example, e-commerce websites that receive online orders and automatically generate packing lists can reduce a lot of manual data entry and administration by staff. Another example is the use of electronic ordering systems by sales representatives (SME2, SME8, SME10). The different uses of technology by SMEs will be discussed in chapter 7.

Other strategies to manage the heavy workload during peak seasons are to employ casual staff to relieve existing employees (SME7, SME8). Another SME owner expressed that it

was important that the company did not become too reliant on individual staff members, as such that no one else can follow up on their manual or memorized approach of work (SME3). For instance, computerized stock locations in the warehouse and data capture software for administration and on the road sales people, were implemented in this SME to reduce such reliance on employees and enable someone else to follow up and work on their tasks if necessary (SME3).

Finally, strategies to retain staff are also an important concern for SMEs. Small businesses should try to keep staff turnover as low as possible, because once someone leaves from a small team, the company will face hardship in retraining and getting new or other staff to adapt. The cycle may then repeat, costing even more time and money. One SME manager said that the best strategy is to look after staff just like they were a family member, understand their needs, and work out the best solutions to create win-win situations for everyone (SME7).

#### **5.2.5 Strategies for effective customer relationship management**

SMEs are constantly trying to establish closer relationships with stakeholders, especially with customers as they are considered to be the most important within the SME supply chain (SME2). Building strong relationships is one of the long term objectives of an SME (SME4, SME3). A close relationship with customers can be perceived as part of an SME's strategic advantage, forming part of a strategy for business longevity and growth (SME2). One SME owner commented that it is easier and more convenient to do business when you have a good relationship, with a mutual understanding of each other. Customers also value the good relationship and in turn support the business by retaining the wholesaler as a main supplier (SME2).

Related to this, owner/managers must be able to deal promptly with customer complaints and provide proper solutions to avoid putting extra strain on already limited resources. Thus, minimizing customer complaint is an important strategy. The last thing SMEs want is to destroy the already established strong relationship with customers built up over the years and take away customer confidence in the company (SME7).

While SME wholesalers primarily supply to independent retailers who are also SMEs, some also endeavor to be suppliers to bigger retail groups (SME1, SME10). However,

some SMEs selectively chose not to deal with larger retailers (due to the effort involved in meeting their overwhelming requirements), focusing instead on building up relationships with more independent retailer customers (SME9). Those SMEs that do work with larger retailers believe that they have the resources and capabilities to meet the needs of all customers, whether big or small, and establish different strategies to meet their different requirements (SME1, SME8, SME10). Working with these large retailers may also boost a SME's business profile as being suppliers to well-known retailers (SME3). This helps the SME make their mark in the market, and at the same time allows potential customers to get to know them and their reputation: "We sell to some big company [...] Our system is ready to do the job" (SME1). Thus, collectively, those SMEs with this strategy have a stronger customer profile and ability to capture more market share.

### **5.2.6 Strategies for supplier relationship management**

Suppliers are the other important stakeholder within the wholesale supply chain. Wholesalers deal directly with primary suppliers and manufacturers of products, and the SME interviewees expressed that it was vital that they are able to maintain a strong relationship with them in order to foster better trade terms, pricing and make business dealing a lot smoother, which is what SMEs wish to achieve as long term objectives (SME4).

SME owners usually make business trips to supplier factories so that they get to personally know the suppliers and are aware of who they are dealing with (SME3, SME7, SME9, SME10). It is important that SMEs let their suppliers know what they need clearly and what the markets are like so that suppliers understand what is required of them from SMEs. This mutual relationship requires a lot of relationship building strategies and time to achieve (SME9, SME10).

Although SMEs are always themselves tight with respect to cash flow, some have a strategy to deal fairly with suppliers and not withhold payments for too long and abuse the trade terms (SME7). If wholesalers constantly delay payment to suppliers, the mutual relationship will be ruined. Suppliers will start to resent dealing with the business or worse, they might continue to deal with the business but supply lower than standard products since payments will be delayed anyway. Due to the sensitivity of these money issues, strategies

on how to improve cash flow and being able to make accurate forecasts are important to sustaining a good relationship with suppliers (SME2).

Furthermore, SMEs also expressed that it was important that the business have strategies to retain suppliers and avoid having to change them. Changing supplier means that a new relationship needs to be set up from scratch and new terms need to be negotiated, which might not be favourable. The likelihood is that payment terms will be stricter, such as cash only basis, which is not viable for SMEs, and strict minimum quantity orders will be required, again which cannot be sustained by SMEs (SME4, SME3, SME7, SME10). Building up trust and mutual relationships will take a very long time, causing inconvenience to supply management. Thus, being able to keep long term relationships with suppliers is a critical success factor for SME wholesalers.

### **5.2.7 Strategies on effective product offerings**

Due to the fact that wholesalers deal mainly with selling products, quite naturally, how well the business performs depends on the quality and type of products they can offer. SME owners expressed that it was important that they are able to offer products that would give them an advantage over others, or offer at least some exclusive products that would draw customers in as part of their strategy (SME7). One SME strategize product offerings and activities by concentrating on two main cycles in a year, which basically define the selling cycle of their wholesaler business (SME4). It is also extremely important that the product buyer has excellent and informed product knowledge and intuition as well as predicting the market for those products.

Product strategies such as seasonal and limited edition products are effective in attracting and keeping customers tuned in to the company with the potential to generate more sales (SME9). Another SME is to try to bring in more percentage of one-off items which other competitors do not have, rather than just focusing on ongoing common products. A SME manager commented that a strategy was in place to establish the company as a premier distributor of high quality, highly sort after, fairly produced and traded products (SME5). This business manager has aspirations for the business to grow and become a premium brand and identity for the unique products they are able to offer to customers. Some SMEs are following product diversification and product penetration strategies for their product offerings (SME7, SME9).

Keeping an eye on what other competitors are doing is also considered to be a useful strategy to help make better decisions on product purchasing (SME1, SME2). The aim is to either be one of the first to bring in a range of products or to avoid clashing with what everyone is selling already (SME7, SME9). The nature of the New Zealand market is that it is too small to digest an over-stock of products and misjudgments on choice of products can easily bring a company down (SME10).

Furthermore, it is very important that SMEs are able to gather the relevant information to help them with deciding on new products and order quantities. One example is that the owners and the managers often sit down and discuss what new products to get in to the country after studying the market. They then get samples in promptly to showcase to customers, and subsequently get feedback and pre-orders (SME10). An effective product ordering strategy and predicting future order quantity for those products depends on how many pre-orders are received (SME10).

### **5. 3 Summary**

The nature of strategic planning for SMEs is that they are often not clearly defined and formulated. SMEs do not find it necessary to sit down and formally document business strategies and planning for the short or long term because they have such an informal organizational structure. SME's long term plans can be highly tentative because they often need to react to situations and plans can easily be altered because they need to get an immediate solution.

The attitudes of SME owners towards strategic planning and long term objectives are that these are very important but that it is also very hard to practice them due to being SMEs. SME owners have the sole responsibility of taking care of strategic planning and decision making but because they are only accountable and answerable to themselves, this part is often not being done perfectly. SME owners tend to have to spend more time working *in* the business (which is the daily, operational and task-based work) rather than *on* it (which is on strategic planning and longer term goals).

However, SMEs have always been synonymous with being able to adjust to change with agility regardless if this will always yield favorable results. Thus, SMEs adopt a very informal attitude and casual approach towards execution of their strategies for the business.

The research found that SMEs have developed strategies to help them manage the operations of the business and prioritize the use of scarce resources so that they can be competitive enough to survive. Such strategies include taking advantage of the benefits of being SMEs, strategies for managing effective use of time, money and employees, focusing on customer relationship management, product offerings and taking advantage of the capabilities of technology to keep ahead of competitors.

## **Chapter 6 E-business Strategies in Wholesale SMEs**

### **6.1 Nature of E-business Strategies**

The research shows that SME owners/managers are aware of the importance of strategic planning and how strategies can help them be ahead of their competitors, though they may take an informal, unsystematic and casual approach to planning and execution. The main factors behind this relate to the nature of being small businesses and the influence of owner background and attitudes. This style of strategy development and planning also applies to e-business strategy and application in SMEs.

Nine of the ten SMEs interviewed either already have functioning e-commerce websites or are in the process of launching one. Though these SMEs may not have defined and solidly formed business strategies, the investment in an e-commerce website was the strongest evidence to prove that SMEs are also keeping up with technology and wanting to grab a slice of the virtual market. Although the term “e-business” may not be used in everyday operations of the SME, e-business technologies are in fact being used in many areas of the business, although probably in a relatively simple form. As one owner commented: “Yes, without realizing that we are using it every day” (SME8).

On the other hand, it was not evident that SMEs used the words “e-business strategies” or “strategic e-business plans” during the conversations, implying that SMEs may be less confident in proclaiming the strategic ability of e-business technologies. However, the approach of one SME in launching their website was strategically planned to coincide with a major trade show. Although the website was a few years in making, launching it during a trade show was able to create maximum publicity for the website (SME3). However, there were still mixed reactions as to whether e-business, as in the use of an e-commerce website and systems, can be considered as a strategic part of the business because the results are only in their early stages (SME8, SME5, SME4).

The most common way SMEs develop their website is using off-the-shelf packages rather than custom made ones from a developer. Off-the-shelf packages may be rigid and do not always meet all the requirements of the company, but that are by far the most cost effective option (SME3, SME4, SME8, SME9). Usually, the building up of web pages and website maintenance is done in-house by owner/managers, who have full control on design and

content. Reflective of their nature, SME owners/managers want more involvement in the website so they prefer this in-house approach (SME3, SME4, SME5, SME8, SME9, SME10). One interviewee commented that it is easier to control the project when it is done in-house, and that personal knowledge of the business and products meant they were better placed to develop the website than a third party, which would involve going back and forward until things were done right (SME3).

However, another SME was behind in setting up a new website (previous one was hacked and has now become inactive) because the owner did not have enough time to do it herself but also could not find the right people to build it the way she wants (SME6). There was only one SME that did not have a website at the time of interview. Despite being fully aware that they are very behind, and having discussed setting one up for four years, the project just never eventuated due to lack of time, money, proper planning and owner commitment (SME7).

SMEs often use systems and facilities made available by their logistic partners such as web-based track and tracing applications. Online transactions relating to shipping and freighting can also be conducted via the web and Internet. It was not practical for SMEs to develop this type of system themselves as their small business does not allow them to afford to do so (SME4). Instead, SMEs rely on their logistic partners, such as freight companies, to provide this service to them as a customer (SME6).

Those SMEs that already have established e-commerce websites found that it was necessary to promote the website so that more people are drawn to use it to the full potential. In one case, only a small proportion of sales, less than 10%, currently come from website. The SME is developing strategies to change customers' ordering habits towards becoming more online based (SME5). Creating more effective links with other websites is also a strategy that this SME is executing in order to build up the company portfolio and collaborative awareness especially with affiliated companies (SME5).

Due to resource constraints of money, time and expertise, the nature of use of e-business and technology is following an incremental trend in these SMEs. For example, simple informational sites gradually become upgraded to fully e-commerce transactional sites. The website is transitioning from a source of information to a source of income for the business (SME9). Similarly, the look and feel of the website also goes through stages of transition

such as image and design updates are used to provide a fresher new look (SME8, SME10). E-business in SMEs is not usually integrated, with applications fragmented and used in different areas of the business independently, and new systems added when required (SME3).

The development and diffusion of e-business applications to become a more strategic part of the business is slow in the SME context. Those SMEs that already have e-commerce websites and systems say that these should be sufficient for the current needs of the business and that they would not out-grow them soon (SME5, SME8). One interviewee mentioned that their current system has been in place for only three years and is fairly advanced for the needs of the company. She anticipates that unless the company suddenly experiences an uncontrollable growth spurt, it should still work alright for the business in the next few years (SME5). Thus, SMEs are observed to adopt incremental strategies for technology investment according to complexity of the business and when only needed.

## **6.2 Motivation for E-business Use**

One of the aims of this research was to investigate SME's motivations for using e-business technologies and what factors influenced their use of them. Motivations are the driving forces behind the use of e-business technologies and can help businesses define objectives and strategies to achieve business goals. The most common form of e-business technology use by SME wholesalers is the availability of e-commerce websites and related Internet based systems that serve the main purpose of increasing the efficiency of order taking, product identification and invoicing. Table 4 gives an overview of the motivations for e-business use expressed by the interviewees in this study (in decreasing order of occurrence).

Some SME owners believed that the use of IT and e-business technologies could help keep their company ahead of competitors in terms of level of technology use, product offerings and service delivery (SME1). One SME owner, who has operated his own business for 16 years, mentioned that his business was one of the first in the industry to have a website and being ahead meant that it helped the business set a benchmark (SME9).

Another SME owner, who was ambitious having worked in corporate for many years, believed that the company's website would allow more people to have access to their products and services and that the e-commerce capability allowed products to be ordered

and bought online without geographical barriers (SME2). A website also helps the business save costs in relation to the reproduction of hard copy catalogues, promotional materials and commercial documents, which can incur very high printing and administration costs in the long run (SME3, SME5, SME9). Not only would money be saved, but the time in which information gets to the customer is sped up immensely. In one SME, the website was set up as a strategy to help increase sales without needing to spend a huge sum on marketing and promotion, which would not be afforded by the business (SME3). SMEs have generally experienced positive results from their websites and the owners anticipate that the percentage of sales revenue from the website will increase in a healthy interval (SME2, SME8, SME9, SME10).

**Table 4 An overview of the motivations for e-business use for in the 10 ten SMEs**

Motivation for e-business use	SME 1	SME 2	SME 3	SME 4	SME 5	SME 6	SME 7	SME 8	SME 9	SME 10
Improve collaboration and communication	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Reach more customers	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Follow the technology trend	✓	✓	✓	✓	✓	✓		✓	✓	✓
To reduce and automate manual work	✓	✓	✓	✓	✓	✓		✓	✓	✓
Keep up with competition so as to be competitive in the market	✓	✓	✓	✓	✓	✓		✓	✓	✓
Business grew complex so need the systems in place		✓	✓		✓	✓	✓	✓	✓	✓
Reduce workload and stress of staff		✓	✓	✓				✓		✓
Influence from stakeholders		✓	✓	✓	✓		✓	✓	✓	
Save cost		✓	✓		✓		✓	✓	✓	✓
Follow others as there are proven results	✓		✓	✓	✓	✓	✓			
Aim is to actually be ahead of their competitors pro-actively.	✓	✓				✓		✓	✓	✓

Company branding and awareness		✓	✓	✓	✓					✓
Frustration caused by existing systems that are incompetent	✓		✓				✓	✓		✓
Cost of technology becoming more affordable now		✓				✓				✓

Sometimes, a website was set up due to ongoing customer requests, which could have commenced several years earlier. In one case, the fact that the business was way behind some of their competitors in use of technology to capture sales provided added motivation (SME3). If an SME owner does not react, then potentially a lot of customers will be lured away by competitors. This is especially the case as more new generation; technology savvy customers enter the market and turn their preference in dealing with business the ‘e’ way (SME3, SME9). A SME manager commented that the website is just like another department of the business, but hosted virtually and information-based. It forms an important part of the identity of the company, and is a good resource for existing customers as well as potential clients to get information and be informed about the branding and profile of the company (SME5, SME8). A website can help create exposure for an SME and serve as an effective marketing campaign for the business (SME2, SME5, SME10). The overwhelming demand from customers for product information and enquiries received from massive email requests, phone calls and faxes have actually pushed SMEs to reconsider their current systems and find new website-based solutions that would reduce the need for labour-intensive administration (SME5, SME8).

The implementation of proper IT systems and e-business applications gave some SMEs the capability to automate many manual and mundane job activities, which can reduce stress and reliance on certain staff (SME3, SME8). The aim is to allow staff to be able to spend more time on tasks at a strategic level and at the same time promote staff performance and job satisfaction (SME3, SME7). The need to improve collaboration and promote effective communication processes between and amongst stakeholders, such as the suppliers, customers and employees also motivated some SMEs to consider e-business technology (SME3). Technology can be used to support humans in doing their jobs efficiently,

productively and in a systematic way, otherwise not achievable if only manual systems are used (SME3, SME5, SME10).

A further motivation for why SMEs have implemented or upgraded to e-business technologies and application is the frustration caused by old, inefficient and dysfunctional current systems. SME owners realized that new systems must be implemented to help the business move forward (SME8, SME10).

A realization that e-business will shape the future of business and that continually evolving technology will change how business is done continues to be a source of motivation for developing e-business (SME8). As technology advances, prices have dropped, which means that such solutions have become more affordable for SMEs, further strengthening their motivation for investing in new e-business technology (SME10, SME6, SME2). SMEs also saw that technology use can narrow the gap between big and small businesses because technology does not discriminate by company size but by the technological capabilities that a business possesses and how it applies to them (SME10).

### **6.3 Influence of Owner-Operator Background, Knowledge and Attitudes**

The attitudes of SME owner/operators plays a significant role in influencing the way the business is run and operated, and the intention of the research was to explore and discover the significance of these attitudes towards e-business use. The research shows that there is strong connection between the attitudes and backgrounds of SME owners to the nature of use of e-business/IT in their business. Since SME owners are so closely connected to their business, they want to be involved in all aspects of the business and decision making.

E-business and IT are technical aspects of the business and traditional, non technology savvy owners may find it a big learning curve to get to know how technology can help the business. Those who have had the experience or background dealing with technology are in a better position. It was also interesting to note that the age group of SME owners does not seem to have a significant impact on how technology savvy they are. The majority of the SME owners/managers interviewed are at the above 50 year age group but were all very technology savvy when it comes to the use of e-business systems in the company (Table 2).

SME owners are known to be emotionally attached and dedicated to their business, thus this relationship and owner's attitudes have direct impact on the overall business operation.

Owner attitudes are difficult to quantify or objectively define, thus, the interviewees' responses are analyzed qualitatively and take into consideration the subjective perspectives of each SME owner/manager.

The level and speed of use of IT and e-business in SMEs are affected by varying factors ranging from cost to user acceptance, but in the context of SMEs, the most influential factor is that of the business owner's attitude and perceptions towards IT and e-business. These attitudes can be of two extremes, either positive or negative, or neutral, where attitudes are not as strong as other factors such as cost and technical expertise. According to the data collected from the ten SMEs, all interviewees expressed very positive attitudes and reception towards IT and e-business use for their business. On the other hand, two SME owners (were not interviewed) demonstrated a lack of positive appreciation of the capabilities of IT and e-business strategies for the business (as expressed by the managers interviewed of SME3 and SME7).

Analysis of this SME owner's responses suggests that the main contributing factor to this is because the SME owner lacked the expertise and background to fully understand the potential and cost benefits associated. The main reason given was that more important things had emerged that needed priority treatment, and that no money and time was available to focus on that area of the business. This SME was the only one out of the ten that did not have a website at the time of interview, which reflects their slowness in adoption of internet technology (SME7). Also, if the owner decides that the current business needs and ability does not justify the cost for investment then the chances are that the business will not proceed because it is deemed not necessary (SME3).

It was evident from the findings that the background of the owners and their knowledge of e-business and technologies played a significant role in influencing the use of e-business or motivation to use e-business. Those SME owner-operators that had a background in large corporate organizations had more positive and knowledgeable attitudes to e-business use and adoption (SME2, SME3, SME4, SME5, SME6, SME10). For example, one owner-operator strongly believed that a website can act as a strategic tool for the company and these positive attitudes towards it are derived from her association with websites in her previous job (SME6).

Those that have been running their small business for many years are less acceptable of the transition to e-business. They often had to be convinced by people, and are often behind in using technology (SME3, SME7). This is not to say they are against it, but more that they are often less keen in initiating the idea of e-enabling the business. Some believe that control could be taken away from them if business processes are to be mostly performed by technology (SME3, SME4). The perception is that with more systems in place there are more rules to follow and that power shifts from the human to the computer. One SME owner mentioned that in the SME context, it is not surprising for SME owners to believe that only basic systems should be able to sustain the business (SME4).

Another SME interviewee who has both a corporate and a self-employed business background believes that a successful business cannot be purely based on an online presence. Unless the company brand image is established and customers know the brand, they will not be drawn to the website automatically. Getting people to know the brand, which involves promotion and marketing face to face, is equally important (SME8). Due to his background, this SME owner is clear that e-business strategy must be aligned with business strategy and that both should work towards common objective(s), an attitude he has applied towards his business. He commented that this is another deliberate strategy to make use of technology to realize business aspirations (SME8).

SMEs also have a perception that a small business does not really need state of the art technology or need to spend huge amounts of money on the best systems in the market (SME4, SME7). This perception implies that SME owners may not initiate seeking the best systems for the business unless the current system is deemed inefficient. Also, they do not want to be the first to do something or being too ahead of customers who may not be as ready (SME3). Also, they have the perception that due to their flexible nature, more things can be done by person power rather than electronically using technology (SME4).

On the other hand, several SME owners believed that they were ahead of their competitors in terms of e-business technology use. They commented that the systems they are using are actually quite standard, it was more a case that other SMEs have not yet reached that standard and is slow in realizing the need for e-business (SME1, SME9). One of these interviewees noted that he had done what was needed for his business to be ahead and be

competitive because he has seen good results from other people that gave him confidence in his investment (SME1).

Technology savvy SME owners are leaders in the use of best practice technology for their business (SME2, SME8, SME10). They are very conscious of what is available and in identifying areas that their business can use technology to enhance performance (SME8, SME2). They are also more proactive in equipping themselves with knowledge and expertise that they may not possess to help them engage with new technology, such as taking courses or attending seminars when they have the time (SME10, SME8). They are able to involve themselves in the implementation process and believe that the cost of e-business technology investment is justified for the long term benefits to the business (SME2). They are more inclined to include IT investment in the budget and as part of long term planning for future upgrades and growth (SME6, SME8, SME10). However, the timeframe for implementing or upgrading to better systems is affected by how fast beneficial results can be seen (SME3, SME7, SME9). The bottom line is that, due to the nature of SMEs, technology savvy owners may have to compromise their aspirations due to financial constraints (SME6). Table 5 presents a summary of the individual interviewees' attitudes towards e-business technology use in their SME.

**Table 5 Summary of individual SME owner/manager attitudes towards e-business technology.**

<b>SME1 – Owner</b>	<ul style="list-style-type: none"> <li>• Fully aware of the importance and capabilities of IT/e-business</li> <li>• Confident that the business has all the systems in place to be ahead of its competitors and to be up to date with technology</li> <li>• Open-minded about IT/e-business investments and has a positive attitude, an advocate of technology</li> <li>• Cost is a challenge but the company will still try to get itself up to date with technology and ways to make work more efficient, and to be ready for growth and to meet demands from stakeholders</li> <li>• Owner manages and updates the website with the help of daughter</li> <li>• IT and e-business has held strategic positions in the company</li> </ul>
<b>SME2 – Owner</b>	<ul style="list-style-type: none"> <li>• Very technology savvy and strongly believes that as owners they have responsibilities to keep the business updated and upgraded with technology and systems</li> <li>• Since the company has minimal staff and very limited out station sales reps, the website became a very strategic part of the business, where a lot of sales is generated from customers not reachable</li> <li>• Owner does not think that IT/e-business investment is such a big cost of the company because they believe the benefits out way the cost</li> <li>• Owner manages and maintains the website</li> </ul>
<b>SME3 – Manager</b>	<ul style="list-style-type: none"> <li>• Is well informed of the power of technology and that no business can operate normally without it</li> <li>• Her background from co-operate meant that she was already exposed to IT and e-business before she joined the company as the manager</li> </ul>

	<ul style="list-style-type: none"> <li>• The owner, who is the manager's mother, was reluctant to develop the website due to not being familiar with the technology</li> <li>• Cost of IT and e-business is very sensitive to this SME and manager still have some reservation that IT/technology will take the control away from the human and technology can be very rigid</li> <li>• The business is still trying to get itself up to level with fellow competitors in terms of technology and IT and e-business have not become a strategic part of the business as yet</li> <li>• Manager is project managing the website development after convincing the owner</li> </ul>
<b>SME4 – Owner</b>	<ul style="list-style-type: none"> <li>• Has positive attitude towards IT/e-business and also believes that the business can't function as well if no IT or Internet is used</li> <li>• Cost is still a major barrier and due to limited funds, the business is not satisfied with what systems are in place now</li> <li>• The owner comments that small businesses does not need state of the art systems but should at least have systems that are not as rigid and limited</li> <li>• Owner also has the perception that better systems, means that there are more rules to follow and the control shifts away from the human</li> <li>• The owner is not satisfied with the current systems, such as their website and inventory system because they are off the shelf products and are very rigid and limited, but cost was a constraint so the company didn't really have much choice</li> </ul>
<b>SME5 – Manager</b>	<ul style="list-style-type: none"> <li>• Speaks highly of IT and e-business. She Comments that IT-e-business is a resource and tool to help humans and cannot be used to replace human interaction</li> <li>• Manager has developed strategies to allow the website to be more of a strategic tool compare to now, because the sales generated from it is only around 10% which is not that significant</li> <li>• Manager and owners have a clear understanding of what technology is capable of, cost in investment is not as high when you look at it in the long run</li> <li>• IT and e-business systems in place now is sufficient for the current size and needs of the business</li> </ul>
<b>SME6 – Owner</b>	<ul style="list-style-type: none"> <li>• Is very familiar with IT and e-business and she has been involved with them during her corporate job and is aware of the many benefits. Owner does not think that cost is such a big factor because the investment will pay for itself in the long run</li> <li>• She believes that there are other factors such as getting the right people to do the job and develop the website because she has high expectations and wants the website to match what she wants</li> <li>• She comments that in New Zealand, we are behind in IT and Internet and many businesses have yet to embrace this wave, so it just makes all the process slow</li> <li>• Owner has yet to see the return on investment in IT and e-business because so far as the business is only few years old, but believes that businesses can't do with IT and e-business</li> </ul>
<b>SME7 – Manager</b>	<ul style="list-style-type: none"> <li>• Strongly believes in IT and e-business and they have the abilities to enable to the business to perform its operations more efficiently</li> <li>• But the company is still behind in technology compared to many of their competitors because the owners of the company have been putting off the plan to set up website and upgrade systems due to cost and time constraints</li> <li>• The manager has finally convinced the owners that there should be no more delays in setting up the website, though for the current situation, a DIY web kit set package is afforded</li> <li>• Also there have been some pressure from customers who requested to have access to products online, else the company will lose out on sales to other competitors with websites, and manager's persistence and constant reminder to owners of the need to have updated systems have paid off</li> </ul>

<b>SME8 – Owners</b>	<ul style="list-style-type: none"> <li>• Both owners of the company are strong advocates of IT and e-business and the company already has the necessary systems in place which makes them one step ahead of their competitors</li> <li>• The owners are also constantly on the lookout for new technologies that may benefit the business and also are updating themselves about technology so they will not fall behind</li> <li>• Strongly believes that the cost of IT and e-business is not high as it seems because the benefits out way the cost in the long run</li> <li>• IT and e-business are seen as having strategic value for the business. The owners are also in the process of updating their website to make it more appealing and also trying to get more customers to go online</li> </ul>
<b>SME9 – Owner</b>	<ul style="list-style-type: none"> <li>• Believes that though they have limited e-applications adopted when compared to larger businesses, they already have what is needed by the business and most probably is way ahead of their competitors in the industry</li> <li>• The business was one of the first in the industry to have a website and now the website is e-commerce website which is integrated with the inventory management system</li> <li>• Owner believes that with the new generation of customers, more will be drawn to the website for ordering and information</li> <li>• The owner is personally involved in update and maintenance of the website and fairly up to trend when it comes to investing in technologies for the company</li> </ul>
<b>SME10 – Owner</b>	<ul style="list-style-type: none"> <li>• Is very IT and e-business savvy, 3 years ago when he first bought into the business, the previous company was very weak in terms of IT and e-business systems and there were a lot of information threats and inefficient processes</li> <li>• When the owner started running the business, he had to change the company’s entire system to upgrade and update the existing systems, unless it was done, there will be many problems</li> <li>• The owner believes that the website and the systems linked to it are integral and strategic part of the business</li> <li>• The owner thinks that it is wrong for other small business owners to have the excuse of cost that is delaying in the investment of IT and e-business systems, because the prices of technology is decreasing and the cost involved will pay for itself in the long run on top of being able to make the business functions more efficiently</li> <li>• Owner wants staffs to able to perform their jobs better with the relevant systems in place for them</li> </ul>

## 6.5 Summary

The same attributes of SMEs that influence business strategic planning also translate to e-business strategies and application. SME owners are generally very aware of the benefits of strategic planning and e-business strategies that their business can take advantage of. Though terms such as e-business or e-business strategies are hardly used in the daily lives of the SMEs, e-business technologies and applications are in fact being used in many areas of the business. Most SMEs interviewed already have e-commerce websites and are regularly using the Internet and related applications for the daily operation of the business. The diffusion of e-business use may be slow due to resource constraints as well as owner attitudes.

E-business technology use and adoption generally follows an incremental trend, where new systems are added to accommodate business needs as the business becomes more complex. Owner perceptions, such as that technology use will remove control away from the owners or that it does not form a strategic part of the business, mean that SME owners still need much evidence and convincing to fully justify technology investment for their small businesses.

Much of SME's motivations for the use of e-business are related to using technology to keep up with competition, following the technology use trend, reducing manual tasks and increasing automation, increasing staff productivity, reaching more customers, achieving collaborative efficiency, and saving costs. Most importantly, owner attitudes, knowledge and background directly influence the level of e-business use in SMEs. Those SME owners with corporate background and many years experience in business generally have a good knowledge of technology and its benefits, and they bring this attitude into their SME business. In contrast, those who have been running small businesses for many years are less exposed to technology use and tend to trust more in what can be done by humans rather than technology.

## **Chapter 7 E-business Use in Wholesale SMEs**

Further to our understanding of the nature of e-business use discussed earlier, e-business applications are already being used for different functions in the SME wholesalers studied. However, the systems are not normally integrated but are instead used in separate facets of the business operations. Findings from the research are discussed in three areas: what systems are being used, the benefits resulting from their use, and barriers and inhibitors to e-business applications use.

### **7.1 Use of E-business/IT Applications**

The research found that although SMEs in the wholesale industry are relatively small businesses, they generally make relatively significant use of IT and are embracing the capabilities of e-business by using a variety of applications for their daily business processes (although some are still in their infant state or may not be integrated systems). Contrary to the perception that SMEs lag behind in IT and e-business awareness and adoption, it was found that, in fact, they have very good knowledge of IT and e-business, and that SME owners are generally quite open-minded about the capabilities of e-business and its benefits. They already have strategies in place to help the business take advantage of the advances in technology. Although ten SMEs represent only a small sample, the results suggest that SME wholesalers may actually be quite technology savvy and heavy IT/e-business users. Table 6 summarizes the e-business/IT applications used in the ten SMEs.

The most common e-business application used by these SMEs is the availability of e-commerce websites. Seven of the ten already have functioning websites (6 are e-commerce websites (SME1, SME2, SME5, SME8, SME9, SME10) while one is non-e-commerce (SME4), one of the ten is about to launch a new website at the time of research (SME3), while two out of the ten are still trying to work on building the website and has yet to confirm final launch date (SME6, SME7). A number of these e-commerce websites host online catalogues and allow customers to login and order products via online ordering system and shopping carts. The information about products is live and reflects current stock information as the website is linked to the inventory management system which forms the main information support system (SME1, SME8, SME9, SME10). The inventory management system and customer database system forms the foundation of the company's information system which is necessary for the operating of the business. Online orders are

compiled and directly printed out via the inventory management system, which means that there is no need to manually retype the order and produce the packing list (SME8). A web-based catalogue is also a common feature of both the e-commerce and the one non-e-commerce website (with no online transactional capability), which provides customers with 24-7 access to product information and enquires.

In some SMEs, field sales representatives carry PDAs, barcode scanning devices and a bar-coded catalogue when they visit customers. They are able to speed up the process of order taking by two to three extra customers per run using these technologies compared to using the traditional paper and pen system (SME8). Mobile and wireless services allow the field sales staff to promptly send the orders through the network without having to wait for a fax or when they return to base (SME2).

For communication and collaboration with stakeholders, such as customers, suppliers, logistic partners and employees, email is the most widely and commonly used Internet application. Customer enquiries are answered via emails and invoices and statements can be electronically generated and sent via email. Supplier correspondence and purchase orders are sent via email and sometimes networking and collaborative services such as SKYPE and MSN are used to communicate with overseas partners. Internally, staff communication and correspondence can also be done via email so that there can be good electronic records of communication (SME3).

SMEs are also able to take advantage of in-house web-based banking system that allows the business to do transactions in-house, such as transfer of payments to local suppliers, international telegraphic transfers for overseas transactions and trade loan application and payment facilities. All the business needs is a compatible operating system and a broadband internet connection to use this service, which is commonly used by all ten SMEs. Broadband Internet connection is used by all ten SMEs and considered to be essential for the company to function properly.

SMEs are also able to take advantage of web-based track and trace systems that are provided by logistics partners. SMEs can login into a service provider's web application to find out the status of a shipment or delivery. This also helps keep customers informed of where the location of their orders are at point of time without having to develop such tracking systems in-house, which is too expensive to be considered by the SMEs.

**Table 6 An outlook of what e-business/IT applications SME wholesalers are using.**

E-business/IT Applications	SME 1	SM E2	SME 3	SME 4	SM E5	SM E6*	SM E7	SM E8	SM E9	SME 10
Accounts, inventory and customer database management (e.g. MYOB)	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Internet	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Broadband	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Logistic service provider track & trace web-based application	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Online banking/transaction software (linked to bank)	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Web-based catalogue	✓	✓	✓	✓	✓	✓		✓	✓	✓
Email for external communication/collaboration	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Sales/marketing support system			✓		✓					
Website (non e-commerce)				✓						
Website (fully e-commerce)	✓	✓	✓		✓	✓		✓	✓	✓
Email for internal communication/collaboration			✓	✓	✓		✓			✓
Collaborative/networking services (e.g. SKYPE, MSN)	✓		✓			✓	✓	✓		
Barcode scanning device	✓	✓						✓	✓	
PDA's with wireless network (for field order taking)		✓						✓	✓	✓
Smart freight decision system								✓		
Graphic/design software system				✓						
Secure servers (backup)		✓		✓			✓	✓	✓	✓

\*Note: at the time of interview, SME6's website had been hacked, and the company is still trying to re-build one.

## 7. 2 Benefits of Use

The SME owners generally perceived the results of their use of IT and e-business applications to be favorable and beneficial for their businesses. As the result of the heavy use of computer systems and IT by SMEs, the businesses have become reliant on technology. The benefit of having proper systems in place greatly reduces stress on employees in terms of having to engage in tedious manual work (SME8). Staffs are able to work more efficiently and productively, reducing down times and increasing cost savings over time: “You always thinking long term. IT is a big part of business nowadays. Unless you keep up and keep evolving with IT, you get left behind” (SME8). One SME manager expressed that technology and e-business have definitely helped improve business functions and SCM as of now, but that there are many other tools that the business has not had a chance to use yet (SME5).

When orders are generated from the online ordering system, invoices are automatically printed via the website through the inventory management system, and the relevant information goes directly to the warehouse without the need for another person to process the order to convert it into the correct format (SME8). Since wholesalers often keep a large inventory and have hundreds of customers, automated inventory and customer management systems are necessary for the company to work efficiently:

“We have 8000 items and that's changing [...] maybe two or three thousand new products going up per year, and probably more than that so, you know, need to have a very streamlined package” (SME9).

Having a website is also a sign of professionalism because it shows customers that the company is keeping up with what has become the norm for business. It is a tool that gives customers more options and flexibility as a handy point of contact, and one SME manager expressed that it has become an integral part of the business with potential to gain maximum sales revenue (SME5). Many more customers are becoming more technology savvy and comfortable using the internet to shop online, thus keeping up with e-business applications and maintaining the website gives the business competitive advantage over those that are slow to realize this (SME6, SME9).

Having the website host an online product catalogue not only allows customers 24-7 access to product information but also help cut down on the cost of printing hard copy catalogues

and administration of promotional materials (SME7). One SME interviewee commented that customer feedback about the website has been very favorable and that sales generated from it are continuing to increase, prompting the owner to upgrade and beautify the site to even attract more attention and sales (SME8). The website is able to reach out to a lot more people than sales representatives can, thus helping promote the company brand digitally without extra costs (SME8).

A website backend platform also allows the business to collect website use statistics and customer buying behaviors to help develop strategies to improve the results generated from the website. For example, one SME commented:

“We find that the smaller retailers will do it in the evening. They would go home and log on to our website [...] We can log on to the backend of our website and see who has been browsing.” (SME8)

Off the shelf website packages are designed to be easy to build and maintain, thus SME owners feel that they need not put in a lot of effort and time to maintain the website. Managing the website is a simple and straightforward task, so that when the website is able to yield sales, it is an extra bonus for the company (SME9). SMEs find that cost, after all, is not the biggest issue with regard to the website because the cost justifies the investment and can pay for itself through cost savings and efficiency in the long run (SME2, SME5, SME8, SME10).

When SMEs have the necessary technology and e-business applications implemented they are ready in terms of technological capabilities to meet requirements of and comply with customer demands (SME1, SME10). Barcodes on products and barcode scanning devices allow product information to be collected, stored and manipulated and subsequently exception analysis and reporting can be obtained, enabling the SME to: “see what's selling, what's not selling, what they need to get rid of [...] Have exception report that works out what is lower than a certain threshold and they can just start deleting those lines” (SME8). It also allows for product identification and traceability which is especially beneficial for management of supply and demand (SME4).

Automating the sales process using barcode scanning devices and PDAs has helped speed up the order taking process, not only saving time and money but also increasing the productivity of sales representatives, who are able to serve more customers (SME8,

SME10). Automated systems also allow the business to be able to ‘mine data’ that would be useful to help in strategic decision making in predicting buying behavior, product sales trends and to analyze market movement:

“[You] can analyze your market better, your sales better, coz you got some much data on your hand [...] You can plan your strategies [...] see what's not selling, ok we won't go there, go somewhere else. So the computer has a good place in the company, even small companies should have computers I think.” (SME10)

Web-based track and trace applications provided by logistics partners is a good resource that benefits the SME because no extra cost is involved while at the same time the company can meet customer enquiries in a timely and professional manner (SME4, SME7, SME8). In one case, the introduction of a Smart freight decision making system helps the SME decide the best freight deals and delivery strategies, and helps save cost and administrative work by staff (SME8). It streamlines and improves the service to customer and avoids non-productive tasks like manual tracking by phone to and forth:

“[It's] evolving. That's what the PDAs are going to be doing, the website will come into its own soon, and you know like it's building all the time [...] Couldn't do without it. And the delivery system that's part of it, provides information which will stop people phoning saying, ‘Where is my order’.” (SME8).

With web-based banking systems, a lot of administrative and transactional costs are reduced and the business has better control of their accounts. Such systems allow the flexibility of everyday banking, as well as international transfers and trade loan facility administration, to be done without having to leave the office (SME8, SME7).

Email and the internet have especially helped communication and collaboration activities between the business and customers and suppliers, overcoming geographical barriers (SME6). Services such as SKYPE and MSN are powerful collaborative tools that are easy to use, popular and free, which means that more people can enjoy communicating without geographical barriers (SME7).

### **7. 3 Inhibitors and Barriers to Use**

Though there are many benefits that arise as the result of IT and e-business use, there were also results that did not produce outcomes anticipated by SMEs. SME owners mentioned their worry about the security of their websites. Since all product details are hosted on the website, it becomes a case of highly confidential information which unauthorized users can

gain access to (SME2). Even though websites need secure customer logins to access the full catalogue and for online ordering, it does not rule out the chance that non members can also gain access. Such instances could be competitors who disguise themselves or somehow find access to fellow competitor's websites to gain information on latest products and prices (SME6). Copying products and copyright infringements are big issues in the import and wholesale industry and the website can be a threat to this due to the easily accessible information (SME2, SME9):

“There's also one other factor that also drives our industry in the sense they want to keep information protected [...] They are concerned what the opposition may know about what they do and also about copying.” (SME9)

It can cost the business in terms of big losses in profit and reputation, thus SMEs are also vigilant about how much information they should give people access to. When SMEs start to restrict information on their websites, genuine customers might find it hard to use the websites and decide not to use it at all (SME9).

Despite the majority of the ten SME wholesalers having established full e-commerce websites, these have not yet become a strategic revenue source. One SME claims that sales generated from the website is less than 10% (SME5). SMEs commented that some customers have not made full use of the facility and some may not be aware of the service. The only way to improve this situation is to develop strategies for creating exposure and recognition for the brand of the company as well as the website (SME5).

According to some of the SME interviewees, the majority of retailer customers have not caught up with the technology wave. Most of them are not so technically oriented to be accustomed to purely making their orders from a website (SME6). They still prefer human contact and the traditional way of doing business: “Retailers, by and large, are not very technically oriented, so usually you deal with them via phone, sometimes via fax, but they are not very e-oriented persons because they deal with tangibles” (SME5). This interviewee suggested that new systems will not be effective if user acceptance is low, no matter how good the system is. This seems to be the case with wholesaler SMEs, because many customers are not ready to embrace technology as the usage rate is relatively low (SME5). Another SME owner also suggested that retailers actually do not have time to log on to the website to browse and order. Instead, they prefer to do it the traditional way to suit their

convenience by calling for information, faxing orders through and requesting to see sales representatives (SME6).

Progress in implementing a website or other related technologies can be delayed because IT projects can be put to the bottom of the 'to do list' if owners are not very keen or proactively involved with the project (SME3). Similarly, there may be a perception from some owners/managers that the website project or further upgrades is not a high priority area that is needed for the survival of the business, and that money should be spend on more immediate needs of the company (SME4, SME7). Many factors can contribute to this perception such as owner attitudes, their background and level of expertise, as well as the lack of resources such as time, money and expertise: "It was a matter of going, okay we need one, but it takes quite a bit of time and resource." (SME3)

As a result websites may not be properly finished and encounter functionality and user problems especially in the case of off the shelf packages (SME4). Another reason is that SMEs often want to see immediate benefits generated from the websites and new systems but in reality, IT investment takes a while to see the results (SME6).

Some websites may not be integrated with the SME's inventory management system due to incompatible systems, leading to double handling of information as well manual processing of enquires and orders received by the website (SME3). It is often hard to integrate inventory and accounting systems to the website backend because SMEs find it a challenge to keep the inventory accurate. Inaccurate inventories when tied to the backend of the website will show customers inaccurate product status information and can potentially cause a lot of complaints from customers:

"The stock might not be right, and you quite often physically go and see if we can fulfill this one order. And as soon as you start linking, like you know it's quite human our business, so that was one of the reason we decided we won't link it all in." (SME3).

Advancement in IT and e-business adoption is significantly slowed down when owners/managers have the perception that state of the art technology will take power or control away from them due to the need for systematic processes involved in their operation (SME3, SME4). On the other hand, SMEs that do not have an e-commerce website face high costs associated with administration and printing catalogues and promotional materials. Manual sales processes such as sales representative visits, manual order taking and invoice

processing are time consuming, labor intensive and costly, and are not best practices for the business to achieve growth (SME7).

The availability of bar-coding and scanning facilities by the SMEs are not used to their full potential when retailer customers have not fully implemented similar systems in their businesses. This means that while wholesalers have put in extra cost to make sure that their products have proper labeling and identifications on them, it is actually of no use to majority of their customers (SME9). It is hard for different parties of the supply chain to work together well when not everyone is on the same or similar level of technology; there will still be disconnects and incompatibilities:

“Like I said, the problem with that is most of our retailers don't ask for barcodes and most of our competitors don't have a unique barcode. I'd said we would one of the few.” (SME9)

## **7. 4 Summary**

SME wholesalers have already been using many e-business applications and information technologies, although many may be very basic applications that are sufficient for their small businesses. The most common e-business application is an e-commerce website, hosting an online catalogue, email, online banking applications and the use of web-based track and trace applications provided by logistic companies. These applications have thus far helped SMEs increase productivity, save cost and streamline operations, and have also lifted the standard of technology use in SMEs.

On the other hand, SME owners believe that there is still room for improvement in terms of maximizing customer acceptance and use of e-business for doing business. Sales from the website and online catalogue have not being able to yield a strategic level of sales revenue as yet. The issue is that not everybody within the supply chain is on the same level in terms of technology use and acceptance; there can be inconsistencies and incompatibilities with respect to system and information requirements. In order for new technology to be used efficiently, it is important that everyone in the supply chain is at the same level of technology use. The lack of ongoing resources and expertise also affect how successful e-business and technology use can be used for SME growth and in the future.

## **Chapter 8 Supply Chain Management and Wholesale SMEs**

This chapter focuses on the nature of SCM in the context of wholesale SMEs, their current practices and strategies and attitudes for using e-business/IT in SCM. The challenges and issues relating to SCM and e-business and productivity will be discussed.

### **8.1 Nature of SCM in Wholesale SMEs**

The term SCM was rarely used in the context of interviewing the SMEs. However, when this term was elaborated by the researcher as a definition along the lines of, “SCM is the management of all the processes and activities in the supply chain with the ultimate goal to be able to supply the right products, with the right prices, at the right time and to the right place”, the interviewees were able to identify how SCM was relevant to what they do. Indeed, some of the activities involved in SCM are currently being practiced by these SMEs. According to the SMEs, the term SCM is considered as too technical and formal a term to be used for their small business (SME1, SME7, SME9). Since SMEs are relatively inexperienced and uninformed with this side of the business it was hard for them to define clear objectives on effective strategies that could be established for it (SME1).

The understanding of the concept of SCM in the context of SMEs as involving the use of e-business technology solutions to aid collaboration and information sharing amongst and within the supply chain is very little known by SME owners. However, SME owners were able to identify more with the concept as a generic definition in managing supply and demand such that the goals are to be able to: “get the right products with the right prices at the right time to the right place and make sure that supply and demand is met and that the company is not overstocking or under stocking” (SME7, SME9, SME10). One owner’s perspective was that successful SCM basically involves a lot of planning, communication and management of the product cycle, which is the essence of the import/wholesale industry (SME10). Therefore, their understanding of SCM is all about planning and monitoring processes, and the success of it all comes down to how well SMEs are able to do this (SME2, SME10).

When asked the question of what they understand about SCM and what is normally done in their business, the interviewees responded modestly. For example:

“It starts with our rep getting a product made in China, then it comes to us and then it goes to shops and then it gets to the consumers. So, yeah we are the middleman, basically.” (SME8)

“With the supermarkets we used to have a distribution centre, and there's all our supply chain management. We are basically the beginning of the supply chain, though.” (SME8)

Interestingly: “Yes, a rough idea” (SME9), was the most common type of answer and feedback from the interviewees, which suggested that SME owners are not familiar with the nuts and bolts of SCM, but knew roughly what was involved. SCM for SMEs is not very technical and processes are carried out in the simplest forms to suit the context of SMEs (SME9, SME1, SME4, SME5).

The research found that amongst the ten SMEs interviewed, five owner-operators had direct previous experience dealing with SCM. Thus, they have a better understanding of what SCM involves compared to those SMEs that lack experience in this area (SME2, SME3, SME6, SME8, SME10). With the advantage of better knowledge and expertise in SCM, owner/operators were able to develop strategies for SCM in their businesses and subsequently influence the level of technology use in the supply chain process (SME3, SME8). One owner mentioned that it was important to be able to have control of the supply chain and up-to-date information accessible for decision making (SME2). SME owner-operators usually have full involvement in the whole supply chain process, mainly in monitoring and decision making, with paper work and administration delegated to staff (SME6, SME5).

The operational activities involved in the wholesale business are relatively straightforward when it comes to cooperating in supply chain management processes. The wholesale business seems to have to linger longer in the supply chain, dealing as the middle man between the original supplier of the goods and the end user being the final destination of the goods. Planning, researching and resources are the most crucial success factors for SCM for SMEs (SME10). SMEs have taken advantage of their logistic partner's systems such as web based tracking systems and “smart freight/logistics” to improve SCM, because separate investment in these systems was deemed to be not justifiable in comparison to the scale of the business (SME9).

The biggest concern is that the business will be unable to get suitable products and that tight cash flow might constrain purchasing. There was no evidence from the interviews that the wholesale SME supply chain is in anyway complicated or hard to manage. The processes and practices involved in the supply chain have become very straightforward and routine after the business has been in operation for few years (SME8, SME10).

## **8.2 Current SCM Practices or Strategies**

### **8.2.1 Focus on relationships**

SMEs believe that a critical success factor is for the business to be able to establish and maintain close relationships with their supply chain partners such as suppliers, logistics service providers and customers (SME4, SME8). It was considered that good relationships makes doing business more successful, convenient and in the long term.

An SME owner commented that, in terms of SCM, she is most focused on one-to-one relationships with suppliers, and that so far this strategy has worked well as the company has not had any big issues related to quality and prices from regular suppliers:

“Their quality is really good coz we have a one-to-one relationship. With China, we tend to be not buying from necessarily from the same supplier all the time.” (SME3)

Another SME interviewee suggested that establishing and maintaining a close relationship with suppliers was an effective strategy because they develop a better understanding of the SME as a customer and the products wanted, and because it was easier to negotiate prices and product specifications (SME8). Similarly, providing a good service and product delivery to customers, earns their trust and confidence in dealing with the business, which in turn can keep regular sales coming in. A close relationship with logistics and freight companies can also allow the business to be able to negotiate best prices and service deliveries and most importantly, better credit terms.

Technology such as IT systems, the internet and websites, are powerful tools that enable better SCM processes, but in the context and dynamics of SMEs, to establish a personal or close relationship is the main objective (SME4). This strategy can often be overlooked when SMEs are too occupied with daily tasks rather than working on the development this strategy:

“We have got a very good supplier [...] They design as well and they have got a whole designing department and therefore they are European influenced, rather than the Chinese type influence and designs, and that's why they go so well here.” (SME8)

### **8.2.2 Planning and communication**

In deciding products and specifications, especially for new products, the SME owner-manager, who is usually the buyer, occasionally travels to the source of products overseas before making finally decisions on purchase quantities (SME5). This serves two main purposes, to build on relationships with suppliers and being able to physically see the products before buying decisions are made, in order to minimize problems related to suitability to market and quality (SME6).

With proper planning and strategies, SMEs are able to manage the buying cycles and meet deadlines in order to avoid unnecessary and unforeseen expenses relating to delays, urgent orders and the inability to fulfill orders (SME10). SME owner-operators need to be extremely focused to be able to do this job well (SME10). E-commerce websites can help the SME buyer with research and information gathering but it is not always considered practical because it is important that the buyer can see the products and buy with confidence (SME9).

SMEs are aware that to be successful import/wholesalers they must be able to source the right products to suit the right market with the right price (SME8, SME7, SME9). For instance, a buying strategy used by one SME is to bring in products such as gift wrapping materials that have an European influence from Europe or ‘Kiwiana’ products sourced locally to suit the New Zealand market (SME8, SME10). As for cost savings and customization, SMEs buy in bulk volumes and repack into suitable packages to meet customer requirements:

“Things we buy here are all ready to sell, 80% and about 20% for cost saving purpose we actually manufacture here. So we buy in bulk and cut it down to size and ribbons we buy in huge bulk, and cut and make it smaller.” (SME10)

One SME comment was that SCM also largely involves ensuring that inventory is accurate at all times (SME9). The most intricate part is to be able to determine: “what you are ordering and that is where most of the technology is involved in terms of demand product

analysis” (SME9). However, in the context of SMEs, personal involvement and prediction of stock demand by sight and experience as opposed to computer software and models is considered a more accurate system. Since owners are involved from top to bottom of the supply chain, they have good product knowledge and better picture of the movement of goods, sometimes using their intuition to predict demand and supply (SME9).

Another important aspect of planning in SCM is to do with strategic product pricing and ensuring that products are offered at competitive prices. Executing effective sales and promotion strategies are then needed to make the plans work and products go onto the shelves of retailers before competitors. Finally, a crucial element is receiving owed money in time through properly managed credit control (SME3, SME10).

SMEs that deal mainly with chain stores usually plan their buying cycles and requirements earlier on the year to cater for peak seasons (SME3, SME8, SME10). Since larger retailers are usually very efficient with their purchase ordering schedules, the work of the SME is made easier because they have information to plan and organize ahead and prioritize tasks (SME8). Other than this, an SME wholesaler’s main source of sales revenue is via commission or in-house sales representatives that service metropolitan Auckland as well as nationwide (SME8). Other sales sources include the website, through promotional materials, the trade fair and walk in customers (SME8).

SMEs do not use sophisticated systems for managing the supply chain processes. However, effective methods used include drawing flow charts of when, what and who will be involved at each stage as a form of planning (SME2). Regular communication with suppliers, logistic partners and customers, either in person or using emails, is considered important so that everyone involved in the supply chain is well informed:

“We work closing with our freight companies so that our products are delivered to customers on time and safely [...]. With the flow chart I know where my products are at what time, and it just gives me reference and a way to trace things. It all has to work together smoothly.” (SME2)

### **8.2.3 Products, logistics and freight**

In managing their supply chain, SMEs are also looking at ways to improve and save cost on the logistics and freight side. One SME is currently looking at implementing new system

called Smart Freight system, which will help the business streamline the whole dispatch and freight decision-making operation (SME8). Inwards goods shipped from overseas basically take between 2-4 weeks to arrive in New Zealand from the time a purchase order is confirmed and this usually involves minimal managing and tracking. In comparison, local freight and transportation requires more management and attention as the company is dealing with many customers and possibly several service providers.

Timeliness is essential so that delivery demands are met, as well as being able to track and trace goods at any point of time (SME9). Usually there is a lot more pressure dealing with local freight and logistics, for which the company must have good systems and procedures in place to make sure this occurs without disturbance or problems (SME2, SME7). International and local logistic partners have web-based track and trace systems for businesses to track their order status which so far has been a useful resource for SME wholesalers (SME10). SMEs have been using their services whenever needed because it gives the option to track and track consignments without having to waste time in personally contacting service providers (SME6). They are usually user-friendly systems that can help the wholesaler give a valuable service to their customers (SME4).

Warehousing is an important aspect of SCM because this is where all the physical stock are stored and managed before being dispatched (SME5). SME wholesalers usually have warehousing in-house rather than contracted out. They have not got enough volume to subcontract this to service providers, and they are able to have better control of their physical inventory and can easily gain access to and direct feedback about their products (SME4). The warehouse is where the action starts for the process of transporting goods to customers. Well organized and systematic warehouses, such as having clear stock locations and mapping, help speed up the dispatch process because staff are able to work swiftly and productively, saving energy, cost and time (SME8).

Product identification is essential for traceability to happen within the supply chain and for SCM generally, because it involves more than just movement of physical goods but also information from one point to another (SME8). Good labeling such as barcodes not only helps easily identify the product, which makes ordering and dispatch faster and more accurate, but it can also store product information that can be used for analysis in the future (SME5). The majority of the SME wholesalers have 99.9% of their products fully bar-

coded and identifiable, while a few do not have full bar codes on the products due to inconsistencies from independent suppliers (SME1, SME2, SME8, SME7, SME9, SME10). It is important that wholesalers are able to put identification on their products as more retailers are advancing into barcode scanning, point of sales systems and inventory management (SME9, SME7). This is expected to rise due to efficiency and standardization of technology, suggesting that wholesalers that are not able to keep up with the requirements will potentially lose out on sales (SME9).

Finally, the currency factor can be a concern for SMEs because it is a very unpredictable aspect that greatly affects SCM (SME9). Currency fluctuation affects the cost of product as well as the handling of products from one place to another; i.e. cost of freight. Precautionary actions, such as ordering goods and bringing them in before peak seasons to save money on freight, or fixing exchange rates when they are favorable through forward contracts, give SMEs some peace of mind because there will be less variance in the cost of goods (SME10).

## **8.3 Challenges and Issues Relating to SCM**

### **8.3.1 Resources and technology**

A lack of resources, mainly expertise and money, has contributed to the low and slow use of e-business applications for SCM in the SMEs:

“Where I say we are really weak [...] the next link to our IT thing is the freight, the freight companies and things so, when we send out the orders, the warehouse is completely manual [...] again it is another investment of a couple of thousand dollars.” (SME3)

Another factor is that SMEs does not often see the value for the business to justify the added investment, at least at the current state of business (SME3, SME7). Thus, only simple and limited versions of systems are used, such as the internet, emails, website and portable sales ordering and scanning devices (SME7). Very few of the SMEs studied had a combination of all of the above systems. Available systems used by SMEs are mostly not fully integrated and still involve a lot of manual handling of processes and information due to SMEs taking an incremental approach to IT investment (SME3).

SME owners mentioned that in order for new systems to be effective, all parties in the supply chain must be at the same technological level as well. Otherwise, there will be

incompatible systems that will not work well together due to their inconsistencies within the network of stakeholders resulting in double handling, redundant and inaccurate information (SME9). In addition, inconsistencies in IT and e-business use create incompatible systems between the supplier and the customer leading to the rise of supply chain problems (SME9). Although SME wholesalers tend to have full e-commerce websites and product identification systems to enable automated and streamlined SCM and sales processes, they have yet to be fully used by their retailer customers. One owner commented that the rapid adoption of technology in New Zealand is different between the individual and the retailer, with retailer customers seem to be slower in the adoption process (SME9). Despite the efforts and money put into keeping the company ahead of few competitors, it has not made such a big difference to in terms of sales revenue from the website. Customer level of use is still not as popular as the traditional labour intensive sales process (SME8, SME5, SME9).

At times, SME owners are confused as to what customers really expect in terms of being advanced in technology. When there were no websites, customers kept requesting if there could be a website for them to use to order stocks for convenience, but statistics from online sales generated by the website is less than 10% of total sales (SME5, SME8). It seems that it would take time to get out of this cycle considering that the majority of the retailers are in the higher aged group that is generally not as quick in accepting use of advanced technologies (SME9).

Nevertheless, the challenge expressed by SMEs is that as more retailers start to use computer systems and applications for their business, there will be an influx of requests for standardized business procedures (SME6). This may include information such as electronic purchase orders, invoices, remittance, product identifications such as labeling and barcodes to be accessible electronically in the format that can be used in their systems (SME8). Therefore, SMEs will need to introduce a lot more systems and standards to comply with the demands or risk losing out on business to those competitors that are ready to oblige to their customers needs (SME7, SME8).

The general perception of SMEs is that New Zealand businesses are behind in using e-business applications for SCM compared to other technologically advanced countries. For instance, one owner commented that overseas suppliers such as China, are using e-business

to the full extent when New Zealand is only slowly catching up (SME9). However, SMEs expressed that there is still much room for improvement in achieving a more formal and structured supply chain process (SME5, SME7, SME8).

### **8.3.2 Suppliers and products**

Due to the recession, SMEs have experienced difficulties related to suppliers. Some regular suppliers have since closed doors or downsized which meant that a SME would need to look for new suppliers and build up that relationship again. Existing suppliers may have put up minimum order quantities to cover their costs of production (SME4). The result is that the supply of products will be disrupted until new suppliers are found and the minimum quantity issue will cause over stocking of products as well as cash flow problems:

“You got to be, when you buy currency or cover things like that, so you got to be really aware and working with the banks in that regard [...] We have challenges with our suppliers, so especially at the moment, you know New Zealand is so small, so trying to getting minimum quantities.” (SME3)

The challenge SME wholesalers face is how to find suppliers that are able to supply products that are suitable for the New Zealand market. Finding suppliers who are customer focused and have the initiative to understand the needs of local wholesalers is considered to be a critical success factor (SME5, SME10). The wholesaler must be able to react quickly in terms of bringing in new products, because in this industry, customers will become uninterested and bored very quickly if they have to face the same products for a long period of time. A successful SME has to be able to get the right products in and the right time (SME10).

Using overseas suppliers may involve problems. One SME commented that she had people in China helping her do the buying but when the goods arrived, they did not suit the local market, and she was left with a backlog of unwanted goods which cost her a lot of money (SME6). Cultural differences and language barriers are also challenges which affect the correctness of product specifications because different cultures may interpret one thing for another (SME10).

The quality of product is a major challenge that causes problems in the supply chain. The products supplied by the wholesalers maybe the right product type and the right price, but when the quality of it does not match up this can adversely affect the normal supply and

demand projections, subsequently affecting the proper management of the supply chain, and reducing customer confidence in the company (SME4).

Keeping the inventory and product information accurate is necessary for the operation of the wholesale business. This forms the heart of SCM, without which it is impossible to properly manage the supply and demand process (SME7). When product lines increase, (for instance, some SME wholesalers have about between 2000-8000 products in the inventory), it will be near impossible to manage the movement and perform analysis on it using manual approaches such as by observation, manually processed worksheets or inventory management systems meant for lower volume inventory (SME7, SME9).

SME wholesalers do not order from their supplier's website directly as many suppliers do not have an e-commerce website, and those that have do not show new products or complete product information necessary to complete a purchase order (SME9). SMEs assume that is due to confidentiality and security of information, so to safeguard themselves, they are reserved about what information they should display online, keeping it to the minimal as possible (SME9).

The ability to establish correct product pricing strategies is a challenge for SME wholesalers due to cash flow constraints, market instability and foreign currency fluctuations (SME7). This has forced some wholesalers to adjust price according to current situations, which eliminates the need to plan ahead. The result of this is creates unstable pricing structures, that often change, which discourages customers to commit to pre-order quantities. This will affect forecasts in demand and supply in the sense that no data is available to plan ahead, leading to uncertainties in SCM (SME7).

Many SMEs do not have the ability to secure forward exchange rates when the dollar is strong, so they are not able to determine a competitive pricing structure for their products ahead of time. One owner commented that there is a need to somehow set up currency management strategies to minimize the effects caused by variance in currency because it directly affects cost of importation and competitiveness of selling prices (SME9). Predicting what to order and matching that with cash flow is the hardest and most strategic part of the supply chain; anything after that is very basic and mostly involves production and transportation (SME9).

### **8.3.3 Logistics and freighting**

SMEs are also aware that currency has an effect on the cost of freight and logistics services, be it international or local freight, which directly influences the final costing of products: “It's affected by the exchange rate” (SME9). One SME manager commented that she does face constant challenge in dealing with international freight and regulation costs such as import duties, documentation and rates if the process is not monitored and managed properly (SME3).

Managing the cost and efficiency of local freight is more challenging than international freight due to one company dealing with many customers (SME6, SME10). The time frame is shorter which means that the company needs to work under pressure to get goods out to all customers in the shortest possible time. Most logistics and freight problems occur at this stage of the SCM, such as delayed deliveries, missing consignments, damages and bad services that will tarnish the wholesaler’s reputation (SME6). Thus, there is a need to have proper product and consignment identification so that the whereabouts of goods can be traced and the company has some assurance to rely on (SME10).

The cost of freight contributes to a significant fraction of the total operating expenses and percentage of costing on products. The challenge is to make sure that that customers are not overcharged while ensuring at the same time that the SME is not making a loss (SME3). The bottom line really comes down to proper strategic planning and coordinating available resources so they can be used efficiently (SME3).

The majority of the SMEs did not indicate that they have systems in place to strategically manage freight and the cost of freight aside from manual and human intensive approaches. Careful co-ordination with logistics partners so that correct information is always transmitted from one point to another in the supply chain is crucial for successful SCM (SME5, SME2, SME10). To carry this out requires human expertise and the systems to work hand in hand to achieve the desired results (SME8, SME10).

### **8.3.4 Retailer customers**

Some SMEs commented that they sometimes face pressure from customers, especially established chain stores, to meet specific requirements such as documentation, product specifications, packaging and labeling (SME5). Most of the time, the issues are manageable,

but SME owners are beginning to doubt whether it is worthwhile putting in the extra effort due to time, labor and money constraints (SME9). This situation has forced a few SMEs to compromise the chances of developing a customer base with chain stores and larger companies in order to be able to focus on smaller independent retailers that are easier to deal with because they do not have as many formalities to comply with (SME9).

This doubt is stronger for those SMEs that do not have those chain stores as their main sales revenue source (SME7, SME9) and may not have the resources to accommodate their demands. Another SME owner commented that they often had to put up with larger companies placing last minute orders or adding in more specifications on standard products. They have no choice but to keep up with them because for those SMEs, larger companies are their main sales revenue source and they are good payers, which is a strategic part of the business (SME10).

SMEs also expressed that the supply chain becomes hard to manage when money is tight, as everything evolves whether you have the funds to do the things you want to do. SCM is a cyclic process, where problems in one area will affect the next. Thus, when SMEs fail to collect the money customers owe them, and then funds are tied up, which in turn affects their ability to purchase more products for stock replenishment (SME3). There is also the dilemma of whether or not to continue to supply to customers who owe money, existing stock, so that inventory can be reduced and the sales figures pushed up to give good indications of financial performance in response to obligations to the bank (SME 7).

## **8.4 Summary**

The term SCM, similar to the case of e-business, is hardly used in the SME context, but is practiced by SMEs in the simplest and most generic form. It is a term too technical and complicated to be used casually, especially when SME owners may not be very familiar in this area. SME wholesalers have very simple supply chains, and they are not particularly complicated or hard to manage. SMEs are aware that, as wholesalers, they do play an important role within their supply chain as they engage in import, wholesale and distribution activities. Those SME owners that had previous work experience involving SCM had a better understanding of the importance of SCM and were able to develop strategies to apply to their business.

The critical success factors for SCM are to be able to engage in strategic planning, research and strategic use of limited resources; to achieve these objectives is also one of SME's biggest challenges. Nonetheless, SMEs have developed strategies in the areas of relationship management, planning and collaboration, and product offerings and logistics, to help keep them ahead of the competition. The use of e-business for SCM is even less understood because the two terms are hardly used together for these SMEs.

The challenges facing SMEs in regard to SCM can be grouped under categories that form most parts of a wholesale business: resources and technology, suppliers and products, logistics and freighting, and retail customers. The typical wholesaler supply chain is very simple and straightforward involving only small network of stakeholders, mainly primary suppliers, shipping companies, import/export authorities, logistics/transportation companies, and then finally the customer. Since SME wholesalers are not technical businesses that need to involve a lot of technology use, the majority of SCM challenges presently experienced by SMEs, do not concern the use of technologies or e-business strategies. Instead, they relate more to the non-technical components of the supply chain, such as finding quality suppliers, suitability and cost of products, the sales and delivery of the products, and customer relations.

The lack of resources, mainly expertise and money, have contributed to the slow development of e-business strategies and applications applicable for SCM. SME owners are less ready to approve extra IT investment if they are not familiar with SCM because they find it hard to justify the need to spend on some things that they cannot see the immediate results of. Unless everyone within the supply chain has consistent and compatible systems, collaboration and communication, which is a major success factor of SCM, will not be practical and successful.

## **Chapter 9 Discussion**

This chapter discusses how the findings of this study compare with those of prior research, and how they extend our knowledge of SMEs' engagement with e-business and strategy.

Strategy is a term not commonly used within the context of SMEs, yet research and knowledge tells of the importance of this element to the success and growth of business. An initial attempt to find out more about the relationship between SMEs and strategy was through secondary research of literature for more information on the subject of SMEs and strategies, and subsequently on the subject e-business strategies. The overall research question was actually very broad as it covered the nature of SMEs, e-business strategies and application, SCM and the wholesale sector, and hoped to find a correlation between these areas.

There were a lot of previous studies on SMEs and the adoption of e-business in general but not specifically on the SME wholesale sector, on SCM and the practice of strategic planning. It was anticipated by the researcher that with better understanding and insights to SME attitudes and behaviors towards e-business strategies, use and their extent of practice, would add to better knowledge for decision making. This research was of significance because it aimed to explore and gather findings regarding SME owner-operator /manager behaviors and attitudes towards e-business strategies and the extent to which they practice them.

The research aims were laid down to aid with information gathering for the writing of the literature review. The write up of findings from the literature review helped the researcher to derive the research questions that would be used for gathering information during qualitative research methodology via semi-structured interviews. The research aims and the literature review were intended to motivate the research questions.

This research and the findings are considered to be an extension of current research on SMEs and e-business strategy. The main point of difference was the qualitative research approach undertaken, which, studies in this subject area traditionally took on a quantitative approach. The aim was to gather rich, in-depth and elaborated data that would help us put the previous quantitative research findings into perspective as well as discover meaningful insights direct from the interviewees.

This research intended to explore people's behaviors and attitudes and the significance it has on their business in terms of e-business strategies and application. It was also intended that the research would reveal the relationships, if any, between the nature of SME businesses, characteristics of their owner-operators, attitudes and behaviors, and the practice of strategic planning for the business, in particular in terms of e-business strategies.

Major portions of this research confirmed the claims and findings from previous research as well as the discovery of new facts and insights that added to the existing knowledge base so that better recommendations can be made for the parties concerned. Since strategies are not tangible by nature, it is important and intended by the researcher to discover insights and viewpoints that would reveal SME attitudes and behavior towards strategy or strategic planning for their business.

It is important to note that well tested and reputable theoretical frameworks that fit well with larger more formal businesses are not necessarily applicable in the context of SMEs (Earl, 1989, cited in Hackney & Little, 1999). This is a very important factor to consider when developing systems, policies and frameworks for SMEs, which should take into consideration the nature of SMEs, their capabilities and limitations. This would explain the fact that not many researchers have attempted to find the relationship between SMEs and their level of strategic planning and in particular their extent of e-business strategic planning. Even rarer is the research focused on a particular sector of SMEs, wholesalers.

Indeed, there are connections between the above elements that ultimately affect the extent to which SMEs and SME owner-operators engage in e-business strategic planning. SME owner-operators or managers that have corporate background seemed to be more inclined and placed a higher emphasis on running the business with more formality and strategy. This research found that the practice of developing strategies is a rather formal approach for running and managing a small, often family-like business. Nonetheless, the theory and nature of strategy should be modified to match the context of business, in this case SMEs. SMEs are indeed not miniature versions of larger companies (Xu, Rohatgi & Duan, 2007) and in fact can be quite complex. The complexity was found to be due to the high influence and reliance of owner-operators/managers in the management and operations of the business as well as the challenges of being SMEs.

Previous research advocates that a business's strategic intent is supposed to drive e-business adoption (Levy et al., 2005). Theoretically, with strategic intent, businesses should be able to better focus on developing e-business strategies or business strategies in general (Mintzberg, 1987). The research found that wholesale SMEs did not have grand dreams when they started the business, often lacking a formal vision, mission statements or business plans. These SMEs can be seen as conceived and developed organically or fluidly. Previous research had not picked up on the words "organic" or "fluid" to describe the nature of SMEs and their growth strategy.

Similarly, SMEs do not have grand dreams to grow their business in a hurry, especially those SME owner-operators that have decided to operate a small business as a life style change as they approach semi-retirement. Their motives were that they wanted to slow down and be in control of their destiny rather than being employed under someone else or being under someone else's regime. This finding once again emphasized the significance of SME owner attitudes and background as the foundation for decision making, leadership and management styles within such businesses.

Furthermore, SME challenges were picked up during secondary research and discussed in the literature review and subsequently investigated in qualitative research because it was considered the other main contributing factor hindering SMEs from fully utilizing and leveraging e-business strategies and applications. A better understanding of the nature of challenges SMEs faced (Chapter 4) and some of the ways SMEs tried to solve these problems (Chapter 5) added to our knowledge in this area and provided guidance or solutions for businesses in the future.

Previous research and statistics mentioned the importance of SMEs to the New Zealand economy (Statistics New Zealand & MED, 2007). However, findings from this research had all SME owner/managers comment that they did not consider that they played any important roles, nor felt that the Government was treating them with any special attention as compared to bigger firms. Similarly, there were also previous investigations that found that SMEs felt that they were being treated as "second class" citizens of the economy (Massey, 2008). The findings of this research strongly showed that SMEs rarely rely on the Government and other supporting agencies while choosing to "paddle the canoe" themselves to find solutions for their business in their own ways. This reaction of SMEs

was a function of their nature as SMEs and also the attitudes and characteristics of SME owner-operators/managers (Chapter 2).

Previous research found that the role of the Government became important only when the Government, as law and policy makers, were able to provide solutions that were customized to suit SMEs and subsequently bring benefits that would lead to their sustainability and growth (Castells, 2000, cited in Harland et al., 2007, Fillis et al. (2003a & 2003b). This research, once again, revealed the relative insignificance of the role Government plays and the dissatisfaction expressed by majority of the SMEs studied. This is with respect to the Government helping them survive in the economy longer and in taking SMEs into the future by leveraging the capabilities of e-business technologies. This research also found that SMEs did not have good impressions of their Government similar to the findings from previous research (Messy, 2008). The significance of this research finding once again revealed the weakness of the role of the Government and the attitudes of SMEs in response to their plea for help.

Wholesale SMEs go as far as to say that they cannot rely on the Government and there is really nothing much their business can take advantage of to suit the needs of the business based on present governance and policies. The SMEs believe that the Government could be of tremendous help for the success and profitability of their business if they really set out to design policies and initiatives tailoring to the needs and nature of SMEs. The main areas of concern are taxes, employment relations, finance and technology and there must be ongoing support until the business reaches maturity level and is strong enough to grow on its own.

Statistics New Zealand, found that majority of SMEs have a life span of about 3 years, this research found that some SMEs are showing signs of belonging to this statistic. Some of the businesses have been in business for nearly 10 years, but have changed ownership few times. New entrants to the market are more prone to business failures due to the challenges they face in terms of business sustainability and the lack of resources. They also lack the industrial experience and expertise to overcome being fated as one of the reported statistics. However, this was not such a gloomy experience for SMEs, because of their nature of being opportunist and innovative, able to quickly taking on other projects.

SME owners in this research are aware and have the correct perceptions of e-business and how these technologies are the future of doing business; thus they have invested what can

be afforded to bring their business up to standards to be competitive. For many of the SMEs, they had only the basic e-business systems, thus if the business suddenly grows, it can overwhelm the current systems and create inefficiencies and bottlenecks, which would be more drastic with the absence of strategic planning. SME owners/managers interviewed all expressed that e-business applications are important for their business and that businesses really cannot function properly without the use of e-business and IT systems, but did not mention the presence of specific e-business strategies due to their absence of use.

In practice, SMEs are still relatively slow in applying state of the art technologies to their business, and e-business strategies are not commonly known to be a strategic side of their business. On the same note, an important point expressed by some of the SME owner/managers was that though they could afford to install state of the art technologies, there may not be the need to do so because it also depends on how many of their stakeholders (i.e. customers, suppliers and other parties in the supply chain) are prepared to use those technologies when dealing with each other. SMEs would chose not to proceed with investments in more technology because they would be discouraged by the lack of use by their customers resulting in wasting of valuable financial resources. The majority of the SMEs interviewed believed that they already had the necessary technologies in place to meet the needs of their business at present and the near future, while others said that affordability and the lack of resources were still issues.

On the contrary, some SMEs also experienced a dilemma when they received requests from customers or suppliers to upgrade their systems or have e-commerce websites so that doing business would be more convenient and streamlined. This research showed that SMEs often faced many dilemmas, and being small meant that it does become a mission to strategically plan their resources to create win-win situations. Therefore, finding a 'one size fits all' solution is extremely challenging for SMEs due to their varying needs and their quick response to the dynamic and volatile changes of the market.

Thus far there have not been any dedicated studies focusing on wholesale SMEs and their use of e-business strategies and applications in New Zealand. Current research from different countries regarding SMEs and the use of e-business and technologies showed that in some countries SMEs were already actively using e-business (such as Germany (Koenig & Wigand, 2004) while others are still slow to take advantage of the benefits (such

as UK (Fillis et al. (2003a) and New Zealand (Bland, 2004). In general, SMEs in New Zealand were considered “sluggish” in taking advantage of e-business technologies according to previous research (Bland, 2004). However, this research of New Zealand wholesale SMEs showed otherwise because SME owner-operators/managers seemed to have had enough awareness of the benefits and nine of the ten SMEs interviewed were engaging in at least one form of e-business to help their business operate properly and competitively. The SME owner/manager’s business experiences and attitudes towards e-business have a direct influence on the level of use in their business.

Previous research found that the pattern of e-business adoption by small businesses mostly following a trial and error or “zig zag” pattern, with no clearly defined pattern or interval of implementation (Poon & Swatman, 1999, cited in Xu et al., 2007). Researchers found that the absence of the practice of proper strategic planning, growth strategies and market uncertainty, together with SMEs’ constant lack of resources, contributed to this nature of SMEs (Xu et al. (2007). This study found this to be true, and other factors were also to do with owner attitudes, technology acceptance, benefits of use and pressure from competition and customer requests which compelled SME owners-operators/managers to upgrade their operational systems. This process does not need to go through management approvals, because the SME owners/managers were the sole decision makers and they could quickly say ‘yes’ or ‘no’ in response to situations that arise. SME owner/managers do not believe that there is a need for them to follow strict procedures because they are aware of the need to react to situations as they arise. Thus, their form of strategic planning is very casual and flexible, making allowance for other ad hoc situations as they arise.

Prior researches mentioned the importance of strategy and often advocates and emphasizes the need for every business to possess a set of strategies for operating and managing their business (Raymond & Bergeron, 2007, Storey, 1994, cited in Levy et al., 2005). Some researchers also mentioned in their findings that strategic planning and execution were under developed and undermined, especially for SMEs (Levy & Powell, 2000). This was once again confirmed from this research, with majority of SMEs saying that they hardly perform strategic planning, at least not in the formal way, nor do they think it is necessary for their small business to do so. SMEs expressed that since their business was not complex or highly technical and that they were so familiar with the operations of the business from bottom to top, they do not need to do formal planning. They could make decisions based on

experience and their familiarity with a mostly routine set of business activities. SMEs also realized that they may have neglected the importance of strategic planning for their business, having the perception that it is important, but due to resource constraints, they were forced to have to spend more time working 'in' rather than 'on' the business.

The context of terms used for business, need also be adjusted to suit SMEs and many terms can be rather new to SMEs even though they may have already been using and practicing the systems within the business. For instance, during the interview when asked about the terms, "strategies", "e-business strategies" or "supply chain management" and "SCM", most of the SMEs mentioned that those terms were rarely used in the operation of their business. Previous research on this subject area has traditionally being administered via mass quantitative approach such as surveys or structured interviews. The terminologies used in those surveys or questionnaires may have appeared vague and unexplained, and respondents may answer questions without fully understanding the question or may misinterpret the meaning of words. This situation with terminology and clarity of words would be easily dealt with in a qualitative research method because the researcher is able to explain and clarify terms that may be vague or unclear to the respondents, face to face.

There could be some discrepancies when a majority of previous research found that SMEs were actually slow in using e-business applications and having e-business strategies in place, despite SMEs being innovative and opportunist by nature which would suggest that they would be fast in adopting new systems. In contrast, this research, found that SME wholesalers were actually not very "sluggish" in making use of e-business and developing e-business strategies for their supply chain and operations, since all ten SMEs were engaging in some form of e-business. It was hard to give a dedicated role that e-business and SCM play or whether e-business strategies were used in SCM, due to SME's operational size and transactional volumes. There were sufficient evidence to say comfortably that SME wholesalers were using e-business for their SCM, just in more simpler, generic and informal manner than larger businesses, in order to fit the SME wholesaler context.

Furthermore, since SMEs paid high emphasis on building relationships with their stakeholders or members of their supply chain, SCM was vital for SME wholesaler success, which could be considered as their strategy for their business. Though SCM, in theory may

sound complicated and not practical for SMEs, which would explain why hardly any literature attempts to connect the two, wholesale SMEs expressed that their entire business operation is their supply chain.

SMEs are very innovative by nature, most of the time in a very adaptable and flexible manner. As such, formal strategic planning may never occur because it would not be practical. The traditional meaning of strategic planning, when applied in the context of SMEs, also needs to be innovative to fit with their nature. SME owner-managers cannot see that formal strategic planning could be directly applied to their business. Rather, occasional adjustments from time to time are made, which may not be called strategies per say, because strategies are longer term plans that are set towards a particular direction.

Very little previous research has attempted to investigate the relationship between the nature of SMEs and the extent of the practice of e-business strategic planning. It was important to note that firstly a business must possess a set of business strategies in order to better transition into developing the next level of strategies for their business, i.e. e-business strategies. This could be seen as an incremental process. SME owner/managers management styles reflect their straightforward, informal and linear business structure. Previous research mentioned the family like structure of SMEs (MED, 2007), and this research found that indeed, SME owner/managers and their employees (mostly consisting of family members) often work side by side and often 'chip in' and multi-task whenever needed. If this continued harmoniously, the SME would be successful in their business operations and the work environment would be highly desirable. On the other hand, the flexibility and attractiveness of such management and organizational styles can be taken advantage of by some employees.

Some SMEs voiced that having proper systems in place will help them in managing their employees. Some SMEs implemented computer systems so that better control could be achieved through being able to record, monitor and track employees' flow of work. Technology had been used to monitor staff operations and work flow, measure efficiency and productivity as well as customer behaviors. SME owners were also catching up on use of e-business and seeing that it is actually a major part and crucial tool for their business. SME owners wanted to empower staff to be able decision makers, thus staff development and well being were also evident in wholesale SMEs' management strategies. The

availability of better systems could help employees reduce the amount of manual work, freeing more time to work on strategic functions of the business and thus allowing more job satisfaction to prevail. Previous research suggested that most job seekers did not prefer to be employed by small businesses due to the lack of opportunities and instability (Statistics New Zealand). SME wholesalers expressed that one of the more serious challenges is their inability to attract and retain high caliber employees and expertise.

Previous research also found mild signs of SMEs gaining competitive advantage with their use of e-business (Pavic et al., 2007). In this study, New Zealand SME wholesalers expressed that they had gained competitive advantage over those competitors that have yet to implement e-business systems. The benefits of e-business were found to be motivational factors leading SMEs to implement and integrate e-business to their operations. Previous research, found that cost and expertise were the major factors hindering SMEs from engaging in e-business systems implementation (Statistics New Zealand). This research found that SMEs used e-business applications and systems with the viewpoint that the long term benefits would outweigh the initial costs and those current market prices were not considered too unaffordable. Findings from previous research suggested otherwise due to the past cost of technology being relatively high and not easily afforded by SMEs.

Overall, this research helped confirm many of the previous research on the nature of SMEs and their way of engaging in business. It helped extend our knowledge in understanding specifically the nature of wholesale SMEs and the influence of owner-operator/manager attitudes, background and experience on the practice of developing e-business strategies for their SCM.

## **Chapter 10 Conclusion**

This chapter will discuss how the findings and discussions outlined above relate to each other in terms of providing a conclusion to the research aims and research questions. There are four main areas: (1) the significance of the attitudes and perspectives of key personnel towards the use of e-business technologies; (2) the extent of SME engagement in planning and strategy formulation towards e-business application; (3) factors that facilitate or influence the development of e-business strategies and applications in wholesale SMEs; and (4) the extent to which e-business strategies are used in the SCM of wholesale SMEs. Finally, the implications and limitations of the study will be discussed, together with suggestions for further research.

### **10.1 Significance of Attitudes and Perspectives of Key Personnel towards the Use of E-business Technologies**

This research found that attitudes and perspectives of key personnel such as the owner-operators or the managers have a direct influence on the level of use of e-business technologies in their businesses. Since SMEs are small, simple and close knit organisations, key personnel have a very close relationship to the business, and their attitudes and perspectives are directly applied within the business.

All of the ten SME interviewees demonstrated an open mind, positive and receptive attitude to e-business technologies and their capabilities. Evidence of their positive attitudes and awareness is that all ten SMEs have either already established e-commerce websites or related applications or are in the process of launching a website and related applications. SME wholesalers in New Zealand generally appear to have a high knowledge of the benefits and capabilities of IT and e-business, suggesting that there is sufficient awareness and information about the benefits of these technologies.

SME owners/managers generally believe e-business use can be seen as a strategic tool and resource for the business. They also have a positive perception that the future of doing business is engaging in e-business and that if they delay in being part of the wave, then they have a chance of losing to other competitors who have been faster to adopt and use this technology. SME owners/managers believe that the business can take advantage of many applications and use state of the art applications, but also that it does not totally eliminate

human labour. Humans are still needed to work on and ‘push the buttons’. E-business technologies and applications are able to help increase efficiency and productivity, streamline operations and processes, and reduce down time and costs. These are the factors that help shape the perceptions and attitudes of SME key personnel toward a positive and business oriented view, rather than based on their own level of knowledge.

SME owners that have had previously worked in corporate organizations or have operated their own businesses believe that e-business is cost effective, and that the investment in e-business and related technologies will benefit the SME in the long run. They are more forward thinking and accepting that although the initial cost could be high, the investment will pay for itself in the long run. SME owners with these attitudes and perceptions are always on the lookout for new systems or technologies that the business can use to increase efficiency, productivity and save cost. Due to their forward thinking and attitudes, SMEs believe that they can be ahead of their competitors if they are well prepared in the use of technology. These SMEs believe that they are ready for growth and have systems that are ready to meet the needs of stakeholders such as suppliers, customers and logistics partners.

However, SME owners that might not have been exposed to the benefits of or experienced the capabilities of e-business and technologies could be less accepting of expensive investments and impatient in seeing the results. These SMEs would tend to just invest in the most basic IT systems that the business needs to operate on without taking into consideration productivity, efficiency and cost saving factors in the long run. SME owners that fall into this category tend to believe that the business can still run and survive without much technology, as they have done traditionally for many years. Thus they need much convincing and evidence to change their perceptions and attitudes about e-business technologies and how they will contribute to their business and preparing it for growth.

## **10.2 Extent of SME Engagement in Planning and Strategy Formulation towards E-Business Application**

SME wholesalers in New Zealand, generally engage in short to medium term strategic planning, with occasional long term strategic planning. The approach to these strategic planning activities is informal, flexible and agile, which means that plans can easily change from time to time as SMEs react to a current situation rather than what had been planned. The need to be able to react to the current situation and adjust plans to meet immediate

objectives or needs of the business, have contributed to SME owners/managers' less than serious attitude towards the need to formulate long term and strategic plans.

The majority of SMEs believe that planning is important to help them keep ahead of the overwhelming nature of their jobs and especially so for the industry they are in. SME owner-operators tend to spend more time “working in the business” rather than “working on the business”, which explains why they lack formal strategic planning and development of executable strategies. When key personnel have no choice but to have to spend more time working in the business, such as on routine daily tasks and operations, it reduced their time and stamina to sit down and draw up plans or formulate strategies, such as may be accepted practice in bigger organizations.

SME wholesalers generally do not have grand dreams for their businesses and do not necessarily come into the business with a set vision. They usually do not start or buy into the business with formal mission statements but rather with the modest motivation to be their own boss and make a profit for a living. SMEs are relatively straightforward when it comes to aspirations for their business and this can be reflected in the style of planning and strategy formulation practiced by them. The extent SMEs engage in strategic planning for e-business strategies and application corresponds to the extent they engage in business strategic planning more generally. If SMEs do engage in business planning and developing strategies for running their business, there is also a high chance that they do include e-business strategic planning and application in their business strategies.

However, although there is a high chance that they will also engage in developing e-business strategies and applications, it will not be as thorough and as detailed as in, for instance, planning for products for the peak seasons and forecasting order quantity. Wholesale SMEs are not usually highly technical businesses so there is often a perception that there is no need to engage in formal strategic planning for e-business strategies and applications.

Since SMEs are small businesses with linear organizational structures, final decisions for implementation of e-business applications or application of e-business strategies are done by the owner-operators or the manager. It is a fairly simple decision-making process that does not need to go through layers of authorities or departments. Provided the business has all the required resources and expertise available through planning or during final decision

making, the plan and strategy can be executed with agility. On the other hand, the e-business plan and strategies may take a long time or not even be executed due to changes in priorities or the unavailability of resources.

### **10.3 Factors that Facilitate or Influence the Development of E-business Strategies and Applications in Wholesale SMEs**

There were some well noted factors that influenced the development of e-business strategies and their applications which can be primarily classified under two aspects, personal factors and resource factors. Personal factors include owner's attitudes and perceptions, owner's background, owner's level of expertise and owner's amount of experience. Resource factors are the availability of resources such as money, expertise, employees, and time.

Owner's attitudes and background have as much influence as the availability of resources to make the plan and strategy a reality. If there are no available resources to implement and sustain e-business strategies, no matter how determined the SME owner is to execute those strategies, there would not be much success. Such is the reality of being SMEs where operation of the business is constantly faced with resource constraints; resources need to be used strategically and wisely to sustain the business.

The research also found that motivations to use e-business also facilitate and influence the development of e-business strategies for the business. Motivations for e-business use are related to the capabilities and functionalities of e-business, which SMEs believe will benefit the business and keep it up to the standard of practice. SMEs are opportunistic at heart and can quickly take opportunities when they arise given that they have the capabilities to do so. SMEs are also constantly looking for opportunities to cut operating costs and many owners are already aware that good systems can help cut cost in the long run, even though there could be a high start up cost. On the other hand, a small majority of SME owners still have the challenge to accept the initial cost involved as well as overcoming the belief that they will lose control of their business should they heavily implement and rely on technology to automate processes.

External factors not within the control of SMEs also influence the need to develop e-business strategies and applications for the business to be successful and competitive.

Pressure from competitors is very sensitive to SMEs and being the nature of SMEs, they tend to react fast to those competitive pressures. This is once again subject to the availability of resources and expertise. SMEs place high emphasis and value on establishing and maintaining good relationships with stakeholders such as suppliers and customers.

As the middle man between suppliers and the customers, SME wholesalers have constant pressure as well to meet the technological requirements of both parties of the supply chain whenever such need arises. Though this was not so significant in the case of SME wholesalers, the bottom-line is they still worry being able to meet the demands of suppliers and customers so as to keep the ongoing business. Stakeholders are also catching up with technology and the use of e-business applications as this becomes a standard requirement with increased business complexity and advancement of technology. Thus, SME wholesalers are also influenced to keep up with what everyone is doing the best possible way, which further requires owners to be more capable in strategic planning as well as reacting with nimbleness. SMEs believe that they can take advantage of being both strategic forward-thinkers and opportunists.

#### **10.4 Extent to Which E-Business Strategies are Used in SCM of Wholesale SMEs**

SCM is very rarely talked about as a term in the SMEs. The SME owners understand SCM as a generic term that involves managing the demand, supply and delivery of products, to satisfy customer requests and minimising problems in the supply and demand of products. SME wholesalers believe that these processes should be managed for their business to be profitable and successful.

The SMEs also believe that their supply chain is not complicated and the processes are very straightforward. Since SME wholesalers studied are not in an industry that is highly technical and does not involve much technical operations and processes, at first thought, SMEs did not draw the connection of the need for e-business integration into SCM. However, SME owners believe that the hardest part is to do with the expertise in accurately forecasting demand and supply quantities as a result of the volatile yet small New Zealand market.

At a fundamental level, wholesaler business activities and operations are SCM as the nature of the industry is that it is heavily involved with the movement of information and physical products from one point to another. Wholesalers play a pivotal role in the entire supply chain because they are acting as the intermediary between the suppliers and the customers and the whole logistics of continuing the chain falls on them. Since SMEs are linear structured organisations, the entire operation of the wholesaler is basically part of the supply chain, both within and external to the company. E-business strategies and applications used for the business also refer to those applications being used in the SCM of the business.

The research found that most parts of the SME supply chain are still very manual with the most important part of SCM, being predicting demand, supply and quantities, still done by humans. Some SMEs are using inventory management systems that can help produce reports on inventory status, sales trends, customer buying behaviours and trends, which provide important facts and figures. Nonetheless, the final decision on the amount to order and when to get in the goods is still on the shoulders of the SME owner as they have yet to fully trust the validity of pure figures generated by the computer systems. SME owners usually base their final decisions on purchasing in the amount of information they have on hand as well as their knowledge and experience in the market.

The extent to which e-business strategies are used for SCM is low when referring to their use purely for SCM. However, since SCM is the primary function of the wholesaler, SCM and the business operation can be seen as similar, if not the same. From such a perspective, the extent of use of e-business strategies and applications is fairly high amongst the SME wholesalers studied when considering their small size and scale of business. All of the ten SMEs interviewed have implemented e-business strategies and applications to some extent. Some SMEs believe that they have already implemented all the systems and e-business applications that the business needs and are ready to meet the varying needs of suppliers and customers. They consider that they are ahead of their competitors and are ready for growth and the increase in complexity of the business moving forward. On the other hand, some SMEs are still slowly implementing e-business strategies but are aware that they must not delay for fear of falling far behind their competitors who have already made full use of e-business capabilities and achieved positive results. The extent of use of e-business and system integration within the SME's supply chain and its partners also depends a lot on the

consistency of use by all parties in the supply chain. E-business strategies and application in SCM will only be efficient if everyone is on the same level of technology use.

Overall, the research found that SME wholesalers are aware that strategies and planning are important aspects of running their business. In as much as SMEs want to spend more time on the formal strategic planning side of business, the nature of their business, their roles as owner-operators-managers, their background and attitudes, and the constant challenge of lack of resources, cause them problems. It is believed that more initiated and readily available support from authoritative figures such as the Government and the financial institutions will help SMEs overcome these challenges relating to the business or e-business, so that the SME can grow in a healthy trend.

## **10.5 Implications**

### **10.5.1 Implications for theory**

This study was able to contribute to existing theory and knowledge to help us better understand the areas of strategic development, the wholesale SME industry and e-business. Traditionally, studies on e-business as well as SMEs have been conducted using quantitative research methods. Through administering the research using a qualitative approach, the study was able to produce in depth empirical findings that help extend our understanding of e-business and the world of SMEs and, in this case, e-business in the context of wholesale SMEs. The research was able to explore the relationship between the motivations, attitudes, backgrounds and experiences of key SMEs personnel (i.e. owner-operators/managers) and extent of the practice of strategic planning and execution of those strategies.

The study also contributed further to our understanding of SMEs, specifically wholesale SMEs, their characteristics and how these characteristics affect the practice of strategic planning and execution. These factors are important to take into account for decision making in the area of e-business use and subsequently the contribution towards the performance of the overall business. Though SMEs are relatively small, simple and informal business units, the formality of strategic planning and development, must be taken seriously, be it for the overall business or in the context of e-business integration. The foundation for a strong business is very much related to the strategies the business is able to

create for itself and the study shows that it affects how well the business is able to handle the needs of the business as it grows or becomes more complex, such as needing more complex e-business technologies to support an efficient and profitable supply chain.

It is important to note that business or technological terminologies may have slightly different meanings, level of complexity and practicability when applied in the context of SMEs. Similarly, a research on strategy and strategic planning behavior, because the matter of concern is intangible and very subjective, is better suited to be carried out in a qualitative approach. Through this study, theory and knowledge on SMEs in general can be viewed in a broader sense. In order to get more specific or in-depth insights, we need to explore the context of the SMEs in terms of their industrial category. Theory and application of e-business and strategy also need to be modified to suit the context of SMEs in order for SMEs to better integrate them into their business operations.

#### **10.5.2 Implication for SMEs**

The research found that although SMEs are small in size, they still must engage in proper strategy formulation and planning. Strategic planning and strategies are important for businesses to set directions and focus their efforts, regardless of size. SMEs are not too small to take advantage of the capabilities of e-business and SMEs should continually develop e-business strategies for their business as the business grows more complex. SMEs can take advantage of e-business and develop strategies which they can use to bridge the company size gap as well as gain competitive advantage.

#### **10.5.3 Implications for government and financial institutions**

The research demonstrated that SMEs are not getting enough support and funding from the Government and financial institutions. Although SMEs expressed that they do not expect that the Government can offer much help, any help that they can offer will help solve some of the daily challenges of running a business. The strict regulations, high tax rates and long time taken to action initiatives bring more worries to SMEs. The Government and financial institutions need to do more to bring the confidence and trust level of SMEs up, through flexibility with tax payments, funding and faster action in response to requests.

## **10.6 Limitations**

A limitation of the research is that the sample size was small and consequently the results may not have high level of trustworthiness and authenticity. The original aim was to be able to interview more than one person in each organization so that different perspectives could be obtained for analysis. Unfortunately, the SMEs that participated were only able to offer one person from the company for the interview due to the demanding nature of their business. This meant that researcher only managed to get a single (although high level) perspective from each of the ten SME wholesalers – either the owner-operator or the manager.

Another limitation is that the research was conducted with wholesale SMEs from the metropolitan Auckland area and with a limited range of products. Thus, the findings of the study may not be representative of all SME wholesalers in the New Zealand context. The SME wholesale industry is made up of many businesses with different types of wholesale commodities thus they can have different nature, business needs and way of strategic development.

## **10.7 Further research**

The same research methodology can be applied to a bigger sample to test if similar results prevail. In order to get perspectives from different personnel of the organization, there should be at least two or more interviewees from the same organization. It will also be interesting to find out how the ten SMEs that participated in the study are performing in regards to their business strategies and e-business plans, after a period of time, for example, one year anniversary of the study. In this way, the findings can be extended and strengthened and variances analyzed. Further research could be carried out within different types of wholesale SMEs to find out if the type of wholesale business affects the nature of e-business strategy and application. This research also focused on SCM and the findings demonstrate that there is a need for stakeholders of the supply chain to be consistent and compatible in terms of technology use, integration and collaboration in order for transactions and operators to be seamless. It would be useful to extend the study to the perspectives of the wholesale SMEs' business partners.

As this study found that SME owner-operators/managers' experiences, motivations and attitudes for business and towards e-business affect the way strategies are developed and applied, further study can be conducted to explore if wholesale SME owner-operator/managers' cultural background and upbringing affects the development and execution of strategies, especially if New Zealand is not their native country.

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## **Appendix 1 The Interview Guide**

### **E-business Strategy and Application in Supply Chain Management (SCM) by New Zealand Small to Medium Sized Enterprise (SME) Wholesalers**

#### **Interview Guide -Indicative Questions:**

1. Can you briefly explain what your business does?
2. How long have you been operating?
3. What is your role in the company? Your motivation for starting the business?
4. How many employees/staff work for the company?
5. Would you say that you and other staff often take on a multiple roles in the company, i.e. Sales / marketing/accounts customer services /purchasing /warehousing/ dispatch, etc?
6. What are the strategies (if any) you take on to help you /other staff handle the heavy work load /multiple job duties?
7. What are some of the challenges you face in daily operation of the business?
8. What would you say is the vision/goals of the company?
9. Would you say that you operate with a set of defined business goals and strategies in mind, thus longer term business plans in place or take on more short term objectives reacting to businesses needs and changing environment with ad hoc/agile approach?
10. In terms of business strategies and planning (that is longer term objectives), what is your opinion in regards to their significance to a business and the eventual execution of those longer term strategies/goals, of cause in a small business context?
11. What would you say in terms of the level of information technology use in your company?
12. Is information technology and internet use an integral part of running the business , i.e. would you say that if without the computers and internet connection in your offices, business operations would be disrupted?

13. How familiar are you with e-business and its technologies and use? Are you using any e- business technologies or applications in your business now?
14. Would you say that you have any e-business implementation strategies and plans, now or in the pipeline?
15. Do you think e-business can help your business? Can you explain in what ways?
16. With regards to the role you play in wholesaling goods to independent retailers/institutions, would you say that you place high importance in managing your supply chain and those with your other supply chain partners (i.e. your suppliers, logistics, retailer customers, etc)?
17. Do you deal with mostly smaller independent retailers/institutions or do you also deal with larger companies in wholesaling/distributing your products to them? Have you had any pressure from any parties within your supply chain in regards to technological requirements and system compatibility?
18. Are you familiar with the term supply chain management (SCM)?
19. To what extent do you consider that SCM is vital for the success of your wholesale business?
20. Can you envisage that e-business can transform the way you do business, "re-engineer" business operations, in terms of cutting cost, improved productivity and efficiency?

**[Approved by AUTECH July, 3rd, 2009 Reference Number 09/138]**

## Appendix 2 Participant Information Sheet

# Participant Information Sheet



### **Date Information Sheet Produced:**

30 May 2009

### **Project Title**

E-business Strategy and Application in Supply Chain Management (SCM) by New Zealand Small to Medium Sized Enterprise (SME) Wholesalers

### **An Invitation**

Dear Sir/Madam,

My name is Michelle Yuen, a Master of Business student at Auckland University of Technology. This is my final year of the degree and I am currently conducting a research project for my thesis on e-business strategic planning and application in SCM by SME wholesalers in New Zealand.

I sincerely invite you to participate in my research by agreeing to be interviewed at a time convenient to you. I would appreciate your participation and any help you can offer me to complete my research, but the choice to participate will be entirely yours and you may withdraw from the interview at any time without any adverse consequences. You will not be required to provide any personal, private or business sensitive information.

Should you agree to participate in the interview, I will ask you to fill in a consent form as part of the research formalities.

### **What is the purpose of this research?**

According to Statistics New Zealand, wholesale businesses like yours make up more than 90% of all the businesses in this industry in New Zealand. That is, over 90% of the 17,700 wholesale type businesses in New Zealand are SMEs. This means that SME wholesalers more or less form the backbone of the NZ wholesale industry and would have been contributing substantially and significantly to the NZ economy as a whole.

More recently there has been a lot of emphasis on the importance of having an e-business strategy and its integration into the traditional business model to streamline business operations, to cut cost, to improve efficiency and productivity. I am interested on how this

would apply in the context and perspectives of SME wholesalers , particularly in their management of their supply chain.

Data collected from the research will be used to form the analysis and discussion sections for my thesis as a partial fulfilment towards the Master of Business degree from Auckland University of Technology. The findings from this thesis may also be presented in academic conferences and or journal papers/publications.

**How was I chosen for this invitation?**

I identified your company from the Auckland New Zealand Gift Fair (2007) magazine in which you were an exhibitor showcasing your products. I have assumed that you are a wholesaler/distributor of a variety of merchandise to other independent retailers in New Zealand and a search on the internet companies' directory shows that you are a SME with 19 or less employees. As a key personnel in the company (owner/manager/ decision maker) you are some one who can provide helpful perspectives and insights with regards to e-business and supply chain management initiatives for your company.

**What will happen in this research?**

I would like to arrange to visit your company at a time convenient to you to carry out the interview. The duration of the interview will be no longer than one hour. Please note that I will be audio-taping the interview session so that I can clearly and accurately capture your feedback and responses as well as taking occasional notes to jot down important responses. Should you feel uncomfortable with audio taping, I could just take notes instead, but you would have to bear with me a little during the interview due to having to listen and write at the same time.

The audio taped interview will be transcribed by myself and will be read only by myself and my supervisor at AUT.

**What are the discomforts and risks and how will these discomforts and risks be alleviated?**

I do not expect that there will be any discomfort or risks involved with the interview. The most discomforting aspect would be having your voice recorded. Should you find this absolutely uncomfortable, you can ask for the interview not to be audio taped. The questions directed to you have no right or wrong answers. Rather I am keen to collect your perspective and insights into my research topic. Though I have prepared indicative questions as part of the interview guide, you are not restricted to providing your responses and insights to those questions. You are encouraged to freely share your thoughts and provide any information to me related to the questions or my research topic.

I understand that you work in a multitasking role and busy environment. As such, please feel free to take a call or attend to urgent matters during the duration of the interview.

### **What are the benefits?**

The outcome of the research will be based on the analysis of data collected from interviews in a range of New Zealand SMEs. This outcome will provide valuable insights in regard to e-business strategic planning and application for supply chain management in SME wholesalers. I would expect that these would be of general interest and benefit to you and your company. The research will contribute to the wider academic knowledge in the field of e-business and SMEs, and could also be used by government agencies and policy makers to develop e-business initiatives to help and support grow of SMEs, in this case more contextually, SME wholesalers.

### **How will my privacy be protected?**

Should the findings be presented in academic conferences and journal papers, the findings will be aggregated so that your comments will not be linked to you personally or your company. If I quote your comments directly, the quote will only be attributed to a pseudonym or generic position title and not to you personally. Upon conclusion of the research, your consent forms and data collected from the research will be stored securely in my supervisor's office at AUT University for six years, before being destroyed permanently. Please be assured that you, your company and any commercially sensitive information will not be captured or published.

### **What are the costs of participating in this research?**

The only cost to you in taking part in my interview and research would be approximately one hour of your time.

### **How do I agree to participate in this research?**

I would really appreciate if you could confirm and accept my invitation to participate in this research. If you do accept this invitation (which you can confirm by email or phone, as per below contact details), I will send you a copy of the consent form as part of the formality to indicate your informed consent to participate in the research by reading and signing the form. A suitable interview time will be arranged with you after that.

### **Will I receive feedback on the results of this research?**

Yes, most certainly. Should you wish to obtain a copy of the summary of the research findings, please let me know and so I can send a copy out to you.

### **What do I do if I have concerns about this research?**

Any concerns regarding the nature of this project should be notified in the first instance to the Project Supervisor, *Professor Bill Doolin*, [bill.doolin@aut.ac.nz](mailto:bill.doolin@aut.ac.nz), phone (09) 921 9999 ext. 5807.

Concerns regarding the conduct of the research should be notified to the Executive Secretary, AUTECH, *Madeline Banda*, [madeline.banda@aut.ac.nz](mailto:madeline.banda@aut.ac.nz), 921 9999 ext. 8044.

**Whom do I contact for further information about this research?**

**Researcher Contact Details:**

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AUT University Business School  
School  
Tel: 021 2665535  
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**[Approved by the Auckland University of Technology Ethics Committee on July 3<sup>rd</sup> 2009. AUTECH Reference number 09/138.]**

## Appendix 3 Consent Form

# Consent Form



**Project title: *E-business Strategy and Application in Supply Chain Management (SCM) by New Zealand Small to Medium Sized Enterprise (SME) Wholesalers***

*Project Supervisor: Professor Bill Doolin*

*Researcher: Michelle Wun Cheng Yuen*

- I have read and understood the information provided about this research project in the Information Sheet dated 30 May 2009.
- I have had an opportunity to ask questions and to have them answered.
- I understand that notes will be taken during the interviews and that they will also be audio-taped and transcribed.
- I understand that I may withdraw myself or any information that I have provided for this project at any time prior to completion of data collection, without being disadvantaged in any way.
- If I withdraw, I understand that all relevant information including tapes and transcripts, or parts thereof, will be destroyed.
- I agree to take part in this research.
- I wish to receive a copy of the report from the research (please tick one): Yes   
No

Participant's signature:

.....  
.....

Participant's name:

.....  
.....

Participant's Contact Details (if appropriate):

.....  
.....  
.....

Date:

***[Approved by the Auckland University of Technology Ethics Committee on July 3<sup>rd</sup>,2009  
AUTEK Reference number 09/138]***

*Note: The Participant should retain a copy of this form.*

## Appendix 4 Example of coding practice

Coding and categories developed around the theme of ‘SME Challenges’

Initial code	Detailed codes	Categories	Theme
Challenges	Cash flow Future investment Strategic financial planning	Financial challenges	SME Challenges
	Lack of technical expertise Lack of industry experience Influence of owner background	Expertise and experience challenges	
	Finding staff Managing and motivating employees Reliance on employees Staff retention	Employee challenges	
	Economic recession Compliance costs Lack of government assistance	Economic and government related challenges	
	Copy right of products Getting ahead of competitors Use of technology to get ahead Protection of corporate information	Competition related challenges	
	Attracting customers Understanding buying behaviours Customer satisfaction Customer retention Management of customer accounts	Customer challenges	
	Identifying products Quality control Pricing strategy Forecasting purchase quantities Supplier relationship management	Products and services challenges	
	Identifying business visions	Business vision and	

	Identifying and engaging in business strategies	strategy challenges	
	Effects of global economy Foreign exchange and the value of the dollar Financial planning	International economy and exchange rate challenges	