

The Impact of Electronic Commerce on Small and Midsized Spanish Companies

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Electronic commerce (EC) is not new for some European Union countries, but in others, such as Spain, it is only at the developmental stage. Now that Spain has joined the third phase of the economic and monetary union, Spanish companies' internationalization and the progressive change in the Spanish consumers' buying habits are determining the search for new business strategies. Starting with an analysis of the Spanish business environment, followed by an internal scanning of small and midsized Spanish companies, this paper will analyze the viability of EC as a new business strategy. (JEL M31-1)

Introduction

Talking about electronic commerce (EC) seems to be something new, but in practice, companies have been using information technology for quite some time now to improve and optimize their business performance. They have traditionally considered information as a strategic resource and, therefore, have always sought innovative mechanisms to use such information in the most adequate way.

The arrival of EC means that the only thing having changed in a company's traditional relationships is the mechanism used to establish those relationships. However, companies have been using commercial and financial electronic data interchange (EDI) technologies for a long time [Calvo, 1998; Jiménez and Polo, 1996], and they are already using Intranet to improve their internal performance [Colegio de Economistas de Madrid, 1999]. Companies who are comfortable with the internal use of information technologies will have little difficulty in using them to speed up their business-to-business relationships or in modifying their product distribution channels (business-to-consumer relationships through the Internet) since both the Intranet and the EDI systems can technologically benefit from the Internet. Consequently, using EC as a new sales mechanism is just one more step within the transformation process done by businesses through the use of information technology.

The International Evolution of EC

Compared to the rest of the world, the U.S. has a clear dominance in EC because of a better telecommunication infrastructure and their local calls are free, which significantly cuts Internet costs. In this country, 1.2 percent of the general income is

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generated through EC, while in Europe, this percentage is around 0.2 percent. The U.S. also controls 80 percent of the worldwide EC; even more, 20 percent of European EC is in charge of American companies [Organization for Economic Cooperation and Development, 1999].

This difference between the U.S. and Europe might be lessened in the future. Europe has decided to change its behavior toward EC development so that European EC growth may reach a rate of 55 percent of the American growth by 2002. This new European behavior is based on decreased Internet costs, a rise in the number of EC websites, and new models that are used to promote EC use [Andersen Consulting, 1999a, 1999b]. In the U.S., EC connections are basically done through personal computers (PCs), but Europe has been offering two new channels: digital TV systems and cellular telephones with wireless application protocol [Andersen Consulting, 1999a].

Thanks to the already existing U.S. trend, as well as to good European forecasts, strong EC increases are expected for the coming years, although not all experts agree on the numbers. The Organization for Economic Cooperation and Development survey on the social and economic impacts of EC expects \$300,000 million (U.S. dollars) of EC outcome from 2001 to 2002 and nearly \$1 billion from 2003 to 2005 [Melle, 1999]. However, Forrester Research [2000] estimates between \$1.4 and \$3.2 billion of EC outcome in 2003. It also considers that in 2001, the profits generated by Internet business may be 10 billion pesetas (PTA). Additionally, the United Kingdom and Germany may be the most advanced European countries regarding EC [Ministerio de Fomento, 1999]. These forecasts are based on the idea that companies will be motivated to join the EC world to cut their supply costs, reduce their office work, increase their sales or their market share, and so on.

In spite of the big improvements and favorable perspectives, there are still some major problems to be solved, otherwise a promising future could be in danger. Telecommunication prices are still high and the fee structure is still inadequate. At present, the United Kingdom, one of the most developed European countries in EC, is already cutting down on this cost [Martín, 2000]. It is still necessary to invest more than what is being done in order to strengthen, enlarge, and diversify existing nets. Although the European authorities are at present moving forward to establish a proper EC legal environment (easier infrastructure access, data protection, electronic signature regulation, and the like), they must cover some lacks, especially concerning the coordination with non-European norms. They should also make such environments flexible enough to allow adequate EC development. Not all European countries are moving forward at the same speed [Andersen Consulting, 1999a]. Finally, European countries must be sure about what kind of EC relationship they need to effectively promote. Business-to-business EC is already highly developed, but business-to-consumer EC still calls for proper surveys about customer characteristics and needs and for stronger security measures. Small and mid-sized Spanish companies (SMSCs) can clearly take advantage of this positive international EC environment since nothing, not even their size, prevents them from using information technology to accede to the bigger EC market.