



A Review on the Importance of E-Commerce for SMEs in Pakistan

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Abstract: E-commerce becomes important factor of success for both large organizations and Small and Medium Enterprises (SMEs) as it helps to reduce transaction cost, approach larger untapped markets and avoid intermediaries. However, the published research has mainly focused on the role of e-commerce in large organizations compared with SMEs. Based on a comprehensive review of the past literature, we have highlighted the importance of e-commerce in the SMEs, especially how it is important in the setting of developing countries and its potential role in the SMEs of Pakistan. Given the lack of scholarly discussion on the topic, the present paper will enhance the understanding on the importance of e-commerce in SMEs of Pakistan. Recommendations for future research are proposed.

Key words: E-Commerce; SMEs; Developing countries; Pakistan

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INTRODUCTION

E-commerce refers to “the buying and selling of information, products, and services via computer networks” Kalakota (1997) is transforming the way business is done traditionally and transactions are carried out between trading parties. Scholars believe that e-commerce has tremendous potential to contribute in economic growth more so for developing countries than the developed ones (Lituchy (2000); Kshetri (2001); Kofi (2001); and BBC News (2003)). It may be because there is a more room for improvement in the developing countries, owing to larger population and huge untapped markets dispersed on a wide geographic area. Research indicates that e-commerce is not only one of the most important tools for large companies, but is also imperative for small medium enterprises (SMEs) to progress and sustain. According to Molla (2005) e-commerce helps SMEs not only to reduce transaction cost but also helps to get rid of intermediaries gives more convenience of selection from a range of products and services available on storefronts.

Extensive research has been conducted on the use of e-commerce, however; there is more need for scholarly effort on the role of e-commerce in SMEs in developing countries. Hence, we have conducted a comprehensive review of the published literature on the importance of e-commerce for SMEs in the developing countries; especially in Pakistani setting since majority of previous scholars have mainly focused on the developed regions where socio-cultural, economic, political and technological factors differ greatly from those in the developing regions. Even the same economic development level and the region does not imply that the studies can be generalized because of various country specific factors, such as form of government economic conditions and other factors. The present effort therefore contributes to better understand the ties among e-commerce and SMEs in the developing country and indicate the potential avenues for adopting e-commerce in SMEs of Pakistan to grow and sustain. We discuss the importance of SMEs in Pakistan, and a brief discussion on potential role of e-commerce in the next section.

LITERATURE REVIEW

1. Importance of SMEs in Pakistan

SMEs work as growth engines for a country’s economy (Dawn (2002); and Poon (1999)). SMEs make up approximately 80% of world economic growth (Dawn (2002)). Despite such importance of E-Commerce and SMEs and extensive studies on subject; unfortunately there has not been a single standard definition among researchers for the two terms. Different researchers describe them in a different way; For instance, Simpson (2004); Cloete (2002); Mac Gregor (2004); and Chitura (2008)). SMEs are business entities employing a maximum of 250 full time employees European Parliament (2000). It is agreed among researchers that E-commerce and ICTs can benefit organizations in general.

Small and Medium Enterprises Development Authority (SMEDA) established in 1998 is the premier institution of the Government of Pakistan for policy formulation to better develop SMEs, it works under the ministry of Industries. SMEDA defines, SMEs as business units having full time employees up to 250, annual sales up to PKR 250 Million (USD 2.5 Million approx.) and paid up capital up to PKR 25 Million (USD 0.25 Million approx.). SMEDA’s eServices/IIN provides various E-marketing services to SMEs using several digital technologies that link E-marketing with

technical and innovative aspects of the internet, using Search Engine Marketing (SEM) and Search Engine Optimization (SEO) along with email marketing and web technology 2.0 strategies www.smeda.org.pk. Web technologies 2.0 are widely used by E-commerce sites, as they focus on user-generated content; it allows users to interact with each other like a social media. Further, it enables customers to give feedback about the product or services offered on E-commerce site or ask for opinions and share their purchase experiences with others on the site. Most of the SMEs in Pakistan are involved in the production of export-oriented items. These SMEs contribute 30% of the total export receipts www.smeda.org.pk.

SME sector in Pakistan is pivotal for economic growth, contributes greatly in employment generation, poverty alleviation. SMEs account for over 90% of all enterprises in the country and there are approximately 3.2 Million SME units in Pakistan www.smeda.org.pk. SMEs in Pakistan contribute 40% to GDP (Economic Survey of Pakistan 2010-11) and an estimated 70.49% labour force other than agriculture is employed by manufacturing sector (Labor force survey 2009-10) and the same also has 25% share in the exports.

During the period (2003-2013) world exports grew at 14% per annum while Pakistan's growth during the same period had been just 11%. Whereas, the annual export growth of our neighbour countries was more than 3 times that of Pakistan. India and China showed remarkable export growth rate of 39% & 37% respectively. One of the reasons being exposure to world market through their well-established E-Commerce channels.

Moreover, SMEDA's next 5 year plan estimates exponential growth in emerging and traditional SMEs selected on the basis of their potential to generate employment, contribute to GDP and enhance exports, as presented in Table 1.

Table 1 SMEs and The Economy of Pakistan

| Indicators | 2013* | 2018 | Incremental Change |
|---------------------------|-----------------|------------------|--------------------|
| Employment | 14.85 Million | 25.00 Million | 10.00 Million |
| GDP | \$73.95 Billion | \$193.50 Billion | \$120 Billion |
| No. of Enterprises | 1.73 Million | 2.00 Million | 0.27 Million |
| Exports | \$18.21 Billion | \$54.20 Billion | \$36 Billion |

*The figures pertain to indicators in 13 priority sectors having large SME presence.

2. E-commerce in the context of Pakistan

Currently, Pakistan lags far behind in terms of E-commerce infrastructure and business volume compared to the other countries in the region, such as China, India, Turkey and others. The current statistics report that e-commerce is really thriving in the immediate region of Pakistan, For instance: Alibaba Group of China set a world record when it got listed at the New York Stock exchange in September, 2014 raising huge Initial Public Offering (IPO) of \$ 25 Billion, making it the biggest IPO in the world, taking lead from Walmart the world's largest old discount store chain.

Until 2009 when India launched 3G, the Internet penetration in Pakistan used to be higher historically, 3G boosted the internet usage in India and E-commerce grew exponentially. In the region, Sri Lanka was the first one to launch 3G in 2006, followed by India in 2009 and recently

Pakistan also joined the 3G club in 2014; (Source: Worldbank). Although Pakistan is late to the party but still has immense potential and huge increase in internet penetration rate is estimated. According to one estimate, Pakistan's Internet users' number is estimated to increase from 30 Million users today to 56 Million in 2019. Whereas, the online purchases in Pakistan stand at \$ 30 Million annually which is expected to grow multiple times and reach \$ 600 Million by 2017.

E-Commerce facilitates the progress and growth of SMEs in developing countries due to the ability of the internet technology and ICT to reduce cost of transactions, to eliminate intermediaries and facilitating linkages to the global supply chains Molla (2005). To admit the significance of E-Commerce, over 20% of SMEs in Pakistan implemented it in their business to take competitive advantage not only locally but also in international market Khan (2014). Electronic Supply Chain Management applications in SMEs enable them cut operation cost, provide better customer service, better inventory management, reduce order cycle, receive customer feedback, maintain customer profiling, hence can satisfy customers better and achieve an overall competitive edge Chuang (2000).

Country is witnessing online brands allocate sufficient advertising budgets for TV commercials, Newspapers in addition to advertising on social media. Several foreign companies have already entered Pakistan to cash on the highly potential e-Commerce market. For Instance: OLX by Nasper South Africa, Asani by Schibsted Norway and Rocket Internet a German internet company which is running tow e-Commerce sites in Pakistan namely Daraz.pk and Kaymu.pk recently raised a huge \$8.2 Billion IPO in October, 2014. And the two will be bringing huge capital into E-Commerce market not witnessed in the country before. Many other local online companies are also expected to follow the trend. On the other hand there over 650,000 SMEs presently registered at the world's biggest Business-to-Business giant, Alibaba group and this number is expected grow rapidly. This growing industry will gain more credibility; as a result consumer trust in e-Commerce will spread through word of mouth.

Electronic payment systems are also growing rapidly in Pakistan which means that in future there will be huge potential of E-commerce websites. Currently due to lack online payment systems, over 95% of online purchases are completed through Cash on Delivery (COD), which is not one of the most preferred and convenient payment method. Well-developed electronic payment system is indispensable for the growth and sustainability of E-commerce. Multiple payment options encourage more online shopping as customers feel ease and convenience. In China for example, E-commerce is of enormous volume and there are various payment options available to customers. Such as, online bank payment, debit card payment, credit card payment powered by UnionPay, COD, WeChat etc.

TCS, BlueEX, Leopards, OCS, and other couriers are providing COD services across over 150 cities of Pakistan. The data indicates a very lucrative avenue to the businesses revealing that over 1/3 of the orders are from the cities other than 3 major cities of Pakistan. In major cities more people buy online, however, the value for shoppers living outside major cities is higher as many products they can't find in the markets nearby. Hence, this large untapped market segment will changeover to shopping online.

SMEs in Pakistan have the largest e-commerce platform to market their products globally through Alibaba.com, as the Pearl Shine Group International (PSGI), a Pakistan based firm has inked a strategic partnership agreement with the world's largest B2B portal as per the agreement,

PSGI has been authorized to verify SMEs for registration at Alibaba.com's B2B portal, this will bring manufacturers in contact with suppliers for online trade globally. <http://www.psgint.com/press-relese.html>. Publish: November 8, 2012 <http://tribune.com.pk/story/462414/pakistani-firm-authorized-to-verify-smes-for-alibaba.com/>

Over 650,000 SMEs from Pakistan are at present members of Alibaba.com and this agreement of partnership will help expand business and give opportunity to more Pakistani SMEs to enjoy great exposure, (Timothy Leung, Alibaba's group head of Global Supplier Development and sales.)

CONCLUSION

Based on the above discussion and the relevant facts and figures, we conclude that the e-Commerce has great potential for SMEs in Pakistan, especially SMEs for export development of the country as the world's Business to Business giant, Alibaba.com has authorized a Pakistani firm to verify SMEs in the country for listing on its website, this will showcase the country's products to rest of the world. SMEs are already contributing significantly in employment generation and poverty alleviation as discussed above; in future this contribution is expected to increase. As SMEs are businesses with lesser resources in comparison to large enterprises hence they cannot reach out to mass markets and allocate huge advertising and marketing budgets, this major problem of SMEs can be overcome to a large extent through e-Commerce, and this will enable them to compete with their larger business rivals on relatively level playing field. Future studies are recommended to explore the potential relationship of e-commerce and its relevant sources such as use of social media in ecommerce in the context of SMEs in Pakistan. As previous studies are largely quantitative in nature, a qualitative study on the topic is highly recommended to get in-depth understanding on the topic and to explore untapped findings.

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